

Scrutiny & Overview Committee

Meeting held on Thursday, 16 February 2023 at 6.30 pm in the Council Chamber, Town Hall, Katharine Street, Croydon CR0 1NX

MINUTES

Present: Councillors Rowenna Davis (Chair), Councillor Richard Chatterjee (Vice-Chair), Leila Ben-Hassel (Deputy-Chair), Jade Appleton, Sean Fitzsimons and Simon Fox

Also Present: Mayor Jason Perry and Councillor Jason Cummings (Cabinet Member for Finance)

PART A

15/23 Minutes of the Previous Meeting

The Part A and Part B minutes of the meeting held on 23 January 2023 and the meeting held on 30 January 2023 were agreed as an accurate record.

16/23 Disclosure of Interests

There were no disclosures of interest made at the meeting.

17/23 Urgent Business (if any)

There was no urgent business for discussion by the Scrutiny & Overview Committee at this meeting.

18/23 Budget Scrutiny 2023-24

The Committee considered a report set out on pages 35 to 38 of the agenda and the accompanying supplement which presented the Mayor's proposed budget for scrutiny prior to its consideration by the Cabinet on 22 February 2023. Following its receipt by the Cabinet, the comments of the Committee along with the Cabinet response would be reported to the Budget Council meeting.

The Committee agreed that it would focus its questioning on reaching conclusions for the following three areas: -

- Are the savings deliverable, sustainable and an acceptable level of risk?
- Is the potential impact on service users and the wider community understood?
- Have all reasonable alternative options been explored and do no better options exist?

Mayor Jason Perry, Cabinet Member for Finance, Councillor Jason Cummings, Chief Executive, Katherine Kerswell, Corporate Director for Resources & Section 151 Officer, Jane West, Assistant Chief Executive, Elaine Jackson, Corporate Director for Children, Young People & Education, Debbie Jones, Corporate Director for Housing, Susmita Sen and Corporate Director for Sustainable Communities, Regeneration & Economic Recovery, Nick Hibberd, attended the meeting for this item.

The item was introduced by Mayor Perry who highlighted to the Committee that Croydon had gone through a difficult time over the past few years and it was against this backdrop that the decisions taken in formulating the budget had been made. The budget included a proposed Council Tax increase of 15% and given the potential impact this would have upon residents and council staff, the decision had not been taken lightly. It was costing the Council approximately £50m per year to service its debt which was not sustainable. The proposed Council Tax increase would be a step towards fixing the Council's finances.

Following the introduction from the Mayor, the Committee had the opportunity to ask questions on the budget. The first question asked for more information about how the decision to increase Council Tax levels by 15% had been reached. It was advised that conversations on the level of rise needed had been ongoing since the Section 114 notice was issued by the Section 151 Officer in November 2022. A formal request to allow the Council to exceed the 5% referendum cap, along with a debt write-off, had been submitted to the Government in January, with permission received to increase Council Tax on 6 February. The Administration received confirmation of the permitted increase at the same time it was made public by the Government.

As a follow-up, it was questioned why the Mayor had opted for a 15% increase when the two other authorities given permission to increase Council Tax above the referendum cap, namely Slough and Thurrock, had opted for 10%. It was confirmed that the level of increase requested by other authorities was not considered when permission was requested for a 15% increase, which was based on the responding to the financial situation in Croydon. Reassurance was given that this level of increase was a one off and had been proposed as part of a range of action targeted at returning the Council's finances to a more sustainable level.

It was explained that the Council Tax increase was not unconditional and was part of a wider package of support requested including capitalisation and a partial debt write-off. The financial situation in Croydon was unprecedented in local government and although permission had been granted for the Council Tax increase, there was currently no process in place for a debt write-off which meant it would take longer to be resolved.

In response to a question about whether there were other options available if the 15% Council Tax increase was not pursued, it was advised that the only other options would be through more savings or a higher level of capitalisation, neither of which were sustainable. As the budget already included £36m of savings to be delivered in 2023-24, it was recognised that additional savings could not be delivered safely without impacting upon service delivery. The advice from the Improvement and Assurance Panel was that the Council should be looking at making savings of no more than £20m per year in future years.

At the time of the meeting, the Council was still waiting for confirmation from the Government on whether the capitalisation request would be granted. It was highlighted that without the debt write-off, the Council would have a £38m budget gap annually which could only be met by further capitalisation, increasing the level of debt held by the Council.

As £161m had been requested in capitalisation for 2023-24, it was questioned why a higher level could not have been requested to prevent the need for a 15% Council Tax increase. In response, it was highlighted that capitalisation was a one off amount and by increasing Council Tax, the Council increased its income by that amount on an ongoing basis. If permission was not given to exceed the Council Tax cap, then the next alternative would have been to request the full budget shortfall in capitalisation, which would have further increased the level of debt held by the Council.

Clarification was sought on paragraph 1.2 in the Cabinet report which outlined that the previously granted capitalisation directions from the government to finance annual revenue spend from capital resources, including borrowing, was not normally accepted as good financial practice. Given capitalisation was presented as the way forward at the time, it was questioned why the Council's position had changed. In response it was advised that the original capitalisation request had been based on the financial data available at the time which had shown that capitalisation of reducing amounts over a four year period would give the Council time to correct its finances. Following further work including the 'Opening the Books' review, had revealed that based on current projections capitalisation would be needed on an ongoing basis every year, which was not sustainable.

Moving on to the new Hardship Fund, it was questioned who would be eligible for the fund. It was advised that the Hardship fund was still being developed, but it would be focussed towards those residents who experienced financial hardship as a result of the Council Tax rise, with assurance given that people in receipt of Council Tax Support would be eligible. The Equalities Impact Assessment included projections on the number of people in the borough whose income would be less than their outgoings. The £2m allocated for the fund would cover all of these people along with provision for additional capacity to account for a higher level of need.

It was confirmed that the new Hardship Fund would be ongoing and it was agreed that more detail on the proposed scheme could be brought to the next meeting of the Committee for review. It was agreed that the scheme would need to be objective to ensure that people unable to advocate for themselves were supported in accessing the fund. It was essential to ensure that effective monitoring arrangements were in place on the Fund to provide reassurance on take-up, with a quarterly review suggested to check that the scheme was reaching the right people.

Concern was raised by the Committee about the limited amount of engagement to consult with residents on the proposed 15% Council Tax increase, with it questioned why a specific question on an increasing Council Tax beyond the 5% cap had not been included in the engagement survey. It was advised that it had been made clear at 30 November meeting of the Cabinet that an increase beyond the Council Tax cap was being explored. However, it was difficult to include a question on this in the survey as there was no indication from the Government at the time that it would even be possible. Despite this response, the Committee retained the view that more

could have been done to consult with residents over a potential increase even if the exact amount was not known.

As it was previously stated that it would be unsafe for the Council to attempt to deliver further savings above the £36m of savings already identified, it was questioned why it was unsafe to do so. It was advised that from the scale of savings required above the £36m, it was likely that services would have to stop and statutory services reduced to a minimum. In areas such as social care, it was not possible to reduce costs both quickly and safely with long term transformation needed to delivery savings safely.

It was questioned whether there was a roadmap for the Council to get out of its debt trap. It was confirmed that the political and corporate leadership of the Council was in regular contact with the Government about how they will support Croydon fix its financial situation. However, as they are having to come up with a new framework to support councils in this situation, it was not a quick fix and significant sums of money were involved. It was confirmed that the Government had not yet given assurance on how it would support the Council, but it was clear that the Government had to come up with a solution that could be used across local government.

In response to a question about how the assumptions related to servicing the Council's debt had changed in comparison to those made in the previous year's budget, it was advised that a base rate of 4% had been used rather than 0.5% a year ago. As a result, the cost of servicing the Council's debt had risen by £17m.

It was asked whether a higher level of resource needed to be prioritised towards the ongoing work on the use of Council assets, as this would lead to a higher level of capital receipts which could be used to reduce the Council's debt. It was acknowledged that capacity issues within the Council had limited the ability to dispose of some assets. However, it was getting to a point where the remaining assets held by the Council were more complicated, with tenants in place delivering services which would take time to work through.

It was confirmed that some of the financing required to fund previous capitalisation had been borrow internally from Section 106 reserves and income from Croydon Affordable Homes. It was unlikely that it would be possible to finance further capitalisation from these sources, instead external borrowing from sources such as the Public Works Loan Board would be necessary, which would increase the level of debt to be serviced.

In response to a question about the three biggest risks to the delivery of the budget, the Mayor confirmed that these were a deal not being reached with Government on the debt write-off, not delivering the transformation work identified and not achieving the savings targeted. To help mitigate these risks the inflation reserve had been topped up and contingencies were being built into transformation programmes. This financial mitigation would be supported by ongoing monitoring to gauge progress made.

Reassurance was sought that the Council's finances could manage the risk from longer term issues such as inflation not reducing as expected. It was advised that the budget assumption was that inflation would remain high and as such the contingency for inflation had been left high to cover this. Based on a detailed inflation calculation, approximately £32m had been allowed for inflation in 23-24 budget, which was thought to be a prudent assumption on inflation. An additional new contingency had also been built into the budget of £5.5m to mitigate against other economic risks.

It was noted that £27.5m was currently held in the general fund reserve, which the Section 151 Officer made clear should be considered the minimum level required given the risk profile of the borough. As such, it was questioned whether the Council should be looking to build to a higher level of reserves. It was advised that £27.5m was seen as the right level for Croydon at the present time. It would be difficult to justify increasing it further in the forthcoming year when also proposing a 15% Council Tax increase.

It was agreed that having the 2019-20, 2020-21 and 2021-22 accounts still to be signed-off by the external auditor presented a considerable risk given the issues brought to light in the 2019-20 accounts which were still to be resolved. It was confirmed that a contingency of £5m and approximately £2m for accountancy errors had been built into the budget to mitigate against these potential risks.

It was noted that the capitalisation request submitted to Government included an amount of £70m to account for the potential outcome from discussions with the external auditor over the accounting treatment for Croydon Affordable Homes. Reassurance was given that the full £70m would only be used if it was needed to resolve the Croydon Affordable Homes issue and otherwise would not be drawn down. It had been included in the capitalisation request at this stage to prevent the need for further capitalisation at a later date, depending on the outcome with the external auditor. The Committee asked to be kept updated on the work to resolve the Croydon Affordable Homes issue as it progressed.

It was advised that services had worked hard to ensure they had produced robust budgets based on firm assumptions and that the Scrutiny Sub-Committees had been testing these assumptions in their meetings. A £5m contingency had been built into the budget to mitigate against potential risks in the assumptions made. The Committee agreed that it would be important to ensure that it had timely access to financial monitoring reports during the year to enable it to effectively scrutinise the delivery of the budget.

The Chair of the Children & Young People Sub-Committee highlighted from their work that there was only a small increase in the budget for the Childrens Service, and as such it was questioned whether the budget was sufficient to keep people safe. In response it was advised that it was the statutory duty of the Director of the Childrens Service to keep people safe. It was not possible to give 100% reassurance to the Committee on safety, but it was confirmed that as much mitigation as possible was in place. A huge amount of work had been invested into the service to understand the risks by deep diving into each area. Over the period of the Medium Term Financial Strategy, it was planned to take £11m out of the service through improvement work that continued to be delivered. There were less children in the care system, but there was a greater level of confidence that those that were, should be in the system. There were pressures in the system relating to child protection, but officers were doing everything they could to manage these pressures. There were issues with recruitment, which were mirrored nationally, with work ongoing to make Croydon as attractive as possible for new recruits.

As a follow-up, it was questioned whether projections had been built into the budget on the number of child protection cases and whether this had taken account of factors such as the cost of living crisis. It was confirmed that the budget for Child Protection services had been re-based on the assumption of there being an average of 18 cases per social worker, with a level of variance depending on experience. As the service was carrying staff vacancies, it meant that there were additional caseload pressures. However, the management support for staff had been improved to ensure there was sufficient oversight of caseloads, which were monitored monthly. It was not possible to remove all risk, which was why there was a robust system of oversight in place.

The Chair of the Health & Social Care Sub-Committee highlighted that staffing was also an issue for Adult Social Care, with workforce issues across the health and care sector. Another risk for the service related to the Government's work on the fair cost of care, which given the level of people in care in the borough, presented a significant risk of rising costs.

It was advised that there had been extensive work with the market locally to analysis the impact of the cost of care proposals. It was particularly important to understand the quality of care provided to ensure the best outcomes were being reached for residents. The Care Quality Commission (CQC) had provided an assessment on the quality of service in the borough, which had indicated the quality was good. There was capacity within the local market to meet the demands of adult social care and the local hospital. As a result of this work, there was a reasonably level of confidence that the financial levels were set at the right level for the local market.

The Chair of the Homes Sub-Committee reported that they had been disappointed that there was not a full capital programme in place yet for the Housing Revenue Account (HRA) but had been encouraged that work was starting on a full stock condition survey which would inform a more robust programme in future years.

As with the other services, the Sub-Committee shared the concern raised about the capacity within the Housing Service to deliver the level of transformation proposed and agreed that this would need to be closely monitored to ensure delivery. There was also concern about the assumption made in the HRA for inflation in future years, which at 3% for 2024-25 was considered to be optimistic. However, it was reassuring that the HRA held a reasonable level of reserves which would help it manage unforeseen issues that may arise.

The Sub-Committee heard that the Housing Service had a plan for reducing its spend on temporary accomodation and it was agreed the priorities for the service were in the right place, but there remained a concern about the capacity for delivery. It was also recognised that the Homelessness Prevention Grant was not sufficient to meet the need in the borough and was challenged by having to cover accomodation costs as well as focussing on prevention.

The Chair of the Streets & Environment Sub-Committee highlighted that delays in installing Automatic Numberplate Recognition (ANPR) cameras had impacted upon the income for the Sustainable Communities service. There were also significant challenges to capacity across the Sustainable Communities and Planning services that presented a considerable risk to delivery. The Sub-Committee raised concern about the risk relating to parking income given the significant shortfall against initial projections in the current year.

It was questioned whether there had been any changes made to the method used for forecasting parking income and whether this would lead to a greater level of assurance on the figures going forward. It was advised that each of the six parking income streams were reviewed on a monthly basis to look at changes across the service. Extra data was provided by suppliers on these schemes which helped to adjust forecasts and predict changes in behaviour following the covid-19 pandemic, such as short-term parking in the town centre not recovering as quickly as similar parking in district centres. Based upon monthly reporting trends, there had been an assumption taken into next year's budget of a £10m income reduction. It was accepted by the Committee that the assumptions were made on the best available data and would continue to be monitored and refined on an ongoing basis.

It was noted that one reason for the overestimation of parking income for 2022-23 was the inclusion of income from Low Traffic Neighbourhood (LTN) schemes that were delayed in delivery. As such it was questioned whether there were any other such risks to the budget in the forthcoming year. Reassurance was given that assumptions based on future schemes were no longer included budget until they were being delivered.

Reassurance was given that the transformation programme was vital to driving the Council forward, reducing borrowing and improving services. Work on transformation had been growing over the past year as projects were identified, including building a framework for how individual projects were managed and monitored. Although transformation was focussed on reducing cost, it was also likely that improving the quality of services would bring efficiencies. It was important to ensure that there was a clear vision for the future on how the Council worked with the digital world, to ensure it kept up with technology and emerging services.

Given the repeated concerns raised about the capacity within the organisation, the Committee sought reassurance that sufficient capacity had been allocated in the budget to the transformation projects to ensure they could be successfully delivered. In response, it was highlighted that capacity to deliver transformation had been built into the budget, with £10m allocated for 2023-24 and then £5m ongoing. The Administration was confident that there was sufficient resources available to deliver the programme.

As it was noted that different funding models were being explored for the Family Justice Centre, concern was expressed about the potential ramifications of this given the level of domestic violence in the borough continued to increase. Reassurance was given that there was no plan to

reduce the service offer, with the work aimed at reducing the cost to the General Fund through the identification of alternative funding sources, such as those available from the Government, the Greater London Authority (GLA) and Public Health. Some of the alternative funding sources were already in place, so there was a reasonable level of confidence it could be delivered.

As it was noted that the 'Opening the Books' review had resulted in 76 recommendations, it was questioned when these would be delivered. In response, it was advised that all of the recommendations had been accepted and many of them had been built into the budget for 2023-24, as the accountants working on the review engaged with teams through their work. However there was still more work to do on many of the recommendations with an aim to get the Council into a position where it was possible to do automatic financial modelling, using one system. The delivery of the recommendations was seen to be a three year programme and it had been proposed that the Audit & Governance Committee would monitor delivery.

Concern was raised that the review had added more recommendations for the Council to deliver when there were many others still in progress from other reviews, such as the ones responding to the Reports in the Public Interest. It was advised that progress on delivering all the various recommendations was tracked through the Annual Governance Statement, which would be updated to include the 'Opening the Books' recommendations.

It was questioned why the proposal to review the funding available to Croydon to ensure it reflected the demographic growth of the borough was at the bottom of the list of priorities. It was advised that it was lower on the list as it had a lower likelihood of deliverability. Fair funding had been a long term issue for the borough and it was unlikely that a change to the funding provided by the Government could be changed in the short term.

At the conclusion of this item the Chair thanked those present for their attendance at the meeting and their engagement with the questions of the Committee.

Actions arising from the meeting

Following the discussion of the Budget Scrutiny item at the meeting, the Committee agreed the following actions that would be followed up after the meeting.

1. That an item on the Hardship Fund will be included on the agenda for the next meeting of the Scrutiny & Overview Committee on 28 March 2023.

Conclusions

From its consideration of the Administration's proposed budget, the Scrutiny & Overview Committee reached the following conclusions: -

1. From its consideration of the budget there was a consensus that in the short term, the proposed budget for next year had been based on prudent assumptions, that it was conservative with a small "c" and from the information provided, it was reasonable to conclude that it was deliverable. It was agreed that it could be taken as a positive example of the changing culture of the Council, that its development had been based upon a worst case scenario approach, rather than being planned with an optimism bias of delivery. The Committee noted that there are still outstanding issues that might present a significant risk to the delivery of the budget for next year, particularly the three years of outstanding accounts.
2. The Committee was reasonably reassured that the budget proposed was safe and that there were sufficient controls within the Adult and Children's services to mitigate as far as possible any potential risk to service users. It was accepted that there would always be a certain level of risk within these services that required active monitoring and management on an ongoing basis.
3. The biggest risk to 2023-24 budget at the time of the meeting was that the Government had not given any indication on whether it would be granting the Council's request for capitalisation. Given the Council has a statutory deadline of 11 March 2023 by which it must have agreed its budget, it was far from ideal that there had not been any indication received from Government on the outcome, particularly as this would determine the Council's ability to set a balanced budget for 2023-24. It was appreciated that further assurance on this could not be provided by those present and this was the reason why the Committee had extended an invite for a representative from the Department of Levelling-up, Homes and Communities to attend the meeting, which had disappointingly not been taken up.

4. Although it was concluded that the proposed budget was built on coherent and sensible assumptions that built in contingencies for risks over the next year, concerns were acknowledged about the Council's long term debt problem and its sustainability as a local authority, which could not be solved by this budget or by the Council alone. Key to this was the Government's response to the request to write-off part of the Council's debt, as without this being agreed the cost of servicing the debt placed an unsustainable burden on the general fund revenue budget. The reassurance given by the Mayor that both the political and officer leadership of the Council were actively engaging with Government on this issue was welcomed. However, given it was acknowledged that there was currently no legal framework for writing off local authority debt and no indication had been given that it would be permitted, the debt would remain a serious risk to the long-term health of the Council and its ability to become financially sustainable.
5. One of the main areas of discussion for the Committee was the proposed 15% Council Tax increase. Half the members of the Committee, including the Chair, had outstanding concerns about whether increasing Council tax by the full 15% was the only option, especially when other local authorities given permission to exceed the Council Tax cap would not be setting rates this high. It was accepted that some increase in Council Tax may well be needed to help the Council balance its budget, but some members of the Committee did not feel that the report presented sufficient justification as to why it had to be 15%.
6. The other half of the members of the Committee felt that they had been presented with reasonable justification for the proposed increase and that given the circumstances facing the Council there were no other viable alternatives.
7. Given the Council had only received confirmation from the Government that it would be allowed to make a 15% increase to Council Tax on 6 February 2023, it was accepted that there had been little time to engage with residents on the increase. However, it needed to be acknowledged that the proposed increase would have significant financial consequences for Croydon residents already struggling in a cost of living crisis and that they may feel unfairly punished for past mistakes that were not theirs.

8. As there had only been a short period of time to analyse the impact from the proposed 15% Council Tax increase, the Committee concluded that further analysis was urgently needed to understand the potential scale of this impact. It was also suggested that some mention of an increase in Council Tax could have been mentioned in the Council's formal survey given it was one of the options being considered. Residents from Scrutiny's public Q&A repeatedly stressed that they felt their views had not been taken into account.
9. As the criteria for the £2m Hardship Fund, that was being introduced to mitigate against the potential impact of the Council Tax rise, was in development, the Committee welcomed confirmation that there would be an opportunity for it to review the proposed scheme before it is launched to gain reassurance that it would be able to reach the residents who needed it the most. Confirmation from the Cabinet Member for Finance that the scheme would continue to be closely monitored and reviewed to ensure it was targeted correctly was welcomed.
10. It was highlighted that some of the residents who would most need to access the Hardship Fund could also be the hardest to reach. As such careful consideration needed to be given as to how the availability of the fund was communicated to residents and the routes to access the fund needed to be made as straightforward as possible, with a preference towards automatic entitlement rather than the need to go through applications.
11. In reaching the above conclusions on the proposed budget, the Committee would like to highlight that their views have been based upon the assumptions set out in the Cabinet report, including that there would be a positive outcome to the Council's request for capitalisation from the Government. The Committee would ask for the opportunity to revisit its recommendations should the Government's response significantly vary from the assumptions made in the budget report.

19/23 **Scrutiny Recommendations**

This item was not considered by the Committee at the meeting and will be added to the agenda for the next meeting for consideration.

20/23 **Exclusion of the Press and Public**

This motion was not required.

The meeting ended at 9.45 pm

Signed:

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Date:

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