



Department for Levelling Up,
Housing & Communities

Mayor Jason Perry
Mayor of the London Borough of Croydon

By email

Lee Rowley MP
*Parliamentary Under Secretary of State
for Local Government and Building Safety*

**Department for Levelling Up, Housing
and Communities**
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1 March 2023

Dear Mayor Perry,

SUPPORT FOR LONDON BOROUGH OF CROYDON

I am writing in relation to your Council's request of 12 January 2023 for exceptional financial support in respect of financial years across the period 2019-20 to 2023-24. I am grateful for your continued co-operation with my Department and the Improvement and Assurance Panel chaired by Tony McArdle OBE throughout the process, including the additional information and clarifications your officers have provided.

Your approach to the Department for further exceptional financial support is in addition to that previously sought in December 2020. I understand that at the time of your previous request the magnitude of the challenges faced was not yet fully understood, as such the need for further support has resulted from a crystallisation of the errors made in the past prior to you taking office. You and your officers have sought to reassure me that the full extent of financial issues are now better known.

I have considered various factors very carefully including the Council's position, the interests of Croydon's residents, and the need to provide sufficient stability to the Council to make sure that service delivery, especially for the most vulnerable citizens is not disrupted.

It is within this context that the Secretary of State has considered your Council's request for exceptional financial support. You will be aware that the Secretary of State has not opposed your request for a higher council tax referendum threshold of 14.99% to be applied in 2023/24 (i.e. an additional 10% above referendum principles applied to other councils), which was announced at the Local Government Finance Settlement on 6 February. I am aware that the decision for you to seek this level of council tax increase has not been taken lightly, and demonstrates your commitment to taking the difficult decisions required to address the considerable challenges in Croydon.

This letter sets out the Department's current position on the requested capitalisation alongside that additional Council Tax flexibility. However, this letter does not constitute a capitalisation direction.

The consideration of your request has been based on financial information and modelling the Council has provided to date. The Improvement and Assurance Panel have provided assurance and assessment, as far as possible, that the requested capitalisation is reasonable and appropriate.

With respect to the period between 2019-20 to 2023-24, the Secretary of State is minded to approve capitalisation directions totalling £224.6 million. This total is broken down by each financial year as follows:

- 2019-20 - £126.0 million
- 2020-21 - £10.0 million
- 2021-22 - £14.4 million
- 2022-23 - £11.2 million
- 2023-24 - £63.0 million

This is in addition to the in-principle capitalisation agreement that was provided on 4 March 2022 of £25.0 million for the financial year 2022-23. At this time, the Secretary of State remains minded to approve that capitalisation direction. I am aware that there is still an unresolved issue with your auditors with regards the accounting treatment of transactions relating to Croydon Affordable Homes. I urge you to resolve this as soon as possible and write to me once resolved.

You will understand that there is much to consider before any of the above capitalisation directions can be approved. The Council will need to demonstrate that it continues to take the necessary steps towards its recovery and improvement, and I will need assurance of that fact from the Improvement and Assurance Panel. Any decisions pertaining to the approval of this in-principle agreement would, amongst other factors such as demonstration of adequate progress, be contingent upon the Council reporting to the Department the final amounts identified for which you need capitalisation for each year, with the agreement of the Council's external auditors and endorsed by the Panel. In addition, if the Secretary of State decides to approve any directions, he may choose to apply conditions. Any conditions will be confirmed at the time any capitalisation direction is approved. This is addressed fully in the attached annex.

I recognise that in your request for exceptional financial support you included further requests and dispensations from the Department. These requests are not addressed here and will require further consideration before the Secretary of State can provide an answer on those elements of support sought. My officials will continue to engage closely with your officers in the coming months to understand your position going into the 2023-24 financial year.

A meeting will be scheduled with the Department and your officers to discuss the position set out in this letter.

I should be grateful if the Council would confirm to me in writing by 10 March that you wish to proceed in accordance with the conditions outlined in this letter. I am copying this letter to the members of the Improvement and Assurance Panel. This letter will also be published on GOV.UK.

Yours ever,



LEE ROWLEY MP

Parliamentary Under Secretary of State

for Local Government and Building Safety

Annex — Process for approving capitalisation directions

Assurance

If the Secretary of State decides to give any directions, he would confirm in due course the final amount of capitalisation support and any conditions that would be applied. The Department's consideration will include evidence from the Improvement and Assurance Panel of the Council's progress against the actions it is required to take. This will include evidence of the Council's:

- Progress in delivering against the London Borough of Croydon renewal plan, including evidence of the transformation of operations and processes to ensure the Council can deliver its services within the bounds of the Medium Term Financial Strategy;
- Progress in rebuilding a base of service data and intelligence to inform evidence based decision making, day to day management, and the management of service performance thereafter;
- Progress in delivering against its asset disposal strategy; debt management and reduction plans; savings targets; and long-term financial stability in Croydon;
- Progress in restoring confidence in and accuracy of the Council's budget management and financial position, enabling robust financial planning, to deliver financial stability and sustainability to the Council.

Conditions

Such directions may be subject to conditions, which would be set out in any capitalisation directions should the Secretary of State decide to exercise his powers under sections 16(2)(b) and 20 of the Local Government Act 2003.

If the Secretary of State decides to give any directions, he is minded to attach the following conditions:

- The Authority may only capitalise expenditure when it is incurred;
- Where expenditure is capitalised, that the Authority shall charge annual Minimum Revenue Provision using the asset life method with a proxy 'asset life' of no more than 20 years, in accordance with relevant guidance;
- Where the Authority's capital financing requirement is increased as a result of the capitalisation of expenditure under this direction, any further borrowing from the date of the capitalisation letter up to and including, but not exceeding, the increase in the financing requirement must be obtained from the Public Works Loan Board and must be subject to an additional 1 percentage point premium on the interest rate above the rate the loan would otherwise be subject to. This requirement does not apply to borrowing in relation to your Housing Revenue Account. Where any borrowing to which these conditions initially apply is refinanced, the conditions must continue to apply to the resulting borrowing;

With this in mind, the Secretary of State also reserves the right to attach additional bespoke conditions to any directions issued in respect of the financial years above, depending on the Council's individual circumstances.

Confirming final amounts

Although the Secretary of State is minded to approve capitalisation directions for the period between 2019-20 to 2023-24, this would be contingent on the Council reporting to the Department the final amounts identified for which it requires capitalisation for each year, with the agreement of the Authority's external auditors and endorsed by the Improvement and Assurance Panel.