Report on the Value for Money Conclusion 2018/19

Review of financial health arrangements

London Borough of Croydon

9 October 2019

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Summary of findings

Overview

This report sets out the findings from our work to support our 2018/19 Value for Money Conclusion at the London Borough of Croydon. Our work focused on the two significant risks identified in our Audit Plan dated 4 April 2019: ongoing financial sustainability; and OFSTED inspection of children's services.

Ongoing Financial Sustainability

1. 2018-19 General Fund Reserves Position

- In 2017/18 we recommended that you needed to develop a clear strategy to maintain your Reserves at a sustainable level given the pressure they have been placed under in recent years.
- At 31 March 2019, you maintained your General Fund Balance at **£10.4 million** and you were able to maintain your Earmarked Reserves at **£18 million** which is a small reduction **of £0.2 million**.
- However, during our audit we identified that your overspend on the Dedicated Schools Grant (DSG) had been shown as a debtor. The DSG regulations require any deficit to be recovered from schools. In our Audit Findings Report (July 2019) we identified this as an unadjusted misstatement as in our audit view it is unlikely that this amount will be repaid and we consider the debtor should be impaired in full which would generate a charge on the General Fund. In our view, showing the DSG deficit in this way means the impact on your overall financial position is not shown.
- The DSG debtor totals **£9.2 million** (**£0.964 million** from 2017/18 and **£8.3 million** from 2018/19). If the accounting treatment of this item were to be corrected the impact on your reserves would be to reduce your General Fund Balance from **£10.4 million** to **£1.2 million**. As you spend around **£1.3 billion** per year on your services, we do not consider this level of General Fund reserve to be adequate for ongoing financial sustainability.
- In addition, in your recovery plan submitted to the Department for Education, you are forecasting a further overspend on DSG in 2019/20 and 2020/21 which without further action will exceed your available general fund reserves in that period. Urgent action is required to address your pressures on DSG.

2. 2018/19 Financial Performance

- You delivered an overspend of **£5.466 million** for 2018/19, which equates to **2.1%** of your net budget requirement for the year. Of this, **£5.121 million** related to exceptional costs relating to your provisions of services for Unaccompanied Asylum Seeker Children (UASC). As the Home Office is located within your borough, you retain responsibility for UASC until the relevant children are redistributed in line with the national transfer scheme. In recent years this schemes has not worked as intended and you have retained responsibilities for these children with the resulting additional expenditure.
- Your estimates indicate your spend on responding to the needs of UASC is **£10.6 million** more than you receive from the Home Office. If this specific cost pressure was not present, your in year financial performance would show a surplus of approximately **£5.1 million**, which you would have expected to use as a contribution to your overall Reserves Position. This specific cost pressure reflects the combination of the location of the Home Office in your borough, the difficulty in predicting the numbers of UASC and the complexity of need presented by these children. The combination of factors is difficult to influence however you need to challenge any areas that are within your control, alongside continuing to lobby for a more sustainable funding model.

3. 2019/20 Financial Plan

- For 2019/20, you set a balanced budget, requiring the delivery **of £27.9 million** of savings to offset the growth items including in the budget of **£28.8 million**. The remaining gap **of £0.9 million** will either be funded from additional savings being identified, or a contribution from reserves, which as mentioned previously are no longer adequate.
- You have identified a suite of savings for 2019/20 and given the scale of your required savings some of your targets are likely to prove challenging. Your Plan assumes that cost pressures from demand led services will be contained within your growth predictions and increased income streams will be delivered.
- Your 2019/20 budget includes **£9 million** for the impact of UASC cost above the Home Office grant which will require considerable action given your 2018/19 spend was higher and that this is an area that is difficult to predict demand. This represents an area of high risk to your 2019/20 financial plan.

Summary of Findings (cont)

4. Medium Term Financial Plan 2018-22

- You are in year two of your Medium Term Financial Plan (MTFP), which covers the period from 2018 to 2022. Your MTFP identifies a **£26.0 million** gap over the final three years of the MTFP and significant effort is need to manage demand led pressures and close the identified gap.
- As mentioned above, you set a balanced budget for 2019/20. You continue to need to resolve your gaps in 2020/21 of **£12.5 million** and in 2021/22 **of £7.7 million,** which you are currently looking to resolve. The size of the challenge is also in the context of uncertain long term funding for the Local Government sector.
- Given the scale of the challenge you are undertaking a full scale review of your MTFP to update your plan for the next four financial years. The review is ongoing and involves both Members and officers across the whole organisation.
- The outcome of this review will help shape your future direction which we will review during 2019/20.

OFSTED Inspection of Children's Services

- As documented as part of our work in 2017/18, your Children's Services were given an 'Inadequate' rating in October 2017 by OFSTED. Work has been ongoing to respond to the issues raised by OFSTED, and from the monitoring visits which have taken place since then, it is clear that you are making good progress in tackling these issues.
- However at the date of issuing our VfM Conclusion, no formal reassessment has taken place, and thus we are unable to conclude whether you have been able to resolve the issues raised by OFSTED.
- Our qualification in this area remains until we are able to consider OFSTED's formal reassessment of delivery of your children's services which is expected to be reported in early 2020.

Overall Summary

During 2018/19, you have taken action to stabilise your reported Reserves position indicating that you are bringing your financial system back towards balance. Your reported reserve position remains low compared to other London Boroughs. You face a number of significant cost pressures some are similar to other parts of local government such as from demand led services as well as specific costs pressures such as UASC.

You are taking action to strengthen your MTFP with the intention of increasing your reserve position and addressing the future savings gaps and continue to seek a sustainable funding model for UASC.

However the overspend on the Dedicated Schools Grant should be considered within the reported reserves position. Your reserve position is very low and the impact of the deficit for 2018/19 and forecast deficits in both 2019/20 and 2020/21 exceeds the available general fund reserves in future years.

In respect of Children's Services, the Inadequate rating provided by OFSTED remains in place. You continue to make progress in addressing the issues raised by OFSTED however you will only know whether sufficient progress has been when OFSTED returns for a formal re-assessment.

Overall Value for Money Conclusion

On the basis of the significance of the matters we identified with your levels of reserves and the matters relating to Children's Services raised by OFSTED, we are not satisfied that the Council has made proper arrangements to secure economy, efficiency and effectiveness in your use of resources. We therefore propose to give a qualified 'adverse' conclusion.

Recommendations

Based on our work we recommend you:

- Focus on managing the Dedicated Schools Grant spend within the existing budgets to keep future overspends to a minimum. This will need the involvement of the Schools Forum to ensure that the level of spending incurred by Schools is challenged and monitored in the context of the wider spending pressures in this area.
- Continue to manage your total spend on UASC to minimise the impact on the delivery of your other services.
- Continue to seek a sustainable funding model for UASC with both central and local Government.
- Take action to increase the level of your General Fund and Earmarked Reserves balances.

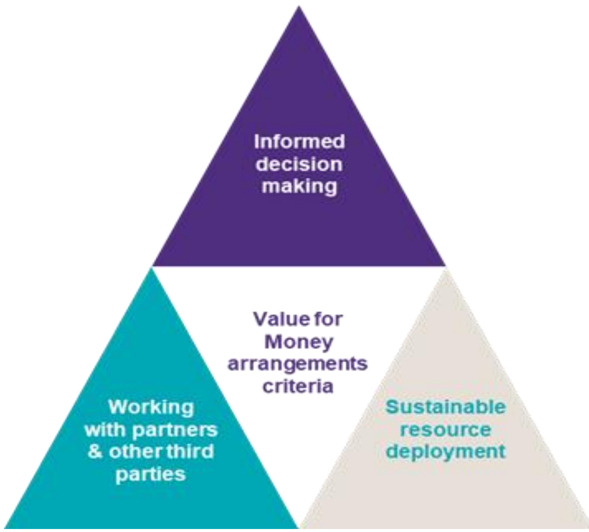
Our Approach to VfM Risks

Overview of VfM methodology and risk assessment

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether the Authority had, in all significant respects, proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

This is supported by three sub-criteria for auditors to consider, as set out in the following diagram:



As part of planning, auditors are required to consider the risk of reaching an incorrect conclusion in relation to the overall criterion. The risk assessment enables the auditor to determine the nature and extent of further work that may be required. This means that if the auditor does not identify any significant risks there is no requirement to carry out further work.

The risk assessment draws on relevant information including, but not limited to:

- cumulative knowledge brought forward from previous audits;
- relevant findings from work undertaken in support of the opinion on financial statements;
- reports from the audited body including internal audit;
- information disclosed or available to support the annual governance statement and annual report (where applicable);
- information available from the audited body's own risk registers and supporting arrangements; and
- reports from regulators or inspectorates in relation to services provided by the audited body.

Where the auditor has identified 'significant risks', or is unable to conclude whether a significant risks exists without undertaking significant additional work, the auditor should document the additional work they plan to do in response and report these risks to those charged with governance. Any additional work undertaken should be proportionate to the severity and nature of the significant risk(s) identified.

Our Approach to VfM Risks (Cont'd)

We carried out an initial risk assessment in January 2019 and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you via our Audit Plan in April 2019. These were:

Ongoing Financial Sustainability

Risk

The Council is continuing to face pressure on its Budgets in a number of areas, and other factors such as the demand for temporary accommodation and the impact of no recourse to public funds are putting the Council's finances under considerable strain. Therefore the Council needs to manage its resources carefully to ensure a sustainable future for the Council ahead of the 2020 Funding Settlement. Brexit will also potentially add another unknown to these challenges and the Council will need to monitor developments close as the end of March approaches.

Planned Response

To gain assurance over this risk we are planning to undertake work in the following areas:

- review the 2018-19 Outturn, including details of performance against both the Revenue and Capital Budgets;
- review progress against the 2019-20 financial plan up to the completion of our audit; and
- obtain an update on the Council's Medium Term Financial Strategy, including progress on identifying the savings required in coming years including discussions with Management on progress to date.

We will also consider the financial impact of any financial issues arising from Brexit. These may include changes in property values, adverse changes to investment and borrowing rates, changes to business rate income, and the impact on the Council's workforce.

OFSTED Inspection of Children's Services

Risk

Following on from the OFSTED Report received by the Council in September 2017 in respect of the Council's Children Services, which rated the service as 'Inadequate', the Council is continuing to implement its action plan to deal with the issues raised by OFSTED.

Planned Response

To gain assurance over this risk we are planning to undertake work in the following areas:

- review the progress made against the action plan, including resolving any challenges identified during the implementation of the action plan.
- consider any follow up inspection undertaken by OFSTED, along with the outcome of the follow up.
- we will consider the Council's performance against its objectives and targets set internally to monitor the overall progress made in this area.

The purpose of this review

This review summarises the additional work we undertook to support our VfM conclusion, mainly in regard to your Ongoing Financial Sustainability. This review considered the significant financial challenges facing you and the implications for the Council's on-going financial position and plans to achieve financial sustainability.

This report is supplementary to our Audit Findings Report, issued on 20 July 2019 and is intended to provide further information to those charged with governance on the basis for our VfM Conclusion, which will be issued shortly.

Our Approach to VfM Risks (Cont’d)

Children’s Services

In terms of the current position in respect of Children’s Services, the formal notification issued by OFSTED in October 2017 still stands at the date of our VfM Conclusion being issued, which is due to the fact that OFSTED have yet to come back to you and undertake a formal reassessment of your Children’s Services, which was the area where you were rated as ‘inadequate’.

During the course of the year, we have held discussions with key members of your Management, including the Chief Executive and Director of Finance, Investment and Risk, who provided us with updates on the progress made during the course of the year. You have informed us that OFSTED has held several monitoring visits during the course of the year, and received positive comments from the most recent visit. We have also seen this evidenced in the letters you have received from OFSTED during the course of the year.

During the course of the year you have appointed a new Director of Children’s Services, and an Executive Director of Children's, Families and Education, which has seen a significant increase in the pace of change. You are continuing to spend a considerable amount of transformational funding in responding to the challenges in this area, as there is a clear desire to improve the quality of children’s services to address the challenges raised by OFSTED.

At this stage, you have not been told of the date of any formal reinspection by OFSTED, and until this takes place, we are unable to lift the element of the qualification of the Value for Money Conclusion related to this area.

Key findings

We set out below our key findings against the significant risk identified around the Ongoing Financial Sustainability of the Council

Findings

1 **Reserves and financial position**

As mentioned earlier in the Report, your Reserves have been under considerable pressure in recent years, but you have been able to halt the use of Reserves in 2018/19. You have maintained your General Fund Balance at **£10.395 million** at the 31 March 2019, which was the same balance as at the 31 March 2018. There has also only been a small reduction in Earmarked Reserves from **£18.2 million** as at 31 March 2018 to **£18.0 million** as at 31 March 2019.

The following table sets out a summary of your reserves position and key financial ratios as at 31 March 2019 relative to other London Boroughs as per their draft published financial statements for 2018/19 (the higher the ranking the stronger the position):

18/19 **Croydon**

Measure	Croydon	Average for London Boroughs	Ranking relative to other London Boroughs (/32)
Total general fund and non-schools earmarked general fund reserves as at 31 March 2019 (£'000s)	24,620	106,462	2
Total general fund and earmarked general fund reserves as at 31 March 2019 (£'000s)	28,352	118,126	1
General fund and non-schools earmarked general fund reserves as a percentage of net service revenue expenditure (%)	6%	42%	1

17/18 **Croydon**

Measure	Croydon	Average for London Boroughs	Ranking relative to other London Boroughs (/32)
Total general fund and non-schools earmarked general fund reserves as at 31 March 2018 (£'000s)	26,139	97,064	2
Total general fund and earmarked general fund reserves as at 31 March 2018 (£'000s)	28,546	108,873	1
General fund and non-schools earmarked general fund reserves as a percentage of net service revenue expenditure (%)	9%	48%	1

The tables above show that you have maintained your position across London from the previous year, unfortunately this still places you as having the lowest level of reserves across London, with General Fund and non-schools Earmarked Reserves now only covering **6%** of net service revenue expenditure, which is a reduction from **9%** in the previous year. At **6%,** you are nearly **10%** lower than the next-worse London Borough, which just emphasises how critical your reserve position is. The trend of reducing reserves has been consistent across London for several years as well.

Findings

1

Reserves and financial position

The table below shows the position across all of the London Boroughs in a graphical form, again based on the percentage of General Fund and Earmarked Reserves as a percentage of net service revenue expenditure. A number of London Boroughs have reduced their level of reserves however this table shows you have the lowest ratio of reserves as a percentage of net service revenue expenditure.

General fund and earmarked general fund reserves (excluding schools) as a percentage of net service revenue expenditure

Linked to your reported reserves position, is the impact of overspends on the Dedicated Schools Grant (DSG). This area is becoming a challenge across London and other parts of the country, given the increasing demands and pressures on this area of the budget. In 2018/19, you overspent your allowance by **£8.229 million**, which gives you a cumulative negative position of **£9.193 million** at the end of 2018/19. The main reason for the overspend is the increased cost and activity in responding to High Needs Children. The costs are required to be funded out of the DSG instead of being covered by the normal spend on Children's Social Care.

In terms of how this overspend impacts your financial standing, currently this balance is being held as a Debtor, as you are of the view that you are owed this money, either by schools themselves, or ultimately the Department for Education as the body which is responsible for funding education in the UK. By accounting for this item as a debtor the impact on your reserves position is not shown. Reducing your reserves to account for the DSG deficit would further worsen your reserves position to below 5% of your net service revenue expenditure.

Findings

Reserves and financial position

In our Audit Findings Report (July 2019) we identified this as an unadjusted misstatement as in our audit view it is unlikely that this amount will be repaid and we consider the debtor should be impaired in full which would generate a charge on the General Fund. In our view, showing the DSG deficit in this way means the impact on your overall financial position is not shown.

The DSG regulations require any deficit to be recovered from schools and to treat this balance as a debtor would require a clear plan to reclaim this money from schools and without a clear plan, the debtor would need to be impaired as recoverability is uncertain. Any impairment of the debtor would be charged to the General Fund and would therefore impact the overall reserves position. In line with other local authorities treatment of any DSG deficit, we would expect the deficit to be charged against the General Fund Balance, thereby reducing the General Fund Reserve from **£10.395 million** to **£1.202 million**, which would is not a sustainable financial position for a Council of your size and scale.

As part of recording a deficit against the DSG Budget, you have submitted a deficit recovery plan to the Department for Education to identify how you are going to return this area to financial balance over the coming years. The DSG deficit position is forecast to continue to increase in 2019/20 and 2020/21. The impact of the increasing DSG deficit would exceed the available general fund reserves in future years.

Findings

Revenue Outturn for 2018/19

At the end of 2018/19, you delivered an overspend of **£5.466 million**, within which there were **£5.121 million** of exceptional items relating to the costs associated with Unaccompanied Asylum Seeker Children (UASC). Aside from the challenges with UASC, overall you have had a robust year in the circumstances, as when the exceptional items are removed, you delivered a small overspend of around **£345k** delivered across the wide range of services that you deliver. There were a range of over and underspends within this overall financial position. Across your various Departments, the combined overspend of **£6.998 million** is largely offset by **£6.653 million** of underspends in the corporate centre.

As is consistent across a number of London Boroughs, there remains considerable pressures on both Adults and Children's Social Care, where demand is continuing to increase reflecting the demographic changes in London where the complexity of cases is increasing leading to increased costs of delivery of care. Economic factors may impact adversely on the Social Care Supply Chain and will continue to be a pressure to be managed going forward. Taken together, Adults and Children's services overspent by **£11.263 million**. This cost pressure is expected to continue and as identified earlier in this report you have made additional investments in your Children's Services to respond to the challenges identified by OFSTED. You have made provision for this in 2019/20 by increasing your budget for Children's Social Care by **£11 million**, with a further increase of **£1.8 million** to Adult Social Care.

You have managed to offset some of the impact of increased spending on Social Care through your Place Directorate which delivered an overall underspend of **£5.410 million**, largely due to additional income and savings. In particular the performance in respect of additional Pay and Display and Penalty Charge Notice delivered nearly **£4 million** of additional income beyond the original budget. The remainder of the overspends were covered by additional funding from the corporate centre covering: additional Section 31 Grants, National Non Domestic Rate Income, gains from the Revolving Investment Fund and utilising **£2 million** from your Contingency Funding. Use of Contingency Funding to deliver a balanced budget is not sustainable in the medium term however you have increased your level of Contingency Funding from the previous year.

Based on your estimates you spent **£10.6 million**, over and above the funding already received from the Home Office, on providing services to Unaccompanied Asylum Seeker Children (UASC) which was **£5.1 million** more than your budget and has a significant impact on your overall Outturn Position. The funding for UASC is complex with a national transfer scheme being in place which intends to mitigate the cost falling on a small number of local authorities. It appears this scheme has not operated as intended with you having to provide the services for these children without a sustainable funding process in place. If you had not provided services to UASC, the monies spent on UASC could have been used to support your reserves position or fund other local priorities. You continue to lobby the Home Office and Minsters to fund UASC in Croydon sustainably.

You recognise the size and scale of the financial impact of UASC and a sector wide response is needed to find a sustainable way forward.

Findings

1

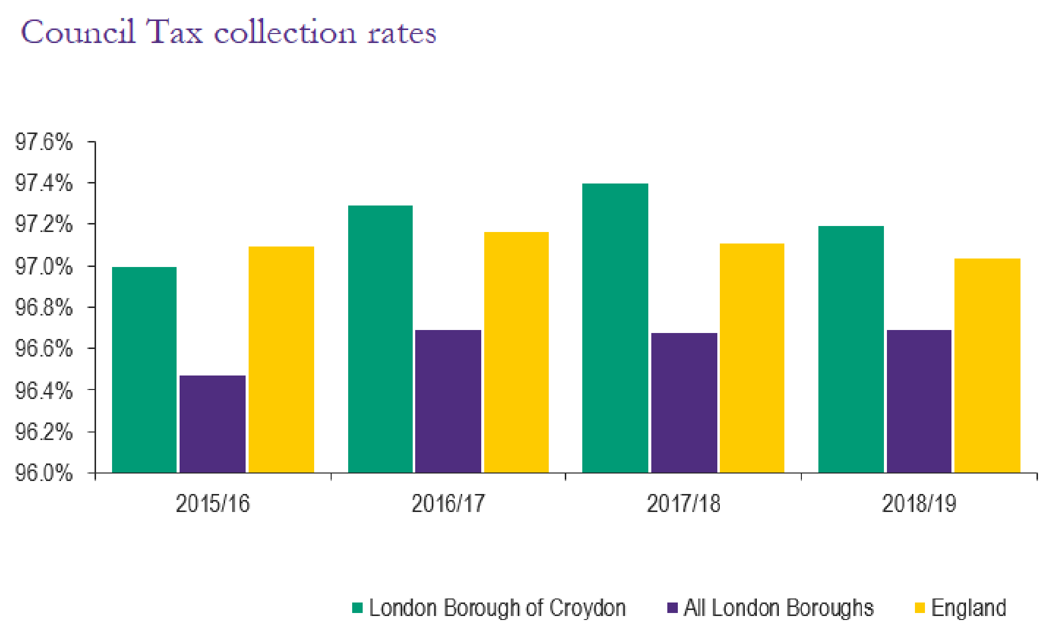
Taxation collection rates

As part of our review of the Medium Term Financial Plan (MTFP), we have reviewed you performance in your collection of Council Tax and Business Rates income. Whilst noting collection may not directly refer to the year of billing, your collection rates are above the average for Inner London and for England, which is positive and reflects the good work that you have done in this area in recent years.

Collection of Council Tax

Over the last four years, your rates of Council Tax collection have been an average of **97.2%**, which is above the average for all London Boroughs of **96.6%** and the national average for England of **97.1%**.

You have taken actions in recent years to improve your Council Tax collection rate through improving the capacity of your collections team and your interaction with residents. You achieved an overall collection rate of **97.2%** in 2018/19, which represents a slight reduction of the collection rate of **97.4%** achieved in 2017/18. We recognise that this performance needs to be viewed against an increase in your Council Tax base of **2.48%** for 2018/19, reflecting continued housing development in the Borough, and also a **4.77%** increase in Council Tax rates, inclusive of the adult social care precept and the GLA precept. Your collection rates have been maintained at a largely consistent level despite increases in the volumes and amounts of Council Tax bills levied, as well as the potential impact of Universal Credit being rolled out to selected tenants within the Borough as part of the Government's national roll out of Universal Credit over the coming years.



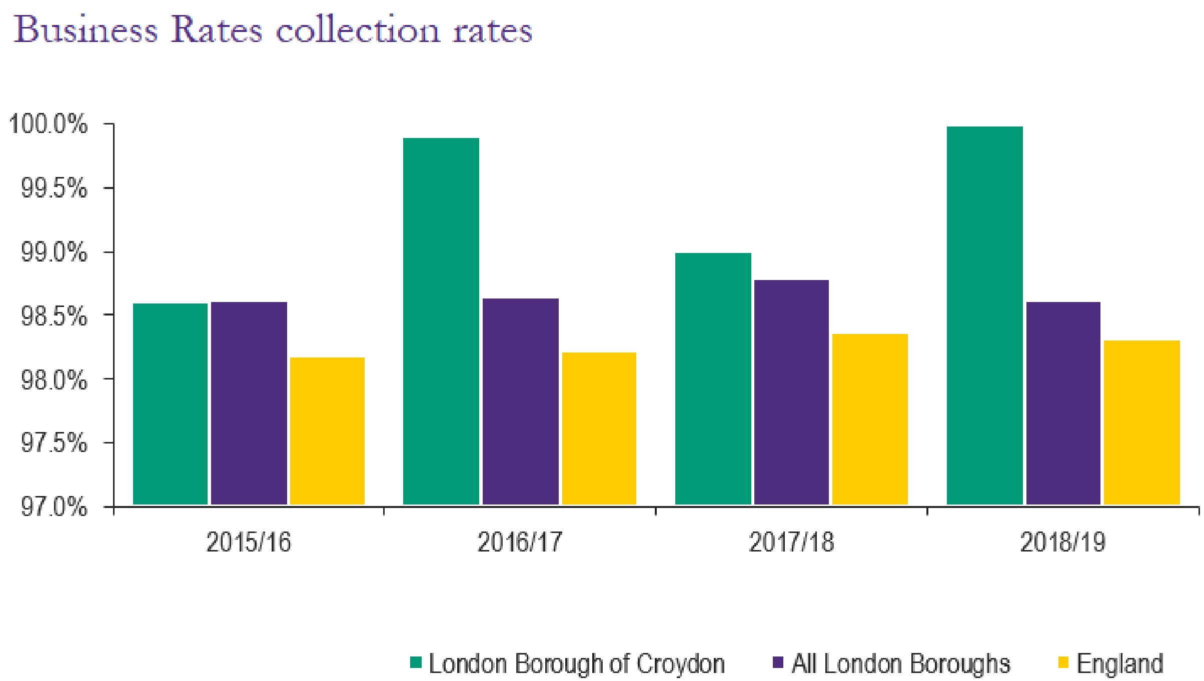
Findings

Collection of Business Rates

1

Alongside your performance on Council Tax Income, your business rates collection rates are also above the average for Inner London and for England. Your average business rates collection rate over the last four year was **99.4%**, compared to **98.7%** for all London Boroughs, and **98.3%** for authorities across England. Over the course of the past four years, your collection rates were above your neighbouring authorities and the average across England.

For 2018/19, you reported a collection rate of **99.9%,** which represents an increase of **1%** on the previous year. We consider this a strong level of performance given the additional pressure faced by your business rates collection team due to the national revaluation of rateable values by the Valuation Office Agency. The revised Business Rates Retention Scheme which took effect in 2018/19 generated additional income for you which has been used to support of the wider financial challenges which you face.



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Findings

1 **2019/20 Budget and Medium Term Financial Plan**

In February 2019, you approved your Budget for 2019/20, which forms the second year of your current Medium Term Financial Plan, which covers the period from 2018 to 2022.

In terms of the plans for 2019/20, you are looking to deliver savings totalling **£27.9 million** in order to offset the growth included in the Budget, which totals **£28.8 million**. In terms of the items which underlie this position, you have agreed a further increase in Council Tax of **2.99%**, on top of accepting the Government's offer of a **1%** increase for an Adult Social Care Precept, which you hope will generate a further **£6.9 million** of Income for the Council over the next 12 months. Given you had raised your Adult Social Care Precept by **2%** in the previous year, you were only able to raise the precept by a further **1%** this year to remain in line with the requirements of this funding round. Your plans show forecast growth in property numbers across the Borough, and further improvements in the Collection Rates, will generate a further **£5.7 million** in Council Tax, which is one of the more significant increases across London.

The remainder of the other items in the 2019/20 Budget are all in line with our expectations, and cover items such as the impact of inflation on pay and some of the Contracts which you have in place, as well as the impact of reductions in the number of the grants and other funding sources . Taken together this increases the level of savings required to deliver a balanced budget. At the date of the Budget being approved, the full range of required savings had been identified and a detailed plan was presented alongside the Budget Papers, setting out the areas in question and the anticipated savings.

When these plans are broken down on a Department basis, the main area of growth for 2019/20 continues to be Children's Services, where the net spend is scheduled to increase by **£11.0 million**. The key factors are an increased demand for Looked After Children Placements of **£3.274 million**, a further **£3.7 million** to cover the costs of the additional staff being employed to support the improved Children Services in response to the issues identified by OFSTED, and **£2.78 million** to support further growth of the UASC Costs across the Borough, which as mentioned earlier you are continuing to lobby the Home Office to provide sustainable funding. Whilst it is clear that you have identified key areas of cost pressures, it will be challenging for you to contain growth within these budgets, given the level of performance which has been experienced in recent years.

You are also looking at innovative schemes that will aim to utilise your capital assets to reduce your revenue spend for example you have approved a scheme to reduce your Pension Fund Contributions by **£3.5 million** following the transfer of some property assets to the Pension Fund. You are in the process of obtaining the appropriate professional advice to support your proposed scheme. Your financial plans assume a dividend of **£2.2 million** from Brick by Brick, which would be the first time that your subsidiary has been able to contribute a dividend of this size towards your overall financial performance. Other income assumptions include a further **£2.5 million** from your Investment Properties and a further **£4 million** of additional Parking and PCN Income.

The growth in income is planned to offset the continued cost pressures. Careful monitoring of the underlying assumptions is need to support the delivery of increased income and any shortfall in income will add greater pressure to your overall financial position. Where an income stream is delayed you will either need alternative income sources or an increased savings requirement.

Looking further ahead, after 2019/20 there is more work required to address your savings gaps of **£12.5 million** in 2020/21 and **£7.7 million** in 2021/22 which remain unidentified. In response to your financial challenges, you are currently undertaking a full review of the MTFP with a view to issuing an refreshed plan over the coming months. This review involves both Officers and Members, and is focused on a number of your key spend areas. At the date of issuing our VfM Conclusion this work is still ongoing, but will be something that we will place considerable focus on as part of our work on the 2019/20 VfM Conclusion.

Follow up of prior year recommendations

We reported the following issues in our 2017/18 Audit Findings Report and have set out below progress on implementing our prior year recommendations. All recommendations remain in progress and are carried forward to 2019/20.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	X	**Overspends in the Children, Families and Education and Health, Wellbeing and Adults (formerly People) Departments** We identified that the Council had incurred considerable overspends in the People Department, largely due to the challenges encountered on Social Care, both from an Adults and Children's perspective.	You have continued to find it challenging to manage the level of spend in this area, with a further overspend of £11.263 million delivered in 2018/19. You are also forecasting considerable growth and pressures in this area in 2019/20, which will put the remainder of your financial plans under pressure if you are not able to manage the delivery of these services within existing budgets. **Management Response** We continue to recognise that the delivery of these services remains challenging. This was recognised as part of the 2019/20 budget setting process and further investment of £12m was made in the two departments :- Children, Families and Education and Adults, Health and Wellbeing (formally known as the People Department).
2	X	**Maintenance of Reserves** In the previous year we identified the need for a clear strategy to ensure your reserves are maintained at a sustainable level, given they have been held at a low level for a number of years.	Whilst you have been able to maintain your reported General Fund Reserve balance during the course of the year, and only drawn down a minimal level of Earmarked Reserves in year, you continue to have the lowest level of reserves of all London Boroughs. You need to ensure there is a clear plan to start building up your level of general fund reserves in the short term to help provide you with greater resilience to manage the potential challenges ahead. **Management Response** While it is recognised that are reserves are low. It also needs to be recognised that General Fund reserves have remained stable for a number of years now. We have ambition to increase reserves but this is extremely difficult when we are continuing to be underfunded by the Home Office for UASC, and spent over £10 million of our own funds supporting this cohort of young people in 2018-19. The refresh of our MTFS taking place as part of the budget setting process for 2020-21 has plans to make a contribution to reserves.

Assessment

✓ Action completed

X Not yet fully addressed

Follow up of prior year recommendations

We identified the following issues in the audit of the London Borough of Croydon's 2017/18 Value for Money Work, which resulted in three recommendations being reported in our 2017/18 Audit Findings Report. We have followed up on the implementation of our recommendations and note all of these are still in progress, and hence are carried forward to 2019/20.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
3	X	**Funding for Transformation** In the previous year we identified that you were reliant on the flexible use of capital receipts to help fund a significant element of the transformation expenditure which is needed to help deliver benefits to you moving forward. There is a risk that being able to utilise this funding in this manner may cease, which could put some of your transformation schemes at risk over the medium term.	You have continued to use capital receipts flexibility during 2018/19 to support the on-going transformation schemes and you see this as an appropriate way of funding this transformation given the pressures on your reserves as mentioned earlier. However you will need to remain aware of any potential changes to the utilisation of this funding as any changes in the regulations may limit your ability to use capital receipts in this way moving forward and to address the impact this may have on your overall financial position. **Management Response** We are continuing to use capital receipts in 2019/20 to fund transformation schemes. We also recognise that this way of funding services may not be sustainable in the future and our future budgets will be mindful of this.

Assessment
✓ Action completed
X Not yet fully addressed

Action plan

We have identified two additional recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendation with management and we will report on progress on this recommendation during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
1	● Red	**You need to manage your Dedicated Schools Grant within existing budgets** We have identified during the course of the year that you have overspent your Dedicated Schools Grant by £8.229 million, bringing your total overspend on the DSG to £9.193 million. You are also anticipating further overspends in this area over the course of the next two years as well. These overspends then impact the resources you have available as a Council to deal with the other challenges you are facing.	• Ensure there is a clear plan in place to manage DSG within the existing budget envelope, along with ensuring you have a clear recovery plan in place to manage the recovery of the deficit already incurred. **Management response** • We have submitted our DSG recovery plan to the DfE and are working hard to deliver services within the funding allocated. This includes increasing the capacity of High Needs places in Borough and working with our mainstream schools to review their pupil cohorts. • The additional funding for education promised in the Spending Review 2019 will also help us fund services.
2	● Red	**You need to manage the impact of UASC and look to seek a long-term solution** The costs of managing the demand of UASC has had a considerable impact on your financial position, with you having to spend £10.3 million, over and above the funding provided by the Home Office, on UASC in 2018/19. This is having a considerable impact on your ability to increase your reserves position, which is then impacting on your financial resilience. You need to agree a way forward in terms of funding UASC to reduce the impact it has on you as a Council moving forward.	• You need to take action to manage your spend on UASC closely to meet the level of funding provided. You also need to work within the sector to reach a sustainable model for providing services for UASC. **Management response** • We are continuing to take action to reduce the cost of delivering services to UASC, including working with other Local Authorities to ensure the national transfer scheme is operating effectively. We are also continuing to lobby the government to fund Croydon properly for the UASC costs incurred which arise due to our geographical location.

Controls

● - Red – High Priority
● - Amber - Medium Priority
● - Green - Low Priority