

Ethics Committee Supplementary Agenda



8. Review of Ethics Arrangements (Pages 3 - 42)

This report sets out the outcome of the review of the Council's Members Code of Conduct and arrangements for dealing with allegations of breach of the Code. The report confirms that the Council's arrangements are effective and in accordance with the statutory requirements. There are tidying up amendments required to the Code and the arrangements which will be the subject of a further report to the Committee.

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Interim Auditor's Annual Report on London Borough of Croydon

2019-20, 2020-21 and 2021-22

Contents



We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



Section	
Executive summary	03
The scope of the auditor's work on value for money arrangements	06
2019-20 - arrangements for securing economy, efficiency and effectiveness in the use of resources	08
2020-21 and 2021-22: Securing economy, efficiency and effectiveness in the Council's use of resources	09
Financial sustainability	10
Governance	18
Improving economy, efficiency and effectiveness	22
Opinion on the financial statements	28
Appendices	
Appendix A – Responsibilities of the Council	30
Appendix B – Previously reported high-priority and statutory recommendations	31
Appendix C – Key recommendations 2020-21 and 2021-22	34
Appendix D – An explanatory note on recommendations	36
Appendix E - Opinion on the financial statements and use of auditor's powers	37

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose. Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

Executive summary

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the London Borough of Croydon has put in place proper arrangements to secure economy, efficiency, and effectiveness in its use of resources. Our audit of the Council's financial statements for 2019-20 and 2020-21 and 2021-22 is not yet complete. Our value for money assessment for each of those three years is also not yet complete. In relation to value for money from 2020-21 onwards, the National Audit Office requires that where an auditor has significant concerns about a Council's arrangements, they report those concerns promptly rather than wait for all other audit work to conclude. This interim Annual Auditors Report meets that requirement by providing an overview of progress so far in forming a value for money conclusion for 2019-20 and a commentary on value for money arrangements in place during 2020-21 and 2021-22. We also met the NAO requirement to report promptly by publishing Reports in the Public Interest in October 2020 and January 2022 and by publishing Section 24 Statutory Recommendations in March 2023.

Our October 2020 Report in the Public Interest highlighted the size of the London Borough of Croydon's financial gap for 2020-21 and historic failings in governance. Our report made 20 recommendations, eight of which were high-priority. The high-priority recommendations are shown in Appendix B to this report. Following our report, the government (then MHCLG) conducted a non-statutory review of the Council. The non-statutory review concluded in November 2020 that there was no credible alternative option but capitalisation to remedy the Council's 'perilous' financial situation.

In November and December 2020, the Council's s151 Officer issued two s114 notices. These notices made clear to all members of Croydon Council as well as staff and residents that the Council faced an extremely serious financial situation. The Council produced the first version of an Improvement Plan in December 2020, and an Improvement and Assurance Panel was appointed by the Government in January 2021.

A capitalisation direction of £150 million (£m) was requested in December 2020. The Council's Budget Meeting on 8 March 2021 confirmed that, of this amount, £70 million was granted in respect of 2020-21 and that the Secretary of State had confirmed they were minded to approve £50 million in respect of 2021-22. There have since that time been CIPFA reviews, and various other advisory engagements, as well as heavy media scrutiny both from local and national press. Also, in April 2021, the Regulator for Social Housing concluded that the Council had breached the Home Standard and the Tenant Involvement and Empowerment Standard, leading to actual and potential serious damage to Council Tenants.

In January 2022 we published another Report in the Public Interest which highlighted failings in governance over the refurbishment of Fairfield Halls between 2016 and 2019. The refurbishment had a budgeted cost of £30m and an actual cost of £67.5m and had been completed a year later than the 2018 target date. Our Report in the Public Interest in January 2022 made 12 recommendations, seven of which were statutory recommendations. The statutory recommendations are shown in Appendix B to this report.

In May 2022, a new Executive Mayor was elected to the Council. An 'Opening the Books' exercise then started. Findings from the exercise highlighted additional, newly discovered legacy issues. On 22 November 2022, the Council's s151 officer issued a third s114 notice (the third in two years). On 30 November 2022, the Council's Medium Term Financial Strategy for 2023-24 to 2025-26 highlighted that new reserves adjustments of between £9m and £70m could be required for correction of prior year Croydon Affordable Homes LLP and Croydon Affordable Tenures LLP accounting errors. The Council reported that it was carrying £1.6 billion (£b) of external debt, £320m of which was backed by assets in negative equity; that the budget for 2023-24 to 2025-26 was not financially sustainable; and that the Council was spending at least £47m per annum in servicing historic debt.

Executive summary

Following the November 2022 issuing of the Council's third s114 report in two years, we published new Section 24 Statutory Recommendations on 20 March 2023. Our letter recommended that:

- The Council should put in place robust arrangements to address and implement the recommendations of the s151 officer set out in her section 114 report; and
- The Council should develop a comprehensive project plan for the improvement of governance arrangements.




When we conducted the testing to support this April 2023 interim Annual Auditor's Report, the Council was working to address more than 400 recommendations, taking non-statutory review, CIPFA, audit and other external advisory recommendations together. By 16 March 2023, the Parliamentary Under Secretary of State for Local Government and Building Safety had announced in a written ministerial statement that the Secretary of State was 'minded to' intervene in the London Borough of Croydon. The council and other interested parties had been invited to make representations on the proposed intervention package by 30 March. The outcome from those representations was still awaited at the time of writing this April 2023 report.

The Council has been working diligently to try to implement the Croydon Renewal Plan since 2020. There has been some success – for example, £140m of assets have been disposed since 2020 to alleviate some of the historic debt burden; and more than £90m has been saved over the course of 2020-21 and 2021-22. The scale of the legacy challenges is considerable though. Within individual areas of improvement work, there has been progress. However, new issues have continued to be uncovered. We anticipate an adverse value for money conclusion for 2019-20 and we anticipate concluding that there were significant weaknesses within arrangements for 2020-21 and 2021-22. Although we have yet to complete detailed work on 2022/23, the improvement trajectory appeared to be continuing, albeit there are many challenges ahead. It is important to note that improved outcomes will not follow improved processes immediately. We make five key recommendations regarding 2020-21 and 2021-22 within this interim Annual Auditors Report. They are summarised, with management responses, in Appendix C.

Our value for money work on pensions arrangements in 2019-20, 2020-21 and 2021-22 and on arrangements for COVID-19 response in 2020-21 is not yet complete. We will report findings on these arrangements when the audit of the financial statements for those years is complete.

Summary of findings

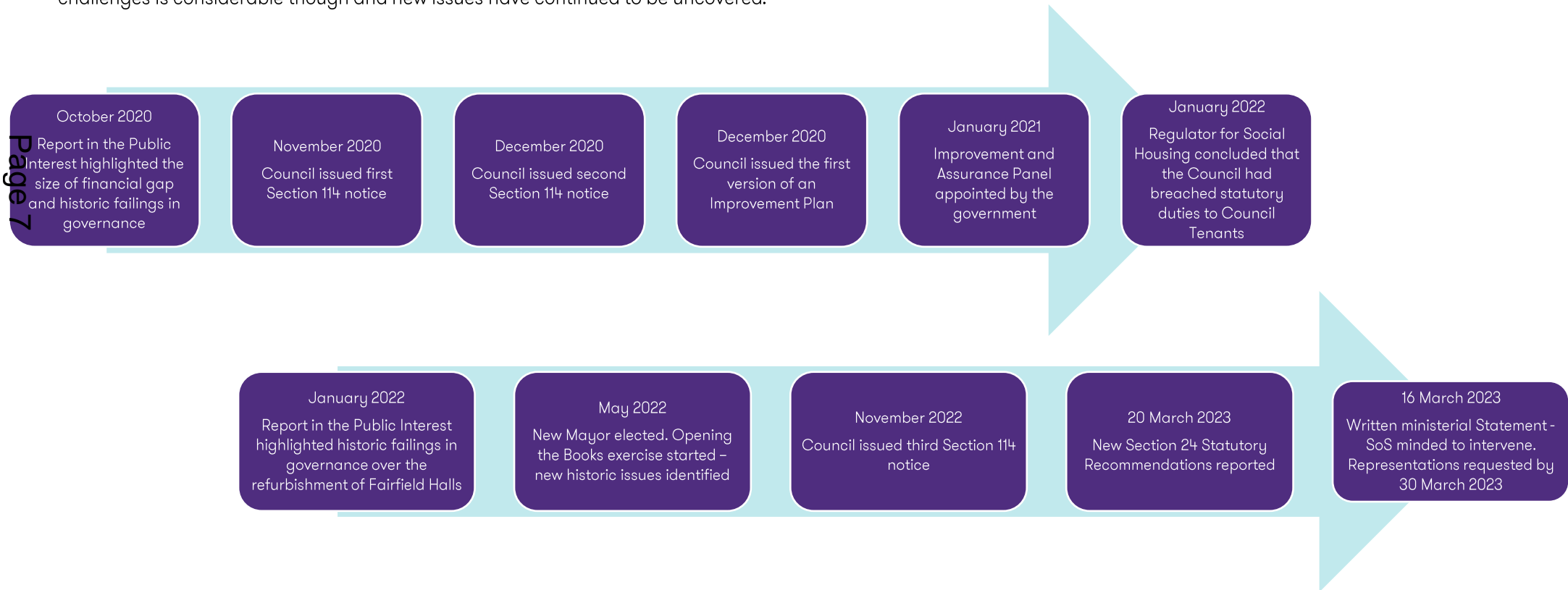
	2019-20	2020-21	2021-22
Financial sustainability	Adverse conclusion expected	Significant weaknesses identified	Significant weaknesses identified
Governance	Adverse conclusion expected	Significant weaknesses identified	Significant weaknesses identified
Improving economy, efficiency, and effectiveness	Adverse conclusion expected	Significant weaknesses identified	Significant weaknesses identified

	No significant weaknesses in arrangements identified or improvement recommendation made.
	No significant weaknesses in arrangements identified, but improvement recommendations made.
	Significant weaknesses in arrangements identified and key recommendations made.

Executive Summary

Time line of audit, inspection and other key events

The Council has been working diligently to try to implement the Croydon Renewal Plan since 2020. There has been some success – for example, £140m of assets have been disposed since 2020 to alleviate some of the historic debt burden; and more than £90m has been saved over the course of 2020-21 and 2021-22. The scale of the legacy challenges is considerable though and new issues have continued to be uncovered.



The scope of the auditor's work on value for money arrangements

2019-20

Auditors are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

2020-21 and 2021-22

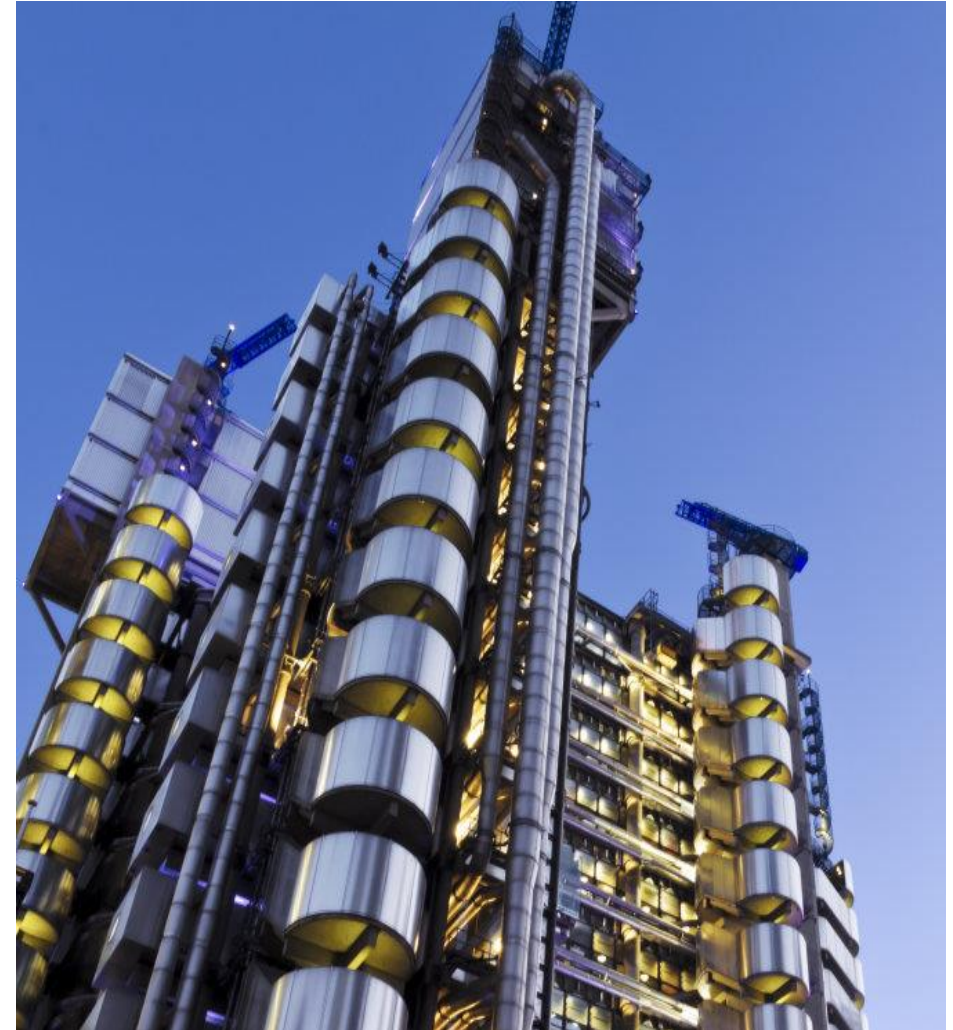
On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which came into effect from audit year 2020-21. The Code introduced a revised approach to the audit of value for money.

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria
- Auditors undertaking sufficient analysis on the Authority's value for money arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit

The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

In relation to value for money audit from 2020-21 onwards, the National Audit Office requires that where an auditor has significant concerns about a Council's arrangements, they report those concerns promptly rather than wait for all other audit work to conclude. We met this requirement by reporting on 2019-20, 2020-21, and 2021-22 in one joint interim Annual Auditor's Report. We also met this requirement by issuing Reports in the Public Interest in October 2020 and January 2022 and by issuing Section 24 Statutory Recommendations in March 2023.



The scope of the auditor's work on value for money arrangements



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources. An explanatory note is provided at Appendix D to this report. The different recommendations are as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements.

2019-20 – arrangements for securing economy, efficiency and effectiveness in the use of resources



We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that in 2019-20 the Authority made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. For 2019-20, the Code of Audit Practice issued by the National Audit Office (NAO) requires us to report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

In October 2020 and January 2022 we published Reports in the Public Interest outlining significant weaknesses in arrangements dating back over a period which included 2019-20. On the basis of these reports, we expect to give a qualified, adverse conclusion on the Council's arrangements in place in 2019-20 for securing economy, efficiency and effectiveness in its use of resources.

Report in the Public Interest concerning the Council's financial position and related governance arrangements

On 23 October 2020 we published a Report in the Public Interest following concerns being identified around the Council's financial sustainability. Recommendations for improvement had first been raised in 2017-18. The financial position deteriorated during 2018/19, and we issued an adverse qualification to our value for money conclusion. Our recommendations in 2017/18 and 2018/19 were not implemented and the financial position continued to deteriorate during 2019/20. We wrote to the former Chief Executive in April 2020 setting out action we considered to be vital. The Council's interim Chief Executive responded on 28 September 2020. Our Public Interest Report in October 2020 also highlighted that the Council had established a number of companies and that the Council's governance and oversight of the companies showed insufficient rigor and control. Based on the specific examples of Brick by Brick Ltd (incorporated in 2012) and Croydon Affordable Homes LLP (incorporated in 2017), we reported that there was 'little evidence that the complexity and associated risk to the Council's financial position is understood by members or officers'. Our report for 2019-20 made 20 recommendations. This included eight high-priority recommendations. The eight high-priority recommendations are shown in Appendix B to this interim Annual Auditor's Report.

Report in the Public Interest concerning the refurbishment of Fairfield Halls and related governance arrangements

On 26 January 2022 we published a Report in the Public Interest following a review of the council's arrangements for the refurbishment of Fairfield Halls, which took place between June 2016 and September 2019. Our report highlighted historic failings in the council's financial, governance and legal arrangements for the Fairfield Halls refurbishment, with weakness in the procurement and contract management of the project also identified. We found that significant amounts of money were spent without proper authorisation. Our report made 12 recommendations, seven of which were statutory recommendations. The seven statutory recommendations are shown in Appendix B to this interim Annual Auditor's Report.

Conclusion

We expect to give a qualified, adverse conclusion on the Council's arrangements in place in 2019-20 for securing economy, efficiency and effectiveness in its use of resources.

2020-21 and 2021-22: Securing economy, efficiency and effectiveness in the Council's use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency, and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:



Financial Sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).



Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Our commentary on the Council's arrangements in each of these three areas, is set out on pages 10 to 27.



Financial sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services



We considered how the Council:

FS1: identifies all the significant financial pressures it is facing and builds these into its short and medium term plans

FS2: plans to bridge its funding gaps and identify achievable savings

FS3: plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

FS4: ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning

FS5: identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans

FS1: How the Council identifies all the significant financial pressures it is facing and builds these into its short and medium term plans

Well-documented historic financial mismanagement left London Borough of Croydon facing significant financial pressure during 2020-21. Some positive steps towards improvement were taken by the Council in 2020-21 and 2021-22. However, additional legacy issues have been uncovered. The Council was still facing significant financial pressure at the end of 2021-22 and, indeed, well into 2022-23.

2020-21

Our October 2020 Report in the Public Interest on London Borough of Croydon identified £49.1m of forecast overspend on the Council's social care in 2020-21. The report noted that overspend on social care had been building up for three years, and that rising numbers of Unaccompanied Asylum Seeking Children were also putting pressure on the Council's budget. London Borough of Croydon issued Section 114 notices in November and December 2020 and, in December 2020, moved to request a capitalisation direction of £150m. The first £70m was requested to cover what was by then the total forecast deficit for 2020-21. The remaining £80m was requested to support transition to a sustainable financial footing over the three years 2021-22 to 2023-24 (with £50m requested for 2021-22; £25m for 2022-23; and £5m for 2023-24).

London Borough of Croydon's Cabinet received Finance Performance Reports on a quarterly basis during the first half of 2020-21. From September 2020, Cabinet received Finance Performance Reports on a monthly basis. By the end of March 2021, the Council's year end outturn data showed that it had overspent against the original budget for the year by £65.8m. Whilst this sum is significant, it did mean that not all of the capitalisation requested for the year (£70m) was needed, suggesting that a realistic level of pressure had at least been anticipated for the remainder of 2020-21 when the request for capitalisation was made in December 2020.

2021-22

Period 1 to 11

Monthly Finance Performance Reports were prepared by the Council for all 11 months of the first 11 months of 2021-22. The Period 11 report forecast a £1.907m net underspend against the budget for 2021-22. The budget for 2021-22 had factored in the benefits of the capitalisation direction, but so small a variance against it still indicates there had been good work though the year in many divisions and directorates in planning for and managing financial pressure.

The Children, Families and Education (CFE) directorate performed particularly well against financial pressure. In Period 11, the directorate reported a forecast underspend of £11.3m against budget. To a small extent (£1m), this included lower than anticipated net costs for Unaccompanied Asylum Seeking Children, reflecting the receipt in year of an additional one-off grant from the Home Office for these children of £2.357m. However, it was better commissioning of placement costs and reduced numbers of children being taken into care that accounted for most of the variance. Nevertheless, £11.4m of overspend in the Sustainable Communities, Regeneration and Economic Recovery directorate largely off-set the gains made in CFE. The directorate's income from parking and traffic assumptions had been overly optimistic.

Period 12

By the time of writing this report in April 2023, a Period 12 Finance Performance Report for 2021-22 has still not been prepared by the Council.

Financial sustainability

There had been delays to finalising 2019-20 and 2020-21 year end financial statements and draft financial Statements for 2021-22 had not yet been prepared.

Notwithstanding the absence of usual year end reporting for 2021-22, in March 2022 the Council Tax and Budget proposals for 2022-23 were published. For 2022-23, London Borough of Croydon assumed the capitalisation direction of £25m would be used and that there would be additional service savings of £55m. Although it acknowledged 2022-23 would be a 'challenging' year, the Council anticipated that with the capitalisation and savings, the budget for 2022-23 could be balanced. However, the Council anticipated a budget gap of £28m opening up again for 2023-24, with another budget gap of £8m for 2024-25. The Council also minuted its view that the one off grant for Unaccompanied Asylum Seeking Children (2020-21: 2.357m) should be annual until a different political solution could be found, as the costs remained difficult to predict.

Post-year end

The Council Tax and Budget proposals for 2022-23 which London Borough of Croydon prepared in March 2022 showed a conscious effort to follow good practice in identifying financial pressure and building it into budget planning. The proposals noted the tightening financial framework; increased demand for services; inflation; uncertain future public sector funding; and the need to prepare for an Executive Mayor. Despite what was clearly a determined effort to prepare well, the first five months of 2022-23 showed that the budget for the year would be difficult to meet. By September 2022, the Council was forecasting an overspend for 2022-23 of £9.483m. This included £17.4m of gross new, unidentified financial pressure in departments such as parking and traffic, off-set in part by corporate contingencies of £14.8m. A deficit in the Housing Benefit budget was also identified late. The remaining £6.887m of 'overspend' was expected to relate to non-delivered savings.

As an additional factor, ongoing work by independent consultants in connection with historic issues around companies, debts owed to and from the Council; and the Housing Revenue Account Thirty Year business plan meant that new data continued to come to light.

By July 2022, the budget gaps estimated in March for 2023-24 and 2024-25 as £28m and £8m respectively had been revised, to £43m and £16m respectively. On 22 November 2022, the s151 officer issued a new s114 notice, stating that in her opinion, an additional amount of between £9m to £70m was also at risk in connection with other historic accounting errors which had relatively newly come to light. The s114 notice stated that there was no prospect of the Council returning to financial sustainability without '**significant and extraordinary financial support from government above and beyond the usual mechanism of capitalisation directions**'.

On 22 November 2022, the estimated deficit for 2023-24 was £77m. On 30th November 2022, the Council published the Medium Term Financial Strategy for 2023-24 to 2025-26 and stated that the budget was not financially sustainable. In March 2023 we made a statutory recommendation around the need for robust arrangements to address the November 2022 s114 notice.

FS2: How the Council plans to bridge its funding gaps and identify achievable savings

Although over £90m of savings were delivered over the course of 2020-21 and 2021-22, there were elements of non-delivery. In May 2022 Internal Audit concluded that only Limited Assurance could be provided over arrangements for savings plans.

2020-21

The original budget for 2020-21 was presented to Cabinet in February 2020. In October 2020, we reported that our review of the budget identified it relied on assumed savings of £41m being made during the year and a further increased income of £24m being generated during the year. In October 2020, we reported that there had been insufficient Member oversight and challenge when these targets were set within the budget.

Financial sustainability

At the time, the Council did not have adequate arrangements for in-year reporting and monitoring of progress against targets as savings were delivered through the year. We estimated from previous year data that the Council had a track record of delivering between just £10m and £15m of savings per annum.

After our October 2020 report, the Council took steps towards strengthening arrangements around identifying and monitoring achievable savings plans. The Council set up a Steering Board to oversee the delivery of savings. Savings are now only approved after a Star Chamber review that includes officers and members. Once they are approved, each saving option then has a designated Project Manager and a Senior Responsible Officer who are both held accountable to deliver the savings assigned to them.

2021-22

Period 1 to 11

Arrangements for monitoring and reporting progress with savings plans improved. All 11 Financial Performance Reports for 2021-22 included reporting on savings delivered in the current year and against three-year future targets. The Finance, Performance and Risk Performance reports, introduced for Cabinet from October 2021, also included savings monitoring data and assessment.

The planned directorate savings presented within the Council Tax and Budget Proposals for 2021-22 remained very high, at £44.6m in one year. In addition, corporate savings of £37m were planned for 2021-22. Although Period 12 outturn data for 2021-22 was not yet available when we completed the work to support this report, Period 11 outturn data indicated that £5.3m (12%) of the planned directorate savings for the year were forecast not to be delivered. Non-delivered savings were largely expected to be in the Sustainable Communities, Regeneration and Recovery unit, where parking and traffic fee income has not reached anticipated levels of post Covid recovery.

Post-year end

Service savings of £24m were planned by the Council for 2022-23, but no net corporate savings were planned. Despite the lower level of savings planned, under-delivery continued to be an issue in 2022-23. Period 4 data for 2022-23 forecast total under-delivery of £6.887m (29%).

In May 2022, Internal Audit issued a draft report on the Star Chamber process introduced in 2020-21 for scrutinising savings plans before they are approved. Internal Audit concluded that only Limited Assurance could be provided. They noted gaps in documentation of scrutiny and in evidence around consideration of threats, risks and opportunities. We are satisfied that, overall, the Council's processes are better than they were in October 2020. However, with the Council facing a perilous financial situation on its core budgets, it will be important that Internal Audit recommendations for continuing to strengthen savings plan approval arrangements are now implemented.

FS3: How the Council plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

We identified significant weaknesses in arrangements to support sustainable delivery in 2020-21. Our recommendations were still ranked as AMBER by January 2022. Significant sums have been spent on transformation over a number of years but by the end of 2021-22, there was no clear evidence of efficiencies and demand reduction having been achieved as a result.

2020-21

Transformation has been a strategic priority for London Borough of Croydon since December 2017. Some £73m was spent on transformation between December 2017 and March 2019, with the majority (£65m) being spent on Digital, Children's and Adult transformations.

Financial sustainability

For transformation to be considered effective, we would usually expect to see either reduced demand for services, reduced growth funding, or savings. Our Public Interest Report in October 2020 found not only that the Children's and Adult Services had continued overspending (by £39.2m) over the three-year period, but that there had been no updates to the Transformation Strategy since December 2017; no evidence of effective reporting or monitoring on transformation projects for Cabinet; and no effective reporting on or challenge to outcomes from transformation work since 2017. Far from growth and demand having been engineered down over the time since December 2017 in the key areas that transformation monies were spent on, some £31m of additional funds for growth had in fact been allocated to the 2020-21 budget for two of the areas: Children's Social Care: £10.1m; and Adult Social Care: £21.2m.

Our report in October 2020 recommended that 'The Chief Executive should oversee a review of the outcomes achieved from the use of transformation funding to demonstrate that the funding has been applied in accordance with the aim of the scheme'. Arrangements during 2020-21 were considered to have significant weakness.

2021-22

The Council's General Fund Budget for 2021-22 to 2023-24 (published in March 2021), continued to anticipate growth in Children's and Adults Services for 2021-22:

- Children, Families and Education: £20.433m
- Health, Wellbeing and Adults: £29.251m

By January 2022, the third quarterly report on progress with the Croydon Renewal Improvement Plan described our recommendation to review outcomes from transformation as still 'In Progress' (AMBER), with the note that transformation would be dealt with clearly in the Budget report for 2022-23. When Council Tax and Budget Proposals for 2022-23 were published in February 2022, although no further requests were included for Children's Service growth, more growth funding requests for Adult Social Care still remained – with a request for £16.1m over three years. Within the same budget, further transformation funding of £5.9m was requested over two years.

KEY RECOMMENDATION 1:

With three s114 notices having been issued in two years, and the Council having made it clear that extraordinary government support is required to return to financial sustainability, it will be important that the Council maintains discipline over its own savings and transformation plans. For savings plans, Internal Audit recommendations for improvement in Star Chamber processes should be implemented as a matter of priority. Only plans that are realistic should be approved. For transformation projects, arrangements should be put in place for tracking and challenging outcomes before any further funding is approved.



Financial sustainability

FS4: How the Council ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning

For workforce planning, the Council has strategies which align with financial planning. There were arrangements for the Council's Workforce Strategy for 2019-22 to be reviewed annually, with departments and divisions developing annual workforce plans as part of the business as usual planning processes. In March 2021, when the Council Tax and Budget Proposals for 2021-22 were finalised, an additional £1m bid was made (and approved) for funding the cost of building resilience within the Finance section of the workforce as a result.

In the other areas of borrowings, treasury and investment strategies, our October 2020 Report in the Public Interest identified significant weaknesses. The Council has worked diligently to address the recommendations we made in October 2020, but by 30 November 2022, the Council still valued its external debt at £1.6b. The s114 notice issued on 22 November 2022 described much of that debt as 'toxic'. The scale of the debt legacy has been too big to unravel without extraordinary government support.

2020-21

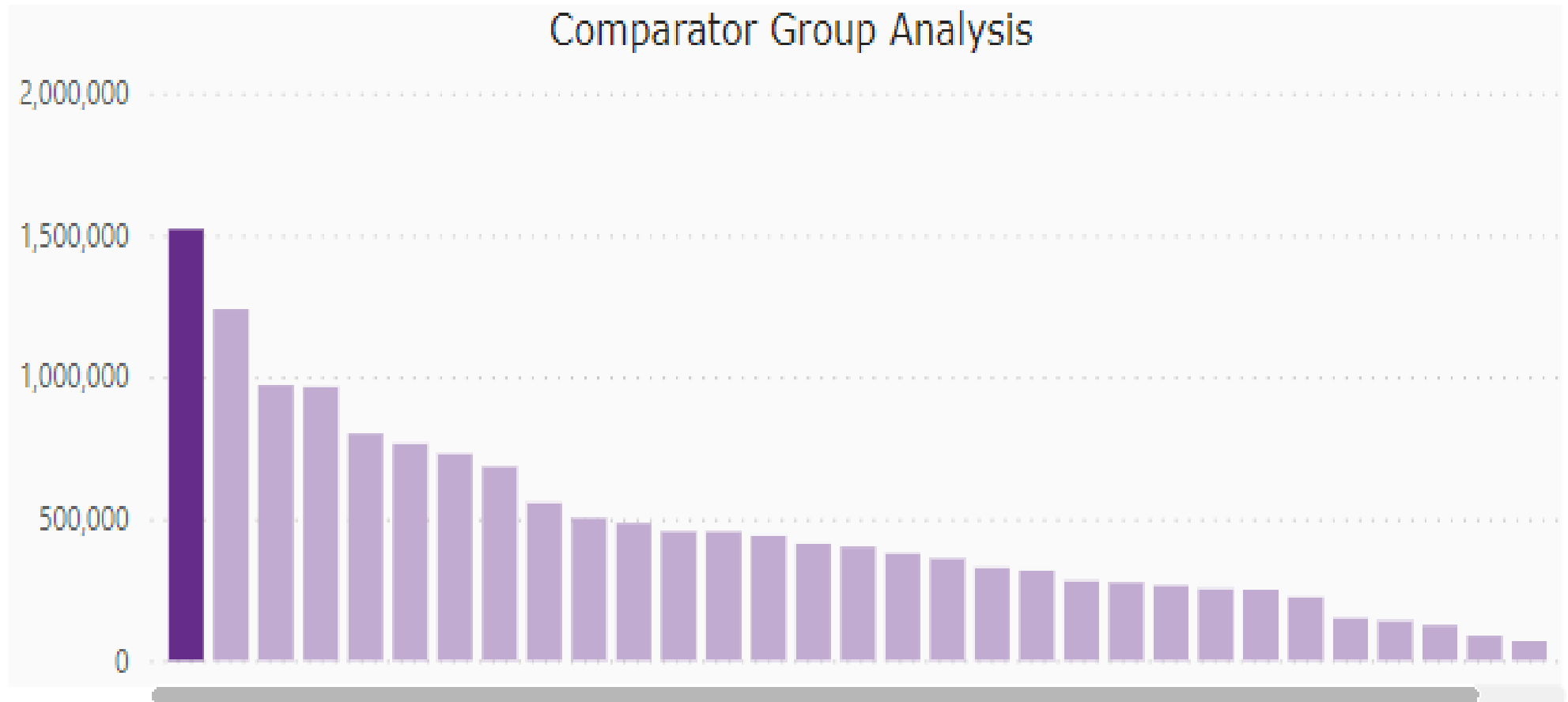
The CIPFA Financial Resilience index for 2020-21 shows that London Borough of Croydon had the highest external borrowings of all London Boroughs in 2020-21 (see Figure 1, page 15). Our October 2020 Report in the Public Interest commented that there had been insufficient oversight in the years leading up to 2020-21 over the capital strategy. The increase in borrowings had been fuelled by high value asset investments which did not always bring the commercial advantage hoped for.

Our Report highlighted a series of significant failings in borrowing, treasury and investment management. We described how the Council had borrowed £10m more than was required in 2020-21 under its Treasury Management Strategy and had a Minimum Revenue Provision (MRP) policy which allowed for no MRP to be provided for borrowings where there were loan repayments from third parties and income from investments.

Financial sustainability

Figure 1: CIPFA estimate of all London Borough external borrowings, 2020-21

Source: CIPFA



Financial sustainability

Our October 2020 report described how the Council had received no loan repayments from Brick by Brick Ltd (which held £227m in loans from the Council at the time). We also described the commercial failure of the high-profile investment in Croydon Park Hotel, (valued at £46m in 2018-19, and went into administration in June 2020).

Our October 2020 report identified ten different recommendations for improvement around managing borrowing, treasury and investments. These included:

- Reviewing holdings with the Revolving Investment Fund and learning from due diligence mistakes in the acquisition of Croydon Park Hotel
- Reconsidering the affordability of the Borrowing Strategy
- Reconsidering equity investment arrangements with and loan repayment performance by Brick by Brick Ltd
- Revisiting the Minimum Revenue Provision
- Providing Members with training in Treasury management

The Council did take its response to our findings and recommendations seriously. In November 2020, the Council commissioned an independent strategic review of Brick by Brick Ltd, Croydon Affordable Homes LLP, the Revolving Investment Fund, Asset Investments and Growth Zone Funds. A review of loan and equity arrangements was specifically included for Brick by Brick Ltd. In February 2021 the Council determined that all payments to Brick by Brick Ltd would stop; a business plan from Brick by Brick for 2021-22 would be requested; and loan arrangements for Brick by Brick's £227m loan (including accrued interest) would be revisited. In March 2021, a revised MRP Policy Statement for 2021-22 was presented to Cabinet for approval. The revised MRP Policy placed higher emphasis on risk assessments for loan repayments, but this in turn increased the financial pressure on the Council. The new MRP proposals include additional costs totalling £5.6m to be reflected in the Council's historic accounts and additional costs of £2.6m is to be built into the Council budget annually from 2023-24 onwards on an ongoing basis.

At the time of conducting our testing, the Council's recommendations tracker showed that the response to our recommendation in October 2020 (that the Council review its equity arrangement and governance for Brick by Brick Ltd) was shown as at a pre-proposal stage. The scale of difficulties the Council faced was too high realistically for arrangements to continue to be anything other than significantly weak in 2020-21, but steps were being taken in the right direction.

2021-22

The Capital Strategy was coupled with a new Asset Investment Strategy – with the focus going forward being on disposing of assets to help reduce future external borrowings.

The Council worked diligently throughout 2021-22 to address the recommendations we raised in October 2020 around Borrowing, Treasury and Investment Strategies. Progress that the Council could report by January 2022 included:

- December 2021 – initial paper presented to the Cabinet Member for Croydon Renewal and the Cabinet Member lead for Resources on lessons learnt from the acquisition of Croydon Park Hotel. A review of asset performance was also undertaken, paving the way for a new Asset Investment Strategy in March 2022
- Link Asset Management commissioned for a fuller review of MRP Policy for 2022-23
- Strategic review of assets owned by Brick by Brick Ltd, the material subsidiary which we reported in October 2020 had had insufficient oversight and control. The review of assets is expected to conclude in 2023

However, despite sales of £140m of assets to help reduce the debt burden, by 30 November 2022, the Council was still recording an external debt of £1.6b, with £320m of that amount backed by assets which were in negative equity. The Council's s151 officer described much of the debt as 'toxic' and stated that it left the Council unable to withstand other, wider economic shocks.

Financial sustainability

Another area where the Council's progress stalled was with the recommended review of holdings with the Revolving Investment Fund. Internal Audit graded progress with this review as AMBER, although management had previously marked it as complete. Overall, we conclude that the Council worked hard to remedy its situation between October 2020 and the end of 2021-22. The scale of the legacy debt challenge was simply too high, however, to tackle in this short a period and without the additional extraordinary support flagged by the s151 officer as necessary in November 2022.

FS5: How the Council identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans

Strong financial resilience depends on strong reserves. The Council's reserves were assessed as very low in 2020-21 although the Council had a stated intention to rebuild resilience in 2021-22. Accounts for 2019-20 and 2020-21 have not yet been audited. Accounts for 2021-22 have not yet been prepared. It was not possible therefore at the time of completing the work to support this report to know for certain what the resilience of the reserves is. These issues represent significant weaknesses in arrangements for governance as well as arrangements for financial sustainability.

2020-21

Our October 2020 Report in the Public Interest highlighted that London Borough of Croydon had had 'an unsustainably low level of reserves for some time' and that the Council had 'failed to adequately address the low level of reserves'. We noted that the Council had the lowest level of all London Boroughs of General Fund and Earmarked General Fund Reserves as a percentage of net service revenue expenditure and that the reported level of reserves had decreased year-on-year in each of the previous three years.

In March 2021, in the General Fund Budget 2021-22 to 2023-24, the Council's s151 officer acknowledged that 'the current level of reserves are very low for the size of Croydon and historic mismanagement of this reserve balance has resulted in placing the Council in very weak position'. With audits both for 2019-20 and 2020-21 incomplete at that time, it was furthermore acknowledged that the Council was unable to confirm exactly what the value of its reserves was.

The s151 officer did also note though that from the capitalisation directions agreed for 2021-22 and 2022-23, £20m had been earmarked for rebuilding the reserves in 2021-22 and a further £10m had been earmarked for rebuilding the reserves in 2022-23.

2021-22

The s151 officer's stated intention was to rebuild resilience in the reserves during 2021-22, stating in the Budget that some £22m would be applied to this purpose. With accounts still not prepared for 2021-22 and audits incomplete for 2019-20 and 2020-21, it is at this stage impossible to be certain what the Council's true general fund and earmarked reserves position is or whether resilience has indeed been rebuilt. We note, however, that the s151 officer's assessment by November 2022 that a newly identified amount of between £9m to £70m was at risk (in connection with historic accounting errors) is an issue both for financial sustainability and for governance.



Governance

How the body ensures that it makes informed decisions and properly manages its risks



We considered how the Council:

Gov1: monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

Gov2: approaches and carries out its annual budget setting process

Gov3: ensures effectiveness processes and systems are in place to ensure budgetary control

Gov4: ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency

Gov5: monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour

Gov1: How the Council monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Head of Internal Audit was only able to provide limited assurance on risk management and internal control arrangements for both 2020-21 and 2021-22. There are unresolved recommendations from Internal Audit dating back to 2017-18.

2020-21

In 2020-21, the corporate risk register was presented to the General Purposes and Audit Committee twice: In January 2021 and in March 2021. The underlying risk management and recording system was maintained and populated by one officer, relying on interviews with Directors and Executive Directors. The risk registers presented to Committee did not record risk owners; direction of travel; actions for managing risk; completion or review dates; or how risks mapped to corporate goals.

There were procedures in place during 2020-21 for the Whistleblowing Policy to be annually approved by the Ethics Committee – but there are no recorded minutes of this having been done during 2020-21.

The Internal Audit programme of work for 2020-21 was risk-based and delivered by an externally commissioned internal audit provider, reporting to an interim Head of Internal Audit seconded from the external provider. The planned Internal Audit programme for 2020-21 was disrupted by the impact of COVID-19, and 30 draft reports were issued against a target of 66 (45%). This was not, in itself, uncommon; many Councils experienced Internal Audit disruption during the pandemic.

Of more concern was that the Head of Internal Audit's overall conclusion was that only limited assurance could be provided for 2020-21. This was largely driven by Internal Audit finding significant weaknesses in arrangements for: Contract letting; personal data; schools deficits; governance and control; and temporary accommodation, including repairs and maintenance.

Progress with implementing Internal Audit agreed actions from 2020-21, and indeed from earlier years, has been varied. In February 2023, when unresolved recommendations from 2017-18, 2018-19, 2019-20 and 2020-21 were reported by Internal Audit to the Council's Audit and Governance Committee, the Committee noted that some older agreed actions were not being cleared in a timely manner and specifically requested action and an update on these.

2021-22

The Internal Audit programme of work for 2021-22 was again risk-based and delivered by an externally commissioned internal audit provider. 37 draft reports were issued against a target of 45 in 2021-22 (82%) but the Head of Internal Audit's overall conclusion remained that only limited assurance could be provided. This was despite steps taken to improve processes and reflects that the scale of the challenge the Council faces means it will take more than one year to recover.

Internal Audit reported 2021-22 significant weaknesses in arrangements for: General governance and control; contract letting; privacy notices; identifying savings and monitoring budgets; and temporary accommodation. The themes were clearly similar to the year before.

Governance

The Council has been working hard to resolve Internal Audit agreed actions dating back to 2017-18. Arrangements include a Corporate Management Team focus group regularly reviewing progress. However, as previously noted, progress has been varied. The Audit and Governance Committee requested (in February 2023) action on the older agreed actions to be reported back to the subsequent meeting in March 2023. Unresolved agreed actions were reported again to the Committee in March 2023. Some progress had by then been made in resolving high-priority 2020-21 agreed actions (75% resolved, compared to 69% one month earlier). However, although updates on progress were provided in a number of cases, there had been no progress with resolving issues from 2017-18, 2018-19 and 2019-20. Work to follow-up on 2021-22 agreed actions had not yet fallen due.

KEY RECOMMENDATION 2:

The Council should continue to focus on resolving Internal Audit agreed actions, including from 2017-18, 2018-19, 2019-20, 2020-21 and 2021-22.

Gov2 and Gov3: How the Council approaches and carries out its annual budget setting process; and ensures effective processes and systems are in place to ensure budgetary control

Our October 2020 Report in the Public Interest made it clear that budget setting and monitoring arrangements for 2020-21 were not good enough. We reported that there was a 'failure of governance' in July 2020 and August 2020 when Members were not informed that the budget gap exceeded available reserves. Finance Performance Reports were only presented to Cabinet on a quarterly basis until September 2020.

There were improvements around budget processes from September 2020 onwards. Monthly reporting to Cabinet was introduced. Finance Performance Reports were provided to Cabinet in all eleven months of the first eleven months of 2020-21. Financial data was also included within the quarterly reports on the Croydon Renewal Improvement Plan provided to Cabinet for the first three quarter ends of 2021-22 and within the Finance, Performance and Risk Performance Reports provided from October 2021.

The direction of travel has been positive but during 2021-22, whilst external audit work was ongoing for 2019-20 and 2020-21 financial statements, it was identified that bank reconciliations had not been carried out by the Council for 'a few years'. Our understanding is that the Council has since caught up. We will confirm this when we conduct financial statements audit testing. Budget monitoring is unlikely to have been fully effective with bank reconciliations and year end financial statements incomplete.



Governance

Gov4: How the Council ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency

Our January 2022 Report in the Public Interest made seven statutory recommendations and five other key recommendations around improving decision-making. This was in connection with our review of the Fairfield Halls refurbishment project which started in 2016 and ended in 2019. The project cost more than double the £30m budget; was delayed; and potentially non-compliant with UK law. The Fairfield Halls example of poor decision-making between 2016 and 2019 has already been widely reported. However, at the time of writing this interim Annual Auditors Report (April 2023), the Council had also commissioned an independent investigation into the legality of specific officer actions in connection with Fairfield Halls decision-making (fraud and other possible wrong-doing/misconduct).

Our work in respect of 2020-21 has identified another high-profile example of poor arrangements for decision-making in that year. A high-profile severance payment to the former Chief Executive was approved in August 2020 at a value of more than £400,000. The Council's Appointments Committee has since been advised that the decision was made in a meeting where conflicts of interest were not correctly recorded and that the decision was supported by incomplete information.

There is a risk that the Council's arrangements to terminate the former Chief Executive's employment failed to demonstrate appropriate value for money. In March 2023, we made a statutory recommendation that legal advice now be taken as to remedy.

Separately, we note that over the last three years, there have been 17 data breaches reported to the Information Commissioner by the Council. In the 2020-21 draft Annual Governance Statement, the Council itself recognised that poor data management has contributed to some of the historic poor decisions.

Gov5: How the Council monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour.

The Council has not yet published audited accounts for 2019-20 and 2020-21 and has not prepared draft accounts for 2021-22. In part, it is new information which has prevented the accounts for 2019-20 onwards from being closed. Our March 2023 statutory recommendations recommended that the Council adopt an action plan for completing the accounts. This will require technical queries to be resolved.

The number of other issues raised across this interim Annual Auditor's Report suggests there were wider issues with underlying cultural standards in 2020-21 and 2021-22. The Council has an Ethics Committee which is responsible for consideration of matters relating to probity and ethics, including matters pertaining to Member conduct and compliance with the Members Code of Conduct. The Council also has an Appointments and Disciplinary Committee and an Audit and Governance Committee. However, the litany of findings from the Public Interest Reports in October 2020 and January 2022 and other advisors and regulators suggests that even where standard processes are complied with, there have been underlying significant weaknesses in organisational culture. The form of procedures often did not follow through to the underlying substance of cultural behaviour.

Governance

At an operational level, the Council did have processes in place during 2020-21 for declaring conflicts of interest. However, during our work we found other anomalies, in addition to incorrect processes having potentially been used for decision-making around the Chief Executive's severance. For example, in 2020-21, only one gift for £15 was declared on the gifts and hospitality register all year (suggesting a risk that it may be incomplete). In 2021-22, nine Members failed to send in conflict of interest declarations on time and had to be reminded.

The Council is working diligently to try to improve. In March 2022, the Council's arrangements for its Constitution were reinforced to reflect the importance of the Nolan Principles. Nevertheless, the scale of the challenge is daunting given past well documented failures to uphold these principles in the past.

KEY RECOMMENDATION 3:

The Council should continually review arrangements for overseeing standards and codes of conduct. The Ethics Committee, in overseeing standards, should be mindful that the substance of cultural behaviour is as critical as the procedural form.



Improving economy, efficiency and effectiveness (3Es)

How the body uses information about its costs and performance to improve the way it manages and delivers its services



We considered how the Council:

3Es 1: uses financial and performance information to assess performance to identify areas for improvement;

3Es 2: evaluates the services it provides to assess performance and identify areas for improvement;

3Es 3: ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve;

3Es 4: ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

3Es How the Council uses financial and performance information to assess performance to identify areas for improvement

The Council has worked diligently to move Cabinet performance reporting arrangements from nothing to reasonably comprehensive over a period of just under two years. By the end of 2021-22, stronger arrangements were in place and the Council is positioned to go on in future years to develop powerful modelling tools.

2020-21

At the start of 2020-21, the Council's corporate goals were set out in the 'Corporate Plan 2018-22'. However, there were no arrangements in place for key performance indicator reporting to Cabinet and Council.

When the Croydon Renewal Improvement Plan was presented to MHCLG in December 2020, the goals of the Corporate Plan were replaced by a framework of new 'Priorities and Ways of Working'. The Renewal Improvement Plan brought together in one strategy the Council's response to what had by then reached over 400 recommendations from us as external auditors; an MHCLG Rapid Review in November 2020; CIPFA; and other advisors. The new Priorities and Ways of Working were:

Priorities:

- Live within our means, balance the books and provide value for money for our residents.
- Focus on tackling ingrained inequality and poverty in the borough.
- Focus on providing the best quality core service we can afford.

Ways of Working:

- Practice sound financial management, being honest about what we've spent and what we can afford.
- Focus on our core services, and a small number of evidence-based outcomes that deliver our priorities.
- Aim to become a much more transparent, open and honest council.

Key performance indicator reporting against the Priorities and Ways of Working was not introduced until 2021-22, but work was ongoing over the remainder of 2020-21 to develop a Cabinet performance reporting framework for each Action in the Croydon Renewal Improvement Plan in future years and to strengthen an existing cycle of planning, monitoring and reviewing indicators.

2021-22

In April 2021, a draft of the new Performance Reporting Framework and Measures was shared with Cabinet. Updates on high level performance were provided to Cabinet in June and July 2021. A full set of performance measures was first reported to Cabinet in October 2021. The report encompassed 112 performance indicators; major projects and programmes; 476 Croydon Renewal Improvement Plan Actions; savings outturn; and risk. A similar report was presented in November 2021 (by which time the number of KPIs had risen to 119) and thereafter an arrangement was established for continued reporting on a quarterly basis. The next 'Finance, Performance and Risk' report was presented to Cabinet in March 2022.

Improving economy, efficiency and effectiveness (3Es)

Data systems supporting the new Finance, Performance and Risk reports were developed by the Council’s Digital team and included performance trackers populated by directorates; overseen by the Project Management Office and an Assurance Panel; and feeding into the Council’s data observatory. By using the data observatory, the Council’s aspiration is to establish ‘one version of truth’ and build a bank of data from which more powerful performance modelling can go on to be developed in future years. We are satisfied that the Council has made progress in strengthening arrangements and is positioned to go on in future years to develop powerful modelling tools.

3Es2: How the Council evaluates the services it provides to assess performance and identify areas for improvement

As performance reporting arrangements evolved over the two years, the Council’s opportunity for evaluation of the services it provides also strengthened. Whilst routine Cabinet reporting and evaluation arrangements were not in place during 2020-21, the tone adopted by Cabinet in December 2020 when the Croydon Renewal Improvement Plan was finalised, showed a clear understanding of the need for evaluation going forward:

‘services will only be provided where they can be shown to have a direct benefit in keeping people safe and reducing demand’.

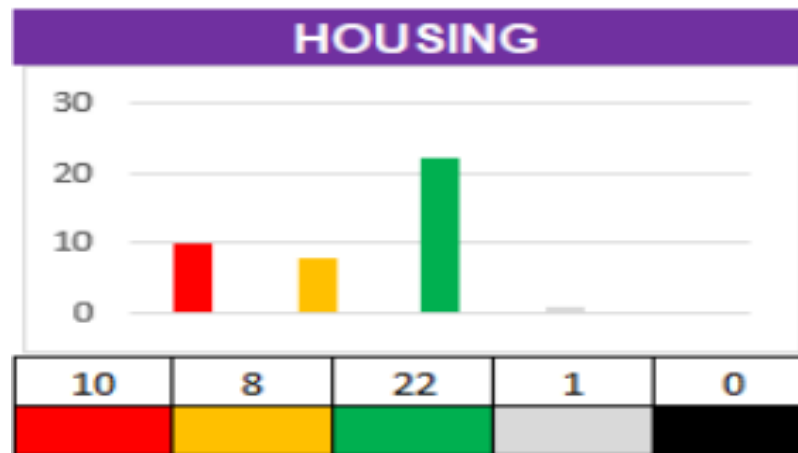
‘we will also need to be clear about what we can do, and what we can’t’.

The Finance, Performance and Risk reports introduced by the Council during 2021-22 provided a clear platform for evaluation of services. We reviewed the detailed information supporting the last report to Cabinet in 2021-22 as part of our work (Report to Cabinet: March 2022; lagged data date: December 2021). The report included more than 150 corporate core business key performance indicators. These included multiple areas surrounding service delivery, such as: Public realm; community safety; contact centre; early help and children’s social care; education; community equipment services; homelessness; resident satisfaction; and repairs.

For the key performance indicators, the report provided numerical and narrative data showing change in performance over time; and benchmarking against other London Boroughs where data was available. Numerical and narrative data was also provided for other Corporate Renewal Plan indicators, including homelessness; street lighting; hate crime; responsive repairs; customer contact; violence with injury offences; building control; freedom of information requests; missed bins; recycling rates; planning applications; building applications; and complaints.

The range of information available to support evaluation clearly improved in 2021-22. Given the volume of data presented, it will be important that context and other wider feedback is taken into account as part of the evaluation process. The March 2022 Finance, Performance and Risk report shows, for example, far more ‘Green’ than ‘Red’ performance indicators for housing (see Figure 2). ‘Reds’ include repairs and urgent repairs though. Events in March 2021 have highlighted how serious the impact of not responding to repair needs can be.

Figure 2: Housing Performance Indicators, March 2022
Source: London Borough of Croydon Finance, Performance and Risk report to Cabinet March 2022



Improving economy, efficiency and effectiveness (3Es)

3Es3: How the Council ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve

There were significant weaknesses within arrangements for working with partners in the housing service dating back across the whole of 2020-21 at least and still not fully resolved by the end of 2021-22. This included arrangements for repairs. In the specific case we discuss, the Regulator for Social Housing concluded that the Council had breached the Home Standard and the Tenant Involvement and Empowerment Standard, leading to actual and potential serious damage to Council Tenants. Many of the Council's functions are delivered in partnership with either commercial organisations or other public bodies. There may be relevant lessons that can be learnt for other partnerships.

2020-21

On 22 March 2021, the UK national press reported squalid conditions in a block of flats owned and rented out by the Council on Regina Road, South Norwood. In flats where young children had lived throughout the UK lockdown, the press coverage showed unusable mouldy rooms; the risk of electrocution; and soaking wet floors and furnishings all caused by the long-term ingress of water. An independent investigation carried out by the independent consulting provider ARK Consultancy shortly afterwards found that a water leak in the tower block had gone undiagnosed for four years, despite problems having been reported frequently and repeatedly by residents to the Council's call centre. The tower block repair and maintenance had been managed throughout the period by a contractor on behalf of the Council. The Council's call centre was run by the same contractor. ARK Consultancy's findings were that:

'The Council does not appear to have a 'mature' partnership relationship with its main contractor. Relationships appear to operate on a client/contractor basis with a focus on monitoring performance indicators rather than actively managing performance. ARK Consultancy would expect discussions to be forward-looking, seeking to identify trends and working together to resolve operational problems and drive continuous improvement'.

Given that a contractual relationships exists between the Council and its tenants, they count, in a sense, as 'partners' just as much as the maintenance contractor does. The ARK Consultancy investigation noted:

'an outmoded culture and attitude among a number of Council staff towards tenants. Tenants were often seen as demanding, difficult to deal with and less worthy of respect. Some Council staff lack empathy with tenants, failing to put themselves 'in their shoes' when dealing with problems. These attitudes appear to be going unchallenged'.

Given that the water leakage was eventually found to date back four years, although press coverage only emerged at the end of March 2021, we deem the significant weaknesses in partnership working which led to it to have been present for the whole of 2020-21 at least.

ARK Consultancy made it clear in their May 2021 findings that a range of issues led to the problems at Regina Road – including capacity, culture and competency within the councils' own teams. Fire safety was a separate but related issue that the ARK Consultancy investigation commented on. Specifically, ARK Consultancy asked for confirmation that Regina Road works identified in a Fire Risk Assessment undertaken in October 2020 had been completed in line with recommended timescale. ARK Consultancy identified that staffing levels and expertise within the fire safety team were an issue and as a result not all fire safety remedial actions were completed within recommended timescales. We are aware that since the time of the ARK investigation, the Council has filled positions within the fire safety team, improving compliance with recommended timescales. However, at the time that ARK completed their work, although short term recommendations had largely been completed and longer term, more costly recommendations, had been flagged to be carried out as part of later, larger refurbishment projects.

Independent consultants were engaged by the Council to carry out an audit of the Councils fire safety management in late 2022 with their report due in early 2023. A further 'critical friend' exercise will then be carried out to audit processes and agree a road map to full compliance.

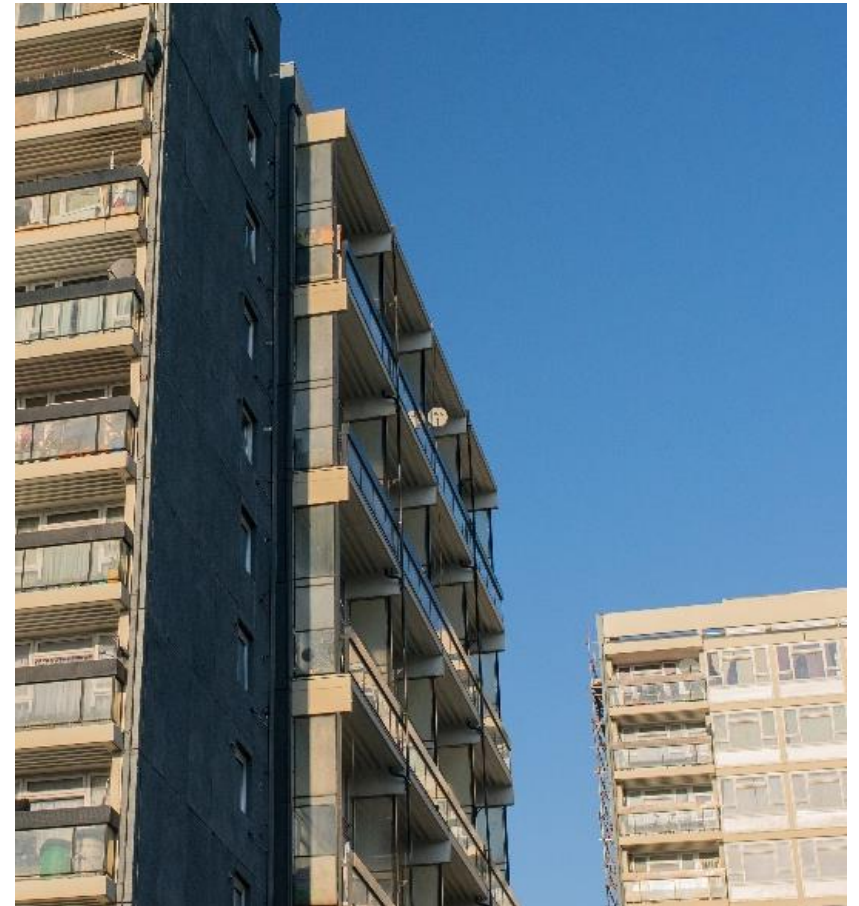
Improving economy, efficiency and effectiveness (3Es)

2021-22

In April 2021, at the same time as commissioning the independent investigation into Regina Road by ARK Consultancy, the London Borough of Croydon referred itself to the Health and Safety Executive and the Regulator for Social Housing. The Health and Safety Executive decided against action but on 20th May 2021, the Regulator for Social Housing concluded that the Council had breached the Home Standard and the Tenant Involvement and Empowerment Standard, leading to actual and potential serious damage to Council Tenants.

The Council established a new Housing Directorate; a Housing Improvement Plan; a Housing Improvement Board; and a Housing Improvement Plan Working Group during May 2021. An Interim Executive Director of Housing was appointed in May 2021 and an Interim Head of Repairs was appointed in June 2021. Representatives from the Council and the main contractor also took up post in offices within the Regina Road tower block for a more accessible channel for residents to voice concerns. Regular meetings between Council management and the contractor's management were also re-instated. Nevertheless, progress overall to resolve the situation has been slow. In January 2022, 14 out of 93 planned actions were complete. Actions ARK Consultancy listed for the Council specifically in respect of Regina Road included decanting all affected residents and making good all repairs. Progress with these was slow. A Tenant and Leaseholder Panel update report in January 2022 showed that only 12 out of 26 families at risk from mould and damp had been decanted.

In July 2021, the Council started a housing Residents Roadshow consultation exercise. By October 2022, Council staff had knocked on 2,755 doors and received 661 completed surveys. When results were processed, in February 2022, they showed that 36% of Council tenants still described their experience as poor or very poor. With less than half of all affected families having been decanted after the first nine months of 2021-22 and with 36% of all tenants responding to a survey half-way through 2021-22 to describe their experience as 'poor' or 'very poor', during the year 2021-22 there clearly remained areas of significant weakness in the service.



Improving economy, efficiency and effectiveness (3Es)

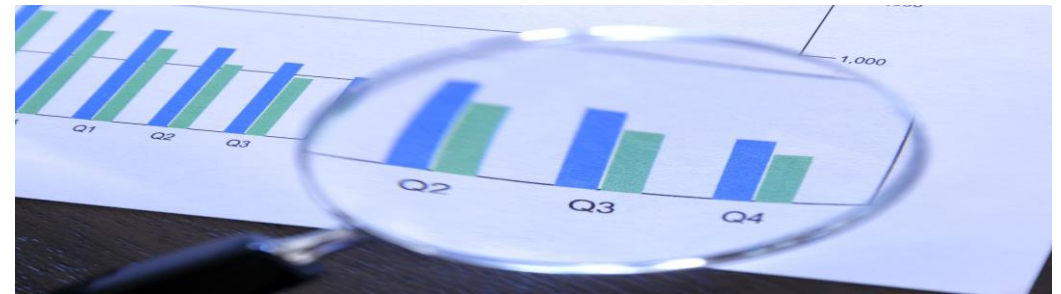
Leaving aside the need to address the immediate situation at Regina Road, we note that the ARK Consultancy investigation report concluded that the problems at Regina Road may be symptomatic of issues across the whole of the Council's housing service. The fact that regular performance calls had to be re-instated between the Council and its main contractor after the press coverage and investigation shows they had been allowed to stop, for a while at least. This may be symptomatic of a wider approach to managing contracts with other partners, in other areas of the Council's business.

After the end of 2021-22, in May 2022, the Council appointed a new permanent Corporate Director of Housing. We note that in June 2022, a decision was taken to re-procure gas safety and responsive repairs functions and (subject to an affordability assessment) to insource call centre functions going forward. For the gas and responsive repairs, the intention is that there will be one cross-borough contract to provide gas related services at an estimated value of £41.9m. Two contracts are planned to provide the remainder of the responsive repairs service, at an estimated value of £221.0m. These will include optional planned works of up to £64m, which would only be instructed following further approval in accordance with relevant governance processes. These steps are positive, but we conclude nevertheless that there were significant weaknesses within arrangements for working with partners in the housing service dating back across the whole of 2020-21 at least and which were still unresolved by the end of 2021-22.

KEY RECOMMENDATION 4:

Regular engagement with residents should continue. The Council's goal should be to improve upon a performance where 36% of its respondents described their experience with the Council as poor or very poor.

As the housing contracts are re-procured or insourced, they should be sense checked for lessons learnt from engagement with the previous contractor. Working with partners is more effective where there are shared goals, clear roles and responsibilities, performance metrics that are monitored, and a forward-looking view.



3Es4: How the Council ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits 2020-21

The Head of Internal Audit reported for 2020-21 that he had a number of issues with contract letting, monitoring and management across the Council in 2020-21 and that this was the second year running this had been the case. Contract management arrangements for the year were classified by the Head of Internal Audit as an area of significant weakness and signposted in the Council's draft Annual Governance Statement for the year as such. Findings were described as having been across the business. We note that the Facilities Management Hard Surfaces contract received a specific Limited Assurance grading, as did Public Health contracts management. Observations around contract notices, tenders and evaluation appeared across multiple other internal audit reports for the year as well.

Improving economy, efficiency and effectiveness (3Es)

2021-22

The Annual Governance Statement for 2020-21 was published in February 2022 and listed actions that the Council had taken since the end of 2020-21 to address the significant weaknesses reported within contract letting, monitoring and management arrangements. These included: establishing a Strategic Commissioning and Contracts Board in June 2021; and adopting a Contracts Improvement Plan in September 2021. New Tenders and Contract Regulations were also subsequently adopted by the Council on 23 March 2022 and the Council has been working to embed electronic scoring of tenders to eliminate the risk of human error in scoring bids. Despite these positive steps, the Head of Internal Audit reported for 2021-22 that he had again (by what was now the third year running) identified a number of issues within 2021-22 contract letting, monitoring and management and that this remained an area of significant weakness for the Council.

Whilst we recognise steps being taken in the right direction and an appetite for improvement, we conclude that for 2021-22 change would not have been well enough established to prevent there still being a significant weakness within arrangements for 2021-22. Towards the end of 2021-22, in January 2022, our own Report in the Public Interest concerning the refurbishment of Fairfield Halls and related governance arrangements for the subsidiary delivering the project (Brick by Brick Ltd) was published. The report described how in 2016, a land transfer option had been used to avoid public procurement regulations but how that, as a result, the Council was left open to challenge around state aid and unable to seek proper redress when costs spiralled (d £30m to £67.5m); the project was delayed by a year; and quality issues emerged.

Whilst the circumstances we reported on clearly predate both 2020-21 and 2021-22, that the theme of non-compliance with public regulations can date back so far and affect so high a value of expenditure suggests longstanding underlying cultural attitudes that will take time to tackle. Internal Audit also published reports after the end of 2021-22 which cast further light on procurement arrangements which would have been in place during 2020-21 and 2021-22. In May 2022 they published a report on housing procurement in 2020-21 through Brick by Brick Ltd.

They noted that by May 2022, they had seen no evidence of why a sub-contractor was appointed and weaknesses in arrangements for payment requests and budgetary control. In July 2022, Internal Audit published a report on IT contracts management in 2020-21. They noted that by 2022, for contracts with a combined value of £10m, they had still not seen evidence for contract variations; ordering of services; quality control; complaints; payments; contract performance monitoring; and budgetary control.

We conclude that there were significant weaknesses in arrangements for procurement throughout 2020-21 and 2021-22. We note that at the time of completing our work to support this interim Annual Auditor's Report, there was an investigation ongoing into the risk of illegality (fraud and other possible wrong-doing/ misconduct) in connection with overspends on the Fairfield Halls refurbishment.

KEY RECOMMENDATION 5:

The Council should continue the work started to strengthen governance over procurement. This will be particularly important as the Council prepares for new procurement legislation and a transition period of six months in 2023, when two different sets of regulations are expected to be in force at the same time. Internal Audit findings around contract letting, monitoring and management arrangements between 2019-20 and 2021-22 should be actioned at the earliest opportunity.



Opinion on the financial statements



Audit opinion on the financial statements

- Our audit of the Council's financial statements for 2019-20 and 2020-21 is not yet complete. Our audit of the Council's financial statements for 2021-22 has not yet commenced.

Progress reports and other findings

- We provided the Council with an Audit Progress Report in October 2021. We published Reports in the Public Interest on the Council in October 2020 and January 2022. We published Section 24 Statutory Recommendations in March 2023.

Whole of Government Accounts

- To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office. Audit work in respect of 2019-20 and 2020-21 and 2021-22 has not yet been undertaken.

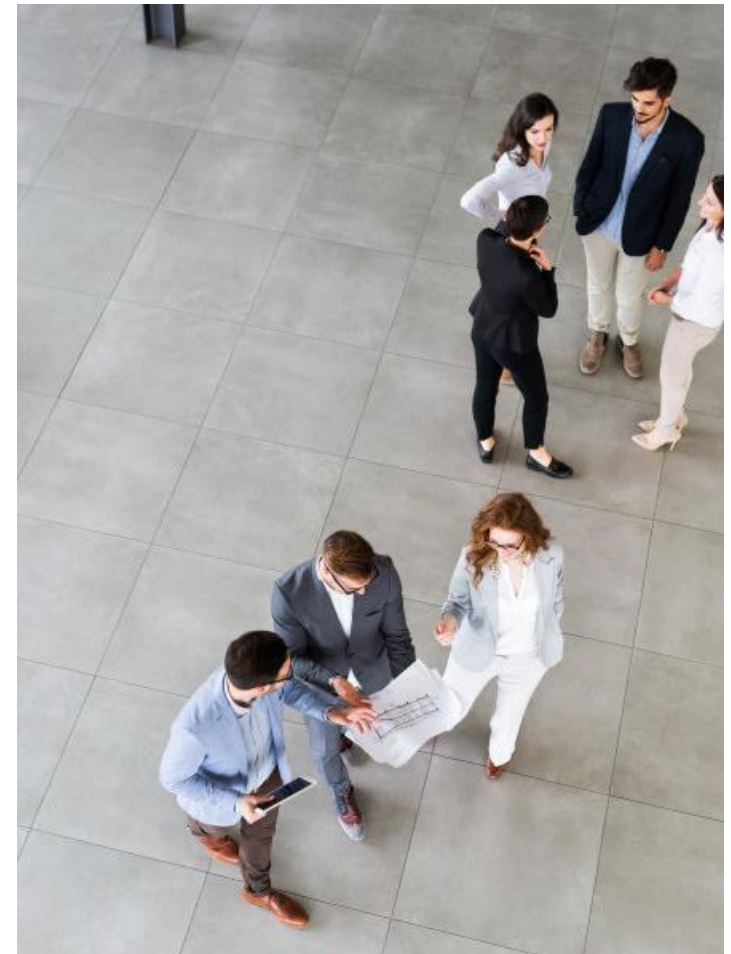
Preparation of the accounts

- The Council website includes a notice that the Council is unable to publish its audited 2020/21 Statement of Accounts by 30th September 2021. The notice states that this is due to a delay in the conclusion of the 2019/20 audit which needs to be completed before 20/21 can begin.
- Draft accounts for 2021-22 have not yet been prepared or published by the Council

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation

At the time of writing this interim Annual Auditors Report (April 2023), work to support an opinion for 2019-20 and 2020-21 and 2021-22 was not yet complete.



Appendices

Appendix A:

Responsibilities of the Council



Role of the Council's Service Director for Finance (Section 151 Officer):

- Preparation of the statement of accounts
- Assessing the Council's ability to continue to operate as a going concern

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Council's Service Director for Finance (Section 151 Officer) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Council's Service Director for Finance (Section 151 Officer) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Council's Service Director for Finance (Section 151 Officer) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local Council accounting in the United Kingdom. In preparing the financial statements, the Council's Service Director for Finance (Section 151 Officer) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



Appendix B:

Previously reported high-priority and statutory recommendations

Report in the Public Interest concerning the Council's financial position and related governance arrangements, October 2020

This report made 20 recommendations for the Council to address. Eight of the recommendations were presented as high-priority. The Council agreed a 99-point Action Plan in April 2020. A report to the Cabinet at the end of 2021-22 noted that 44 of the 99 Actions were confirmed by Internal Audit as complete in March 2022. Our April 2023 assessment of progress against the eight high-priority recommendations made in October 2020 is shown on the following pages of this interim Annual Auditor's Report:

high-priority recommendations October 2020	Page
The Executive Directors need to address the underlying causes of social care overspends: <ul style="list-style-type: none"> • in children's social care and take effective action to manage both the demand and the resulting cost pressures • in adults social care and take effective action to manage both the demand and the resulting cost pressures. 	13
The Council (including Cabinet and Scrutiny and Overview Committee) should challenge the adequacy of the reserves assessment which should include a risk assessment before approving the budget.	17
The Chief Executive should oversee a review of the outcomes achieved from the use of transformation funding to demonstrate that the funding has been applied in accordance with the aim of the scheme.	13
The Council (including Cabinet and Scrutiny and Overview Committee) need to show greater rigor in challenging underlying assumptions before approving the budget including understanding the track record of savings delivery.	10, 11, 12
The s151 officer should review the financial rationale and associated risks and make recommendations to Cabinet and Council on whether the Revolving Investment Fund should continue.	16, 17
The Cabinet and Council needs to re-consider the Treasury Management Strategy for ongoing affordability of the borrowing strategy, the associated risks and identify whether alternative options can reduce the financial burden.	14, 15, 16
The Cabinet and Council should review and reconsider the ongoing financial rationale for the Council in the equity investment arrangement with Brick by Brick.	16
The Cabinet and Council should review its arrangements to govern its interest in subsidiaries, how the subsidiaries are linked, the long-term impact of the subsidiaries on the Council's financial position and how the Council's and tax payers interest is safeguarded.	16

Appendix B:

Previously reported high-priority and statutory recommendations

Report in the Public Interest concerning the refurbishment of Fairfield Halls and related governance arrangements, January 2022

This report made 12 recommendations for the Council to address. Seven of the recommendations were statutory recommendations around decision-making and capital projects. The Council approved an Action Plan on 3 February 2022. A report to the Audit and Governance Committee on 13 October 2022 showed that Actions for five of the 12 recommendations were RAG rated Green but Actions for the other seven recommendations were RAG rated AMBER. At the time of completing our testing for this interim Annual Auditors Report, the Council had also commissioned an investigation into the legality of specific officer's actions (fraud and other possible wrongdoing/misconduct).

Statutory Recommendations January 2022

The Chief Executive supported by the Monitoring Officer and the Section 151 Officer should ensure that Cabinet papers for major projects set out clearly

- the legal powers to enter into a particular arrangement and attendant risk
- how the Council can protect its interests and secure economy, efficiency and effectiveness.

The Monitoring Officer should ensure that:

- contracts are properly executed before entering into arrangements with third parties
- the properly executed documents are stored robustly to allow future scrutiny.
- key requirements underpinning the legal advice are in place before progressing with the arrangement.

The Monitoring Officer should ensure that where legal advice changes after a Cabinet decision that the consideration of the implications of the changes is documented and where the Monitoring Officer considers additional legal risks are identified that the Cabinet is updated on the impact on the original decision made.

The Section 151 Officer should ensure that prior to making payments to third parties that appropriate legal documentation is in place such as a properly executed contract or a properly executed loan agreement.

The Chief Executive should improve record keeping arrangements so that

- the records supporting key decisions including financial analysis are maintained
- a standard approach to record keeping with monitoring of which decisions have been implemented
- tolerances are established for reporting back changes to Cabinet.

Appendix B:

Previously reported high-priority and statutory recommendations

Report in the Public Interest concerning the refurbishment of Fairfield Halls and related governance arrangements, January 2022

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Statutory Recommendations January 2022

The Chief Executive should work with the Leader to continue to embed:

- a clearly understood distinction between the different roles and responsibilities of Members, officers and representatives of entities akin to Brick by Brick
- clear responsibilities for officers and Portfolio Holders in challenging reports presented to Cabinet and other committees for balance, accuracy and consistency in terms of knowledge.

The Section 151 Officer should ensure financial reporting on significant capital projects is enhanced so that:

- a clear agreed budget for the project is identified and the underlying financial analysis is maintained
- a clear agreed project expenditure amount can be reported through appropriate governance processes
- where there are changes in the original financial assumptions that there is an assessment on the project's financial viability with appropriate reporting
- the revenue impact of any changes in the capital project are addressed in future budget setting.

Appendix C:

Key recommendations 20-21 and 2021-22

Page 36

Page	Key Recommendation	Management Comment	Status
13	With three s114 notices having been issued in two years, and the Council having made it clear that extraordinary government support is required to return to financial sustainability, it will be important that the Council maintains discipline over its own savings and transformation plans. For savings plans, Internal Audit recommendations for improvement in Star Chamber processes should be implemented as a matter of priority. Only plans that are realistic should be approved. For transformation projects, arrangements should be put in place for tracking and challenging outcomes before any further funding is approved.		
19	The Council should continue to focus on resolving Internal Audit recommendations, including from 2017-18, 2018-19, 2019-20, 2020-21 and 2021-22.		
21	The Council should continually review arrangements for overseeing standards and codes of conduct. The Ethics Committee, in overseeing standards, should be mindful that the substance of cultural behaviour is as critical as the procedural form.		

Appendix C:

Key recommendations 20-21 and 2021-22

Page	Key Recommendation	Management Comment	Status
26	<p>Regular engagement with residents should continue. The Council's goal should be to improve upon a performance where 36% of its respondents described their experience with the Council as poor or very poor.</p> <p>As the housing contracts are re-procured or insourced, they should be sense checked for lessons learnt from engagement with the previous contractor. Working with partners is more effective where there are shared goals, clear roles and responsibilities, performance metrics that are monitored, and a forward-looking view.</p>		
27	<p>The Council should continue the work started to strengthen governance over procurement. This will be particularly important as the Council prepares for new procurement legislation and a transition period of six months in 2023, when two different sets of regulations are expected to be in force at the same time. Internal Audit findings around contract letting, monitoring and management arrangements between 2019-20 and 2021-22 should be actioned at the earliest opportunity.</p>		

Appendix D:

An explanatory note on recommendations

A range of different recommendations can be raised by the Council's auditors as follows:

Type of recommendation	Background	Raised or referred to within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.	YES	<ul style="list-style-type: none"> January 2022 statutory recommendations shown in Appendix B. March 2023 statutory recommendations shown on Page 3.
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	YES	<ul style="list-style-type: none"> Financial sustainability – page 13 Governance – pages 19, 21 3Es – pages 26, 27
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	NO	N/A

Appendix E:

Opinion on the financial statements and use of auditor's powers

Opinion on the financial statements

Auditors are required to express an opinion on the financial statements that states whether they : (i) present a true and fair view of the Council's financial position, and (ii) have been prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom: 2019-20; 2020-21; 2021-22.

At the time of writing this report (April 2023), our audits of the financial statements for 2019-20 and 2020-21 were not yet complete. Our audit of the financial statements for 2021-22 had not yet started.

Statutory Recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly

In January 2022 we issued seven statutory recommendations in our Report in the public interest concerning the refurbishment of Fairfield Halls and related governance arrangements. In March 2023 we published two further statutory recommendations around financial arrangements and governance.

Public Interest Report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

We have issued two Public Interest Reports since the beginning of 2019-20:

October 2020: Report in the public interest concerning the Council's financial position and related governance arrangements

January 2022: Report in the public interest concerning the refurbishment of Fairfield Halls and related governance arrangements.

Application to the Court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

We did not make any Court application

Appendix E:

Opinion on the financial statements and use of auditor's powers

Advisory notice

We did not issue any advisory notices

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:

- is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure
- is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency
- is about to enter an item of account, the entry of which is unlawful.

Judicial review

We did not apply for judicial review

Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.



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