

# **NON-STATUTORY REVIEW LONDON BOROUGH OF CROYDON**

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## 1 Introduction

- 1.1 In accordance with the terms of reference set out in your letter of appointment, dated 26/10/20, I have led a small team, supported by your officers in a rapid review of LB Croydon Council. The team has held a large number of meetings and reviewed a large array of documents. This Report sets out the details of our findings.

## 2 Croydon's Response to the Rapid Review

- 2.1 It is clear that Croydon Council has had significant failings in leadership and management (particularly in sphere of financial management) and its governance and assurance mechanisms have failed in identifying, escalating and addressing risk.
- 2.2 The Review Team has received the highest level of co-operation from the Council. During the review period the Review Team has held 60+ meetings with key officers and elected Members at the Council and a small number of external stakeholders. In all instances the Review Team has been met with a high degree of transparency, honesty and candour. The Review Team has received prompt responses to requests for documents. There are no signs of the Council being in denial about the perilousness of its position and there is strong commitment from all quarters to resolve the outstanding issues. At the same time there is a good deal of anger and frustration amongst many staff and Members that the Council has been led into such a position.
- 2.3 Through the course of the review we have worked collaboratively with the Council's CEO and provided regular feedback on the development of our findings. The Council has been quick to respond to this feedback and some of our recommendations have already been acted upon.

## 3 Overall Findings and Recommendations

- 3.1 We **can give you assurance** that Croydon Council recognises the perilousness of its position and we saw lots of evidence of Officers and Members working energetically to mount an effective recovery.
- 3.2 The recovery effort is in its early stages and therefore the Review Team **cannot offer full assurance** or confidence that the task can be achieved. We have concerns about the capability and capacity of the Council to organise and manage the recovery, but this is a concern which is shared by many of the people we spoke to. Croydon Council has a poor track record of robust financial management and this will need to change if it is to effect a successful recovery. That said, a good deal of additional support has been mustered by the CEO, in Finance, Adults and Children's services and at the corporate centre.

- 3.3 During the time of our review the Auditors have published a Report in the Public Interest. The PWC report reviewing the Council's commercial activities has also been completed. The Council's Finance Director has issued a section 114 notice, freezing all but essential spending. An internally produced report on strengthening financial controls has been produced and agreed by Council members. The Chief Executive has commissioned the Local Government Association to undertake an "initial investigation into corporate management actions" in the lead up to the financial crisis. The Chief Executive is also in the midst of producing a proposed reorganisation of the staffing structure and the assembly of a single improvement plan, which will incorporate all of the recommendations for change and improvement. The Review Team supports and endorses all of the recommendations in these reports.
- 3.4 With regard to the Capitalisation Directive, **we recommend that you should agree to this.** We recognise that owing to the Council's poor track record in financial management, that this decision carries with it some risks i.e., the Council may fail to solve its financial crisis. Therefore, our recommendations seek to mitigate this risk through proposing continued oversight and scrutiny of the Council's progress with regular updates to your department.
- 3.5 It is our view that there is no credible alternative option to capitalisation. We gave consideration to the phasing of capitalisation consents but felt this not possible as the Council has a substantial budget gap in the current financial year. In order to set its budget in February for 21/22 it will need to have knowledge of the availability of capitalisation going forward. Given the scale of the capitalisation sought we recognise that this is going to be exceptionally difficult for the Treasury, at a time when demands on Government spending and borrowing are so high.
- 3.6 We have put together some short to medium term milestones (Appendix 1 to the report) that the Council should be expected to meet. If it fails significantly in meeting these milestones, (particularly managing within budget) then we would recommend that you intervene by installing a Commissioner or team of Commissioners as appropriate, to take over decision-making in key areas.
- 3.7 Our additional recommendations are as follows: -
- a) The Council should produce a single detailed improvement plan in response to all external and internal recommendations and that this should be in place by no later than Dec 15<sup>th</sup>, 2020.
  - b) The Council should appoint an independent panel of specialist non-executive advisers, who should remain in place for a minimum of 3 years to advise and oversee progress on the improvement plan.
  - c) The Council's budget for 21/22 should receive the scrutiny of the Council's Finance Review Panel, prior to being presented to the Cabinet and Council and the comments of the Panel should be presented with the budget report.
  - d) The CEO should produce a revised organisational structure which ensures:
    - the Section 151 officer reports directly to the CEO;
    - that the executive leadership of the Council is strengthened and has sufficient capability, capacity and experience to lead the recovery;

- that there are officers at senior level with sufficient commercial experience and expertise to properly oversee the Council's commercial investment portfolio;
  - this revised structure should support the establishment of a programme management back office resource which is of sufficient capacity to properly enable and oversee the successful implementation of the single improvement plan;
  - the Council's Finance Team should be strengthened both in terms of expertise and capacity;
  - the Leader and interim CEO should produce a timetable for key executive posts to be filled permanently.
- e) The Council should immediately strengthen its oversight of Brick by Brick by improving communication, monitoring contract information and development milestones and having experienced Non-Execs on the BBB board to ensure:
- the appointment of a Director of Finance;
  - robust BBB financial (P&L and Cashflow) forecasts;
  - further asset review work to test asset values;
  - a State Aid compliant capital structure (possibly involving equity as per the original business plan);
  - a review by the new Finance Director of 3rd party future funding avenues to avoid premature value destruction;
  - restoration of a collaborative relationship to meet (at least some of) the original goals of providing affordable housing and value creation.
- f) The Council should urgently consider and implement alternative uses for the Croydon Park Hotel, including the recent business case to use it for Emergency Temporary Accommodation.
- g) The Council review its Assurance process and produce a more robust Assurance Framework to ensure that the checks and balances that should be in place to anticipate, alert and escalate any significant potential failings are effective. This Assurance Framework should be agreed with the Council's budget for 2021/22. Within this the Council should give consideration to appointing a Chair from outside the majority group to its General Purpose and Audit Committee.
- h) The Council should adopt the practice of the annual external audit report being reported to full Council and should formalise the facility for the CEO, Monitoring Officer and the Section 151 officer to meet with the key audit partner at least annually.
- i) The Council should undertake a review within 6 months of the implementation of its integrated social care IT systems (ControCC and Liquid Logic) intended to link activity to Finance.
- j) The Council should undertake a comprehensive review of its eligibility Criteria for Adults Services within 12 months.
- k) The Council should identify opportunities to generate capital receipts to fund capitalisation in lieu of borrowing where possible. It should also review its capital programme to reduce the need for additional borrowing more generally and thereby reduce the pressure on the revenue budget.

## 4 Background

- 4.1 The financial pressures and problems encountered by LB Croydon are well documented and have now been acknowledged and owned by the Council. It is not uncommon for local authorities to feel the financial pressure of demand on Children and Adult Social Care budgets, but in Croydon these pressures appear to have been poorly managed. Additionally, many local authorities have felt the added burden on services brought about by the Covid 19 health crisis, but few have crumbled financially in the way that Croydon has. Grant Thornton reported in the Public Interest Report (PIR) Croydon's "fragile financial position – (was not caused but) – exposed by the impact of Covid-19".
- 4.2 Croydon adheres to the CIPFA Financial Management Code in seeking to strategically manage its finances through a Medium-Term Financial strategy. In setting annual budgets it has sought to manage and respond to pressures, by budgeting for growth and seeking to make efficiencies where possible. Many officers and Council members told us that the Council's track record in managing to budget or achieving savings is very poor. This is evidenced by recurrent and substantial overspends, particularly with social care budgets.
- 4.3 Like other Councils, Croydon has turned to more commercial income generation to assist in bridging the gap between expenditure and income. Some of these investments (e.g. The Colonnades shopping centre) have been positive and generated a steady return. But others, like the Croydon Park Hotel and its flagship Housing Company, Brick by Brick have not delivered to expectations. That said, it is our view that the Council has managed some of these initiatives (most particularly Brick by Brick) extremely poorly.
- 4.4 All Councils encounter unforeseen spending pressures and in anticipation of this, they will prudently accumulate reserves. Croydon has historically maintained a very low level of reserves and so has had little to help it resist the financial crisis it is currently experiencing.
- 4.5 In its medium term financial planning Croydon Council appears to have laid great store on its Incremental Financing Scheme through the Croydon growth zone, which anticipated a substantial growth in Business Rates income, the centrepiece of which was to have been a new Westfield Shopping Centre. Changes in economic circumstances have meant that much of the new development is stalled, including the Westfield development.
- 4.6 **It is clear that in recent history Croydon Council has failed to manage its finances adequately in many of these areas.** It is a Council that is said to be unfamiliar with taking and implementing difficult financial decisions and as a consequence it has engendered a culture of poor budget management and poor financial control.

- 4.7 There seems to be a unanimity of view that these failings are attributable to the poor leadership and poor management of the Council over a number of years. It is said that the strong Leader and Cabinet model allowed the former Leader to create an inner circle of a small number of Cabinet members, who have been very controlling in their management of the Council and its finances. There was a clear desire to pursue an ambitious growth agenda for Croydon and when elements of this growth could not be realised, rather than increased caution, it seems there was a continued desire to accentuate the positive. We heard many accounts of officers being asked to re-word Cabinet reports to present the most favourable picture. It is evident that the tone of many financial reports to Cabinet do not accurately reflect the seriousness of the Council's financial position. Many Council officers and members from both sides of the Chamber have stated their shock at the revelations of the Grant Thornton Public Interest Report.
- 4.8 There are a number of checks and balances in the management of Councils to guard against serious breaches in Governance and/or good financial management. Executive Officers carry statutory responsibilities; the Council has a Scrutiny function as part of its Governance; it has a General Purpose and Audit Committee; and external auditors form a key part of the financial assurance framework. These checks and balances appear not to have worked. The statutory officers did not assert their powers. It is only in the last few weeks that the Council's Finance Director issued a section 114 notice on the Council, freezing all new expenditure as the gap in this year's budget continues to widen. Arguably this notice should have arrived earlier. The Scrutiny Committee, whilst calling decisions in were not forceful in their challenge and did not refer key decisions back for the consideration of full Council. The Audit Committee appears to have been similarly unchallenging. Finally, the external auditors whilst raising concerns over a number of years arguably could have been more forceful in escalating their concerns. That said, Grant Thornton's Report in the Public Interest has finally brought matters to a head.

## **5 Rapid Review Terms of Reference**

- 5.1 You asked that the Review should focus on 5 areas: -
- a) Governance
  - b) Culture and Leadership
  - c) Financial stability
  - d) Service performance
  - e) Capacity and Capability to improve

Below, we offer you our judgement and findings in each of these areas in some detail.

## 6 Governance

- 6.1 LB Croydon is a labour controlled Council and up until recently, had a long-standing Council leader who is a highly experienced local politician. The Council adopted a strong leader and Cabinet model for the Governance of the Council. The Labour Group has a large majority over the Conservative opposition, but it appears to be a healthy opposition, keen to scrutinise and hold the majority group to account. We observed 2 full Council meetings and two Cabinet meetings, and the Labour Group has appeared respectful and inclusive in working with the opposition and allowing itself to be held to account. The Cabinet meeting was characterised by individual Cabinet members leading on introducing and answering questions on their reports and the Shadow cabinet is present. Exchanges appeared robust, but respectful. All that said, we were also told that the tone of these meetings had changed in recent times. Members of both parties and senior officers have reported to us the existence in the past of an “inner circle” of the (then) Leader and 3 Cabinet members, who exercised a great deal of control of the Council’s finances and championed the cause of the Council’s commercial activities including Brick by Brick.
- 6.2 The Council did commission a Governance Review (at the end of 2019) which published its report in March 2020. This review, entitled, Enhancing Democracy, Increasing Participation, which was independently chaired made a number of recommendations to better engage residents and a wider group of elected members in policy discussions and decision making. The review was not asked to consider the operation of the “strong leader and cabinet model” as opposed to other Governance models.
- 6.3 From the outside, Croydon Council looks like many of its counterparts with regard to its Governance structure and the mechanisms for assurance particularly in relation to financial planning and management. However, it is clear that these structures and mechanisms failed in anticipating and managing the financial crisis.
- 6.4 The then Chief executive, the Director of Finance and the Monitoring officer, were each in their roles for the first time. With no intention to impugn the capability of these officers, it was a relatively inexperienced team. This may account in some part for delays in interventions.
- 6.5 Over the last few months, the former CEO has left the authority to be replaced by a very experienced interim appointment. More recently the former Leader stepped down and a new Leader has been elected. The Council is at the commencement of a major transition. Consequently, much is in a state of flux and the Review Team have been unable to give unequivocal assurance of the robustness of systems and culture going forward as many of these are at an embryonic stage of change.

- 6.6 The Council's Assurance process is said to rest on a number of different activities under the umbrella of a Governance Framework. The recent history of Croydon Council would suggest the assurance process has been found to be unfit for purpose as it has failed to identify, alert and escalate risk in order that the scale of problems faced by Croydon Council can be anticipated and managed in order to avoid a crisis. In fact, as is noted elsewhere often the language and tone of reports on finance matters sat at odds with the seriousness of the situation. Whilst accepting that it is people that make these processes work, it does seem that given the failure of these processes, the arrangements for Assurance need to be reviewed and re-mapped in a single Assurance Framework document. As part of this review the Council should give consideration to appointing a Chair from outside of the majority group to its General Purpose and Audit Committee. We also recommend that the Council strengthens its relationship with its external auditor and is an early adopter the recommendations in the recently published Redmond Review, taking the annual audit report to full Council and formalising a regular meeting between the Council's CEO; Monitoring officer and Section 151 officer with the Key Audit Partner.

## **7 Culture and Leadership**

- 7.1 The Grant Thornton Public Interest Report referred to, "a collective corporate blindness". In a rapid review it is difficult to gain more than a strongly impressionistic view of the organisational culture and strength of leadership. In the period of the review the former Leader stood down as did the former Cabinet member for Finance. The new Labour Leader was elected by the group on a very narrow majority, which may suggest that the group is divided, but all the outward signs are that the new Leader has the support of her group who are recognising the crisis and are pulling together in the best interests of the borough. The new Leader has put together a new Cabinet.
- 7.2 We were told that a higher proportion of the Croydon workforce is resident in the borough, than would be typical of other London Boroughs and through this there is a good deal of loyalty to the Council. Following the publication of the Public Interest Report, a good deal of anger was evident in Webinar discussions that the Leader and CEO held with different sections of the workforce
- 7.3 Following the departure of the former CEO, over the summer, the Council has appointed a highly experienced interim CEO, who is enjoying support and praise from all quarters. The Council also has a new interim Director of Children's Services and an interim "Assistant CEO". All of these changes are adding to the strong feeling that Croydon is "under new management". The CEO has commenced a review of the organisational structure and commissioned and initial investigation into corporate management actions in the period leading to the current crisis.
- 7.4 With regard to the culture of the organisation, the officers and members we met were happy to work and serve the borough, but we heard recurrent references to "a controlling culture" in the past which it was claimed emanated from the Council's former leadership.

## 8 Financial Stability

8.1 Financial instability is at the core of LB Croydon's recent difficulties. The Public Interest Report described, "deteriorating financial resilience over a number of years". In the terms of reference for the Review a set of specific questions, were posed in relation to the Council's finances and our responses to these are detailed below: -

<p>1. What level of confidence can the department have on the Council's assessment of its financial position, particularly its estimate of their budget gap, for 2020/21 and 2021/22?</p>	<p>This is a changing picture. The 2020/21 gap after two quarters is assessed as £30m; but taking account of likely further risks the Director of Finance estimates, this may be more like £66m. The Council has set up "Budget Development" meetings to consider savings proposals from Departments. The first round of these meetings has not been successful with few Departments bringing forward savings proposals.</p> <p><b><u>Issues</u></b></p> <ol style="list-style-type: none"> <li>1. 2020/21 budget was unrealistic. Costs were probably understated in Adults and Children's giving rise to overspends in year. The level of savings budgeted for were very high and impacted on by Covid.</li> <li>2. The Council needs to assess the most realistic projection for 2020/21 outturn, taking account of auditor concerns. There is low confidence that the figures produced so far are sufficiently accurate.</li> <li>3. The 2021/22 forecast needs reviewing and updating based on a realistic assessment of cost and income variations.</li> </ol>
<p>2. What level of confidence can the department have in the Council's plan to mitigate pressures; including the delivery of necessary savings, the existing resources that can be deployed, and their ability to afford borrowing?</p>	<p>The Council's ability to deliver savings of the magnitude set out should be questioned. A schedule of savings has been agreed by Council amounting to £27.9m in 2020/21. These have now been revised as £17m of it had been double counted. In light of the continuing overspends across the Council (and most particularly) in the Social Care services, the Director of Finance has now issued a Section 114 notice.</p> <p>The Council needs to urgently review its capacity, particularly in the finance function and develop a plan to address weaknesses.</p>

	<p>A comprehensive review of financial systems has been undertaken by an interim public sector finance expert. The (75) recommendations from the report have been accepted and have started to be implemented.</p>
<p>3. A view on the Council's assessment of future financial risks and adequacy of their plan (or ability to plan) to manage those risks.</p>	<p>Many have expressed confidence that the interim Chief Executive is making a tangible difference to the financial culture of the Council, and members of the new Cabinet demonstrate a preparedness to take the necessary difficult decisions to improve the Council's financial position. However, there is also a realisation that this will be a big change from the past and there must be considerable risk that they are not able to turn this into action.</p> <p>There are several as yet unresolved financial risks potentially affecting the Council's financial position:</p> <ul style="list-style-type: none"> <li>• An arrangement to assign assets to the Pension Fund in lieu of cash contributions.</li> <li>• The extent of the Council's use of capitalisation of transformation costs is still under review</li> <li>• The Council has assumed no MRP in respect of commercial loans to Brick by Brick. This is being challenged by the auditors as repayments have not been forthcoming.</li> </ul> <p>The Council had an ambitious capital programme over a three year period which assumes additional borrowing of more than £500m, including further loans to Brick by Brick and a £100m Asset Acquisition Fund. The extent of this borrowing will add to the Council's budget risk and should be reviewed. The Council has recognised this risk and agreed In September to reduce the Capital programme by £150m, with a further review in December.</p>
<p>4. A view on the Council's approach to mitigating their budget gap under different scenarios for how much financial support is provided.</p>	<p>The revised MTFS includes provision for financial risks. Substantial demographic growth provision has been made in respect of Children's and Adults. £30m of demographic growth is provided for in 2021/22 and yet Children's and Adults services are already overspent in 2020/21 by £16.5m and £30m respectively.</p>

	<p>A review of Adults Social Care spend by the LGA demonstrates that Croydon are a high spender compared to the rest of the country. The Council needs to understand why its costs are relatively high and should develop plans to bring spend down to an appropriate level. This work has now begun and there is an intention to reduce spend to a more appropriate level over a three-year period.</p> <p>The Section 151 Officer should report directly to the Chief Executive in order to raise the importance of finance in the organisation.</p>
<p>5. What level of confidence the department can have on the Council's assessment of wholly owned companies, including the viability of companies to continue without any additional Council funding or loans?</p>	<p>Brick by Brick was set up as a wholly owned company of the Council. Its objective is to bring about housing growth in the Borough. The Council has funded the company through its Revolving Investment Fund which borrows money at low rates and lends on to Brick by Brick (and others) at commercial rates. The Council expected to generate surpluses from these transactions and to receive dividends. Although to date it appears that Brick by Brick has made little progress despite loans of over £200m from the Council, since neither loan repayments nor dividends have yet been received. It is believed that a considerable number of units could now either be ready for sale or close to being ready. The values of these assets need to be determined as they are currently unclear. Were Brick by Brick not to receive further funding, this would exacerbate the Company's losses, although the CEO of Brick by Brick believes that they can obtain outside funding.</p> <p>Under one proposed scheme, the Croydon Park Hotel will need further funding of approximately £1m to be re-purposed as a provider of Emergency Temporary Accommodation. This is still being examined to ensure it is safe and viable. The Colonnades development does not appear to need further funding.</p> <p>The Council's assessment of the performance of Brick by Brick has changed dramatically over the last few months, with a realisation that forecast interest payments and dividends would not be realised. The PWC review of strategic options is currently being considered by the Council. It is clear that the Council cannot simply close or walk away from Brick by</p>

	Brick. It is our view that the Council has mismanaged Brick by Brick but that does not invalidate the business concept.
6. How adequate or achievable is the Council's response to the recently commissioned 'Strategic Review of Group Companies'?	It is still early days; however, the Council appears to understand the severity of the situation it has got itself into as reflected by the issuance of the Section 114 notice. The Council officers are taking a more direct role in overseeing the various investments and are putting together business cases for review. The Council now understands that it needs to put Directors onto the Board (2 Directors were appointed at Cabinet on 25 <sup>th</sup> November) and a Finance Director into Brick by Brick to take financial control of the company and it has stopped automatically funding the loans on demand as was the case previously. More information is needed on the financial situation of Brick by Brick before an opinion on the likely success of the investment is given.
7. How robust are any forward-looking commercial strategies/plans and their longer-term approach to borrowing and investment?	<p>The Council appears to have taken on board the need to de-risk the Council's commercial and investment strategy. This is particularly evident in its response to the Croydon Park Hotel and the Colonnades, with a business case having been put together for the former and which is currently under review. The response to Brick by Brick is evolving as the level of financial information from the company is currently inadequate and the future plan depends on a clearer view of the current position.</p> <p>It is likely given the findings of the PIR report and the PWC review of companies that the Council will be encouraged to rationalise its investments to avoid further losses. However, we would recommend against premature divestment before additional information is gathered as to the value of the assets that are both held for sale and currently in development with Brick by Brick.</p>
8. A view on whether the Council's oversight and management of commercial and investment risk feels adequate or fit for purpose.	<p>The Council is unanimous in its view that the oversight and management of the commercial and investment risk in the past was inadequate.</p> <p>The on-going supervision which did take place of Brick by Brick focused on development and planning issues and did not appear to involve much</p>

	<p>or any financial discussion, exacerbated by the fact that the Company did not prepare financial cash flows for the meetings and did not replace its Finance Director when he left. This needs to be remedied urgently.</p> <p>In the case of the Croydon Park Hotel a business case has been put forward for temporary accommodation use, which may neutralize the cash flow drain.</p> <p>The Colonnades Development appears to have so far withstood the challenges of a C-19 lockdown and seems to be performing adequately given the circumstances.</p> <p>In the past there was no one within the Council tasked with overseeing the contractual loan documents made with investment companies and this needs to change. It is clear from recent actions that the Council has now recognized that it had contributed to some of the delays in Brick by Brick's business plan and it needs to allocate appropriate responsibility internally and improve the oversight as well as the communication with the Company.</p>
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## 9 Service Performance

- 9.1 Generally speaking, Croydon's services appear to perform reasonably well. Detailed performance monitoring of services has suffered with the disruption caused by the pandemic, but this is the case in many Local Authorities.
- 9.2 After receiving a very negative Ofsted report on Children's services in 2017 (judged "inadequate"), the most recent Ofsted report in at the beginning of 2020 recorded dramatic improvements over the 3 years and the service is now rated as "good". However, spend in Children's Services is (per capita) the highest in London, by some distance. The number of Children Looked After in Croydon is the highest in the capital, by some distance. Recent figures showed Croydon to have one of the highest rates of teenage pregnancies in London.
- 9.3 Like Children's Services Adult Social Care is one of the highest spending depts of its kind in London. The One Croydon Alliance, which bring together Health and Social Care Services is an innovative initiative to facilitate service integration. The Adult social care services have made some progress on integration with Health, but further progress has been frustrated by the current crisis.

9.4 Both of these key services have struggled to deliver services within budget, failing to make target savings and recording significant overspends, year after year. Whilst these have not been studied in detail, it is said that the eligibility criteria for social care services in Croydon are some way off the norm for London i.e. Croydon provides more social care services than its comparators. The Council needs to urgently review its eligibility criteria for Adult Social Care. It also needs to review its newly implemented social care IT system, which is designed to link activity to finance.

## **10 Capacity and Capability to Improve**

10.1 The scale of the transformation and change required in Croydon should not be underestimated. The Chief Executive is embarking on a “root and branch” change programme. The first phase of the internal review of Croydon’s financial systems made 75 recommendations, with more to follow. The Public Interest report made a further 20 recommendations. The PWC review of Companies has made a further 29 recommendations. The CEO is planning a reorganisation of the Council and has recently launched an independent initial investigation into corporate management actions leading up to the current crisis.

10.2 All these changes are in addition to the challenging budget reductions that will need to be made. The scale of change required in the financial circumstances the Council finds itself, would challenge even the most talented group of officers and elected members. The CEO is reviewing the capability and capacity of her senior team and in order to rise to the challenges it will need to be strengthened. Our judgement is that the senior management of the Council needs to be strengthened if it is to achieve the recovery required. It also needs to add to the current skill set, particularly in managing its commercial portfolio of interests. The raft of recommendations and plans for change need to be brought together into a single improvement or transformation plan.

10.3 There is help at hand, from the Local Government Association, who continue to support the Council and have committed to continue that support going forward.

10.4 Our view is that the 6 priority areas are as follows: -

- a) The Leadership Team needs to be strengthened.
- b) The executive senior management needs to have within its ranks commercial expertise.
- c) The Finance Service – it must be strengthened as a priority (recognising that some temporary strengthening has already taken place).
- d) The section 151 officer must report directly to the CEO.
- e) A central programme office – this resource needs to be put together urgently to track and progress the planned changes.
- f) The Council must immediately strengthen its oversight of Brick by Brick.

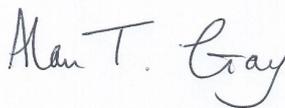
## 11 Conclusion

- 11.1 Croydon Council finds itself in a very difficult position. It is unable to balance its budget for this year, by some considerable distance. The Council as a whole and in particular its two major spending departments continue to display an inability to manage demand for services and the financial discipline to keep its delivery within budget. The situation has deteriorated to the extent that the Director of Finance has issued a Section 114 notice.
- 11.2 It is difficult to conclude other than the Council has been poorly led by both Members and Officers over recent years. There have been additional pressures of unaccompanied asylum seeking children and the added costs brought about in responding to the pandemic. Added to which the anticipated growth, through the Growth Zone has not been realised. Returns from more commercial investments have similarly not been realised in the way that was anticipated, although this appears to be as much to do with the poor forecasting and management of these initiatives as their performance. The signs of this crisis have been there for some time – the high spending departments have continued to overspend; savings targets have not been met.
- 11.3 The signs were there, and alarm should have been noted and escalated, but the Assurance process has failed, and Governance has been poor.
- 11.4 The leadership of the Council has changed, both in terms of elected members and the Executive. The Report in the Public Interest has finally brought about a realisation of the seriousness of the Council's position. The Director of Finance has issued a section 114 notice and there are external and internal reports recommending extensive changes to the Council which are being embraced and acted upon by the new leadership. It is however going to be a long haul to return the Council to healthy financial state.
- 11.5 We believe there is no credible alternative to the option of capitalisation, that will restore the Council to financial health. Because of the Council's track record and the continued uncertainty about the precise financial position, there continue to be risks and we cannot give full assurance that they will achieve a successful recovery. The Councillors and officers do appear to have understood and accepted the perilousness of their position and the need to take difficult and drastic decisions.
- 11.6 Therefore, we believe the Council needs to be the subject of continued monitoring and scrutiny. To this end we are recommending the Council should create an independent Board of non- executives, to advise and oversee their progress, reporting back to the MHCLG on a regular basis.

11.7 Whilst the Council is preparing its detailed single improvement plan, we believe there are a series of milestones, that the Council needs to adhere to if it is to manage an effective recovery. These are set out below. Should the Council fail significantly in meeting these milestones (particularly managing within its budget) then we believe the Secretary of State should consider a statutory intervention by of Commissioner(s).



**Chris Wood**  
**Lead Reviewer**



**Alan Gay OBE**  
**Financial Reviewer**



**Boris Adlam**  
**Commercial Reviewer**

## Appendix 1: Croydon Improvement Action Milestones

Month	Action	
November '20	<ul style="list-style-type: none"> <li>• Agreement to establish Independent Croydon Renewal Improvement Board (CRIB)</li> <li>• Appoint Board Members to BbB</li> <li>• Consider and agree the recommendations of the PWC review of companies</li> </ul>	All agreed at Cabinet 25/11
December	<ul style="list-style-type: none"> <li>• Response to RIPI considered by Scrutiny and Audit committees</li> <li>• Approve Stn 114 budget for 2020/21</li> </ul>	Scheduled for 2 & 8/12 Scheduled for 01/12
January '21	<ul style="list-style-type: none"> <li>• Draft 21/22 budget scrutinised by Finance Review Panel</li> <li>• Cabinet agrees full response to RIPI</li> <li>• Cabinet approves Croydon Renewal Improvement Plan (CRIP)</li> <li>• Appointment of DoF at BbB</li> <li>• Approve a proposal for the future use of the Croydon Park Hotel</li> </ul>	Scheduled for Cabinet 18/01
February	<ul style="list-style-type: none"> <li>• 2020/21 third quarter financial monitoring report to Cabinet</li> <li>• Central Programme Management Office established</li> <li>• Receive the 2<sup>nd</sup> phase report from PWC on the strategic review of companies and make decisions on the future operation of BbB</li> </ul>	
March	<ul style="list-style-type: none"> <li>• Council approval of 21/22 budget</li> <li>• In year savings of £X achieved (see Stn 114 budget)</li> <li>• First meeting of CRIB</li> <li>• Council restructure agreed</li> </ul>	Scheduled for 01/03
April	<ul style="list-style-type: none"> <li>• Review of finance/social care IT systems (ControCC/Liquid Logic) to validate effective usage</li> </ul>	
May	<ul style="list-style-type: none"> <li>• First Report from CRIB submitted to SoS</li> <li>• Draft outturn 2020/21 report to Cabinet</li> </ul>	
June	<ul style="list-style-type: none"> <li>• Corporate Finance Performance and Risk Reporting in place</li> <li>• Finalisation of 2020/21 outturn</li> </ul>	
July	<ul style="list-style-type: none"> <li>• 1st Qtr budget performance considered by IIB. Report back to SoS/MHCLG</li> </ul>	
August		
Sept		
October	<ul style="list-style-type: none"> <li>• Half year budget performance considered by Cabinet and CRIB. Report back to SoS/MHCLG</li> <li>• Half year progress on CRIP considered by CRIB. Report back to SoS/MHCLG</li> </ul>	