

General Purposes & Audit Committee

Meeting of held on Tuesday, 20 October 2020 at 6.30 pm via Microsoft Teams.

A recording of this meeting can be found on the Council website.

MINUTES

- Present:** Councillor Karen Jewitt (Chair);
Councillor Stephen Mann (Vice-Chair);
Councillors Jamie Audsley, Jan Buttinger, Mary Croos, Steve Hollands,
Bernadette Khan, Stuart Millson, Tim Pollard and Joy Prince
Independent Co-optees: James Smith
- Also Present:** Councillor Hamida Ali
- Apologies:** Muffaddai Kapasi (Independent Co-optee)

PART A

37/20 Disclosure of Interests

There were no disclosures of interest made at the meeting.

38/20 Urgent Business (if any)

There were no items of urgent business.

39/20 Croydon Finance Review - Phase 1 report

The Committee considered the Phase 1 report from the Croydon Finance Review, set out on pages 5 to 124 of the agenda, along with an accompanying presentation. It was highlighted by the Chair that the report had originally been scheduled for review by the Committee at its meeting on 7 October 2020, but given its importance it had been decided to arrange a further meeting of the General Purposes and Audit Committee to allow time for a more in-depth conversation on the content.

Financial Consultant, Ian O'Donnell, who had prepared the Croydon Finance Review – Phase 1 report, was in attendance at the meeting to introduce the report and answer any questions from the Committee on the information provided. To guide the discussion of the Committee it was agreed that the report would be broken down into sections, starting with the introduction and followed by discussions focussing on long to medium term financial management, annual budgeting and the monitoring of financial performance.

During the introduction to the report the following was noted:-

- The Croydon Financial Review had been commissioned in May 2020 following recognition that the Council was facing financial challenges that would be difficult to resolve under existing arrangements and practices. The Council had brought in Ian O'Donnell as a Financial Consultant to review how the Council managed its finances, with a Finance Review Panel (FRP) set up to oversee the process and address some of the more immediate concerns.
- The financial management activity in Croydon had been reviewed against best practice set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) Financial Management Code and other statutory guidance. It was highlighted that local authorities were under a duty to comply with the CIPFA code.
- Due to the scale of work required, the initial focus had been on those areas considered to be in the most pressing need of review. These were identified as long to medium term financial management, annual budgeting and the monitoring of financial performance.
- A separate piece of work to review the group company structures of the Council had also commissioned.
- The Phase 1 report had been considered at a meeting of FRP in September and had originally been scheduled for consideration at the meeting of the Committee on 7 October, where it had been decided to defer any discussion until this meeting to allow the opportunity for more detailed questioning.

Following the introduction, the Committee was provided with its first opportunity to ask questions on the content of the report. The first question related to the findings of the Governance Review published in March 2020 and whether these had been factored into the Finance Review process. It was advised that the Governance Review had not been included at this stage, as the Finance Review had focussed on comparing the Council's current practices to best practice as set out in the CIPFA code. There may be an opportunity at a later stage to look at the recommendations of the Governance Review to see how they compared to the findings from the Finance Review.

In response to a question about the timetable for the Finance Review and what would be covered in the stakeholder section, it was advised that the next tranche focussing on financial leadership and financial governance was due to be finalised in mid-November. The report on this tranche would go to the FRP first and then be scheduled for the next appropriate meeting of the General Purposes and Audit Committee. At this stage the timescales for the remainder of the work was still to be finalised.

The section of the Finance Review focusing on stakeholders was mainly linked to the Council's work with its partners, but consideration may also be given to the role of the local community. This would be a significant piece of

work, which had not yet been timetabled, but at this stage it was felt there was ample time to complete the full review.

In response to a question about how the work of the FRP was progressing and the wider arrangements for monitoring the Finance Review, it was highlighted that the FRP had already commented upon the Phase 1 report. The FRP had been pleased about the level of detail in the report and work had already started on implementing the recommendations. The three priority areas (highlighted above) had been chosen for Phase 1 as the Council was in the process of launching its budget setting process for 2021-22 and was developing a new Medium Term Financial Strategy. As it was important to ensure identified savings were delivered, finance monitoring had also been identified as another area in need of immediate review.

It was highlighted that work on the development of a new budget setting process had begun, with a report taken to Cabinet on 21 September 2020. At the same Cabinet meeting another had been considered on the development of a new Medium Term Financial Strategy. Work had also commenced on moving the Council to a monthly finance monitoring system.

Given that phase 1 of the Croydon Finance Review had resulted in 75 recommendations, it was questioned how the Council compared to other local authorities. It was advised that all Councils had a duty to comply with the CIPFA code and while it was unlikely that many would be completely compliant at this time, those that were not would be working towards compliance.

Long to Medium Term Financial Management

During the introduction to the Long to Medium Term Financial Management section of the report, the following information was noted:-

- A key criteria for robust financial management was ensuring that plans were in place to recognise and manage potential risks in the medium to long term.
- Many areas of finance required long term planning, such as managing and maintaining the Council's housing stock. As such it was importance to have robust long term plans in place.
- Having a Capital Strategy was also important, as it allowed an organisation to understand its position on capital spend.
- By having a comprehensive Asset Management Plan, detailing the planned maintenance of assets, it would allow the Council to understand its financial commitments in this area. At the present time the Council did not have a full suite of plans for all its assets, which had been flagged as a risk.

- Through being able to develop a robust Medium Term Financial Strategy, the Council would be in a better position to understand how it would manage foreseeable risks and any potential budget gaps.
- Sound financial management needed to be supported by comparative data as it would enable the Council to learn from best practice elsewhere and provide support when lobbying for funding.
- The level of General Fund reserves held by the Council was set by the Section 151 Officer. The current level of reserves held by the Council in its General Fund was at a comparatively low level compared to other local authorities. In addition to the reserves held in the General Fund, the Council may also have other earmarked reserves for specific commitments.

The first question in this section of the meeting concerned the prudential code and whether it had been complied with by the Council in terms of long term planning. In response it was explained that the Prudential Code was mandatory and required the Council to set out the amount it would be borrowing and the affordability of that borrowing, allowing the risks to be managed. The Finance Review had found that the Council was managing its borrowing in compliance with the code. Although local authorities had to operate within the published bounds of the code, there was a certain amount of flexibility in some areas, such as the timing of drawing down borrowing to ensure the best rate was achieved.

It was questioned whether decisions, such as those concerning asset investment, had been made on a sound basis. In response it was highlighted that it was easy to look at individual decisions with the benefit of hindsight and determine that those decision should not have proceeded. As such it was important when reviewing decisions to give consideration to the context in which they were made. This including looking at whether the decision maker had been provided with the right level of information to make a sound decision, whether the analysis provided was adequate and whether professional advice had been listened to.

Although not all of the Council's investment decisions had been looked at as part of the Finance Review due to the sheer number involved, the governance arrangements around some of the asset investments had been reviewed. The purchase of the Croydon Park Hotel was highlighted as an example, with it noted that the process had not followed the Council's arrangements in place for capital decisions at that time, which would have normally gone through the Growth Board for approval. This was because the Council was in the process of setting up new arrangements for capital investments, with the formation of an Asset Board as the mechanism for approving any such investments. Although the new arrangements were published in September 2018, slightly after the decision to purchase the Croydon Park Hotel had been taken, arrangements were in place for officers to investigate the viability of capital investments through the Asset Board. By the time the decision was made by Cabinet Members the review found that there was a process in place. Members had received advice which included a matrix setting out the risks

and criteria, this had also been shared with the Scrutiny and Overview Committee. As such the review had concluded that there were no issue around the legality of the decision.

As a follow up, recommendation BP 10 from the report (page 22 in the Committee agenda) was highlighted and in particular the need for the Council to consider the affordability of its borrowing plans. In the context of the low level of reserves held in the General Fund by the Council, it was questioned whether the same investment decisions would be made today. In response it was advised that it was unlikely the Council could pursue the same investment strategy as it must look at affordability within the revenue budget when building the capital programme. Had the level of planned borrowing continued then the cost would have equated to 17% of the budget which was considered to be very high.

As the report highlighted the need for the Council to have long term financial plans and a capital strategy that covered a 20 to 30 year period, it was questioned whether this was a statutory requirement as it may be difficult to plan this far in advance in a local authority where there are regular political changes. In response it was advised that this was a new requirement from CIPFA and at present not many Councils had a strategy which looked that far ahead. However, there were some areas of the Council where a long term plan was required, such as the Housing Revenue Account which required a 40 year plan to enable the Council to manage its housing stock and understand what it could afford to borrow to invest in new stock. The recommendations from CIPFA identified other areas where long term planning was needed such as roads and schools. It was best practice to review long term plans at regular intervals, such as when the political leadership of the Council changes.

It was noted that the Finance Review had highlighted the need to have improved processes in place for testing the achievability of savings and as such more information was requested on the role of Cabinet Members in this process. It was advised that work on savings proposals should begin in the summer with officers working up proposals to such a point that when presented to the Cabinet a recommendation can be given on their achievability. One of the reasons the Council had struggled to achieve its savings in recent years was because the work to understand the achievability of savings had not been as thorough as required when delivering a robust budget.

Regarding whether Members should have known whether the budget proposals were robust enough, it was highlighted that they relied upon the sign off of the Section 151 Officer in the budget report. However, when the budget proposals were discussed with Members prior to the decisions being made there were opportunities to discuss achievability. When there is insufficient time built into the budget development process, it can lead to savings being included without the necessary due diligence being undertaken. Members had been aware of this, but had made the decision to proceed with the budget to ensure it was agreed within the required timeframe. To avoid

this happening in the future stronger budget processes were being put in place.

One Member of the Committee suggested that there may have been a priority towards delivering new projects rather than delivering budget savings and as such questioned whether this may have impacted upon decision making. In response it was highlighted that once savings were put into the budget they became part of the organisation's plan, which all Members and officers had committed to delivering. It was not possible to make a judgement over whether there were any officers who felt they were under no pressure to deliver their identified savings and it was more likely to be the case that savings had been added at late notice and when it came to delivery it was discovered they were not achievable.

When it was questioned why overspending in some areas of the Council had been repeated over a number of years, it was advised that there was some evidence that similar errors had been repeated in terms of the budget setting process not being sufficiently robust. In particular, late decision making without sufficient time to undertaken due diligence on achievability had led to a repeated failure to deliver savings. It was highlighted that the Council had overspent on social care year on year, which indicated the need to do things differently if savings were going to be achieved.

The Council's relationship with Brick by Brick, a company it had set up to deliver new affordable housing, came under scrutiny by the Committee. Of particular concern was the Council still not having been provided with the latest accounts from the company and that there was no longer Council representation on the Board even though the Council was its sole shareholder. In response it was advised that membership of an external board was a difficult issue as when appointed an individual has to accept certain obligations, including acting in the best interests of the company. This led to a risk of there being a conflict of interest if an individual was also employed by the shareholder, which in the case of Brick by Brick was the Council. As such any appointees needed to be able to resolve these conflicts. It would be fine to appoint a council officer in principle, but the individual would require significant training for the role and if they did not have experience of working on a board it could be a steep learning curve. The Council did provide training for officers appointed to the Board of Brick by Brick, but it was not clear that all appointees had the necessary experience in large scale development required for the role.

It was questioned whether there was confidence that the right management was in place across the Council to lead the transformation of services required in order to address the budget deficit. In response it was highlighted that the use of the Programme Management Office to lead on future transformation work was recommended as it would bring structure, clarity and accountability to the process. Another benefit of a Programme Management Office was it should ensure that a greater depth of information on the transformation work was more readily available, enabling updates to be provided for Members at regular intervals.

In response to a question about how the recurring issue of identified savings not being achieved could be rectified, it was advised that it was essential that the robustness of any savings proposals be tested at an early stage. There also needed to be clarity over the timescales for implementing any savings with an accompanying action plan setting out the pathways for delivery. For any saving being delivered in year during 2021-22 these action plans will need to be in place by 1 April 2021, to reduce the risk of a possible overspend. Identified savings need to accurately take account of what was achievable and delivery needed to be tracked to ensure any failure to deliver could be addressed at the earliest possible time to allow corrective action to be taken.

It was noted that significant change was required within the Council, both in terms of budget processes and the need to reign back spending, which will mean significant changes to how it is structured and how it spends. It was very clear that the Council did not have the capacity within its existing resources to deliver this change without bringing in additional support. As such consideration will need to be given to how this is resourced, as upfront investment will be required.

While there was cross party agreement that Croydon was unfairly financed by the Government, there was an acknowledgement that these were known facts and the Council had to live within its available means. In order to begin to do so, the importance of the Medium Term Financial Strategy was highlighted as a good strategy would provide the Council with an understanding of the financial landscape, would identify the areas of pressure and confirm the funding envelope available. Although it was difficult to plan for the longer term when the Government was only providing short term settlements, having a strategy would enable the Council to deliver more ambitious projects over a number of years.

Annual Budget

During the introduction to the Annual Budget section of the report the following was noted.

- The Council had a statutory obligation to set a robust budget, the process for which culminated in the production of a budget report submitted to Council for approval in February/March of each year.
- The CIPFA guidance highlighted a number of areas of particular importance which needed to be considered when setting the budget. These included taking account of the recent past when developing projections for the future, the local and national economic context, and the statement from the Section 151 Officer on the robustness of the reserves.

The first question on this section of the report asked whether there were opportunities for the political leadership of the Council to challenge the Section 151 Officer's statement. It was advised that the level of General Fund reserves was a matter for the Section 151 Officer to determine and should

take into account the risks facing the Council and the context in which the statement is being made. It was highlighted that it would be difficult for an individual without knowledge and experience of the organisation to deliver the Section 151 Officer statement. To aid the Section 151 Officer in the preparation of the statement a recommendation had been made for the Council to undertake an annual resilience assessment, with a new system for this being trialled. It was important that the narrative within the statement made it clear how the decision had been reached.

A section under recommendation BP 43 referring to proposals not being screened out politically prior to being presented at budget development meetings (page 46 of the Committee agenda) was highlighted, with further information requested on what this meant. It was advised that this referred to instances when Cabinet Members had been involved in the early development savings proposals with officers, allowing them to screen out the ones they did not want to go forward for consideration. It was best practice for Members not to be involved at this stage of the process and instead the Cabinet should be presented with a range of proposals for discussion.

In reference to recommendation BP 44 (page 46 of the Committee agenda) which referred to the budget being owned and articulated by the whole leadership team, it was noted that previously the budget setting process had not been as inclusive as was recommended in best practice. This may have been due to the reduced timescales involved, but as a consequence it meant that decisions were taken without debate.

It was highlighted that recommendation BP 46 (page 48 of the Committee agenda), advised that the budget plan should prioritise maintaining the reserves at the target level above any operational considerations. As such it was questioned whether this had been neglected over the past few years. In response it was advised that it did not appear to be the case that the reserves had been neglected. It was the role of the Section 151 Officer to recommend the level of General Fund reserves to be retained and the Council's had remained at the same level since 2018, with a £5,000,000 increase included in 2020-21 budget to manage foreseen financial risks. This had been signed off as adequate when the budget was agreed by Members at the Budget Council meeting.

In response to a question about the role for Scrutiny in the budget setting process it was advised that it was best practice for Scrutiny to have the opportunity for pre-decision scrutiny, in order to test some of the proposals. In setting a three year budget, it would enhance the role of Scrutiny and it would normally be expected that Scrutiny was given time to look at the proposals agreed by the Administration, prior to being formally agreed by the Cabinet.

Monitoring Financial Performance

During the introduction to the Monitoring Financial Performance section of the report the following was noted:-

- Some of the key areas for focus included how the Council reported on its financial position, how to ensure the information provided was of good quality and having a framework in place to provide assurance of this.
- There was also a need to manage accountability for ensuring budgets were delivered and that budget holders took responsibility for their budgets.
- There should be a savings tracker which presented a clear set of information on whether the Council was achieving its savings.
- There needed to be a greater understanding of the financial position of the Council's subsidiaries and how this impacted upon the budget.
- There needed to be greater awareness of capital expenditure, which should include paying attention to individual projects.

The Chair advised the Committee that it had been proposed that Cabinet Members would be invited to future meetings when their budgets were getting close to being spent to answer question on their budget and the monitoring taking place. This suggestion was welcomed by the other members of the Committee.

It was highlighted that the usability of the finance system could sometime be a barrier for officers when trying to manage their budgets and as such it was questioned whether there were plans for improving the current system. In response it was advised that there were plans to review the finance system to identify how it could be made more user friendly for budget holders to manage their budgets. It was highlighted that there was a range of different data reporting that needed to be fixed within the finance system, such as employee budgets, which was in the process of being addressed.

In response to concerns about the difficulty in creating an up to date organisation chart, it was acknowledged that there needed to be tighter control over starters, leaver and movers within the organisation and an exercise was underway to rectify reporting on this.

It was noted that some of the recommendations related to providing the Cabinet with earlier visibility of high risk spend and the delivery of savings, which seemed to be designed to ensure the Cabinet took sufficient accountability for their budgets. As such it was questioned whether this had not been the case in the past. In response it was highlighted that it was best practice for both the Cabinet and the Council's officer management team to take responsibility for delivering the budget. Cabinet would need to take action when the Council was overspending, through the provision of clear instructions to officer on the priorities when addressing the overspend.

The Chair advised that through the proposal to invite Cabinet Members to the Committee to face questioning on their budgets, it would provide assurance that they understood their budgets and that they had an open dialogue with

their respective directors. There also need to be a process in place to improve all Members understanding of the budget going forward.

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It was highlighted that the Council was on a journey to implementing the recommendations related to finance monitoring, with a lot of change required that needed to be resourced properly and embedded across the Council. It was likely that improvement journey would take three years and investments was needed upfront to put the right systems and structures in place.

As a follow-up, given the need to deliver urgent savings, it was questioned should be expected from the 2021-22 Budget when it was produced in January. It was advised that the Council would need sufficient information to be able to sign off a budget that was both robust and deliverable. There would need to be a large margin built into the budget for risk, as there will be a lot that will not be foreseeable at that stage, but the budget will be created with the understanding that there is a need to deliver services differently in order to manage costs and bring spending back within the financial envelope. There was a need to get the basics right when setting the next budget, while financial management and governance will take longer to address.

At the conclusion of the meeting the Chair thanked Mr O'Donnell for his attendance at the meeting and the well-considered answers given in response to the questions of the Committee. The quality of the report was commended and thanks was also given to all the officers involved in working to find a way forward for the Council. Finally, all Members of the Council were encouraged to speak with the respective MPs to lobby for fairer funding for the borough.

40/20 **Exclusion of Public and Press**

This motion was not required.

The meeting ended at 8.35 pm

Signed:

Date: