LONDON BOROUGH OF CROYDON

REPORT:		**CABINET**
DATE OF DECISION		**22 February 2023**
REPORT TITLE:		**Opening the Books – Reports from Worth Technical Accounting Solutions**
CORPORATE DIRECTOR / DIRECTOR:		**Jane West** **Corporate Director of Resources and Section 151 officer**
LEAD OFFICER:		**Jane West**
LEAD MEMBER:		**Councillor Jason Cummings** **Cabinet Member for Finance**
DECISION TAKER:		**Executive Mayor in Cabinet**
AUTHORITY TO TAKE DECISION:		
KEY DECISION?	**No**	REASON: N/A
CONTAINS EXEMPT INFORMATION?	**No**	Public
WARDS AFFECTED:		**All**

1 SUMMARY OF REPORT

The Opening the Books project was launched by the Mayor in July 2022 to improve the Council's understanding of current financial risks and to work towards a sustainable financial future. The project has had a number of facets including the commissioning of a series of reviews by Worth Technical Accounting Solutions. The resulting reports are presented here to Cabinet with the recommendation that the Audit and Governance Committee be asked to debate them at a future meeting, scheduled for 3 March 2023. The reports are being shared in full under the Mayor's openness and transparency ethos with nothing hidden. The recommendations made by Worth TAS are accepted in their entirety by the Council and are set out in the action plan in Appendix F. It is recommended that progress against these recommendations is monitored by the Audit and Governance Committee through to completion.

2 RECOMMENDATIONS

The Executive Mayor in Cabinet is recommended to:

2.1 To accept and refer the Worth Technical Accounting Solutions reports to the Audit and Governance Committee for debate.

2.2 Request that the Audit and Governance Committee monitor the implementation of the recommendations from the reports.

3. BACKGROUND AND DETAILS

3.1 The Opening the Books project was launched by the Mayor in July 2022 to improve the Council's understanding of current financial risks and to work towards a sustainable financial future. The project has had a number of facets including the commissioning of a series of reviews by Worth Technical Accounting Solutions.

3.2 The following reviews have been completed by Worth TAS:

- London Borough of Croydon Capitalisation Direction
- London Borough of Croydon Managing Revenue Budgets
- London Borough of Croydon Budget Setting and Financial Management
- Review of Capital Spending Plans, Treasury Management Strategies, Debt Charges and Borrowing
- London Borough of Croydon Financial Reporting and Year End Close.

3.3 The full reports are attached in their entirety as Appendices A to E as part of the Mayor's commitment to openness and transparency.

3.4 The reviews provided important information over the summer and autumn of 2022 that has fed into the Council's Medium Term Financial Strategy, as reported to Cabinet in November 2022, and the Council Tax Setting papers that are presented to Cabinet elsewhere on this agenda. Areas that have been informed by this work include:

- The Council's increased use of capital receipts to repay its outstanding borrowing, including the revision to the Council's Asset Management Strategy.
- The setting of the Council's Minimum Revenue Provision for the repayment of borrowing, including an increase for earlier years that has been included in the Council's request to government for a Legacy Capitalisation Direction.
- The establishment of a new officer group to review all the debts owed to the Council, the approaches to collection, the requirements for debt write off and the required provision for bad debt. A large shortfall in the provision for bad debt was identified which has been included in the Council's request to government for a Legacy Capitalisation Direction.
- Recent improvements to financial modelling
- Recommended improvements in budget setting across the Council have identified the need to correct a range of budgets as part of the Council Tax

Setting process. A significant number of budgets have been identified as being incorrectly calculated or even completely erroneous.

3.5 This work has been a significant contributor to identifying the Council's large and previously unrecognised budget gap, the need to issue the November 2022 S114 notice and the requirement for additional financial support from government. The reviewers support the direction of travel of the Council's Medium Term Financial and share the Council's view that the Council's current level of borrowing is financially unsustainable without extraordinary financial support from government.

3.6 A table listing all the reviewers' recommendations is presented as Appendix F, including details of the officer responsible for implementation. The recommendations which have already been fully implemented have been greyed out. Good progress has already been made against most recommendations.

3.7 In summary the reviews identify the following strategic actions required into the future:

- Focus on the Mayor's top priorities as identified in the Mayor's Business Plan in the context of what is affordable.
- Challenge established patterns of spending to generate more substantial savings and re-size revenue budgets by reducing non-priority services to non-priority groups and reviewing current methods for delivering core services
- Restrict capital spending to essential items only, focussing investment on operational assets in order to minimise new borrowing
- Maximise asset sales to repay borrowing and fund Capitalisation Directions. More asset sales should also reduce future debt charges as well as premises and utility costs.

3.8 In terms of processes, the reviews conclude that the Council needs to:

- Improve the clarity and consistency of key financial information
- Closely monitor levels of General Fund balances and reserves
- Ensure all savings plans are realistic and achievable
- Adopt realistic assumptions and consider 'worst case' scenarios
- Get year end accounts up to date
- Improve oversight of key financial processes.

4 ALTERNATIVE OPTIONS CONSIDERED

N/A

5 CONSULTATION

None

6. CONTRIBUTION TO COUNCIL PRIORITIES

The Opening the Books project aligns with the Mayor's core outcome of balancing the Council's books.

7. IMPLICATIONS

7.1 FINANCIAL IMPLICATIONS

7.1.1 As the report states, the findings of the Opening the Books project were reflected in the Council's Medium Term Financial Strategy reported to Cabinet in November 2022, and are reflected in the Council Tax Setting papers presented for the 2023/24 budget. The recommendations are accepted in full and progress on their implementation will be monitored.

Approved by: Alan Layton, Interim Head of Service, Finance on behalf of Corporate Director of Resources.

7.2 LEGAL IMPLICATIONS

7.2.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Legal Services and Monitoring Officer that the Audit and Governance Committee is required by its terms of reference to monitor the effective development and operation of the Council's risk management arrangements, the control environment and associated strategies, actions and resources, and to provide independent assurance to the Council of the adequacy of the risk management framework and the internal control environment.

7.2.2 Under Regulation 3 of the Accounts and Audit Regulations 2015, the Council must ensure that it has a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives, ensures that the financial and operational management of the authority is effective, and includes effective arrangements for the management of risk.

7.2.3 Separately, the effectiveness of the Council's internal control environment has a direct impact on the Council's ability to deliver its functions in a manner which promotes economy, efficiency and effectiveness. Therefore, the consideration of this report also seeks to demonstrate the Council's compliance with its Best Value Duty under the Local Government Act 1999.

Approved by: Sandra Herbert, Head of Litigation and Corporate Law, on behalf of the Director of Legal Services and Monitoring Officer.

7.3 EQUALITIES IMPLICATIONS

7.3.1 Under the Public Sector Equality Duty of the Equality Act 2010, decision makers must evidence consideration of any potential impacts of proposals on groups who share the protected characteristics, before decisions are taken. This includes any decisions relating to how authorities act as employers; how they develop, evaluate and review policies; how they design, deliver and evaluate services, and also how they commission and procure services from others.

7.3.2 Section 149 of the Act requires public bodies to have due regard to the need to:

- eliminate unlawful discrimination, harassment, victimisation and any other conduct prohibited by the Act;
- advance equality of opportunity between people who share a protected characteristic and people who do not share it; and
- foster good relations between people who share a protected characteristic and people who do not share it.

7.3.3 Protected characteristics defined by law include race and ethnicity, disability, sex, gender reassignment, age, sexual orientation, pregnancy and maternity, and religion or belief.

7.3.4 Having due regard means there is a requirement to consciously address the three tenets of the Equality Duty within decision-making processes. By law, assessments must contain sufficient information to enable the local authority to show it has paid 'due regard' to the equalities duties; and identified methods for mitigating or avoiding adverse impact on people sharing protected characteristics. Where a decision is likely to result in detrimental impact on any group with a protected characteristic it must be justified objectively.

Approved by: Gavin Handford, Director of Policy, Programmes & Performance

7.4 HUMAN RESOURCES IMPLICATIONS

7.4.1 There are no immediate workforce implications as a result of the recommendations in this report. Any mitigation on budget implications that may have effect on direct staffing will be managed in accordance with relevant human resources policies and were necessary consultation with recognised trade unions.

Approved by; Dean Shoesmith, Chief People Officer, 30 January 2023.

8. APPENDICES

Appendix A: London Borough of Croydon Capitalisation Direction

Appendix B: London Borough of Croydon Managing Revenue Budgets

Appendix C: London Borough of Croydon Budget Setting and Financial Management

Appendix D: Review of Capital Spending Plans, Treasury Management Strategies, Debt Charges and Borrowing

Appendix E: London Borough of Croydon Financial Reporting and Year End Close

Appendix F: Worth Technical Accounting Solutions Recommendations Tracker

9. BACKGROUND DOCUMENTS

None

Appendix F

Worth Technical Accounting Solutions Recommendations Tracker

Ref	Recommendation	Accountable Officer
1.	A more comprehensive process for identifying current and expected financial pressures should be implemented, to take account of: • future spending pressures • key budget assumptions affecting grant funding and taxation income, • historical accounting issues • expected levels of General Fund reserves and working balances • MRP and interest implications of any new Capitalisation Directions (CDs) approved.	Director of Finance
2.	New and emerging financial pressures identified from R1 above should be reported to members as part of budget monitoring reports, together with a summary of their expected impact on future General Fund balances. This information should help to inform consideration of the Council's overall financial position and any potential requirement for further Government support.	Corporate Director of Resources
3.	If the CD adjustment in the financial statements is significantly different from the amount set out in the Direction for that financial year, the Statement of Accounts should explain why.	Director of Finance
4.	As CD adjustments represent material items of account they should be separately identified in the Movement in Reserves Statement and the material items note.	Director of Finance
5.	The accounting treatment adopted for material CD adjustments should be set out in accounting policy disclosures.	Director of Finance
6.	Disclosure notes which reference the CD should be internally consistent.	Director of Finance
7.	The Council's Treasury Management Strategy should be more transparent about: • how forecast capital receipts are being used to finance different types of capital expenditure • how CDs are funded, and • how MRP charges are being calculated.	Head of Pensions and Treasury
8.	Detailed MRP calculations should be consistent with Treasury Management and budget reports.	Head of Pensions and Treasury
9.	The Council is prioritising the use of capital receipts to fund current and future CDs and has recently approved a more ambitious asset disposal strategy to generate additional capital receipts. However, future budget forecasts and financial modelling may need to reflect the fact that if sufficient capital receipts are not generated within anticipated timescales, any CDs not funded from capital receipts would attract MRP at 5% for the next 20 years.	Director of Finance
10	Improvements to the processes that support budget planning and management in adult social care services should be	Director of Finance

	prioritized, to embed a consistent knowledge and use of systems; therefore minimizing inconsistent datasets, to better support service management and budget setting.	
11	Collective understanding about the cost components of adult social care budgets has significantly improved since 2021. This approach should now be extended so that the income element of the budget, particularly care charges and service-based grant income are equally well understood.	Director of Finance
12	Financial modelling used to predict the unit cost and demand for social care need to be kept under review to reflect Government changes and should be refined and updated as further information becomes available.	Director of Finance
13	Further work on demand modelling also need to be carried out across health and social services to ensure that current predictions of demand and future activity levels are robust.	Director of Finance
14	The Council needs to ensure that healthcare providers and commissioners make appropriate contributions both to the funding of individual care packages and to the more strategic aspects of service delivery.	Corporate Director of Resources
15	Financial modelling should be integrated across the Council, to recognize the potential impact that MTFS savings in other areas of spending (particularly housing) might have on the demand for adult social services.	Director of Finance
16	The Council should review its current workforce strategy and ensure that it becomes an employer of choice for adult services.	Corporate Director of Adult Social Care and Health
17	Going forward, the MTFS may need to develop a more transformational approach which builds on the approach already adopted in the recent review of eligibility criteria for adult social care.	Corporate Director of Resources
18	Implementation of the High Needs Management Recovery Plan (HNMRP) needs to be kept under regular review.	Corporate Director of Children's, Young People and Education
19	Corporate budgets and High Needs Management Recovery Plan implementation plans need to reflect the upfront investment required to realise longer term savings in High Needs provision.	Corporate Director of Children's, Young People and Education
20	Commissioning processes and contract monitoring arrangements should be sufficiently challenging for all service providers, with contract documentation that clearly sets out: • the cost and quality of service the Council expects, • eligibility criteria, and • contract monitoring arrangements.	Corporate Director of Children's, Young People and Education
21	The Council has significantly improved its understanding of how demand for services influences the revenue budgets in Children's services, but it needs to keep forecasting models under review. For example: • forecast reductions in placement costs for children in care are not in line with national trends across the rest of the UK, • nationally, increases in reported numbers of children with disabilities (CWD) are also anticipated and the Council needs to work closely with local health services to model expected future demand	Corporate Director of Children's, Young People and Education

	•demand is also increasing for statutory child protection and safeguarding services, which needs to be recognized in future budgets • there needs to be a greater understanding about the impact that financial savings made in other parts of the Council, especially housing and homelessness services, might have on demand for children services.	
22	Recent improvements made in the working relationships between Children's services and the corporate finance team, and in the processes put in place to support effective budget management, need to become fully embedded in day-to- day service delivery. To facilitate this process, the Council has contracted directly with the DfE Financial Adviser for a further 12 months' support which should facilitate embedding their expertise into the Children's Services team.	Director of Finance
23	The Council should ensure that information in relation to staffing, budget management and forecasting is accurate and up-to-date, and is embedded in accessible and user-friendly systems so that common data sets can be shared between Children's services and support functions such as HR, payroll and finance.	Director of Finance
24	The Council should consider strengthening early help and prevention services, to help reduce demand for care placements in the borough.	Corporate Director of Children's, Young People and Education
25	There is a well thought through sufficiency strategy for foster carers in the borough, and a transformation project to increase in-house foster care is now in place for 2023-24. A move to more in-house foster care could potentially reduce placement costs by 40 – 50%, so delivering this strategy should be a Council priority.	Corporate Director of Children's, Young People and Education
26	There is now a Direct Payment policy for the 0-17 CWD service, but take-up is relatively low and could be expanded.	Corporate Director of Children's, Young People and Education
27	Budget setting spreadsheets and financial modelling tools should be understandable by staff outside the corporate finance team, easy to use and maintain, and link back readily to Council reports.	Director of Finance
28	Financial modelling and budget reports should be clearer about anticipated growth, funding changes and expected savings and should ensure that this information is accurately and consistently presented to decision-makers.	Corporate Director of Resources
29	2023/24 budget reports could be made easier to understand by: • highlighting key messages for members in the summary report • setting out savings and growth figures separately • setting out assumptions about funding changes in appendices, and • ensuring that all appendices are consistent with the summary report.	Director of Finance
30	Financial modelling already underway to quantify budget gaps for 2023/24 and future years should, as a minimum, be extended to 2025/26 and the updated assumptions underpinning these plans should be included in budget reports.	Corporate Director of Resources

31	Financial modelling should take account of account of all cost pressures identified, including historical accounting issues and new and emerging financial risks.	Corporate Director of Resources
32	2023/24 budget reports need to be clear about unavoidable spending growth and the plans in place to manage demand-led items e.g., social care and utilities budgets, down to unavoidable levels.	Corporate Director of Resources
33	Until the Council's overall financial position has stabilised, any other proposals for revenue growth should be reconsidered, unless there is a clear expectation that these can generate additional savings.	Corporate Director of Resources
34	Section 25 report should present a realistic assessment of the Council's current and expected financial position, and should be expanded to comply with the Local Government Act 2003 by reporting specifically on: • expected levels of General Fund balances and reserves, • all identified spending pressures (which should be quantified), • the s151 officer's opinion on the adequacy of those balances, • the split between earmarked reserves and working balances, • confirmation that working balances will be cash-backed, • any new earmarked reserves which need to be established, and • any proposed transfers to and from earmarked reserves**.**	Corporate Director of Resources
35	To provide additional context for decision-makers, the section 25 report could also include information on levels of General Fund balances at neighbouring authorities, and CIPFA guidance on setting levels of balances and reserves.	Corporate Director of Resources
36	Monthly budget monitoring reports should clearly set out the Council's target level of General Fund working balances and compare this to expected balances at the year end. If a significant shortfall is identified, the Council should as a priority either: • develop plans for bridging the gap, or • consider the requirement for additional Government support.	Director of Finance
37	Current savings plans should be rationalised and consolidated, with any duplicated items removed. All savings plans should have nominated "owners" who are responsible for delivering the savings identified within specified timescales set out in budget reports.	Director of Finance
38	Larger savings plans, say over £0.5m, should have detailed business cases which clearly identify the cost of delivering these anticipated savings, and are subject to robust scrutiny before being included in the budget.	Corporate Director of Resources
39	Progress on the delivery of major savings initiatives should be regularly reported to members in addition to progress in delivering target savings overall.	Corporate Director of Resources
40	The Council has successfully implemented transformational change in a number of areas but may need to extend this approach in order to develop more ambitious savings plans.	Corporate Director of Resources
41	The Council needs to put in place a much clearer process for identifying and accounting for Transformation costs, which only treats such costs as capital expenditure where they meet Government guidance criteria in full.	Director of Finance
42	To meet current Government guidelines, the Council should also ensure that any Transformation costs which are	Director of Commercial

	capitalised are financed from capital receipts and not borrowing.	Investment & Capital
43	The Council should develop a Capital Strategy in line with the current requirements of CIPFA's Prudential Code. This Strategy should clearly set out how capital investment is prioritised and include a requirement for projects previously approved by members to be revisited in the light of the current financial position.	Director of Commercial Investment & Capital
44	An updated version of the rolling three-year capital programme should be presented to members for approval as part of 2023/24 budget reports.	Corporate Director of Resources
45	The Council's TMS should set out the assumptions and key risks underpinning expected changes to capital funding streams.	Head of Treasury and Pensions
46	The Council should aim to reduce its dependence on borrowing to fund capital investment, by: • identifying sources of non-government grant funding, and • generating additional capital receipts from asset sales.	Corporate Director of Resources
47	Information contained within the TMS and used to calculate key prudential indicators should be consistent internally and with revenue budgets and capital spending plans approved by Full Council.	Head of Treasury and Pensions
48	The TMS should include up to date financial information and clear performance targets for all types of treasury and non-treasury investments in terms of security, liquidity and yield. For example: • regarding loans to third parties, security arrangements, due diligence processes, and the arrangements in place for monitoring repayment and assessing the possibility of default • regarding investments in council companies, the arrangements for managing performance against financial and non-financial targets, and agreed exit strategies for non-performing companies	Head of Treasury and Pensions
49	The Council's TMS needs to be more explicit, and more realistic about: • whether new borrowing will represent external loans or utilisation of existing liquid resources • expected timings of any new external borrowing, and • whether this borrowing will be long or short term • the impact new loan debt will have on revenue debt charges and General Fund budgets in future years.	Head of Treasury and Pensions
50	The Council should update its TMS, revenue budgets, and medium-term financial plans to reflect more up to date assumptions about future interest rates.	Head of Treasury and Pensions
51	Given the expected increase in UK interest rates going forward, the Council should also consider the potential benefits of: • a debt reduction strategy, and • replacing short term, variable rate borrowing with long term, fixed rate loans where repayment profiles are matched against the expected useful life of the asset.	Corporate Director of Resources
52	The Council's published MRP policy should: • explain the MRP framework and calculation options are as set out in current statutory and non-statutory guidance,	Director of Finance

	• highlight any significant changes to the guidance since last year, and • confirm that these requirements are being correctly applied.	
53	The Council should review its MRP policy and underlying calculations, to confirm that the annual charge has been calculated in line with statutory and non-statutory guidance, and that realistic levels of MRP have been built into General Fund budgets.	Director of Finance
54	Corporate guidance should be provided on key accounting areas such as the preparation and evidencing of: • bank reconciliations • other key reconciliation processes • bad debt write-offs, and • calculation of bad debt provisions at the year-end.	Director of Finance
55	Bank reconciliations should be completed weekly, with copies provided to the corporate finance team together with evidence confirming that: • each bank statement reconciles back to the ledger, • all suspense and holding account items have been cleared, and that, • cash flow forecasts used to make treasury management decisions have been updated as necessary.	Director of Finance
56	A “dashboard” process (or equivalent) should be established to confirm that: • feeder system reconciliations are undertaken monthly throughout the year, • any reconciling items are investigated, • mis-postings have been corrected, and • all suspense and holding account balances have been cleared.	Director of Finance
57	Bad debt provisions should be calculated on a consistent basis, based on the age of the debt and a realistic assessment of collectability. As a general rule, based on practices that we have observed elsewhere, all debts over 5 years old should be written off and all debts over 2 years old should be at least partially provided for.	Director of Finance
58	The Council is carrying a significant amount of debt which is more than 7 years old and, although much of this is fully provided for, most of these debts should be written off.	Corporate Director of Resources
59	A Prepared by Client (PBC) list should be obtained from the audit team and used to ensure that a comprehensive set of working papers is produced each year.	Director of Finance
60	Templates should be introduced to ensure that working papers are prepared to a consistent standard and support all transactions, disclosures and balances in the Statement of Accounts.	Director of Finance
61	Closedown work should include: • detailed review of year-end working papers at pre-audit stage • analytical review on all material transactions, disclosures and balances.	Director of Finance
62	Working papers should specifically address new audit requirements on key accounting estimates for: • land and property valuations • IAS 19 disclosures, and	Director of Finance

	• any material provisions or accounting estimates.	
63	Timely production of year-end accounts and in-year financial information should be a corporate priority going forward, with visible and effective leadership ensuring that: • financial statements are published by 30 September each year, and • outturn reports are published on a regular basis throughout the year.	Director of Finance
64	Closedown plans should be reviewed and updated to ensure that: • the key tasks identified reflect all Code and PBC requirements, • all tasks are allocated to named individuals, and that, • as much work as possible is completed in advance of 31 March each year	Director of Finance
65	Closedown work should be less dependent on a small number of staff within the corporate finance team by involving all service-based finance staff as well as Exchequer and Treasury Management personnel.	Corporate Director of Resources
66	Staff briefings on year-end close should be developed and extended to include, for example, technical training on Code disclosures and audit requirements.	Director of Finance
67	Written guidance should be provided to all staff involved in year-end close.	Director of Finance
68	Project management arrangements should ensure that all audit queries are responded to promptly and comprehensively.	Director of Finance
69	Regular meetings between the Section 151 officer and the local external audit team, and regular progress reports to the Audit Committee, should be used to monitor both the production of year-end accounts and the progress being made by external audit.	Corporate Director of Resources
70	The published Statement of Accounts should either include the complete version of the Annual Government Statement, a summarised version to meet Code requirements, or, as a minimum, clear signposting as to where the AGS can be found.	Corporate Director of Resources
71	2021/22 pension fund accounts should be completed as soon as possible. The 2021/22 pension fund annual report should also be drafted and published as this is now overdue.	Head of Pensions and Treasury
72	Going concern disclosures in Note 1.2 should explain why the going concern assumption remains appropriate given the Council's current financial position.	Head of Pensions and Treasury
73	The Statement of Accounts should include credit risk disclosures on trade and loan debts, together with an aged analysis of debtors and summary information on debts past due date not yet impaired.	Director of Finance
74	To demonstrate that all relevant Code requirements have been met, the Council should complete CIPFA's detailed disclosure checklist each year.	Director of Finance
75	Spreadsheet-based cross-referencing and consistency checks should be extended to include cross-checks on: • movements in useable and unusable reserves • the Expenditure and Funding Account, and • the subjective analysis of Net Cost of Services in Note 1C.	Director of Finance
76	Some complex accounting matters have been outstanding for several years. Resolving these matters, and making	Corporate Director of Resources

	appropriate adjustments to prior year's financial statements, should be regarded as a priority.	