Improvement and Assurance Panel

London Borough of Croydon

Rt Hon Robert Jenrick MP
Secretary of State
Ministry of Housing, Communities and Local Government
2 Marsham Street
London SW1P 4DF

5 February 2021

Dear Secretary of State,

We write to respond to the immediate task which you assigned to us in respect of our recent appointment as the Improvement and Assurance Panel for the London Borough of Croydon - *'to provide an initial assessment of the improvement plan incorporated into the Council's EFS request by early February 2021'*.

The Council produced the first version of an improvement plan in December, which it has continued to revise and update since then. The plan does not exist simply as a single document, as it is supported by a range of other initiatives and activities which represent transformational or improvement activity. We have considered the full scope of such activity in our initial assessment.

It is clear from the Rapid Review Report that there is much that the Council needs to do to become a properly functioning local authority. It is also clear that it is not capable of doing so at present within its own means. Only through the EFS can the Council discharge the substantial liability that it has accrued in this financial year and which it does not have the funds to meet, and only if this is done can the Council continue to operate. Further EFS funding will enable it to disentangle itself from ill-conceived property ventures and reconfigure its operational services on the basis of providing competent delivery within an affordable budget. Given its present operating profile and level of indebtedness, these are endeavours of considerable magnitude.

We are clear that, at the most senior level, the Council understands the gravity of its position, accepts the need to address it, and intends to do so. We have been unable, in the time available to us thus far, to make an assessment of the extent to which that understanding and intent has permeated the organisation as a whole in respect of either Members or officers. It will be necessary for that to happen, but the Council's improvement plans are at this stage high-level, and will require development over the coming months in order that changes in the Council's way of working are spelt out in practical terms that everyone involved can understand and see their role in. They are, nonetheless, a creditable start. It will be our intention, over the next six months in particular, to assist the Council in making sure that that these plans become fully credible and effective tools for recovery and are used as such throughout this critical period and beyond.

The plans that the Council have made and are developing have begun to address what we believe to be three fundamental and interconnected objectives:-

- Determining and putting in place a process for limiting the liabilities in respect of its property ventures.
- Restoring financial discipline to its processes for setting and living within its budget.
- Transforming the operation of its services so as to deliver good performance on an affordable basis.

There are many other improvements that have been identified and that will need to be delivered which will support these requirements (such as a full-scale review of senior management positions and appointments), but it is achieving these aims above all that will enable the Council to restore its position to that of a properly functioning local authority. We are clear that it is not realistic for the Council to pursue priorities in the foreseeable future other than those that directly support these objectives, and we will strongly and consistently advise the Council accordingly.

Improvement progress against these aims in recent weeks has brought the Council to the following position in respect of each: -

Property ventures

Brick by Brick Croydon Ltd (BBB) – The Council engaged PricewaterhouseCoopers (PwC) to undertake a strategic review which identified seven options for the future of BBB, examining in detail the likely return for the Council set against the further funding requirement and associated risk. This has been narrowed down to two viable options which will be presented at the February Cabinet meeting for a decision on the future of BBB. Neither proposal is likely to generate the full return of the Council's initial investment, but in the circumstances, they are the only realistic options available.

Fairfield Halls – This arts, entertainment and conference centre has been subject to significant refurbishment works which are largely complete, although some further remedial works are outstanding. In a highly unusual arrangement, these works were carried out by BBB who were to be reimbursed through profits generated by developing a neighbouring site (College Green) belonging to the Council. The land to be transferred having a value of circa £25m (recently revalued at £20m). The cost of the refurbishment has more than doubled from the anticipated spend to more than £60m. This £60m figure includes public realm works, refurbishment of the car park and the enabling works for the College Green. Given this overspend, we will need to undertake further discussions with the Council to fully understand the impact of this on the financial position of the authority, and thus what may need to be done in respect of this.

Croydon Park Hotel – This was purchased for £31.3m (including transaction costs) in August 2018, and is currently unused due to the Covid-19 pandemic and the operator entering administration in June 2020. It has, however, ongoing security and essential maintenance costs in excess of £0.5m pa. Alternative uses have been explored such as emergency accommodation, but logistical challenges exist which would require significant investment to adapt the layout. The Council are currently exploring alternative solutions to maximise the value of the facility and a decision on the strategy to adopt will be made at the Cabinet meeting on 18th February.

Decisions need to be made in respect of the above challenges as critical actions.

Additionally, the PwC review included other Council investments in Growth Zone, Croydon Affordable Homes LLP, the Revolving Investment Fund (RIF) and the Asset Investment Fund (AIF). Risks were identified in all these vehicles, but the most significant ones relate to the RIF loans to BBB. Improved review and governance procedures will need to be implemented in all and consideration given as to whether some investments should be divested.

Overall financial position

The financial position of the authority is set out in paragraph 1.16 of 'Croydon Council MHCLG Submission: Request for Capitalisation Direction and Additional Support'. In summary, this indicates an increasing gross budget gap of £160.2m over the period to 2023/24 and savings of £81.5m over the same time. The deficit across the four years to 2023/24 amounts to £150m, and permission is sought to capitalise to this amount to meet the deficit, of which £70m is needed for 2020/21. Some flexibility will be needed regarding the profile of the capitalisation sought across the Medium-Term Financial Strategy (MTFS) given the situation regarding the 2019/20 accounts and to allow for any further issues which may come to light over the coming weeks.

The MTFS position was built on the 2020/21 Q2 / Period 6 position, is fragile, and requires all of the savings identified to be delivered, as well as continuing tight control of expenditure. For 2020/21 in particular, this is against a very difficult backdrop of wave two Covid-19 which has been particularly serious in London, the South East and East of England. Early indications suggest the position at Q3 / Period 9 has worsened by circa £5m.

The Council does not have a good record of savings delivery, nor a culture of tight financial control. However, it has recognised this and over the last 5 months, the authority has invested time, effort and money in establishing appropriate Project Management Office (PMO) arrangements and sponsorship and ownership of the savings programme. This incorporates governance arrangements which include reports to the Executive Leadership Team headed by the Interim Chief Executive. This is an important and positive step, albeit untested at this time. It is therefore important that this is kept under close review to ensure the new processes are properly embedded and deliver the desired results.

In building the MTFS, the authority has taken into account certain risks it faces, including the situation regarding the 2019/20 accounts which have yet to be signed off and may result in additional provisions being made to the revenue account. Our understanding from discussions with the external auditors is that the signing off of the 2019/20 accounts is still some way off due to the number of issues outstanding and clarifications still being sought. In addition, it is possible that further issues will emerge over the coming weeks relating to 2020/21 as the financial position of the authority is examined in more detail.

Should an overspend position be identified (even beyond that suggested in the capitalisation plan), or additional risks not included in the plan arise, then the authority will only have its severely depleted reserves to assist it.

This is a very serious position and without approval to the capitalisation request, the authority will have no way of closing its accounts without a deficit. Strict adherence to the S114 controls are therefore vital.

Looking ahead to next year in particular, the challenge is presently assessed as being similar to the current year position – a large savings programme which must be delivered in full to balance the budget, even with further capitalisation of £50m (and a further £25m in 2022/23 and £5m in 2023/24). With two months to go to the start of the year, the savings plan identified must be ready to be delivered in a matter of weeks. It is positive in this regard that the proposed budget for 2021/22 as set out in the plan does include rebasing the budgets for Adult Social Care and Children's Services, and contributions to reserves to start building resilience.

A significant issue which is hanging over the MTFS concerns the various matters relating to the commercial programme which are highlighted above in this letter. These do need to be resolved as soon as possible to provide additional certainty for financial planning purposes. Although some provision is included in the MTFS for the lack of reimbursement of the borrowing costs, particularly those associated with BBB, it is not clear yet if this is sufficient

Other risks which impact on the confidence of the MTFS are:

- The position regarding the UASC funding
- On-going funding of Covid-19 costs beyond 2020/21
- Impact of Covid-19 on the medium to longer term, such as additional need arising such as increased mental health provision, support for 'long Covid' user needs.
- Lack of capacity to deliver the savings programme in addition to the 'business as usual' provision

It must be considered possible, given the above, that the financial position of the Council has not yet been fully exposed. We would expect a forensic examination of the financial position to be carried out as an absolute priority.

Transformation of Service Operations

The Council has stated its ambition of returning the operations of its two largest services – Children's and Adults – to the London Borough average at the earliest possible point. At some point, a more precise measure of what these services should cost may properly be made, but for now, this objective should suffice.

Presently, both services are the most expensive, on a per capita basis, of any Borough in London. Both also deliver, in the round, average or above average performance, but since equally good performance can be found at levels of cost that are below the London average, there is no reason why cost reduction cannot be made while service quality is maintained.

The production of transformation plans for both of these areas is work in progress. In respect of Adults a high level project plan has been prepared which identifies what the Council must do, and where it must do it. The rationale is sound, and some progress towards making savings has already been logged. Further change in structure, practice and process will be required to meet the necessarily ambitious targets set.

Children's Services has an outline plan which focuses on reducing the number of children in care, and on the cost of care packages for children with disabilities. In both areas, opportunities to maintain or improve service are consistent with greater spending efficiency, and the governance and management arrangements to drive these changes are being put in place. These plans are purposeful, but are in an early stage of development.

The number of unaccompanied asylum seeking children (UASC) in the borough has long been recognised as an extraordinary pressure on service delivery and a significant budget pressure in its own right. Work is in hand to seek support from the Department for Education and the Home Office in addressing these pressures in order to make the burden more proportionate.

Both areas of service will require careful management through the necessary change. They deliver services to the most vulnerable of people, and failure to deliver will have a significant impact on individuals and the authority. To be cost effective, they both require excellent social work practice, good partnerships with both the Health service and the commercial sector, and a clear strategic direction which delivers preventative and early intervention options. Above all, they require the very best leadership.

We would expect to pay considerable attention to all of these matters in the coming months in order to be able to assure you that the plans develop into sound action programmes of work.

Conclusions

The Council is undertaking a range of activity around a high-level improvement plan. That activity is properly focused on equipping the Council with the means of meeting the key objectives that will enable it to recover. The plan needs considerable further development. It will require firm political and managerial drive, and the taking of difficult decisions, to deliver. It will have to be communicated to and owned by the staff of the Authority, from which much will be required in challenging circumstances. It will also need to be shared with partners and their cooperation to support delivery will be essential too. It is clear that the residents of Croydon will have to exercise considerable patience.

All of those things are as yet untested, and it is not possible to quantify outcomes at this point, but our initial engagement has given us encouragement that the advice, guidance and support that we are charged with providing will be welcomed and acted upon.

We will report again at the end of April, by which time we would expect that, as a minimum, we should be able to assess:-

- The viability of the Council's plans for resolving its challenges in property ventures, and the progress of those plans.
- The full extent of its financial liabilities (subject to external audit outcomes for 2019/20 and 2020/21 accounts) and the credibility of the Council's budget for 2021/22 and future years.
- The credibility of the Council's plans to transform front line services and the capability of the programmes in place to do so.
- Progress being made to change the culture of the organisation to become a Council that delivers its services in a financially disciplined and motivated manner.

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