

## **General Purposes & Audit Committee**

Meeting of held on Wednesday, 9 October 2019 at 6.30 pm in Council Chamber, Town Hall,  
Katharine Street, Croydon CR0 1NX

### **MINUTES**

**Present:** Councillor Karen Jewitt (Chair);  
Councillor Joy Prince (Vice-Chair);  
Councillors Pat Clouder, Bernadette Khan, Mary Croos, Stephen Mann,  
Jan Buttinger, Stuart Millson and Steve Hollands

**Also Present:** Nigel Cook, Head of Treasury and Pensions  
Malcolm Davies, Head of Risk & CPO  
Hannah Musk, Investigations Team Leader  
Simon Maddocks, Head of Internal Audit  
Lisa Taylor, Director of Finance, Investment and Risk (Section 151 Officer)  
Sarah Ironmonger and Matthew Dean, Grant Thornton (agenda items 33/34)

**Apologies:** Councillor Oni Oviri Nousheen Hassan (Co-optee)

### **PART A**

#### **30/19 Minutes of the Previous Meeting**

The minutes of the meetings held on 11 and 23 July 2019 were agreed as an accurate record.

#### **31/19 Disclosure of Interests**

There were no disclosures of interests.

#### **32/19 Urgent Business (if any)**

There were no items of urgent business.

#### **33/19 Grant Thornton Report on the Value for Money Conclusion**

The report on the Value for Money Conclusion was introduced by the Grant Thornton Director. This focused on two risks: 1) ongoing financial stability and 2) the OFSTED inspection of Children's Services.

#### **Ongoing Financial Stability**

The overspend in the Dedicated Schools Grant (DSG) was highlighted as having an impact on reserves which was not sustainable, requiring a recovery plan schedule. This was being further exacerbated by the gap in funding for Unaccompanied Asylum Seeking Children (UASC).

Ongoing pressures linked to low reserves were limiting the ability to manage the budget which it was noted assumed no impact from overspends in previous years.

### **OFSTED Inspection of Children's Services**

Whilst the good progress being demonstrated through monitoring visits was noted, until the OFSTED reinspection had taken place, Grant Thornton's qualification of the Council's Value for Money Conclusion had to remain in place.

It was explained that Grant Thornton had given an adverse conclusion because of the reduced level of reserves and Children's Services remaining under an 'Inadequate' OFSTED rating. It was advised that there was a need to focus on managing the overspend in the DSG and increasing the general fund reserves. It was noted that Croydon had the lowest general fund and earmarked general fund reserves (excluding schools) as a percentage of net service revenue expenditure when benchmarked against all other London Councils. Against this it was noted that Croydon had a high level of business rate collection and that management had responded well to all the issues.

In response to Member questions, it was clarified that:

- i. The budget needed to consider spending plans and the use of reserves based on what was considered sustainable. Grant Thornton stressed that the approach being taken was not sustainable;
- ii. Whilst reserves were used towards the end of the 2018/19 financial year in anticipation of the collection of rates, they had been repaid at the start of the 2019/20 financial year;
- iii. The DSG overspend was a historic deficit. As required, a recovery plan had been submitted to the Department for Education (DfE) and this had been reviewed through the scrutiny process. Additionally, the Government's Spending Review in September 2019 recognised the impact of the high needs block on the DSG with additional Government funding being put in place; this was estimated to be £5m a year over and above the budget submitted in the recovery plan to the DfE;
- iv. It was agreed that the level of reserves should ideally be greater. The impact of inadequate funding from the Home Office over three years for UASC was noted. This was valued at around £20m. If this was addressed, this would fundamentally change the Council's financial position. It was described how work was already underway through the Medium Term Financial Strategy to deliver a budget that would gradually rebuild reserves over three years despite additional pressures;

- v. It was described how the overspend in the DSG was being addressed by working with schools to reduce the costs of high needs. The example of the new Special Educational Needs school that was being built was given; this would reduce costs as well as provide better opportunities for young people. Additionally, a lot of work was happening to reduce costs in year alongside cross party lobbying of Government to address the UASC funding gap;
- vi. Clarification on the additional funding for the high needs block within the DSG announced as part of the Government's Spending Review in September 2019 would be provided in the settlement announcement anticipated in December 2019. The figure of an additional £5m of funding was calculated based on estimates;
- vii. The scale of the shortfall in UASC funding had increased over the last 2 - 3 years. Previously, the Council had received a gateway payment valued at £6m. This had been replaced by an increased daily payment valued at half a million pounds. Therefore, this was a fundamentally different situation. It was described how the situation was being proactively managed but that this would change significantly if a fair settlement was provided. However, it was not being assumed that this would happen. Therefore, the DSG and the high needs block was being taken into account in budget planning; the budget was determined on realistic assumptions;
- viii. *Brexit* was described as one of the major unknowns in the budget which was reflected in the risk register. Other unknowns were also acknowledged such as the impact of the Green Paper on social care integration. It was described how the budget was being refreshed on an ongoing basis, with proactive management resulting in planning for different scenarios; and
- ix. A dividend from *Brick by Brick* was assumed in the 2019/20 and subsequent budgets resulting from the sale of properties. These assumptions were described as prudent. It was also noted that there would be a benefit from the provision of more affordable homes reducing the financial pressures arising from homelessness.

Officers committed to provide additional information to Members outside of the meeting on projected UASC numbers against actual figures and the corresponding budget figures. Members noted that they would retain their focus on reserves and the UASC funding gap to ensure both were being addressed.

**RESOLVED:** The Committee AGREED to note the report.

34/19

### **Grant Thornton - Annual Audit Letter**

The report was introduced by the Grant Thornton Director who highlighted the executive summary on page 23 of the agenda pack. It was noted that a Value for Money certificate had been issued but that there remained work to do on the Pension Fund Annual Report. It was anticipated that this would be completed soon.

**RESOLVED:** The Committee AGREED to note the report.

35/19

**Treasury Management Strategy Statement and Annual Investment Strategy - Mid-Year Review 2019/20**

The report was introduced by the Head of Treasury and Pensions. It was noted that this provided a briefing midway through the year on the background economic situation, lending rates, annual investment strategy and increased borrowing limits as agreed by Council in October 2019. The request for the Committee to recommend the revised lending list criteria to Council was highlighted.

The following motion was moved and seconded to exclude the press and public from the meeting:

“That, under Section 100A(4) of the Local Government Act, 1972, the press and public be excluded from the meeting for the following items of business on the grounds that it involves the likely disclosure of exempt information falling within those paragraphs indicated in Part 1 of Schedule 12A of the Local Government Act 1972, as amended.”

It was explained that the information provided on potential banks to which the Council could lend funds had increased following advice from the National Audit Office as a result of the financial crisis. Details were provided of banks to which the Council might lend and for how long without taking on undue risk. This was seen as a key tool that sat alongside non-specified and specified investment lists.

In response to Member questions, it was clarified that:

- i. Council had approved £120m of additional borrowing which would be loaned for the period it was not used. This was anticipated to be between one/two months for up to two years;
- ii. Whilst the lender list was updated every seven days, it was only one of many tools available for treasury management. This reflected the approach taken in the private sector, providing a dynamic and sophisticated process; and
- iii. It was explained that decisions to lend were based on factors such as governance arrangements, track record and whether or not support was provided by the national Government for the banking sector in which each bank being considered was located.

The Committee returned to public session at the end of its discussions.

**RESOLVED:** the Committee AGREED the recommendations to:

- i. Note the contents of the report; and
- ii. Recommend to Council the adoption of revised lending list criteria as follows:

**Specified investments:**

- AAA rated money market funds - limit £20m
- Debt Management Office – no limit
- Royal Bank of Scotland – limit £25m

**Non-specified investments:**

- All institutions included on Link Asset Services' weekly "Suggested Credit List" (the Council's independent treasury advisors) – limit £10m
- All UK local authorities – limit £10m
- Duration to be determined by the "Suggested Credit List" of Link Asset Services

**36/19 Internal Audit Update Report**

The report was introduced by the Head of Internal Audit who noted this was a regular update covering the period from 1 April to the end of August 2019. However, this did not comprise enough activity to establish the assurance level. The performance on the implementation of audit recommendations against the published targets as detailed in the report was highlighted.

The number of draft reports produced by the end of August 2019 was down on the same point last year but was in part explained by the late running of Committee meetings in 2019/20. A verbal update on performance was provided to the end of September 2019 which showed progress in performance.

In response to Member questions, it was clarified that:

- i. It was not possible to specify the average time taken between a draft audit report being issued and this being finalised. Whilst some could be closed within a few days of being issued others were more complex and could take months (although it was noted this was the minority). It was explained that some reports have challenging findings;
- ii. Performance against targets for the implementation of recommendations would continue to improve over time. This reflected that some recommendations needed more time than others to implement. It was explained that some reports from the previous year were still waiting to be finalised and issued; and
- iii. The involvement of the Head of Internal Audit in the audit process was detailed. It was explained how Mazars was commissioned and drafted a terms of reference for approval by the Head of Internal Audit. Draft and then final reports were also reviewed by the Head of Internal Audit prior to being issued. Any issues that were identified during the field work were subject to discussion with the Head of Internal Audit.

**RESOLVED:** The Committee AGREED to note the report for Internal Audit for April to August 2019.

37/19 **Anti-Fraud Update Report**

The report was introduced by the Investigations Team Leader. Table 2 on page 63 of the agenda pack providing a breakdown of outcomes from 1 April to 31 August 2019 was highlighted. It was noted that performance was broadly on target.

Work on Blue Badge abuse was specifically emphasised. Six cases were noted with three having secured guilty judgements with the award of fines and costs. Three warrants had been issued due to a failure to attend at court with another case set for trial in November 2019. A further three cases were not yet in the system.

In response to Member questions, it was clarified:

- The award of costs in cases of Blue Badge abuse was for a nominal figure only (£200); and
- The investigations team comprises 8.7 staff at fulltime equivalent. All were fully qualified. The discrepancy was a drafting error.

**RESOLVED:** the Committee AGREED to note the report on anti-fraud activity from 1 April to 31 August 2019.

38/19 **Corporate Risk Register**

The report was introduced by the Head of Risk & CPO. It was explained that this was the regular risk management report and since it was last presented at Committee, no risk had been escalated or de-escalated. There were ten risks rated red including the financial strategy, *Brexit* and funding for UASC.

Officers committed to provide Members with information on when the risk related to schools in deficit was moved into the red category. (This was checked after the meeting and found to be January 2018.)

In response to Member questions, it was clarified that:

- i. The Social Care market had been categorised as red for some time. This was to reflect the risks to market supply which could arise from suppliers going out of business or merging. This was a national risk. Officer experience in minimising disruption to residents where suppliers fail was noted. The National Audit Office and Local Government Association reports on social care funding were noted along with their shared conclusion that this was not sufficient;
- ii. SEN budgets: Action being taken to reduce the costs of the extra needs block was noted. This included the expansion of special schools and the additional provision being developed. The new free school being developed would provide another 150 places for students with

moderate to severe autism. Additionally, a programme for working with mainstream schools to support those with Education, Health and Care Plans was highlighted. It was noted that whilst these approaches had financial benefits they also had better outcomes for adulthood;

- iii. SEN budgets: It was reported that work was ongoing to make early intervention a current control for risks around complex needs. This required time and care to implement and therefore a cautious approach was being taken; and
- iv. *Brexit*: It was noted that the potential risk to unemployment and any resulting impact on demand for Council services was included in the comment regarding the potential impact of *Brexit* on the UK's economic performance.

**RESOLVED:** the Committee AGREED to note the contents of the corporate risk register as at October 2019.

39/19 **Council Meeting Dates 2020/21**

Members highlighted the difficulty of meetings being held during school holidays on weeks where there was also a public bank holiday. The Planning Meeting scheduled for 28 May 2020 was provided as an example. Encouragement was given that this situation be avoided where possible.

**RESOLVED:** The Committee AGREED the recommendations:

- i. Agreed on behalf of the Council the schedule of Full Council meeting dates for 2020/21 as detailed in paragraph 3.2 of the report;
- ii. Noted the schedule of Cabinet meeting dates for 2020/21 as detailed in paragraph 3.3 of the report (noting the correct date for the Cabinet meeting on 14 December 2020); and
- iii. Noted the proposed schedule of remaining meeting dates for 2020/21 as detailed in Appendix 1.

40/19 **Exclusion of Public and Press**

The following item was not required.

41/19 **Treasury Management Strategy Statement and Annual Investment Strategy Mid-Year Review 2019/2020 - Appendix E**

The discussion was as noted in item 35/19.

The meeting ended at 7.52 pm

**Signed:**

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**Date:**

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