

# Improvement and Assurance Panel

London Borough of Croydon

Rt Hon Angela Rayner MP  
Secretary of State  
Ministry of Housing, Communities & Local Government  
2 Marsham Street  
London SW1P 4DF

Ref: Update Note

15 November 2024

Dear Secretary of State,

Much has occurred - not least the General Election - since our last report (No. 8) in April 2024, upon progress with the statutory intervention at Croydon.

This letter is intended as an update on matters of relevant fact and material importance since that time, and which we intend should bring you up to date in order that you are in a position to make a response to that report.

As the intervention at Croydon is scheduled to conclude in July 2025, we intend that our next report, due by the end of April 2025, should represent a comprehensive review of the progress made by the Authority throughout the intervention and serve to provide you with our perspective at that point on the status of the intervention against its stated objectives.

## **Progress made by the Council against the Exit Strategy**

The majority of actions set out in the Exit Strategy have been met to time and to the necessary quality. An exception is the objective for financial sustainability, which is at risk. You will be fully aware of the current challenging external environment facing the sector. The substantial overspend projected in the current year (details below) reflects this, with a limited number of unit cost reductions being evidenced. The Council is likely to require a greater level of exceptional financial support in 2025/26 than in the current year. The ability of the Council to meet its asset disposal target this year is also at risk.

## **Financial Governance and Sustainability**

The 2023/24 Provisional Outturn Report confirmed an overall breakeven position for the General Fund having utilised £63m in capital directions. Children's and Housing services overspent in the year, but these overspends were offset by underspends in other services and with the risk contingency not being required. In terms of the Housing Revenue Account the provisional outturn is a revenue overspend of £9.9m owing to the resolution of a backlog of historic legacy repair works, in reducing voids and in addressing other issues including damp and mould, and fire safety.

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In respect of the current year the Council's financial performance as at the end of July (month 4) was reported to Cabinet in October. The General Fund Revenue forecast outturn at financial year-end is an overall overspend of £33.6m (9.3%), following the budgeted utilisation of the £38m capitalisation directions provided by the Government. At this stage of the year the Council is also proposing to utilise £13m of corporate earmarked reserves, reducing the overspend to £20.6m. Over the summer the Council prepared a Financial Recovery Plan with a range of initiatives designed to reduce expenditure over the remainder of the year to reduce the level of overspend by the year end. The key areas of overspend are in the rising costs in children's placements (£10.4m), placements for homeless families (£15.1m) and home to school transport for children with special educational needs and disabilities (£6.1m). In addition, there is a forecast underachievement of £6.0m (24.9%) in planned savings.

The Council's Cabinet has approved its draft 2025-29 Medium Term Financial Strategy (MTFS) for public consultation. A final MTFS will be considered by Full Council in February 2025. The current MTFS (approved in February 2024) projected a budget gap of £40m for 2025/26 (assumed capital direction of £38m plus £2m deficit). In the draft MTFS, the gap has increased to £83m (assumed capital direction of £38m plus £45m deficit).

The increase in the budget gap for 2025/26 is a consequence of the Council's financial position having significantly deteriorated during 2024, in large part because of spending pressures in the areas highlighted above that had not been identified at the time of budget setting. In addition to the Transformation Plan the Council is reviewing areas of non or low priority and higher spend and considering the capacity to increase income including Council Tax. The cumulative deficit is projected to grow in the following three years of the draft MTFS.

Given the significant forecast overspend in the current year, the estimated budget gaps for 2025/26 onwards and the possible use of earmarked reserves in the current year, the Council remains financially unsustainable without significant government support.

In terms of financial governance, the Council prepared a Financial Improvement Plan supported by a detailed delivery plan which was approved by the Panel in May. This builds on the improvements in financial management that have been made in the last twelve months. The Plan recognises that there remains a considerable amount yet to do, including making improvements to its core financial (Oracle) system.

The Council has continued its steady progress on its asset disposal programme and in winding up its housebuilding subsidiary (Brick by Brick), generating in excess of £157m of capital receipts and loan repayments by the end of 2023/24. An additional

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£115m of receipts and loan repayments were forecast in the current year, but due to the increased volume of smaller asset disposals and delays by purchasers in completing transactions the Council is likely to fall short of its forecast. Work is ongoing to identify opportunities to further rationalise its asset portfolio including exploring the potential to better utilise the Town Hall complex, together with options for the main Council office (Bernard Weatherill House) and decisions are anticipated on both elements. This will be informed by the output of the Target Operating Model strategic review currently being undertaken by external consultants.

## **Transformation activity**

The Council has declared an ambition to be the most cost-effective local authority in London. The achievement of this aim is reliant upon its ability to operate on a day-by-day basis through activities and services that are significantly more streamlined and modernised in operation from those currently in place. The Council's transformation holds out the promise of this, and the past few months have seen the engagement of significant external advice and support.

This external support, drawing as it does on experience accumulated in other councils is concluding in the production of a set of programmes which anticipate significant cost savings and operating efficiencies through the adoption of revised structures and operating methods, and the deployment of innovative technologies. The engagement of staff in the development of these programmes has been made a feature of this work since it will be in the implementation by these staff that the prospects of success lie. Some external support will be retained in order to assist with this.

The roll-out of these programmes will be major programmes of work for the Council in the medium term.

## **Service areas**

### Adult Social Care and Health

The Adult Social Care and Health Directorate has continued to make progress in managing the demand upon its services, however with the costs of care continuing to rise, this is causing a pressure on in-year budget management.

The Council has commissioned an external strategic partner to support the transformation of adult social care delivery. A diagnostic was completed in the summer of this year and progress is being made on design and testing of new operating models and service development.

The directorate has strengthened internal assurance systems and has developed robust practice development process to assure the quality of care.

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## Children's Services

Children's Services have been subject of a full Ofsted inspection during October. The final report will not be published until 3 December, so it is not possible to confirm the actual judgements until then. However, the verbal feedback from the inspectors was very detailed and comprehensive, with many very positive aspects of the service witnessed. The inspectors were clear that since the last inspection in 2020 Croydon has continued to improve its services in the face of the challenging context, including the impact of Covid and the financial position of the Council. The experience and consistency of the senior leadership, plus political and corporate support has been a strong factor in sustaining the quality of services.

As referred to previously, the cost of children's placements continues to be significant. Though the numbers of children in care have been kept stable, individual placements costs have risen substantially. The position this year has not been helped by having no growth projections being identified to this budget at the start of the financial year. The projected overspend has not changed since the first Financial Performance report of the year. The Council's strategic partner has completed its diagnostic work and is working with the Council to deliver savings on the identified options, including placement costs, and increasing health contributions from a position of this being a zero contribution.

Recruitment to a permanent position of Director of Children's Services has taken place and there is a successful appointment although this has not yet been formally announced. A comprehensive handover is planned so as to ensure momentum in delivering savings and responding to Ofsted recommendations is not lost.

## Housing Service

The Council is working to meet its commitments in the voluntary undertaking agreed with the Regulator of Social Housing. As part of the process for lifting this regulatory notice, the Council is conducting an independent assessment of each of the standards breached and subject to its findings, the Council could request the lifting of the breach notice in the New Year.

The regeneration of the Regina Road estate remains a key priority for the Council. The programme reflects the changes to building safety following the recent release of the Grenfell Enquiry report. The project team has also been strengthened to support a programme of delivery in discussion with the GLA.

The Council is undertaking a stock condition survey and has now surveyed 62% of its homes. Based on the findings, it is forecasting a 17% reduction in capital spending.

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As with many local authorities, the Council is seeing an increase in the volume of complaints it receives, mostly relating to the repairs service, and in respect of damp and mould issues. The Housing Ombudsman recently issued a severe maladministration notice to the Council for a complaint dating back to 2022. The case is now closed, with the Council reviewing its complaint function and strengthening its approach to preventing damp and mould issues arising.

Temporary accommodation remains an ongoing pressure, contributing to the in-year overspend but with numbers remaining stable. The Council has identified 50 properties for purchase this year for those living in temporary accommodation in order to meet the demand pressures.

The Housing Improvement Board continues to play a critical role in providing challenge and assurance regarding the Council's landlord function. Over the next six months, the Council will need to consider how the monitoring and governance arrangements of the landlord function will evolve once the role of the Improvement Board comes to an end.

## Sustainable Communities, Regeneration & Economic Recovery (SCRER)

A new waste contract has been procured to go live in April 2025 following a thorough process in what is currently a difficult and limited market. The new arrangements, whilst continuing with the existing provider, include some amendments to the commercial arrangements and performance regime, designed to deliver better outcomes for all parties.

The Council's arts, entertainment and conference centre, Fairfield Halls, was extensively refurbished and reopened in 2019 only to be then significantly impacted by the Covid pandemic. Following an independent review undertaken recently on future options for the venue and following ongoing discussions with the external operator, there are grounds for greater optimism about its future viability. Further grant funded investment is planned in the surrounding area, designed to enhance the appeal for both participants and the public.

A solution has been found to a long-standing issue over the provision of bus shelters in the borough following a flawed procurement decision in 2021 to award a contract with insufficient due diligence on the provider and which has now been terminated. This was an issue which has caused considerable frustration to residents, but plans are now in place to join the arrangement that Transport for London operate with most London Boroughs and installation works are due to commence later this year

One outstanding issue relates to an adjudication decision on an expired highways maintenance contract in which the Council were unsuccessful in defending their position. The Council has reserved its right to challenge this through arbitration as

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the level of cost awarded to the claimant was disproportionate to what could reasonably have been expected. Legal advice has been obtained and there is now a judgement to be made on the likelihood of successful challenge considering the potentially significant legal costs that could be incurred.

## Senior management developments

We have noted in previous reports our confidence in the senior management arrangements now in place at the authority. Some changes to these are anticipated due to the normal churn occasioned by retirements and appointments to positions elsewhere. The Council's operating structure will also shortly undergo an overhaul as a result of the outcomes of the consultancy exercises noted above.

As a consequence, the Council has recently appointed a new substantive Director of Children's Services, and an interim Director of Place (SCRER) following the departure of the effective previous incumbents.

## **Conclusions**

This is a report on material changes that have taken place since our last report or are anticipated in the near future, rather than a qualitative analysis. The Panel does, however, regard the majority of changes reported to be further evidence of positive progress by the Council, and in line with our expectations.

The deteriorating financial position is naturally of greatest concern and is commanding the fullest attention of members and managers in the immediate term, with our support.

We remain positive in our view that the Council continues to make substantial progress in eliminating the failings that precipitated this intervention in 2021.

Yours sincerely,

Tony McArdle

Phil Brookes

Brian Roberts

Jon Wilson

Pamela Leonce

Eleanor Brazil