

Improvement and Assurance Panel

London Borough of Croydon

Rt. Hon. Michael Gove MP
Secretary of State
Department of Levelling Up, Housing and Communities (DLUHC)
2 Marsham Street
London SW1P 4DF

Ref: Report 5

Date: 28 March 2022

Dear Secretary of State,

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

That report came at a critical juncture for the Council. We reflected on the creditable progress that had been made over the course of the past year and upon the need for that to be further built upon in the Council's consideration of a balanced budget for the year ahead (albeit one that requires the continuing application of extraordinary financial support from the Government) and through the delivery of that budget in that financial year.

Transformational programmes of change in the operation of services, the recruitment of a stable permanent Management Team to lead those changes and the exercise of firm discipline in financial management were all fundamental requirements that the Council continued to address. We are pleased to record that progress continues to be made on these fronts, although areas of individual challenge remain, upon which we comment below.

We also reflected that maintaining this progress will be a severe test throughout the coming year as the Council seeks to move to a position of balancing its finances without the need for extraordinary financial support, while at the same time having to reduce and manage risk in some particularly precarious areas such as the operation of its housing service. The forthcoming election will be decisive in that clear political leadership will necessarily have to prioritise addressing these challenges in the context of any other political aspirations that result from the election of a Mayor for the first time, and of a new Council.

This report, coming as it does after the budget has been set for 2022/23 but before the beginning of the financial year, and before the election on 5 May, seeks to provide an update by exception on matters of note. We expect to make a more substantial report on progress in July, when the results of the election are known and the direction is clear, and after the initial reports on the financial years activity is available.

Improvement and Assurance Panel

London Borough of Croydon

Finances

In our last letter, we noted that the 2019/20 accounts were still not closed due to an outstanding accounting issue relating to Croydon Affordable Homes / Croydon Affordable Tenures (CAH/CAT), and we expressed the hope that this would be resolved by the time we submitted this letter.

Unfortunately, this did not prove possible due to work being necessary on the 2022/23 budget which was completed and signed off by Council earlier this month. As part of the S25 Statement from the S151 Officer which accompanied the budget, reference was made to CAH/CAT and a possibility that in a worst-case scenario, a further S114 may be needed if additional charges had to be made to the revenue account which could not met by reserves. It is down to the Council to set out its rationale for the current accounting treatment which the external auditors will then consider. As the budget is now agreed, it is hoped this work can be completed and agreed within the next 2 – 3 months.

There is a further issue relating to the 2019/20 accounts, which is the bank and cash reconciliation for that (and subsequent) years. The Council has commissioned CIPFA to assist with this process, and at the moment there is an unreconciled amount of circa £3m. Clearly given the passage of time, this may prove very difficult to resolve. The Panel will keep this issue under close scrutiny.

Once there is clarity on these two issues, it will be necessary to determine what changes if any are needed to the draft 2019/20 accounts, and what the impact is to the draft 2020/21 accounts and the opening balances for 2021/22.

In the current financial year, monthly financial reports have continued to be provided to the Cabinet along with details of the risks facing the council. When we last reported, the period 7 report had just been published indicating a forecast net underspend of £0.421m on the General Fund, (assuming some £50m of capitalisation direction from DLUHC). Since then, the period 10 report has been prepared, and the net position stated is an underspend of £1.570m.

Within this total, there are overspends on Housing and Sustainable Communities Regeneration and Economic Recovery (SCRER) of £1.983m and £10.265m respectively. These are concerning and have been increasing month by month since the start of the year. There is no doubt that some of these overspends relate to Covid pressures, and with the presence of the Covid grant, and underspends on other areas, they do not immediately threaten the current year position.

However, there are two particular issues we have advised the Council that it consider:

- These areas of overspend have been visible for months and the extent of them is significant and unlikely to be limited to 2021/22 only. It is imperative that

Improvement and Assurance Panel

London Borough of Croydon

the financial recovery plan that is currently in development is put in place either within the directorate, or across the authority in order to manage within its financial envelope. A continued overspend of the scale currently being experienced would result in significant pressure on Croydon's financial stability

- The difference in outturn between month 9 and month 10 alone is an increase of £2.3m for the SCRER directorate and comes towards the end of the financial year. A movement of this magnitude in one month does call into question the ability of the authority to accurately forecast. If there had not been underspends in other areas, the situation at authority level would have been very serious.

As the authority concludes the current financial year, it would be beneficial for it to conduct a review of its forecasting processes to consider the accuracy of them and whether any additional action is needed to ensure confidence can be placed on these figures.

Looking ahead to 2022/23, a 'balanced' budget was approved by the Council this month which assumed a capitalisation direction of £25m which DLUHC is minded to agree to. As previously mentioned, the delivery of the budget will be very challenging given the scale of the savings against the backdrop of a new management team (including a new and permanent S151 Officer), and the upcoming local and mayoral elections. In finalising the budget, the authority made additional provision for contract inflation, the 2022/23 pay award, and set aside some funds for earmarked reserves which should provide a small cushion for the challenges ahead, although given the broader economic environment, it will be essential that tight financial management continues to be exercised.

Brick by Brick Croydon Ltd (BBB)

Of the 23 sites BBB are developing, 21 (466 properties) are effectively complete. The two remaining sites (285 properties) are due for completion in 2022 and 2023, with 60 of these units launched for sale recently. Both developments are sufficiently advanced to remain largely unaffected by recent volatility in material prices and availability, however there are signs that the property market is starting to soften which may impact future revenues.

The disposal process has also commenced for 5 of the 6 sites where development was suspended when the decision was made to exit BBB activities. The remaining site is being considered to revert to the Council as part of a wider regeneration scheme.

Recent appointments to the Board of BBB have enhanced the level of property development expertise within the Company and future staffing requirements through to completion are currently under review. Consideration is also being given to the options for winding up the business in a controlled manner, providing appropriate security for homeowners and the best financial return for Croydon. We will update in our next report upon the likely financial outcome for Croydon in relation to the loans expected to be repaid from the outstanding balance.

Improvement and Assurance Panel

London Borough of Croydon

Fairfield Halls

On 26th January 2022 Croydon's external auditors issued a second report in the public interest after uncovering 'fundamental failings' in the refurbishment of the Halls. It concluded, 'The lack of formal consideration of the external legal advice, the lack of completed legal land transfer documentation and the lack of properly executed written legal agreements covering the provision of funding to Brick by Brick is in our view a very serious matter and demonstrates fundamental failings by the council'. The report was highly critical of the then Chief Executive, two successive section 151 officers and the monitoring officer, but all have since left the Council.

Housing

The newly formed Housing Improvement Board met for the first time in early December and one of its priorities was to review the Housing Improvement Plan (HIP) and report to the March Cabinet meeting on the suitability of the plan. Through a number of iterations with Croydon Officers and Members, the HIP has now been heavily amended, and will be kept under continuous review. The report was highly critical of the lack of progress made since the Regina Road incident, although it did recognise that 'acceptance of the need to change and intent to improve are important and welcome' and that was the view acknowledged by both Members and Officers. Despite this acceptance, housing related matters remain the single biggest concern for the Panel in Croydon.

A permanent appointment has recently been made to the Housing Director role and the appointee will be in post by May. Other Head of Service appointments have also been made and whilst there are still a number of vacancies, the team has been strengthened in a number of key areas. A further challenge the team have is to commence the procurement process for a new repairs' contractor. The existing supplier has given notice of their intention to terminate the contract with Croydon and maintaining and ideally improving the levels of service for repairs during that period will now be even more challenging. Implementation of a new asset management system to monitor stock is also planned to take place later in the year and this transition will also place a considerable burden on the management team if it is to be executed seamlessly.

A new Housing Revenue Account (HRA) 30-year Business Plan was approved at the March Cabinet meeting. This will be updated annually with recommendations as to any amendments as required. The HRA has also agreed to purchase 104 properties from BBB expected to complete in March and is considering purchasing a further 10 properties from BBB.

Car Parking

We referred earlier to overspends in the SCRER Directorate. Whilst the general observation about the need for improved forecasting applies across all directorates, the deterioration in the position in this department largely relates to the significant fall in car parking income resultant from the Covid-19 pandemic, and which is clearly not returning to pre-Covid levels as shifts in behaviour seem likely to affect the service in the longer term.

Improvement and Assurance Panel

London Borough of Croydon

The council is comprehensively reviewing its approach to car parking as a whole, and is in parallel considering some immediate alterations to parking operations, given the potential for continuing underperformance against budget. Our advice to the council is to allocate resources to expedite this work.

Conclusion

As stated earlier, this is an exception report, and consequently focuses upon matters of concern. It is only fair to observe that the fact that we are not referring to matters of governance nor to the operation of the major areas of children's and adults' services, nor indeed to some of the smaller service areas is an indication that we are largely satisfied with the progress being made in these. In summary, therefore, the Council continues to move forward, but the principal areas of stubborn difficulty or fragility such as we identify above remain and need to be addressed with some urgency. The Council approaches the coming year with determination and confidence, and it will need to hold to those qualities in tackling the challenges it faces.

The election is of course pivotal to the Council's planning for the next four years, and we look forward to engaging with the Mayor and the new Council after 5 May in respect of the continuing recovery of the Council within these plans.

Yours sincerely,

Tony McArdle
Margaret Lee
Phil Brookes
Jon Wilson