

Final Internal Audit Report

Savings Plan Proposals – Assumptions, Calculations and Timelines

May 2024

Distribution: Corporate Director of Resources and S151 Officer
Director of Finance (Deputy S151 Officer)
Interim Finance Consultant
Interim Head of Finance

Assurance Level	Issues Identified	
Limited	Priority 1	2
	Priority 2	2
	Priority 3	1

Confidentiality and Disclosure Clause

This report ("Report") was prepared by Mazars LLP at the request of London Borough of Croydon and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

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Please refer to the Statement of Responsibility in Appendix 3 of this report for further information about responsibilities, limitations and confidentiality.

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1. Introduction

- 1.1. On 11 November 2020 Croydon Council (Council) issued a S114 notice on the basis that it was not able to balance its budget by the end of that financial year. A Report in the Public Interest (RIPI), published by Grant Thornton on 23 October 2020, confirmed that there had been ‘deteriorating financial resilience for a number of years with service overspends being met through one-off actions including the release of reserves.’
- 1.2. In March 2022, Cabinet recommended to full Council to approve the General Fund revenue budget for 2022/23. As part of this, the Council’s request for a capitalisation direction from the Department of Levelling Up, Housing and Communities (DLUHC) of up to £50m for 2021/22 and up to £25m for 2022/23 was also approved. The delivery of significant savings and efficiencies to balance the 2022/23 budget required investment in order to deliver those necessary changes. The Council approved those initiatives to be financed from “flexible capital receipts”.
- 1.3. The Council has reported it has delivered over £90m in savings and £50m in asset sales over the past two years, with further proposals for £44m in savings in 2023/24 and around £100m in proposed asset disposals in the coming years.
- 1.4. Despite these measures; however, the Council still needs to reduce spending by £130m in the financial year 2023-24, which it warns will leave it ‘financially and operationally unsustainable.’ Therefore, on 22 November 2022, the Corporate Director of Resources and S151 officer issued a S114 notice which acknowledged that the Council would not be able to balance its budget in the next financial year. The Council has since exited the S114 notice.
- 1.5. A Financial Performance Report was presented to Cabinet on 30 November 2022 which set out that the outturn forecast did not include the potential risks and risk mitigations associated with the outturn forecast. Risks include Medium Term Financial Strategy (MTFS) savings risks related to savings proposals that were approved at Full Council in March 2022 to deliver a balanced budget.
- 1.6. The Council has also considered and documented an 2021/22 MTFS Lessons Learned which will be taken into consideration for forthcoming years’ MTFS.
- 1.7. The audit was undertaken as part of the agreed Internal Audit Plan for 2022/23. The objectives, approach and scope are contained in the Audit Terms of Reference at Appendix 1. This internal audit focussed on the Council’s approach to savings plan and the assumptions upon which they are based as well as the documentation to support the proposals. The opinion provided is not intended to provide a view on the accuracy or suitability of the savings proposed.

2. Key Issues**Priority 1 Issues**

In seven out of nine savings/ growth bid forms that were inspected for the 2023/24 to 2025/26 savings plan, there were no workings or calculations attached to support the target figures. Additionally, in a further five cases, the bid form could not be located at all. **(Issue 1)**

In eight out of nine savings/ growth bid forms that were inspected, the form had not been signed off by the Division Director, Corporate Director and Finance department as required. In six of these cases, the form had not been signed by any of the required officers. Additionally, in a further five cases, the bid form could not be located at all. **(Issue 2)**

Priority 2 Issues

There is no overarching policy governing the budget setting process and MTFS. Although the process for the 2023/24 budget and 2023-26 MTFS was set out in a Cabinet report, the report does not provide sufficient detail around timescales and responsibilities. **(Issue 3)**

In four of nine savings/ growth bid forms that were inspected; the Equalities Impact Assessment (EQIA) had not been properly documented. This included two cases where the section was left completely blank, and two in which the section was answered but insufficient detail was given about the outcomes of the EQIA or lack of need for an EQIA. **(Issue 4)**

The Priority 3 issue(s) is/are included under item 4 below.

3. Actions and Key Findings/ Rationale

Control Area 2: Formulation of Savings Targets and Plans within the budget for 2023/24

Priority	Action Proposed by Management	Detailed Finding/Rationale – Issue 1
1	<p>For 2024-25 budget setting, the growth/savings template was updated, including the addition of an equalities screening. The template was circulated and completed by directorates for savings and growth. These were also reviewed in the Star Chamber meetings in July and September 2023. A summary of the growth/savings was also published in October 2023 for Cabinet as part of the MTFS refresh, including a summary of any staffing implications.</p>	<p>Expected Control</p> <p>Savings and Growth proposals must be accompanied by sufficient evidence to demonstrate that the proposals are realistic and achievable. This should include evidence of how the figure has been calculated, based on reliable management information.</p> <p>Finding/Issue</p> <p>Internal audit conducted a review of a random sample of 14 items of savings and growth from the Savings and Growth Master for 2023/24 to 2025/26 maintained by the Finance team (one item of growth and one item of savings from each directorate). Copies of the bid forms were provided for nine of these, while in five cases, the Interim Finance Consultant could not locate the bid form.</p> <p>The pro-forma bid form used included an instruction to include calculations and appropriate evidence, with a separate tab provided for this. Only in two out of nine forms had these calculations been included. In the seven cases where the calculations had not been included, the tab was left blank with no explanation of how the figure had been calculated. This means the form included no information on how the growth/savings figure had been arrived at, which would allow the Finance team to check whether the projected growth/savings figures were reasonable.</p> <p>Risk</p>

Responsible Officer	Deadline	Where savings/growth estimates are not supported by appropriate evidence, including assumptions, calculations and modelling, there is a risk that the targets set will be unachievable. Including savings/growth estimates that are not likely to be achieved in the budget increases the risk of a budget deficit.
Director of Finance & Deputy S151	Complete	

Control Area 3: Documentation (including Bid Forms, Calculations and Timelines) of Savings Items

Priority	Action Proposed by Management	Detailed Finding/Rationale – Issue 2
1	<p>For 2024-25 budget setting, the growth/savings template was updated, including the addition of an equalities screening. The template was circulated and completed by directorates for savings and growth. These were also reviewed in the Star Chamber meetings in July and September 2023. A summary of the growth/savings was also published in October 2023 for Cabinet as part of the MTFS refresh, including a summary of any staffing implications.</p>	<p>Expected Control</p> <p>All relevant corporate stakeholders should agree to the savings/growth proposals, to ensure that these are achievable and to ensure that ownership of the targets has been made clear.</p> <p>Finding/Issue</p> <p>The pro-forma bid form used for the Savings and Growth process has to be signed-off by the Division Director, the Corporate Director and the Finance Team.</p> <p>The sample of 14 items of savings and growth from Issue 2 was reviewed. Copies of the bid forms were provided for nine of these, while in five cases, the Interim Finance Consultant could not locate the bid forms.</p> <p>Of the nine bid forms received, only one had been signed by all appropriate authorities. Six had not been signed at all. One had been signed by the Division Director, and Corporate Director, but not the Finance Team, and one had been signed by both Directors, but not the Finance Team.</p> <p>Risk</p> <p>Where growth or savings proposals are not approved by the Division Director, Corporate Director and Finance Team, there is a lack of assurance that the targets are agreed and therefore achievable. Where targets are unachievable there is a risk of worse than expected financial performance for the Council.</p>
<p>Responsible Officer Deadline</p>		

Director of Finance & Deputy S151	Complete	Additionally, where savings or growth targets are implemented without sign off from Directors or the Finance team, there is a risk that ownership of the targets will be undefined or unclear, resulting in the targets not being achieved.
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Control Area 1: Regulatory, Organisational and Management Requirements

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 3				
2	A 2024-25 budget timetable was produced at the beginning of 2023-24 and taken to CMT and MAB for discussion and agreement. This was also published in October 2023 with the MTFS Refresh to Cabinet.	<p>Expected Control</p> <p>There should be a clear policy in place governing the Annual Budget and Medium-Term Financial Strategy (MTFS), which should lay out the process, timescales and responsibilities for preparing these.</p> <p>Finding/Issue</p> <p>As informed by the Interim Head of Corporate Finance and Interim Finance Consultant there was no standing policy governing the budget and MTFS. The Financial Regulations state that the Chief Financial Officer is responsible for preparing the annual budget but does not set out the process that this should follow. Although the process for the 2023/24 budget and 2023-26 MTFS was set out in a Cabinet report from November 2022, this report did not provide all of the detail around timescales and responsibilities that would be expected from a formal policy.</p> <p>Risk</p> <p>Where the process, timescales or responsibilities for the budget process are not properly defined or unclear, there is a risk that the budget will not be prepared in a timely fashion, or that it may be unsuitable to the Council’s needs. A budget that does not meet the Council’s savings needs could result in significant financial loss and reputational damage.</p>				
	<table border="1"> <thead> <tr> <th>Responsible Officer</th> <th>Deadline</th> </tr> </thead> <tbody> <tr> <td>Director of Finance & Deputy S151</td> <td>Complete</td> </tr> </tbody> </table>	Responsible Officer	Deadline	Director of Finance & Deputy S151	Complete	
Responsible Officer	Deadline					
Director of Finance & Deputy S151	Complete					

Control Area 3: Documentation (including Bid Forms, Calculations and Timelines) of Savings Items

Priority	Action Proposed by Management	Detailed Finding/Rationale – Issue 4
2	<p>For 2024-25 budget setting, the growth/savings template was updated, including the addition of an equalities screening. This screening asked whether there were any potential equalities impacts on any protected characteristics to then determine whether a full EQIA was required. Where required, a full EQIA was completed. A summary of the growth/savings was also published in October 2023 for Cabinet as part of the MTFS refresh, including a summary of any staffing implications.</p>	<p>Expected Control</p> <p>The Equality Act 2010 creates an "Equality Duty" for local authorities and other public bodies, requiring them to have regard for several equality considerations in their decision making. Although not required, local authorities are encouraged to carry out Equalities Impact Assessments (EQIAs) on proposals that could impact equalities.</p> <p>Finding/Issue</p> <p>The pro-forma bid form used by the Council for the Savings and Growth process in 2023/24 includes a question on whether an EQIA is required, and whether one has been completed. Additionally, the author of the form is asked to provide a summary of the outcomes, or if not applicable, an explanation of why an EQIA is not required.</p> <p>The sample of 14 items of savings and growth from Issue 2 was reviewed.</p> <p>Of the nine bid forms that could be located (see Issue 3), the question about EQIAs had been left blank entirely in two forms. In the remaining seven, four had answered that an EQIA was not required and three had answered that it was required:</p> <ul style="list-style-type: none"> • Of the four cases where an EQIA was stated not to be required, an explanation of this assertion had only been provided in three; and • Of the three cases where an EQIA was stated to be required, it had only been completed in two. Additionally, in these two, the outcomes had not been summarised in the bid forms. <p>Risk</p> <p>Where equalities are not considered as part of the savings and growth programme, there is a risk that the Council's decisions may disproportionately affect groups with</p>

Responsible Officer	Deadline	protected characteristics under the Equalities Act. This could result in reputation damage as well as legal action against the Council.
Director of Finance & Deputy (s151)	Complete	

4. Priority 3 Issue

Agreed action	Findings
<p><u>Control Area 4: Ownership and Responsibility for Savings Items</u></p> <p><u>Action proposed by management:</u></p> <p>For 2024-25 budget setting, all savings/growth templates included a Lead Officer. These templates were taken to Star Chamber meetings in July and September 2023.</p> <p><u>Responsible Officer:</u></p> <p>Director of Finance and Deputy S151</p> <p><u>Deadline:</u></p> <p>Implemented</p>	<p>Expected Control</p> <p>The Savings and Growth Master for 2023/24 to 2025/26 should identify the officer responsible for each item of growth or savings listed.</p> <p>Issue/Finding</p> <p>A copy of the draft Savings and Growth Master for 2023/24 was provided on 19 January 2023. Although this was a draft copy, it was noted that several of the savings/growth items listed did not have a responsible officer identified.</p> <p>Risk</p> <p>If the responsible officers for all savings/growth items are not identified in the final Savings and Growth Master, there is a risk that savings/growth may not be achieved due to unclear ownership.</p>

AUDIT TERMS OF REFERENCE

Savings Plan Proposals – Assumptions, Calculations and Timelines

1. INTRODUCTION

- 1.1 On 11 November 2020 the Council issued a S114 notice on the basis that it was not able to balance its budget by the end of that financial year. A Report in the Public Interest (RIPI), published by Grant Thornton, confirmed that there had been ‘deteriorating financial resilience for a number of years with service overspends being met through one-off actions including the release of reserves.’
- 1.2 In March 2022, Cabinet recommended to full Council to approve the General Fund revenue budget for 2022/23. As part of this, the Council’s request for a capitalisation direction from the Department of Levelling Up, Housing and Communities (DLUHC) of up to £50m for 2021/22 and up to £25m for 2022/23 was also approved. The delivery of significant savings and efficiencies to balance the 2022/23 budget required investment in order to deliver those necessary changes. The Council approved those initiatives to be financed from “flexible capital receipts”.
- 1.3 The Council has delivered over £90m in savings and £50m in asset sales over the past two years, with further proposals for £44m in savings in 2023/24 and around £100m in proposed asset disposals in the coming years.
- 1.4 Despite these measures, however, the local authority still needs to reduce spending by £130m in the next financial year, which it warns will leave it ‘financially and operationally unsustainable.’ Therefore, on 22 November 2022, the Corporate Director of Resources and S151 officer issued a Section 114 notice which acknowledges that the Council will not be able to balance its budget in the next financial year.
- 1.5 A Financial Performance Report was presented to Cabinet on 30 November 2022 which set out that the outturn forecast had been reported excluding further potential risks and risk mitigations. Risks include MTFS savings risks related to savings proposals that were approved at Full Council in March 2022 to deliver a balanced budget.
- 1.6 The Council has also considered and documented 2021/22 MTFS Lessons Learned which will be taken into consideration for forthcoming years’ MTFS.
- 1.7 This audit is being undertaken as part of the agreed Internal Audit Plan for 2022/23.

2. OBJECTIVES AND METHOD

- 2.1 The overall audit objective was to provide an objective independent opinion on the adequacy and effectiveness of controls / processes.
- 2.2 The audit for each control / process being considered:
 - Walkthrough the processes to consider the key controls;

- Conduct sample testing of the identified key controls, and
- Report on these accordingly.

3. SCOPE





3.1 This audit, focused on Savings Plan Proposals – Assumptions, Calculations and Timelines, was undertaken as part of the 2022/23 Internal Audit Plan. The specific scope included the following areas and recommendations:

Control Areas/Risks	Issues Raised		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Regulatory, Organisational and Management Requirements (as these relate to the formulation and monitoring of saving plans)	0	1	0
Formulation of Savings Targets and Plans within the budget for 2023/24 (including Assumptions and Rationale)	1	0	0
Documentation (including Bid Forms, Calculations and Timelines) of Savings Items	1	1	0
Ownership and Responsibility for Savings Items	0	0	1
Monitoring, Management Oversight and Reporting	0	0	0
Total	2	2	1

Definitions for Audit Opinions and Identified Issues

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

	Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are constantly applied.
	Substantial Assurance	While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance of the controls which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and non-compliance that puts achieving the system objectives at risk,
	No Assurance	Controls are non-existent or extremely weak, leaving the system open to the high risk of error, abuse and reputational damage.

Priorities assigned to identified issues are based on the following criteria:

Priority 1 (High)	Fundamental control weaknesses that require immediate attention by management to action and mitigate significant exposure to risk.
Priority 2 (Medium)	Control weakness that still represent an exposure to risk and need to be addressed within a reasonable period.
Priority 3 (Low)	Although control weaknesses are considered to be relatively minor and low risk, still provides an opportunity for improvement. May also apply to areas considered to be of best practice that can improve for example the value for money of the review area.

Statement of Responsibility

We take responsibility to the London Borough of Croydon for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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