

**Private & Confidential**

Max Soule  
Deputy Director, Local Government  
Stewardship  
Department for Levelling Up, Housing  
and Communities  
2 Marsham Street  
London SW1P 4DF

Via email  
[Maxwell.Soule@levellingup.gov.uk](mailto:Maxwell.Soule@levellingup.gov.uk)

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Date: 30 March 2023

Dear Max

Thank you for your letter of 16<sup>th</sup> March 2023 offering the authority an opportunity to make representation to the Secretary of State in regard to his intention to move the current non-statutory intervention at Croydon Council onto a statutory footing.

Thank you for the recognition of the work the new political and corporate leadership have undertaken to increase the pace of improvement in recent months and of the hard work of many staff at the council on improvement.

It is also pleasing to see the recognition of the close and positive working relationship we have with the Improvement and Assurance Panel. They have been with us every step of the journey so far and have proven invaluable particularly in our dialogue with other parts of government.

It is on public record that Croydon Council's finances are unable to balance without permission from government to borrow £369 million pounds. And that the Council is having to pay £66 million pounds a year out of its ~£300 million revenue budget just to service its General Fund debt of £1.3 billion. This is unsustainable. Without this fundamental issue being resolved, the essential improvement work at Croydon Council will not make the progress it needs to.

We hope this new level of closer working with the Panel and with you as the Department, signals a shared intention to permanently resolve the underlying cause

of the council's inability to balance its budget and determine a solution to the revenue costs of our debt. We all want to see a financially sustainable Croydon Council as soon as possible.

It is appreciated that such a solution would be a significant initiative for the Department and one that recognises the highly unique nature of Croydon's indebtedness and the council's inability to meet its best value duty without this being permanently resolved.

We agree with the Written Ministerial Statement's emphasis that it is important the Council leads its recovery and welcome the fact that powers have not been removed from the council and that you are not suggesting introducing commissioners but instead formalising the existing Panel arrangements. This new proposed relationship would entail the current Improvement and Assurance Panel being backed by the power of direction. This would enable the Panel to require us to follow their instruction if they are not satisfied with the progress being made.

We are working closely with the Chair of the Improvement and Assurance Panel, Tony McArdle to develop our current positive model of working and adapt to these changes. As you will be aware, the Panel have developed an Advice Note process to issue guidance to the Council, six have been issued to date, the last one being in July 2021. We can, therefore, build upon that experience.

We also welcome the Department's subsequent request to jointly develop an exit strategy for the Panel which we feel will focus joint activity on the most pressing priorities that remain for the council.

There is a working assumption at present, shared by the Chair of the Panel and I that the three most pressing priorities are finance, housing, and the transformation of the council most notably in reducing its cost base. These priorities will be further discussed with the Executive Mayor, Cabinet and Scrutiny.

Work on the management arrangements and improvements to the council's governance have been a priority since the Croydon Renewal Plan was first drafted back in September 2020 and you have commented upon the positive progress made in this regard in the letters from the Department.

The Minister for Equalities and Levelling Up Communities noted in March 2022 that, *"the foundations for a sustainable future are being established, including improved budgetary control and strengthened financial assurance processes"* and that our *"cultural transformation framework is also a positive step"*.

Matters are moving at pace at Croydon and in this regard, we do feel that the annexe to your letter has in some places, not fully captured the improvements that have been made and have been publicly acknowledged as such by independent parties.

It also appears to underestimate the depth of the failings in the housing service which were revealed in March 2021. Whilst some important groundwork was put in place, the new and effective political and corporate leadership of the housing service has enabled us to move at significantly greater pace in recent months.

I would wish to draw to your attention the comments made by the independent Chair of the Housing Improvement Board Martin Wheatley on the Housing Transformation programme. Whilst he has been critical of progress in the 12 months following March 2021, his most recent letter commended “*real and tangible progress in creating the foundations for improvement, including a thorough and sound Transformation Programme; getting to grips with the fundamental decisions which need to be taken about the Regina Road estate; a completely different approach to tenants and residents, including the adoption of the Tenant Charter developed by tenants and residents themselves, and productive engagement with the residents on the future of the Regina Road estate; and strong planning and execution of the repairs service re-procurement.*”

Since the receipt of your letter, we have achieved another milestone with the Cabinet decision to ballot the residents at Regina Road on a full demolition and redevelopment of the estate. Initial consultation undertaken since December showed significant support for this approach from residents. Two residents of the estate spoke at the Cabinet meeting and their final comment summed up the tangible shift I feel is being made which is so essential to the Housing Improvement Plan. The comments I would highlight from the two residents who spoke are “I have given my trust back to the council” and “it’s all about people now .... finally!”

In the early part of 2022, I and other chief officers took part in a discussion with the Department as to the functioning of the panel and whether the resources supporting the council were sufficient. A request was made by the council for a further resource to be provided that would bring professional knowledge and recent experience of delivering a social housing service, as none currently exists on the panel.

Whilst this was supported by the Department, no changes have since been made despite this being raised during the year. The council fully recognises the amount of improvement required in its housing service and does not underestimate the level of challenge and the difficulty in turning this service around. We feel that this expert panel resource in social housing, would support us to move at the pace we, the panel and the Department would expect. It is positive that we are now all working on identifying this resource as soon as possible.

The annexe to your letter contains a series of bullet points to define what the proposed intervention package would cover. Our feedback on these points is as follows.

- ***To ensure that the strategic and systematic approach to risk management, with appropriate scrutiny and governance of the decision-making processes and procedures, continues and becomes embedded across the Authority.***

Whilst it is fully accepted that risk management is an essential part of effective management arrangements in an authority delivering its best value duty, considerable improvement over the last two and a half years has been made to the 2020 practice of risk management in the authority. It is not considered a failing part of the internal control system, your use of the word “continues” implies as much. The principle of continuous improvement which is at the heart of the best value duty

will be applied to our practice on risk management as with all other parts of our management arrangements. **So, we would respectfully suggest that this part of the intervention package does not warrant being identified as a priority in its own right.**

- ***To continue to address the culture of poor financial management of the Authority.***

This is a priority for the council. Significant improvements have been made from the baseline of Autumn 2020 and there are further improvement plans underway. The resolution of the council's finances and its financial management system are essential to the council's future financial sustainability. **We welcome this as an area of priority.**

- ***To continue to develop the governance capacity of the Authority in respect of its commercial portfolio.***

In the Autumn of 2020, when the improvement work began in earnest, the issue of the council's commercial liabilities was at its zenith. Understanding the impact of Brick by Brick's liabilities on the council, the need to divest of Croydon Park Hotel and managing the myriad numbers of dormant companies the council has, was the focus of considerable effort by the panel and the council. Significant improvement has been made and the governance of the council's commercial interests has been developed and is in place. In focusing the efforts of the panel and the council on the priorities, this does not seem proportionate to dedicate a specific part of the new intervention package to continue to develop this work. Again, the principle of continuous improvement as part of a best value authority will be applied. **So, we would respectfully suggest that this part of the intervention package does not warrant being identified as a priority in its own right.**

- ***To restore public trust and confidence in the Authority by ensuring that the Authority's activities, practices, and omissions are compatible with the Best Value Duty.***

This a priority for the council and to be directed at the three suggested areas of focus of housing, finance and transformation. This would be the focus of the joint work from the Panel and the council in delivering this. **We welcome this as an area of priority.**

- ***To secure as soon as practicable that all the Authority's functions are exercised in conformity with the Best Value Duty thereby delivering improvements in services and outcomes for the people of Croydon.***

This a priority for the council and to be directed at the three suggested areas of focus of housing, finance and transformation. This would be the focus of the joint work from the Panel and the council in delivering this. **We welcome this as an area of priority.**

I must acknowledge the Department's declaration that the council is failing its best value duty. A best value authority must make arrangements to secure continuous

improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

The Department's guidance on statutory intervention and inspection states that the best value duty is taken to mean that authorities must deliver a balanced budget, provide statutory services, and secure value for money in spending decisions.

It is clear from this guidance that the council has been failing its best value duty since the first s114 notice was issued in November 2020 as the council was unable to deliver a balanced budget without government permission to borrow £150 million.

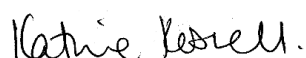
The Opening the Books programme in 2022 revealed the full depth of the financial failure of the council. Since the request for permission to borrow over £200 million pounds more to deal with historic legacy issues, balance the budget and treat the impact of the council's £1.3 billion general fund debt, it is now understood by the Department that the council is simply unable to balance its budget on its own, not even with supported borrowing.

As such we understand that the failure of the best value duty has now had to be formally declared and is accepted.

I would finally wish to assure you that the council will continue to work positively, as it has done to date with the Improvement and Assurance Panel. We welcome the support they offer and the new priorities we will now deliver through the exit strategy to improve Croydon Council and deliver our best value duty to the people of Croydon.

I remain very happy to discuss any matters in this letter if helpful.

Yours sincerely



Katherine Kerswell  
**Chief Executive**

This letter has been shared in draft with the Executive Mayor, the Leader of the Opposition, the other two political parties at Croydon Council and with the Authority's S151 Officer, corporate management team and the Monitoring Officer.