



Department for Levelling Up,
Housing & Communities

Mr Stephen Halsey
Chief Executive
London Borough of Tower Hamlets

Max Soule
*Deputy Director, Local Government
Stewardship*

**Department for Levelling Up,
Housing and Communities**
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By email

22 February 2024

Dear Mr Halsey,

As you will see from the attached letter, the Secretary of State has, in exercise of his powers under section 10 of the Local Government Act 1999 (as amended by the Local Audit and Accountability Act 2014) (“the 1999 Act”), appointed Kim Bromley-Derry CBE DL as the person to carry out an inspection of the compliance of the Authority known as the London Borough of Tower Hamlets (“the Authority”) with the requirements of Part 1 of the 1999 Act, together with Suki Binjal, Sir John Jenkins and Philip Simpkins as assistant inspectors.

The inspection is specifically in relation to the specified functions where we have concerns, namely part 1 of the Local Government and Housing Act 1989, section 151 of the 1972 Act and the strength of associated audit and scrutiny arrangements, with particular attention to potential changes to constitutional arrangements, budgetary proposals and medium term financial planning, the appointment of senior management posts, the use of policy advisers, the expansion of the Mayoral office, the policy and practice of grant making, functions that relate to the appointment and removal of an Electoral Registration Officer and Returning Officer, the funding of electoral registration and local elections work, the use of resources for elections and the maintenance of the independence of the Returning Officer, and the arrangements to bring services such as Tower Hamlets Homes and leisure services in house. Given our concerns relate to broad decision-making, and whether the standards expected for effective and convenient local government are being upheld, the inspection will consider decision-making in relation to those functions, encompassing leadership, governance, organisational culture, use of resources and impact on service delivery.

The Department is concerned with your Authority’s ability to comply with its Best Value Duty under Part 1 of the 1999 Act and would like direct, independent assurance that the Authority is continuing to 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. In making this appointment and commencing an inspection, the Secretary of State has had regard to, and considered, the events and issues outlined below:

- The then Secretary of State having to exercise his powers of direction under section 15 of the 1999 Act to intervene in the Authority (“December 2014 Directions”). This followed a report of the Best Value Inspection of the London Borough of Tower Hamlets by PricewaterhouseCoopers LLP, dated 16 October 2014 and published on 4 November 2014, which identified serious failings in the governance of the Authority and concluded that the Authority was failing to comply with its Best Value Duty in respect of the exercise of several of its functions:
 - Specifically, the inspection report concluded how there was “a lack of transparency generally over the rationale for decisions to award grants”; the Corporate Grants Programme Board did not operate as an effective governance mechanism over grant awards, “setting aside the very methodologies it was intended to safeguard”; “grants were awarded to organisations ruled ineligible or did not meet the required evaluation score”, “there was no independent review of grant making processes”, “that gaps existed in the monitoring of performance” and “members suggestions were different to the officer recommendation” in “81% of the total applications” reviewed by inspectors;
 - The report also concluded how, in the absence of a Chief Executive, “for most purposes the Head of Paid Service, other statutory officers (being the Section 151 Officer and the Monitoring Officer), as well as other Corporate Directors are all directly accountable to the Mayor”.
 - The report noted how all statutory officer positions at the time were held on an interim basis and concluded that “existing governance arrangements have weaknesses which have resulted in these failures not being prevented”;
 - The report noted that the existing governance arrangements had weaknesses which have resulted in failures being prevalent leading to the Authority being in breach of its Best Value Duty; and
 - The report noted concerns made by the Overview and Scrutiny Committee of the Authority (‘the O&S Committee’) had not prevented decisions found to breach the Authority’s Best Value Duty.

- The Election Court Judgment of 23 April 2015 in which Commissioner Richard Mawrey QC found proven beyond reasonable doubt that Messrs Lutfur Rahman and Alibor Choudhary were guilty of corrupt and illegal practices, and which led to Messrs Rahman and Choudhary being banned from standing for elected office for five years (and which findings Mr Rahman twice attempted unsuccessfully to reverse through judicial review).¹ Specifically, the Judgment concluded that:
 - The administration of grants was firmly in the personal hands of Mr Rahman, assisted by Councillor Choudhury.
 - In administering the grants policy, Mr Rahman acted in total disregard of the Authority’s officers, its members and, almost certainly, the law.
 - Grants were increased, substantially and unjustifiably, from the amounts recommended by officers who had properly carried out the Authority’s investigation and assessment procedure.
 - Large grants were made to organisations who were totally ineligible or who failed to meet the threshold for eligibility.
 - Grants were made to organisations that had not applied for them.

- The conduct of Mr Rahman and Mr Choudhury in making grants amounted to the corrupt practice of bribery under section 113 of the 1983 Act.
 - The Commissioner considered allegations of the abuse of decent homes funding, noting evidence that the refurbishment of homes under Mayor's Decent Homes programme had been concentrated in three wards that had elected his supporters as Councillors, Shadwell, St Dunstan's and Stepney Green, and Whitechapel.
- The improvements that commenced with the support of the Commissioners appointed under the December 2014 Directions against a Best Value Improvement Plan in relation to Procurement, Grants, Property and Disposal, Communications, Organisational Culture, Recruitment, and Elections.
 - The improvements continuing through to 31 March 2017 when the Commissioners supporting the intervention were withdrawn and functions handed back to the Authority, subject to the Authority continuing to achieve against its best value plans and reporting regularly to the Secretary of State to provide verification of on-going compliance with the Best Value Duty (the April 2017 Directions).
 - The Corporate Peer Challenge report by the Local Government Association in June 2018 as part of an independent review of achievement against the Authority's Best Value Improvement Plan 2017 to 2018, which concluded that the Authority "is on a positive trajectory and now needs to grasp this opportunity and drive the pace of change to achieve the potential of the place. To do this it needs to be forward looking and learn the lessons of the past but not be fettered by them", and subsequent decision by the Secretary of State to withdraw the April 2017 Directions on 30 September 2018.
 - The re-election in May 2022, of Mayor Rahman who was mayor during the time of the 2014 Best Value Inspection that led to the requirement for the December 2014 Directions.
 - The appointment in June 2022 of Mr Alibor Choudhury as Deputy Head of the Mayor's Office; and the intention to recruit eight policy advisors (not directly employed by the Authority) to an expanded Mayoral office (overall increase in staff is 27, at a cost of £1.4m), creating the risk of a 'dual council' side-lining officers of the Authority in decision making which in turn risks replicating the circumstances in which decisions were made up to 2014 that were corrupt and/or failed in the Authority's Best Value Duty.
 - The Authority's review of the grant making regime and decision to bring back all grants management to the Authority set out in the "New Growth Business Cases" plan for Developing a Vibrant Voluntary and Community Sector (VCS), alongside the arrangements for the Community Grants programme as set out in Cabinet Papers of 29 March 2023, indicating that decisions will be delegated to the Chief Executive, which have subsequently been approved and implemented, given that the Commissioners were only discharged once

improvements to this regime were embedded; and because grant making was a function of previous best value failure in 2014 and of the Election Court Judgment in 2015. Noting that on 8 November 2023 the Authority's Grants Determination Sub Committee agreed to delegate decision-making Authority to the Corporate Director of Resources on grant awards in consultation with the Mayor.

- The decision to bring Tower Hamlets Homes and leisure services in house (which was realised in relation to Tower Hamlets Homes on 1 November 2023), notwithstanding that the business case to the budget proposals indicated that officers have advised against bringing leisure services in house on the grounds it would not be the most efficacious solution for the Authority; and whilst noting the support of tenants and leaseholders in response to the Authority's consultation in the 22 February 2023 decision on Tower Hamlets Homes, and the evidence of allegations of the abuse of decent homes funding, alongside the Full Council agreement of the budget on 1 March 2023, which reported on financial challenges that: "*The scale of the challenge is also compounded by some significant insourcing of services which may bring additional revenue and capital investment*: is evidence that the Authority may be failing in its Best Value Duty.
- That the Mayor has only attended one Overview and Scrutiny Committee meeting (on 22 May 2023) since the first two, missing meetings in 2022 on 28 July, 26 September, 24 October, 28 November and 12 December; in 2023 on 9 and 23 January, 20 February, 27 March, 16 May, 19 June, 24 July, 18 September, 9 and 23 October, 27 November, and 11 and 20 December; and in 2024 on 8 and 29 January, and on 5 February, given evidence in the 2014 Inspection Report that the Overview and Scrutiny Committee had not prevented decisions found to breach the Authority's Best Value Duty in 2014.
- The significant level of churn across a number of senior management posts at the Authority, which has resulted in a number of vacant or interim roles. Noting that the Authority is in the process of recruiting three Corporate Directors (for Children's Services, Communities, and Housing and Regeneration) and four Directors (Commissioning and Youth, Culture, Planning and Building Control, and Public Realm). In addition, the announcement on 1 February 2023 that the Chief Executive Officer and Head of Paid Service, who was appointed by the Commissioners in 2015, was leaving, and his permanent replacement on 19 July by Stephen Halsey, former Head of Paid Service during the period of previous best value failure.
- The findings of a Corporate Peer Challenge by the Local Government Association in September 2023, which found clear evidence that the Mayor's Office model is "leading to unnecessary delays" in decision making and is making experienced officers "feel disempowered", which is "detrimental to the delivery of the Authority's wider business".
- The decision on 31 January 2024 by the Authority's Cabinet to agree a draft medium term financial strategy (MTFS), which shows a reduction in the use of

reserves by £19.1m and means that the MTFs is no longer reliant across its life on use of reserves to fund recurring costs. Whilst the budget is balanced for 2024-25, this still relies on previously agreed use of reserves, and the positive impact resulting from a proposed change to the Council's Minimum Revenue Provision (MRP) policy, specifically, "the previous [MRP] approach within the HRA is to be discontinued to create additional revenue resources." The Council is also proposing to balance the 2024/25 budget with £30.8m of savings, which is a significant level. The scale of the challenge may also be compounded by some significant insourcing of services which may require additional revenue and capital investment.

- The action that may need to be taken by the Authority, to deliver their ongoing business including manifesto commitments, could include grant making, procurement and property transfers, which were the core functions considered by the Best Value Inspection that triggered the previous intervention in 2014.

The Secretary of State has given certain directions to Kim Bromley-Derry CBE DL in relation to his undertaking of the inspection.

First, in undertaking the inspection in relation to the specified functions where we have concerns, namely part 1 of the Local Government and Housing Act 1989, section 151 of the 1972 Act and the strength of associated audit and scrutiny arrangements, with particular attention to potential changes to constitutional arrangements, budgetary proposals and medium term financial planning, the appointment of senior management posts, the use of policy advisers, the expansion of the Mayoral office, the policy and practice of grant making, functions that relate to the appointment and removal of an Electoral Registration Officer and Returning Officer, the funding of electoral registration and local elections work, the use of resources for elections and the maintenance of the independence of the Returning Officer, and the arrangements to bring services in house, such as Tower Hamlets Homes and leisure services. Given our concerns relate to broad decision-making, and whether the standards expected for effective and convenient local government are being upheld, the inspection will consider decision-making in relation to those functions, encompassing leadership, governance, organisational culture, use of resources and impact on service delivery. Without prejudice to the scope of this inspection, he is directed to consider, in the exercise of those specified functions, whether the Authority is continuing to make arrangements to secure continuous improvement in the way in which its functions are exercised.

Second, he is directed to report the findings of the inspection to the Secretary of State by 31 May 2024, or such later date as he may agree with the Secretary of State. The Secretary of State may, following receipt of the inspection report or otherwise, issue further directions to him.

Section 11 of the 1999 Act provides that an inspector has a right of access at all reasonable times to any premises of the Authority and to any document, including electronic documents, relating to the Authority which appear to the inspector to be necessary for the purposes of inspection. Statute also provides that the Authority shall provide the inspector with every facility and all information which the inspector may reasonably require for the purposes of inspection. In this context, you should ensure

that, from the date of this letter, no documentation or records, whether electronic or paper, should be destroyed.

Section 12 of the 1999 Act provides that the Authority to be inspected must pay the Inspectors' reasonable fees for carrying out the inspection. The Secretary of State has set those fees as £1,200 per day for the Lead Inspector and £1,100 for Assistant Inspectors. He has also determined that the Authority must pay any reasonable expenses of the Inspectors, in line with the policy of the Authority.

I hope that you will ensure full co-operation with the inspection.

I am copying this letter to the Authority's Section 151 Officer and Monitoring Officer.

Yours sincerely,

Maxwell Soule
Deputy Director, Local Government Stewardship