Improvement and Assurance Panel

London Borough of Croydon

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

Ref: Report 2

Date: 30 April 2021

Dear Secretary of State,

We write to give you a progress update on our work in Croydon since our initial report in February 2021.

In that letter, we identified four broad areas of activity that we intended to focus on, and in reporting on these we will also address the specific concerns that were set out by your colleague, the Minister of State, in his letter to the Council on 5 March 2021 and which agreed the emergency funding support.

Initially, you will wish to know that we have received good cooperation and engagement from the Council in supporting us in undertaking our work. There is a firm understanding at the senior Member level of the nature of the changes that Croydon needs to bring about. Strong messages of the political determination to make these changes have been communicated throughout the organisation and to partners. The new leadership fully understands that while the receipt of the £120m loan, together with the possibility of a further £30m loan, relieves the immediate difficulties, a sustainable future for the Council will require the delivery of the full set of measures detailed in the 'Croydon Renewal Improvement Plan' (CRIP). Produced initially in the autumn of last year, the CRIP was launched both publicly and in a series of staff virtual roadshows. It sets out the Council's priorities and new ways of working and identifies a series of 400 actions that will transform the authority.

The Council's senior management has been through considerable upheaval during this period, with interim post-holders occupying all of the statutory and many of the senior operational roles. While the interim managers are working closely with the Leader and Cabinet and making good progress on delivering the CRIP, it is imperative that the Council moves quickly to put a substantive management team in place, and one that staff can be confident will be part of the future. Measures are being taken to fill these roles as quickly as the need for an open and transparent process allows.

One issue of intense media attention has occurred during this period and has had to be addressed by the Council as a matter of urgency. This was the revelation of an undiagnosed and unrepaired water leak in a council-owned block of flats in Regina Road in the borough that had not been dealt with for over four years. The leak presented a risk to health and safety and significantly impacted the quality of life of the residents affected.

On becoming aware of the issue, the Council took immediate steps to rehouse the tenants affected, to carry out the necessary repairs and to check for potential problems in similarly designed blocks.

The Council commissioned an independent review of the incident. The report from this, presently in draft form, reveals a failure to deliver even basic 'core' housing services effectively. The report suggests that this is likely to be symptomatic of a poorly performing service which lacks the capacity for self-improvement.

The response to this from the current political administration and management is in preparation. It will necessarily include an improvement plan for the housing service, and the preparation of this is in hand. The establishment of an improvement board for the housing service, with a particular focus on the repairs and maintenance service is also proposed. A full condition survey of all of Croydon's housing stock has been commissioned.

These measures represent the minimum necessary response. We will maintain an active overview of progress on these and other recovery activities and report on this, with any recommendations, in future updates. For now, the Council is making the proper response to a situation that had surprised it. That issues such as this come as a surprise is a further indication of the lack of self-awareness that has set in, and which the current political and managerial leadership know they have to remedy and in respect of which they are already implementing improvements.

Areas of Focus

1. The viability of the Council's plans for resolving its challenges in property ventures, and the progress of those plans.

There are a range of property ventures and investments.

Brick by Brick Croydon Ltd (BBB) – At the Council meeting on 18 February 2021 the decision was taken, in line with one of the options proposed by PricewaterhouseCoopers (PwC) as part of their strategic review, to continue construction on 29 sites providing circa 930 properties, but to exit BBB activities by October 2021. The majority of these sites, involving just under half of the properties (Phase 1), are forecast to be complete by October 2021, with the remainder ongoing until 2024 (Phase 2). The Council will seek to dispose of the partially completed sites in Phase 2 individually or collectively to a developer(s).

BBB had also commenced the feasibility and planning process for more than 1,000 additional properties on a number of other sites. These other sites have now been suspended and are not going to be developed by BBB. The Council will seek to recover some of the considerable costs expended to date by assessing market interest in some, or all, of these sites.

Owing to the nature of property development and disposal we believe that activity in BBB will inevitably continue into 2022 to complete Phase 1 unless BBB can be disposed of as an entity to a purchaser. The Council was approached by a property developer about the potential to acquire BBB and they entered into a 28-day exclusivity period with this supplier on 26 February 2021. This has subsequently been extended to allow for further negotiation after an initial offer was rejected by the Council. There have been approaches by a number of others interested in acquiring some or all of BBB or providing management support, but these have been put on hold due to the non-disclosure agreement in place. Dialogue with these and other third parties and therefore the exploration of alternative exit strategies would have helped to provide an assessment of the relative value of the offer now on the table. This means that the Council will have to explore other means of gaining assurance that a deal offers good value for money for it and taxpayers, such as working with Homes England, should they decide to pursue it further in these circumstances.

Once the decision to wind down BBB became public, it inevitably caused uncertainty amongst BBB staff and some of their supply chain and more could have been done by BBB management to communicate with stakeholders in a timely manner, providing some reassurance. Further consideration could also have been given to the broader exit strategy, especially the part-completed sites and at what stage of construction it would be appropriate to suspend works, protecting the maximum possible value. On a more positive note, it is evident that the strengthened financial oversight of BBB has resulted in more comprehensive financial information being produced in a timely manner. Despite that, the cost to the Council associated with BBB is likely to result in a significant loss, yet to be determined, which the Council is seeking to minimise.

Fairfield Halls – Although refurbishment works to the facility are substantially complete, there remain several outstanding issues to resolve before the Halls can be fully utilised. Surveyors have been appointed and will commence work shortly once the novation of contracts work has been concluded to establish the extent of the defects and they will need to be completed before a date for reopening can be set. These defects will result in additional cost to the Council and the total expenditure on the refurbishment has still to be established, as has how the costs will be consolidated in the Council's financial accounts.

The external auditors, Grant Thornton, have recently carried out a *'Value for Money Review'* of the project and concluded that the approach adopted between the Council and BBB was 'sub-optimal' and a number of recommendations have been made to the Council, particularly around poor financial governance. These concerns echoed those raised in the October 2020 '*Report in the Public Interest'* and the '*Non-*

Statutory Rapid Review' in February 2021. The auditors are considering whether further formal action is required.

Croydon Park Hotel and Other Asset Disposals – A process commenced on 22 March 2021 to appoint real estate advisors to handle the disposal of the Croydon Park Hotel and the Fairfield Halls College Green Homes site. The latter is the site that was initially being transferred to BBB as recompense for the Halls refurbishment works. The Council hope to have completed the selection process around the end of April, commence marketing early in May and complete by end of August 2021. Several additional assets have also been identified for disposal over the next three years but forecast receipts at this stage are speculative.

Other Investments – In 2014 the Council created an alternative delivery model to accelerate development in the borough of Croydon, setting up a number of subsidiaries and operational entities to achieve this including:

- Brick by Brick Croydon Ltd
- The Croydon Affordable Limited Liability Partnerships (LLPs) (Homes, Tenures, Dwellings and Tabener House)
- The Revolving Investment Fund
- The Asset Investment Fund

The Croydon Affordable Homes LLPs are part of a special purpose vehicle between Croydon Affordable Housing (registered charity) and the Council. In part, this was designed to enable the use of right to buy receipts to meet up to 30% of the relevant permitted development cost with the Council providing an arm's length loan for the balance of the funding requirement. The arrangements, considering the relatively small number of properties involved, are complex; administratively burdensome, not sufficiently separated from Council finances and subject to poor oversight and governance. Unravelling these entities could be highly problematic, but the Council needs to review how this structure can be simplified to something that is fit for purpose.

The Revolving Investment Fund contains a number of investments in addition to the loans provided to BBB. One of these is a £45m investment made in two tranches - £30m in 2014/15 and £15m in 2017/18 – in a Resonance managed social impact property fund designed to reduce homelessness. Tranche 1 was due for redemption in February 2022 but was extended for 12 months at the Council meeting on 12 April 2021, citing Covid-19 and Brexit impact on the likely recovery from the fund if they were to exit in 2022. With considerable uncertainty about the liquidity of this investment and the rate of return to the Council achieved to date, no further extension should be considered until the rationale is revisited and a full benefits analysis is undertaken. This is a complex investment and whilst the Council paper sets out the case for continuing to participate as best it can, whether this provides appropriate detail and justification for Members is not clear.

The final significant bloc of investments are held within the Asset Investment Fund which was established in 2018 and includes the Croydon Park Hotel. Additional investments include the Colonnades Phases 1 and 2, 60 Vulcan Way and 37-39 Imperial Way which are commercial properties acquired at a combined cost of £67.5m. All three sites generated a small total surplus of £803.9k but this was more than offset by the loss incurred by the hotel of £1.249m, a net loss of £446k. Disposal of the hotel is clearly the priority, but consideration should also be given as to whether the level of income generated by the remaining properties justifies the risk associated with ownership and alternative potential use of the significant funds involved.

2. The full extent of the Council's 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.

Over the past three months, Croydon Council has set its 2021/22 budget, following the approval of MHCLG to a capitalisation direction amounting to £70m in 2020/21 and £50m in 2021/22. In setting a balanced budget for the current year, with the aid of the capitalisation direction, the Council was able to cancel its S114 notice. However, in taking this action, the Council has kept in place its spending control panel to ensure there is a review of proposed orders before they are placed.

The 2019/20 accounts remain open, although some work has been undertaken in the period on the outstanding issues. The main issues still to be resolved relate to the transformation expenditure which was capitalised, and the impact of BBB issues. On the former, some work has been undertaken to establish appropriate evidence to substantiate transformation activity, and this has reduced the risk of additional cost having to be charged to the revenue account (and thereby reducing reserves). There does, though, remain some significant sums being queried by the auditors and work continues in this area.

The issues relating to BBB are more serious – there are two particular concerns:

- In 2019/20, Croydon assumed some £11m as income from BBB relating to interest on debt. This has not been paid as yet, but there is an expectation that this will be paid when the developments are sold. The amount therefore remains as a debtor.
- Fairfield Halls – the external auditor has reviewed in some detail the history of the development starting with an initial approval of a £30m refurbishment budget to be paid for through the transfer of land to BBB to be developed and sold. As has been observed above, the expenditure on this project is substantially more than that approved, and the arrangements surrounding this transaction are under consideration by the auditor. The auditor has sought further advice from a QC. Given the timescale for this development, it is likely this will affect the 2019/20 accounts, although it is not clear at this stage what that impact will be.

Turning to 2020/21, the Council has instigated monthly financial reporting – a common feature of financial discipline in most councils. The original projection, as reflected in the '*Croydon Council MHCLG Submission: Request for Capitalisation Direction and Additional Support*', was a £70m overspend in year. Since then, a combination of tighter spending controls linked to the S114 notice, and the greater focus on delivery of savings plans, have resulted in a reduced net overspend of £67.280m before the capitalisation direction, a reduction of £2.720m overall. This reduction is after some pressures have been absorbed, most notably the funding of some schools deficits of £4.9m.

Whilst a balanced position is shown (taking the capitalisation direction into account), there are a number of significant risks, amounting to £26.6m, which could negatively impact on the outturn position. This excludes the effect of any accounting adjustments needed for the Fairfield Halls development. If the total of these adjustments exceeds the balance available in reserves (£7.4m), then permission will need to be sought from MHCLG to increase the amount of the capitalisation direction for 2020/21, at the expense of that available for 2021/22.

The 2021/22 budget has assumed £50m of capitalisation direction and savings of £44.668m. The Council has already undertaken reviews of delivery with challenge sessions at executive leadership and Cabinet level to determine confidence in delivery at project level. There is a clear ethos being put in place that if a service savings plan cannot be delivered, then the service must come up with alternative proposals. Whilst a change in culture in relation to financial management and accountability cannot be delivered overnight, these early signals of intent are positive.

Looking ahead, the Council has made an early start in considering how it will meet its 2022/23 budget. The approved Medium Term Financial Strategy (MTFS) sets out that, in order to balance the budget, further savings of £38.3m will be required. This assumes a further capitalisation direction of £20m in 2022/23. In the absence of this, the savings increase to £58.3m.

These savings are in the context that the net revenue budget for the Council for 2021/22 is £320m. The respective savings target as a percentage of net spend is 12% with a further capitalisation dispensation and 20% without a dispensation. That is on top of a 26% savings target delivered in 2021/22. The Council recognises that savings of this magnitude will not be easy to identify and deliver and all areas of spend and income will be investigated.

Most of the Council's services are delivered extensively through external contracts. In total there are estimated to be some 503 contracts with 313 of these either expired or due to expire in this year, with a total annual current value of around £200m. Some two-thirds of these are within the Health, Wellbeing and Adults area.

The Council's arrangements for ensuring that contracts deliver value is poor. There has been a lack of a strategic approach to securing contracts, confusion in commissioning intent and a lack of a systematic approach to monitoring performance. The Council has recognised this and has produced a Contracts Improvement Plan which is currently going through the process of adoption. While that happens, an interim plan is ensuring that its principles are applied. This plan will put in place sound governance arrangements, an annual set of commissioning intentions that will align with budgets and effective performance management.

The Council is aiming to have a first draft of this work by 31 May 2021 to enable a series of budget review meetings to be held with an overall aim of draft budgets being available by September 2021.

If the Council is able to follow this timetable it will provide ample time to implement new savings programmes and so reduce risk. This will be a substantial improvement on the process for prior years.

As part of its financial management recovery work, the Council has asked for Directors of Finance in two other London boroughs to undertake a forensic financial review. The scope of this work is as follows:

- To provide an assessment of the capabilities, skills and competencies of the finance function to support the Council's financial recovery and provide a sound framework for the proper financial stewardship of the Council.
- To review the quality of the budget, specifically for 2021/22, and the MTFS, and to seek assurance on the ability of the council to deliver its savings plans associated with the budget.
- To review the current systems for budget management and financial control together with the culture of budget management that exists in the Council.
- To review the framework for financial control and compliance to it.

This work is now underway, reporting weekly to the Council. It is planned to be completed by the end of June 2021.

3. The credibility of the Council's plans to transform front line services and the capability of the programmes in place to do so.

As a key management tool, Croydon's corporate programme management office (PMO) has been strengthened in order to enable it to support the CRIP and provide assurance to the Council on the delivery of programmes associated with change and savings delivery. Whilst it is still early days, the Council has put in place processes to receive updates from the PMO every fortnight. This more structured approach to projects will ensure risks and blockages that inhibit delivery will be identified promptly and mitigations put in place.

In addition, as part of its overall improvement work, the Council approved a new performance management framework at its Cabinet meeting on 12 April 2021. The focus of the Cabinet report was to highlight changes to improve the current performance function in relation to reporting, benchmarking, evidence to support decision-making, improvements to data quality and the culture of the organisation around performance management. It was recognised that areas such as programme management, expenditure and risk need to be reported alongside performance in order to present a holistic view of the Council to both the executive leadership team, Members and residents. The aims of the framework are:

- Production of timely, high quality data/information performance reports
- Regular monitoring of operational performance measures, outcomes, key performance indicators and statutory reporting
- Regular co-ordinated performance review across the whole Council
- Timely internal and external escalation
- Clear and robust accountability and governance arrangements
- Leadership across the system on performance issues that require system approach/response
- Clear visibility and accountability
- Pulling together the previous silo reporting of finance, performance and risk together with programme reporting
- Create a mechanism of reporting that will ensure transparency on performance reporting eliminating any blockers which may prevent openness and scrutiny of Council performance both internally and externally, allowing escalation and challenge as detailed in the external auditor's '*Report in the Public Interest*'
- Benchmarking against other London boroughs and the nearest statistical neighbours.

Further work on this is underway.

This is an important piece of work and should enable the Council to better understand its strengths and weaknesses and ensure timely action is taken where needed to improve services to Croydon residents within its resource envelope. It should also provide a valuable tool to ensure value for money for taxpayers.

We are engaging regularly with the Cabinet and executive leadership team on the evolution of the CRIP and its application and this will continue to be a significant feature of our work.

Individual service plans expand on the CRIP's requirements and translate these into operational activity in a way that can work for managers and staff of the services concerned.

The '*Children's, Families and Education Delivery Plan 2021 – 2024'* recognises the scale of the specific problem facing Children's Services. Its predecessor plan, designed to recover the service from a previous 'inadequate' Ofsted judgement in September 2017 to one of 'good' in February 2020, had done so at considerable financial cost. Croydon's Children's Service is now the most expensive in London.

The aim, in line with the CRIP's objectives, is to maintain the level of quality in the service whilst reducing cost to the London average by 2024.

The service has identified four key areas for action in order to meet this aim. These are:

- The high number of children in care
- The high number of unaccompanied asylum-seeking children (UASC) and care leavers
- A larger staff cohort than that which is sustainable
- Outdated commissioning arrangements and packages of care.

The *Children's, Families and Education Delivery Plan* sets out to address all of these via a series of reconfiguration project plans. It is our view that these plans are sound, but challenging, not only in financial terms, but in respect of the need to implement them in a way which does not cause more disruption – and thus cost – in the short to medium term. The need to manage the cultural change implications for the staff concerned is well understood.

These project plans are now underway, with budget savings identified for each. They will require careful management and rigorous financial discipline throughout the coming year, and the Panel will maintain regular contact with the senior management of the service throughout their delivery.

A particular concern for the Council, principally due to not having all of the means of controlling the situation, is the issue of UASC. The problem in Croydon is made acute due to the presence in the borough of the Home Office's Asylum Intake Unit. A consequence of the location of this Unit is that the Council finds itself bearing the care of an extremely high number of such children (228 in December 2020, as opposed to the 66 that would be expected on the basis of a national 'average'). This situation leads to a consequent higher than expected number of care leavers (aged 18 – 25) in the borough as UASCs represent 56% of the borough's care leaving population.

This unique situation would be concerning for the Council even if it were not in the extraordinarily difficult situation in which it currently finds itself. In the present circumstances, it is a problem that the Council is very concerned about resolving and it is seeking urgent action from government on this matter given the material impact this is having. We are aware that discussions between the Home Office, the Department for Education and MHCLG have been conducted with some elements of support being found from within government, but without resolution of the matter as a whole. We would suggest that initiative is taken to bring this quickly to a conclusion. The Council has prepared two 'scenarios' for its possible future approach to UASC, and both have significant downsides. A solution here is required, and the Council is actively seeking a positive settlement.

Adult Services have identified a savings target for the year of almost £11m (9%), and the service plan identifies where this will be found across the range of activities. Effective arrangements are in place for the monitoring of progress, and the management of risks to delivery. Additional support is being put in place using transformation funding. It is recognised that the relationships with the NHS in the borough will bear review in order to ensure that costs are being properly allocated across partner organisations.

4. 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.

The CRIP acknowledges the cultural failings in the way the Council operated and which were identified throughout various reports that had been issued. The need for significant change, and a commitment to that change, had been identified by the Council's leadership.

We have engaged with the Council's trade unions who have emphasised the critical need to make progress quickly. Senior management engagement with staff has led to agreed priorities and practical steps to begin to address this change.

These measures are all purposeful and constructive, but cultural change is as much a simple product of the ability of people to come to work in an environment where their management, working practices and processes enable them to do their jobs well and achieve job satisfaction as it is about programmes to promote it. We expect the culture to improve as operational effectiveness improves, and to stall if it does not. So far, the right things are being said and done, and there is a good sense of purpose. We will continue to take the temperature on this and report accordingly.

Conclusion

Finally, it has been in the nature of our engagement with the Council so far that we are increasingly involved at an early stage in the consideration of matters of emerging concern, and thus able to introduce our advice or views at a formative stage of development of plans and projects, and to see this advice taken and woven into progress. As a consequence, the need for making our recommendations in any formal way is greatly reduced. It may be expected that, for major or contentious issues, we will issue an advice note, at least for the purposes of record if not indeed to seek to steer the Council in a certain direction. So far, that eventuality has not arisen.

Yours sincerely

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