

Improvement and Assurance Panel

London Borough of Croydon

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

Ref: Report 7

27 October 2023

Dear Secretary of State,

We write to give you an update on the position in Croydon since our last report in November 2022.

In that letter, we reflected on the substantial financial challenges that were continuing to emerge as a result of work undertaken by the Council's auditors in respect of previous years' accounts, and from the 'Opening the Books' exercise that the then newly elected Executive Mayor had put in hand. It became evident from these newly uncovered difficulties that the Council was in considerably more financial distress than had been identified when the External Assurance Review (the 'Rapid Review') had been undertaken in November 2020, and the degree of exceptional financial support needed to address this distress greatly exceeded the amount (£150m) initially sought by the Council by way of Capitalisation Directions.

These additional difficulties included those arising from the external auditors' determination in respect of the Council's 2019/20 treatment of Croydon Affordable Homes / Croydon Affordable Tenures (CAH/CAT). The changes required to meet this determination included a £73m charge being added to the revenue budget of the Council and the introduction of operational improvements necessary to ensure appropriate separation between the entities for the future. As a consequence, CAH/CAT now take on more responsibility for managing their own day-to-day arrangements and maintaining the required level of financial and operational control that independent companies need to provide. Further legacy issues and other impairments that the Council had identified included a historic bad debt provision shortfall (£46m) and realignment of the Housing Revenue Account, General Fund and Capital Programme recharges (£40m). Whilst there is still a risk that further legacy issues may emerge during the completion of audits of previous years, this risk is diminishing.

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In order to meet these challenges, the Council was forced to seek further exceptional support by way of Capitalisation Directions, which in March 2023 were agreed in principle totalling an additional £161.6m to meet the accumulated budget and accounting failings and errors, plus £63m in order to provide for a balanced budget in 2023/24. The overall budget was indeed only balanced with further savings of £36m and with an exceptional 14.99% Council Tax increase.

In parallel with the decision to supply this support, you indicated that you were minded to step up the nature of the intervention at Croydon from that of a non-statutory advisory Panel to one whereby the Panel, in addition to giving advice, would have the power to intervene by way of issuing such instructions as may be necessary to secure adherence to the duty of Best Value. This was later affirmed, and the newly constituted Panel took up its role on 23 July 2023.

A key aspect of the Council's continuing financial challenge arises as a consequence of the Council having amassed £1.3bn in General Fund debt, some of it unsecured, while holding significantly less value than this in terms of assets available for disposal. The annual charges that are required to service this debt are placing substantial pressure on the Council's revenue requirements. The Council is undertaking a programme of asset disposal to reduce the cost of servicing its debt. With this aim in mind, it is important that the Council maximises the assets to be sold and ensures this is undertaken in a purposeful fashion. To achieve this the Council has recognised that it will need to take a more commercially proactive approach for future disposals.

The Council has calculated that it cannot sustain this level of debt and has requested that consideration be given to writing-off £540m of debt (or providing annual support of £38m in order to sustain it) and discussions have been taking place with your Department in respect of this request. These discussions are not yet concluded, and unless and until they are, the Council will have to have a plan based on its debt remaining on its books and on being required to service it.

With this long-term planning in mind, the Council has accepted the need to help itself towards achieving long-term stability to the greatest degree possible through continued application of spending prioritisation, efficiency savings and productivity enhancements, and of asset disposals, underpinned by an ambitious Transformation Strategy.

The Exit Strategy prepared by the Panel is aimed at bringing about the circumstances whereby you can consider that the intervention at the Council may come to an end, on the basis that the budget gap created by the debt servicing requirement is addressed. This Strategy is attached as Annex A to this report. It is in supporting and challenging the Council to meet the ambitions set out in the Exit Strategy that the Panel will be directing its future efforts.

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The Exit Strategy outcomes envisage a state of normality in the sense that the Council, while not being required to be perfect, proves itself nonetheless capable of meeting the reasonable expectations of a local authority and is not deficient in these in any significant respect. Most importantly, it should also be capable of making continuous improvements in its operations, and of sustaining that continuous improvement without externally imposed support.

In respect of such activity, we reflected in our last letter that the Council's progress towards normality thus far had been steady and sustainable if a little slow. We are pleased to report that the pace of improvement has picked up, spurred by: the emerging evidence of a greater level of difficulties than had been previously understood; the recognition that considerable further government financial support would be necessary; the acceptance that government oversight would necessarily be extended in duration and in scope; the determination of the Executive Mayor to grasp the issue and make it a priority for resolution; and, by the improvement in capability and quality of the Council's senior management cohort. We look forward to this pace being maintained in order to deliver the Exit Strategy in full.

We set out the progress made in respect of each of the elements of the Exit Strategy below.

Governance

The Council has continued to embed the sound governance arrangements that we identified had been emerging. The Executive Mayor has prioritised the critical requirement of returning to financial stability and this is reflected in his Business Plan, which has superseded the Croydon Renewal Plan. He has demonstrated resolution in taking difficult decisions in order to bring this about, and debates upon such matters are vigorously and constructively conducted in the appropriate Member forums.

These include the Audit Committee, which is independently chaired, and the Scrutiny and Overview Committee which is chaired by the opposition. Both of these arrangements are working much better than we have experienced hitherto, they are adding real value to the Council's considerations and their continued development will be beneficial to the further development and stability of the Council's governance arrangements. We intend that the Council should demonstrate close attention to the authority's risk register in formulating the forward plans for each of these fundamental elements of governance.

The process for setting the 2023/24 budget and Council Tax proved challenging, as might be expected in an authority with no overall majority in the Council Chamber, and with an extraordinary proposal under consideration to raise the latter by 14.99%. There was a need for repeated emphasis of the legal duty upon Councillors in this respect,

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such emphasis being made by us, the external auditors and relevant Council officers. A budget and Council Tax (increased by 14.99%) was eventually set.

Mechanisms that support good governance have continued to be developed or embedded as appropriate. Comprehensive and relevant Key Performance Indicators for delivery of the Mayor's Business Plan have been debated and introduced and these enable both effective monitoring and ensure accountability. An array of Internal Control Boards provide for the necessary management of performance and change.

Leadership and Culture

The Council's executive political leadership, delegated in large part to the Mayor, has set out clear ambitions in the Mayor's Business Plan and the means of measuring and being held to account for the delivery of them. It has been important that these include and indeed prioritise actions to address the serious weaknesses identified in the authority and which precipitated this intervention, and we are confident that they do so.

The Council's senior management arrangements have been further enhanced with a number of strong appointments. Most plans for improvement across main service areas are pragmatic and purposeful. Wider corporate changes will be enhanced by the recent appointment of a Director of Transformation and this role has to make itself critical to coordinating and giving leadership and common purpose to the range of improvement initiatives that have emerged within the authority in the past three years. The emergent 'Corporate Transformation Programme' will be fundamental to the Council's success and although underdeveloped to date is now being addressed. We intend to concentrate much of our effort to supporting this endeavour. In order to deliver what the Council needs for the future, leadership at all levels will need to be ambitious and clear on what this programme entails and in delivering the outcomes of this range of activity.

A People and Cultural Transformation Strategy has been adopted that has been cocreated with staff to improve the Council's operating culture and address workforce priorities, and we will continue to work with the Council to ensure that every opportunity is taken to maintain the Council's staff engagement with and confidence in the Council's continuing improvement.

Financial sustainability and Financial Governance

Since our last letter, and due to issues uncovered in the Opening the Books review, the Council's external auditor issued Statutory Recommendations on 20 March 2023 covering the section 114 report and improving the governance at the Council. The

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Council has responded to these recommendations and progress against them is monitored by Internal Control Boards and reported upon in the Annual Governance Statement.

Having accepted the views of the external auditor on Croydon Affordable Homes/Croydon Affordable Tenures and amending the Accounts accordingly, it is pleasing to note that the 2019/20 audit is underway and we hope to report on the outcome of this audit in our next letter. The 2022/23 provisional outturn and 2023/24 forecast are expected to be in line with budget, utilising government support and allocated contingencies.

The Council has published its draft 2024/25 Budget and 2024/25 Medium Term Financial Strategy (MTFS) which is due to be submitted for approval by Full Council in February 2024. The draft Budget and MTFS have been prepared a month earlier than last year which will give more time for effective scrutiny and public consultation.

In addition to the demographic and inflationary pressures facing the sector, and the disproportionate pressures in Croydon relating to the asylum resettlement programme, and as set out above, Croydon must also meet the particular challenge of sustaining its General Fund debt of £1.3bn. The net cost of borrowing is currently modelled to be £62.5m (after taking account of asset sales) in 2024/25. Currently the Council is assuming the need for an annual capitalisation direction of £38m in each of the next four years of the MTFS, this being equivalent to the alternative of a debt reduction of £540m.

The Panel's view is that a shortfall in the region of £38m is a realistic calculation for the coming year (2024/25). Future year projections are dependent on the consideration of a range of variables, including the delivery of ambition and cost reductions through transformation, demand management, service reductions and rationalisation, improvements in procurement and fluctuations in interest rates. Since these cannot be quantified at this point with any degree of certainty, it is not possible to determine the level of support that may be necessary for years beyond 2024/25. Accordingly, and since Capitalisation Directives/debt write off cannot be automatically assumed to be available to the Council to the extent projected in their draft 2024/25 MTFS, the Council will have to give close attention to what this means for its strategy for budget setting. Alternative solutions to those so far requested by the Council may be required. We have encouraged the Council to consider what these solutions might be and will continue to do so.

As part of the process to enable the Council to set balanced budgets in the medium term it is essential that its developing Corporate Transformation Programme has the twin aims of delivering savings year-on-year and driving out inefficient processes and overheads. The Council has committed to helping itself towards achieving long-term stability to the greatest degree possible, and in pursuit of that ambition, we believe it can deliver more in this regard than it has to date, and we are working with the Council to realise this. We will continue to press the Council to revisit its considerations as to

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which services and activities are not essential in the future and where it must plan to reduce, or cease spend in those areas.

The Council continues to build on improvements in financial management since our last letter. However, the Council recognises there is a considerable amount yet to do and they have agreed, as part of developing the Exit Strategy, to put in place a separate Financial Improvement Plan which will allow the Panel to better monitor progress.

The Council has continued to make good progress in concluding the activities of Brick by Brick (BBB) and is planning to conclude matters by the end of the current financial year. All construction activities are now complete, and negotiations are ongoing for the sale of the final major development at Red Clover Gardens, a deal which includes the sale and leaseback of 85 affordable units in which the Council will hold full nomination rights. Assuming this sale completes, that will leave seven unsold units together with a small number of commercial and land sites still to dispose of.

The outstanding loan balance from BBB at the end of March 2023 was £103.9m, the Council having received further loan and interest payments repayments of £47.3m during the year. It is anticipated that loan and interest repayments of £50m will be achieved this year, resulting in a total debt write-off of £58-60m. It should be noted however, that the Council received circa £27.5m in interest payments over and above the actual cost of the borrowing that was used to fund the working capital of BBB activities over the duration of the developments, resulting in a net loss of circa £30m. Whilst the Council can ill afford any losses associated with its commercial activities, had the proposed sale of BBB to a third party gone ahead in 2021, as opposed to completing the developments that were under construction, then the loss to the Council would have been significantly greater. The debt write off would have been in excess of £90m, which together with the loss of interest income, delayed receipt of cash and associated Minimum Revenue Provision charges would have resulted in an outcome more than £50m worse than has been achieved.

Progress has also been made with the disposal of some of the other commercial property investments held by the Council with £73m generated to date and a further £50m plus anticipated by the end of 2023/24. Work is currently ongoing to establish the level of disposals possible in 2024/25 and beyond and needs to be linked to a thorough review of all operational assets and how more effective utilisation of these assets could be achieved. Releasing all non-essential assets for disposal is critical if the Council is to minimise the need for ongoing exceptional Government support.

Service Performance

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Housing

Since our last report, the housing directorate has been working to good effect to address the appalling living conditions of residents living on the Regina Road estate, as well as addressing the issues identified by the Regulator of Social Housing (RSH) for breaching the Tenant Involvement and Empowerment Standard, and the Home Standard.

In response to the breach, the Council submitted a Voluntary Undertaking (VU) to the RSH setting out in detail how it will return to compliance by September 2024, and this has been approved by the RSH. We are confident that the Council is working closely with the RSH, and it is important that this continues, and that the Council begins to show a positive trajectory against the actions set out in the VU.

Residents at Regina Road are being rehoused, and following an extensive engagement, consultation and ballot, Cabinet approval was given in July 2023 to demolish and rebuild the estate

The Council has embarked on a comprehensive Housing Transformation Programme which addresses issues wider than those outlined in the ARK review and broader than the breaches of the consumer standards. The Panel is pleased to see that progress has been made in several areas including: Housing Revenue Account recharges reviewed and ring-fenced funding protected; new contractors selected to deliver repairs, voids, and heating services; a new in-house contact centre; creation of a dedicated damp and mould team; and a new co-created Resident Charter. The Council has also restructured their Housing Needs team, made two Director appointments and put in place a new integrated IT system.

The Transformation Programme is overseen by the Housing Improvement Board (HIB), an internal transformation steering group, with quarterly updates to Cabinet, and through regular engagement with this Panel. The Panel notes the important role played by the HIB who recognise the progress made and depth of experience and skill that now exists within the housing directorate.

Notwithstanding this progress, there is much to be done and the Council is clear that it cannot underestimate the scale of the challenge in the housing directorate. This includes providing for new legislation which places requirement on landlords to improve living conditions for tenants and meet fire safety standards on all buildings, bedding down the new Housing Needs structure and IT system, mobilising the Regina Road project and implementing their new performance framework.

It is fully accepted that there has been significant under-investment in the Council's housing stock over a period of many years. A substantial number of homes are poorly insulated and do not meet the required standards. The Council owns 46 high-rise residential buildings, many of which may require improvements and repairs. Coupled

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with the works needed to address damp and mould it is likely that there will be significant financial pressures on day-to-day and planned maintenance expenditure. The Council continues to work on better understanding its assets and the costs involved in making its stock safe and compliant.

Additional priority actions for the Council include:

- Finalising the Housing Strategy so that the long-term strategic priorities of the directorate are understood and agreed.
- Strengthening the quality and accuracy of its housing data.
- Robustly contract managing the newly appointed repairs, heating, and voids contractors to ensure that performance levels remain high.
- Drawing on the TPAS-led review and put in place an improved structure for tenant and resident involvement.

Adult Social Care

The Adult Social Care and Health Directorate has maintained the necessary progress in implementation of its 'managing demand' programme over the last 12 months. This has enabled the delivery of a balanced budget within 2022/23, indeed bringing the financial year to an end with a small underspend.

Notwithstanding the progress made there is further work to do to bring the Council in line with London and national averages in terms of the numbers of people served and the overall costs of care, and we continue to prioritise this in our engagement with the authority.

Plans to procure a strategic change partner for Adult Social Care are underway, albeit there has been a delay to procurement activity which will have the effect of delaying the diagnostic activity necessary to inform the level of future productivity and efficiency savings that may be achieved, as well as the delivery of those savings within 2024/25. We address the issue of procurement delays further in the section below.

Over the last year, much progress has been made in market shaping, engaging the provider care market and in understanding the costs of care locally, albeit there is a significant short-term risk evident in respect of a large care contract which expires in the next six months.

Much has been achieved in respect to understanding and assuring the quality-of-care services, with an improvement plan being overseen by the independently chaired Adult Social Care and Health Improvement Board.

Sustainable Communities, Regeneration and Economic Recovery (SCRER)

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The recent benchmarking exercise undertaken by the Council across all service lines, including SCRER activities, indicates that slow but steady progress has been made across the wide range of services within scope. Data from 2022-23 suggests that most SCRER services in Croydon sit firmly within the lower quartile for cost relative to its London neighbours, but there are indications that prolonged under-investment is impacting the backlog that exists in highways maintenance and in the quality of grounds maintenance.

Consultation on a new parking policy has recently been completed with a view to this being implemented by the end of the financial year and the roll out of Automatic Number Plate Recognition cameras has commenced. Income from parking was one of the areas that proved to be unduly optimistic last year, but this was realigned in the current year budget. Other notable progress includes the positive coverage of many of the events during the first six months of London Borough of Culture 2023, increased focus on community safety and preparation for the reprocurement of the waste, recycling, and street cleansing contract in 2025/26.

Childrens Services

The Children, Young People and Education Directorate continues to work on a transformation programme which has four aims: improve practice, manage demand, increase effectiveness, and improve efficiency. In the last inspection, which was undertaken in 2020, children's social care was judged good by Ofsted, and the Council is likely to be re-inspected in 2024. This will be important in judging practice quality and effectiveness in managing risk.

Demand recently in respect of referrals, open cases, assessments, and children on child protection plans has been rising. However, the rate of children in care has steadily reduced since 2017 and is currently stable. There is a savings target against placements for this year which is proving difficult to deliver due to a small number of very high-cost placements of over £10,000 per week.

Croydon has only recently been able to reduce the number of Unaccompanied Asylum-Seeking Children coming into its care to similar levels to other local authorities. There is a high legacy population of care leavers which are a significant budget pressure. The Council have a Safety Valve agreement in place with the Department for Education to reduce the Dedicated Schools Grant special education needs deficit by 2026/27. To date they are successfully delivering the agreed programme of savings and efficiencies, and we will continue to closely monitor this programme.

Undertaking the range of children's social care improvements needed to maintain quality in this critical area is a challenge for all councils in the face of demand and wider societal pressures, some exacerbated by the COVID-19 pandemic. For

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Croydon, doing so in conjunction with and as part of the need for the Council's wider reforms presents an additional challenge. The Council has wisely sought external expert validation of its improvement plans in respect of its Children's Services, and we have worked closely with their chosen advisor to support and challenge the Council in respect of its preparations for upcoming inspections, and the delivery, transformation, and financing of children's services. We (and the Council) see further value in consolidating and formalising these arrangements, and the associated accountability for them, by seeking the appointment of this external advisor, Eleanor Brazil, to the Panel. Ms Brazil is well-known to the Department for Education and is regularly employed by the Department in similar roles elsewhere. An exploratory conversation with the Department's Regional Director in this regard has indicated that she would be supportive of such formalisation.

Capacity and Capability

We have referred above to the positive effect of the political and managerial attention and direction being given to the Council's improvement journey. We have also reflected on the enhanced quality of senior and middle management in a number of areas. The investment in a range of transformation initiatives and the recent appointment of a Director of Transformation to coordinate and drive this activity gives us some confidence. The openness to external review and validation of service plans is encouraging. Much, however, needs to be done to effectively introduce and then sustain these considerable changes, and working with the Council to ensure this will be a continuing priority for the Panel's attention. We had considered seeking an additional Panel member specialising in transformation, but it has become evident that we have sufficient experience and understanding amongst the existing panel members of what is required to undertake transformation activity corporately and in specific service areas and believe that such additional support is not necessary.

One area where significant improvement is required relates to the Council's procurement activities. A 'deep dive' was carried out recently and this highlighted significant failings in the effectiveness of the Council's monitoring of its contract pipeline and of ensuring that expiring contracts were re-procured in a timely and controlled manner. There were numerous examples of contracts that had expired but were still being utilised, contracts due to expire with insufficient time available to reprocure effectively and in accordance with the regulations and questions around data quality that all need to be addressed. These failings could leave the Council exposed commercially as some suppliers may look to exploit the situation where short-term extensions are needed to maintain the provision of critical services.

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To rectify the position, initiatives are underway to bolster the regular review of the Contracts Register and ensure that appropriate reporting is available to allow progress to be monitored. The Council is also reviewing its overall procurement strategy and looking to move to a more strategic approach, with the Procurement function focussed more on high-value contracts, and in offering strategic support for pre- and postprocurement activities. Greater autonomy will consequently be assigned to the service lines for lower-value purchases, and this will require a degree of training and the establishment of appropriate frameworks or call-off arrangements.

The Council has accepted the need to develop a procurement improvement plan and a suite of performance metrics and targets to allow the improvement journey to be tracked and benchmarked against the sector.

The Panel believes that the Council has the capacity and capability in place to deliver the Exit Strategy, and that success in doing so will in large part demonstrate the required ability to sustain self-improvement thereafter.

Conclusion

The Council continues to improve, and the pace of this improvement has moved up a gear. Our recently completed Exit Strategy sets out the realisable ambitions that the Council must achieve by the projected date of our departure in July 2025. Some of these will be particularly challenging, and other such challenges will doubtless appear along the way which will have to be dealt with. The Panel aims to assist the Council in meeting all such challenges to the best degree possible.

There are risks. The Council must set and achieve its budgets in difficult circumstances. It must come through inspections anticipated from Ofsted and Care Quality Commission creditably. The Housing Service in particular will take time to work through its backlog of investment needs. The Council must refine and deliver its Transformation Plans energetically and in full.

If the Council achieves all of those things, to this scale and at an increasing pace so as to establish a trajectory for improvement that can confidently be assessed as being likely to be maintained, then it is the expectation of the Panel that in all respects bar one (its extraordinary level of debt, and the consequential pressure of that on its revenue budget) the Council will be recognisable as operating in a similar manner and to a comparable standard as other local authorities.

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Understanding and exploring options for the treatment of the level of accumulated debt is a matter upon which your officials have been in regular contact with the Council and with us over recent months. These discussions continue and depending upon their outcome, we will be ready to assist the Council in reviewing its forward plans accordingly.

Yours sincerely,

Tony McArdle, Chair
Brian Roberts
Phil Brookes
Jon Wilson
Pamela Leonce