

Scrutiny & Overview Committee Agenda



To: Councillors Sean Fitzsimons (Chair), Robert Ward (Vice-Chair), Leila Ben-Hassel (Deputy-Chair), Jerry Fitzpatrick, Oni Oviri and Joy Prince

Reserve Members: Jeet Bains, Robert Canning, Richard Chatterjee, Pat Clouder, Mary Croos and Andrew Pelling

A meeting of the **Scrutiny & Overview Committee** which you are hereby summoned to attend, will be held on **Tuesday, 8 December 2020 at 6.30 pm. This meeting will be held remotely.**

Jacqueline Harris Baker
Council Solicitor & Monitoring Officer
London Borough of Croydon
Bernard Weatherill House
8 Mint Walk, Croydon CR0 1EA

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www.croydon.gov.uk/meetings
Monday, 30 November 2020

Members of the public are welcome to remotely attend this meeting or view the webcast after the meeting has completed at <http://webcasting.croydon.gov.uk>

The agenda papers for all Council meetings are available on the Council website www.croydon.gov.uk/meetings

If you require any assistance, please contact Simon Trevaskis 0208 7266000 as detailed above.

AGENDA – PART A

1. Apologies for Absence

To receive any apologies for absence from any members of the Committee.

2. Disclosure of Interests

In accordance with the Council's Code of Conduct and the statutory provisions of the Localism Act, Members and co-opted Members of the Council are reminded that it is a requirement to register disclosable pecuniary interests (DPIs) and gifts and hospitality to the value of which exceeds £50 or multiple gifts and/or instances of hospitality with a cumulative value of £50 or more when received from a single donor within a rolling twelve month period. In addition, Members and co-opted Members are reminded that unless their disclosable pecuniary interest is registered on the register of interests or is the subject of a pending notification to the Monitoring Officer, they are required to disclose those disclosable pecuniary interests at the meeting. This should be done by completing the Disclosure of Interest form and handing it to the Democratic Services representative at the start of the meeting. The Chair will then invite Members to make their disclosure orally at the commencement of Agenda item 3. Completed disclosure forms will be provided to the Monitoring Officer for inclusion on the Register of Members' Interests.

3. Urgent Business (if any)

To receive notice of any business not on the agenda which in the opinion of the Chair, by reason of special circumstances, be considered as a matter of urgency.

4. Report in the Public Interest - Action Plan (Pages 5 - 76)

The Committee is recommended to:

1. Consider and review the Action Plan attached at Appendix 1B;
2. Consider any proposed amendments or feedback that it wishes to make on the action plan; and
3. Submit that feedback in a report to Cabinet at its meeting on 18 January 2020.

5. Strategic Review of Companies and other Investor Arrangements - Brick by Brick Croydon Ltd ("BBB") Shareholder Decision - Directors and Articles of Association (Pages 77 - 134)

The Committee is recommended to:

1. Consider and review the Cabinet report (attached Appendix 1A-1C) and the Action Plan (attached Appendix 2);
2. Consider any proposed amendments or feedback that it wishes to make on the action plan; and
3. Submit that feedback in a report to Cabinet at its meeting on 18 January 2020.

6. Scrutiny Work Programme

To receive an update on the Scrutiny Work Programme for the remainder of 2020-21.

7. Exclusion of the Press and Public

The following motion is to be moved and seconded where it is proposed to exclude the press and public from the remainder of a meeting:

“That, under Section 100A(4) of the Local Government Act, 1972, the press and public be excluded from the meeting for the following items of business on the grounds that it involves the likely disclosure of exempt information falling within those paragraphs indicated in Part 1 of Schedule 12A of the Local Government Act 1972, as amended.”

PART B

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REPORT TO:	SCRUTINY & OVERVIEW COMMITTEE 8 December 2020
SUBJECT:	Report in the Public Interest – Action Plan
LEAD OFFICER:	Katherine Kerswell, Interim Chief Executive Jacqueline Harris Baker, Executive Director of Resources and Monitoring Officer Lisa Taylor, Director of Finance, Investment and Risk and Section 151 Officer
CABINET MEMBER:	Councillor Hamida Ali, Leader of the Council
WARDS:	All
CORPORATE PRIORITY/POLICY CONTEXT/AMBITIOUS FOR CROYDON:	
The delivery of the report in the public interest action plan forms part of the Council's overall improvement journey to strengthen its financial position, its financial governance and its overall effectiveness.	
FINANCIAL IMPACT:	
While the recommendations in this report do not have a direct financial impact in themselves, there will be costs associated with the implementation of the recommendations detailed within the report. These costs are currently unknown and an update regarding associated costs will be presented to the 18th January 2021 meeting of Cabinet for consideration and approval.	

1. **RECOMMENDATIONS**

The Committee is recommended to:

1. Consider and review the Action Plan attached at Appendix 1B;
2. Consider any proposed amendments or feedback that it wishes to make on the action plan; and
3. Submit that feedback in a report to Cabinet at its meeting on 18 January 2020.

2. **EXECUTIVE SUMMARY**

- 2.1 Following the extraordinary meeting of Council held on 19 November 2020, this report provides an opportunity for Members of the Committee to consider the Council's action plan to deliver the recommendations made in the recent Report on the Public Interest and to agree any comments or feedback that it wishes to make on the action plan.

3. BACKGROUND

- 3.1 The extraordinary meeting of Council held on 19 November 2020 considered a Report in the Public Interest (attached at Appendix 1A) concerning the Council's financial position and related governance arrangements issued by the Council's external auditors, Grant Thornton. A copy of the report to Council is attached at Appendix 1, including the appendices to that report, namely the Action Plan (labelled as Appendix 1B) and a high-level improvement diagram (labelled as appendix 1C).
- 3.2 In considering the report, Council agreed the action plan to implement the 20 recommendations made in the report in the public interest and the four additional recommendations made by the Council itself.

4. REPORT IN THE PUBLIC INTEREST ACTION PLAN

- 4.1 In agreeing the action plan, Council also agreed that the plan be presented to the next meetings of the General Purposes and Audit Committee and the Scrutiny and Overview Committee. This is to allow the respective committees to consider and review the action plan from their differing constitutional positions.
- 4.2 Following consideration of the action plan, any comments and feedback from the Committee will be reported to the Cabinet meeting scheduled for 18 January 2021. At that meeting, Cabinet will also consider any feedback from the General Purposes and Audit Committee as well as further detail on the recommendations, timelines and accountabilities, the delivery mechanism to support the improvement work and the costs, where possible, associated with implementing the recommendations.
- 4.3 In considering the action plan, Members of the Committee should also note that Council agreed all of the recommendations listed in Appendix 1, with two amendments as follows:

Recommendation 1.8

Council notes that a report will be brought back to Council in November 2021 to update Members on the progress on implementing the Action Plan. Also, Council notes that an ongoing quarterly progress monitoring report will be issued to all Councillors on the progress of implementing the Action Plan.

Recommendation 1.9

Council notes that prior to November 2021, there will be progress monitoring on this Action Plan and other associated plans. Cabinet will receive quarterly updates on progress. Updates will also be presented to the Scrutiny and Overview Committee and the General Purposes and Audit Committee, having regard to their respective terms of reference. Council will receive quarterly reports from the Improvement Board. Also, Council notes that the quarterly progress monitoring report will be an agenda item at every subsequent Full Council, Cabinet, Scrutiny & Overview Committee and GPAC for discussion.

5. CONSULTATION

- 5.1 This report forms part of the consultation on the action plan following the dedicated debate upon the Report in the Public Interest at the extraordinary meeting of Council held on 19 November 2020.

6. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

- 6.1 The recommendations in the Report in the Public Interest and the accompanying action plan will help to ensure that the Council operates to best practice standards with regard to its financial governance and overall financial effectiveness.
- 6.2 Having stronger corporate and financial governance will help improve the underlying financial viability of the Council and the sustainability of its finances in the long term.
- 6.3 There will be costs associated with the implementation of the recommendations detailed within the Report in the Public Interest. These costs are currently unknown and an update regarding associated costs will be presented to the January 2021 meeting of Cabinet for consideration and approval.
- 6.4 Capacity and capability within the Council to deliver the recommendations is a key risk when considered against the other reviews and likely resulting recommendations and the overall improvement needed for the Council.
- 6.5 The impact of both forthcoming budget reductions and the reintroduction of COVID-19 restrictions preventing staff from attending the office will need to be carefully managed to ensure that it does not impair the delivery of the recommendations.

Approved by: Lisa Taylor, Director of Finance, Investment and Risk and Section 151 Officer

7. LEGAL CONSIDERATIONS

- 7.1 The Interim Director of Law and Governance comments that there are no additional legal considerations arising from this report further to those previously detailed in Appendix 1.

Approved by Sean Murphy, Interim Director of Law and Governance & Deputy Monitoring Officer

8. HUMAN RESOURCES IMPACT

- 8.1 There are no human resource impacts arising directly from the recommendations in this report. However, there will be impacts associated with the delivery of the improvement plan. The improvement plan is part of a range of measures relating to improving the Council's financial position and it is inevitable that this will ultimately impact on the Council's workforce, when the Council's agreed Human Resources policies and procedures will be followed.
- 8.2 Human resources impacts will be appropriately reported to the relevant decision-making bodies as individual actions from the plan are implemented.

Approved by: Sue Moorman Director of Human Resources

9. EQUALITIES IMPACT

- 9.1 There are no equality impacts arising directly from the recommendations in this report. As such, an equality analysis has not been undertaken following the initial response to the external auditor's report. However, there will be impacts associated with the delivery of the improvement plan. The improvement plan is part of a range of measures relating to improving the Council's financial position and it is inevitable that this will ultimately impact on the Council's workforce and the communities it serves.

- 9.2 Consideration will be given as each of the individual actions included in the Action Plan are implemented as to whether they are relevant to equalities and will require an equalities impact assessment undertaken to ascertain the potential impact on vulnerable groups and groups that share protected characteristics.
- 9.3 Any improvements to governance that arise from the implementation of the recommendations in the action plan must pay due regard to ensuring that all residents in Croydon are able to understand the actions the Council takes in their name, the decisions it makes to spend resources on their behalf, and who is accountable for that action.
- 9.4 Close attention will need to be paid to ensure the Council is as transparent as possible and is as open and engaging with all its local communities through this process of improvement and afterwards in the new governance practices that are established.

Approved by: Yvonne Okiyo, Equalities Manager

10. DATA PROTECTION IMPLICATIONS

10.1 WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?

NO

The Head of Democratic Services and Scrutiny comments that the recommendations in this report do not involve the processing of personal data and as such, there are no data protection implications arising from this report.

Approved by Elaine Jackson, Interim Assistant Chief Executive.

CONTACT OFFICER: Stephen Rowan, Head of Democratic Services and Scrutiny

APPENDICES TO THIS REPORT

- Appendix 1 - Report to Extraordinary Council 19 November 2020
- Appendix 1A - Report in the Public Interest
- Appendix 1B - Action Plan
- Appendix 1C - High Level Improvement Diagram

REPORT TO:	EXTRAORDINARY COUNCIL 19 November 2020
SUBJECT:	Report in the Public Interest concerning the Council's financial position and related governance arrangements & establishment of an overarching Improvement Board
LEAD OFFICER:	Katherine Kerswell, Interim Chief Executive Jacqueline Harris Baker, Executive Director of Resources and Monitoring Officer Lisa Taylor, Director of Finance, Investment and Risk and Section 151 Officer
CABINET MEMBER:	Councillor Hamida Ali Leader of the Council
WARDS:	All
FINANCIAL IMPACT:	
<p>There will be costs associated with the implementation of the recommendations detailed within the report and for the production of the external auditor's report. These costs are currently unknown and an update regarding associated costs will be presented to the 18th January 2021 meeting of Cabinet for consideration and approval as part of the report detailed in recommendation 1.7 below.</p>	

1. RECOMMENDATIONS
<p>Council is recommended to:</p> <p>1.1 Fully accept the findings of the Report in the Public Interest, the scale and urgency of the issues that it raises, and all of the external auditor's recommendations, from R1 to R20, and note that R1a, R1b, R2, R3, R9, R12, R14, R18, and R20 have been identified by the external auditor as high priority, as detailed in appendix A;</p> <p>1.2 Agree the four additional recommendations, LBC1 to LBC4, detailed in appendix B to the report;</p> <p>1.3 Agree the Action Plan detailed at appendix B to the report, including the indicative timeline and accountabilities;</p> <p>1.4 Note that the Action Plan includes a response to each of the external auditor's recommendations;</p> <p>1.5 Agree that the Council continues to seek external support from across the sector to ensure that it learns from best practice nationally;</p> <p>1.6 Agree that the Scrutiny and Overview Committee and the General Purposes and Audit Committee, at their next meetings, consider and review the Action Plan</p>

- from their differing constitutional positions and report their feedback in separate reports to Cabinet at its 18th January 2021 meeting;
- 1.7 Request that Cabinet receive a report at its 18th January 2021 meeting on the Action Plan. The report will respond to the feedback from the Scrutiny and Overview Committee and the General Purposes and Audit Committee. The report will also provide further detail on the recommendations, timelines and accountabilities, the delivery mechanism to support the improvement work and the costs, where possible, associated with implementing the recommendations;
 - 1.8 Note that a report will be brought back to Council in November 2021 to update Members on the progress on implementing the Action Plan.
 - 1.9 Note that prior to November 2021, there will be progress monitoring on this Action Plan and other associated plans. Cabinet will receive quarterly updates on progress. Updates will also be presented to the Scrutiny and Overview Committee and the General Purposes and Audit Committee, having regard to their respective terms of reference. Council will receive quarterly reports from the Improvement Board;
 - 1.10 Agree to maintain a regular and open dialogue with the external auditor, the Local Government Association (LGA) and the Ministry of Housing, Communities and Local Government (MHCLG) to keep them apprised of the Council's progress in implementing its action plan in addition to inviting them to be members of the Council's Improvement Board;
 - 1.11 Agree that the Chief Executive undertakes a review of the capacity needed to deliver the improvements required of the Council and seeks to secure the specialist skills needed to deliver those improvements;
 - 1.12 Agree to establish an overarching, independently chaired Croydon Renewal Plan Improvement Board as detailed in paragraph 7 of the report;
 - 1.13 Note that the LGA has been commissioned to support the Council in undertaking an independent initial investigation of senior management actions in regard to the findings of the Report in the Public Interest to assess what, if any, formal action is required to be taken under any relevant process; and
 - 1.14 Note and welcome the Non-Statutory Rapid Review being undertaken by representatives of the MHCLG and that its recommendations will be incorporated into the overall improvement programme.

2. EXECUTIVE SUMMARY

- 2.1 This report details the findings of the external auditor, Grant Thornton, in the Report in the Public Interest concerning the Council's financial position and related governance arrangements published on Friday 23 October 2020.
- 2.2 The report sets out the Council's statutory obligations in response to the Report in the Public Interest, which to date have been met in full. The report also outlines the further statutory requirements following the Extraordinary Council Meeting which have yet to be taken.

- 2.3 The report requests Council to agree an Action Plan in response to the recommendations made by the external auditor and to agree the overarching Croydon Renewal Plan Improvement Board to govern the wider improvements required to the Council as well as these specific set of recommendations.

3. BACKGROUND

- 3.1 On Friday 23 October 2020, the Council's external auditor issued a Report in the Public Interest (the Report) concerning the Council's financial position and related governance arrangements. The full report is attached at appendix A.
- 3.2 The Report has been published as the external auditor is of the opinion that the Council:
- i) Has experienced deteriorating financial resilience for a number of years
 - ii) Has significant issues relating to its financial sustainability
 - iii) Has not responded promptly to previous audit recommendations and concerns
 - iv) And that this needs to be brought formally to the public's attention
- 3.3 The Report highlights concerns in a number of areas across the Council, namely:
- i) Overspends in Children's social care and Adults' social care over a number of years
 - ii) Reserves not maintained at a sustainable level
 - iii) Reliance on use of capital receipts for transformation expenditure
 - iv) Not managing Dedicated School Grant within existing budgets
 - v) The impact of Unaccompanied Asylum Seeking Children expenditure
 - vi) Treasury Management and affordability
 - vii) The complexity and risk of the Council's subsidiary company structure
 - viii) The Council's culture and governance of its financial decision making
- 3.4 In particular, the Report states that:
- i) There has been "corporate blindness" to the seriousness and urgency of the financial situation
 - ii) There is little evidence that £50m of transformation money has reduced demand, delivered savings or reduced costs in children's or adults' social care
 - iii) The Council has focused on service improvement without sufficient attention to controlling overspends
 - iv) There has been investment in the "Place area" without addressing if that investment was delivering the intended outcomes
 - v) Financial governance has been focussed on lobbying government for additional funding and not supported by actions to contain spending within available funding
 - vi) Numerous opportunities have been missed in recent years to tackle the Council's financial position

3.5 The Report contains 20 recommendations, of which 9 are identified as priority recommendations.

3.6 The Council fully accepts the findings of the Report and the recommendations that have been made.

4. STATUTORY FRAMEWORK FOR REPORTS IN THE PUBLIC INTEREST

4.1 Reports in the Public Interest are issued under the provisions of the Local Audit and Accountability Act 2014. The Act sets out a number of statutory requirements that a Local Authority must comply with following the publication of the Report.

4.2 The Council is required under the Act to consider the recommendations of the Report and decide what action to take in response in public at a dedicated Council meeting. It is also essential that all decisions made by the Council with regard to its governance and other improvements are taken in full cognisance of the report's findings and recommendations.

Publicising the Report

4.3 Following receipt of the Report, the Council is required to ensure that it is brought to the attention of public, elected members, its partner organisations and stakeholders.

4.4 At 5.40pm on 23 October 2020, a dedicated page was published on the Council's website that included the full Report, the formal public notice, further information about the Report, details on how to receive a copy of the report via the post and details on how to inspect a copy of the report at the Council's offices. The webpage can be found here - www.croydon.gov.uk/democracy/budgets/report-in-the-public-interest?home=banner. As at 5 November 2020, the webpage had been viewed over 8000 times and the report had been downloaded over 5500 times. On the same day, the Council published the Your Croydon e-bulletin, which is delivered to over 80,000 registered email addresses, containing information about the report.

4.5 A formal public notice was also published in the Croydon Guardian on Thursday 29 October 2020, which was the first available edition of the paper in which the notice could be included.

4.6 The Council issued a press release to ensure that the report was brought to the attention of the press and public. To date, the Report has been covered by the Guardian, BBC News, BBC London Radio, Thornton Heath Chronicle, Croydon Guardian, Croydon Advertiser, Radio Jackie, My London, The Evening Standard, On London and a range of trade publications including the Municipal Journal and the Local Government Chronicle.

- 4.7 The Council has also proactively contacted partner organisations to share the report and the Council’s regulators, such as Ofsted.
- 4.8 Full copies of the report were also sent to all elected Members on 23 October 2020 as well as the Borough’s three Members of Parliament. The report was also sent to all members of the Council’s General Purposes and Audit Committee, including independent Members. All Council staff were contacted via email with a link to the report and extensive staff briefings have been given. At the time of publication of this report, over 2000 staff had discussed the Report in webinars with the Leader of the Council and the Chief Executive.
- 4.9 The report has also been shared with all of the Council’s subsidiary companies.
- 4.10 Grant Thornton has issued the Secretary of State of Housing, Communities and Local Government with a copy of this report.

Responding to the Report

- 4.11 Within a period of one month beginning with the day upon which the Council received the report, the Council is required to hold an Extraordinary Council Meeting (this meeting) to consider the report.
- 4.12 In considering this report, Members of the Council are asked to vote on the recommendations, response and action plan or amend these as they see fit.
- 4.13 A notice has been published on the Council’s website on 10 November 2020 providing all relevant details of this meeting to comply with Local Audit and Accountability Act requirements. The link can be found here: <https://www.croydon.gov.uk/democracy/budgets/report-in-the-public-interest?home=banner> and a further public notice was placed in the Croydon Guardian on Thursday 12 November 2020. In addition, the agenda and supporting papers have been published to comply with the usual Local Government Act 1972 requirements.
- 4.14 Following the Extraordinary Council Meeting, the Council is required to publish a public notice, approved by the external auditor, that summarises the outcome of the meeting. That notice will be published in both the local press and on the Council’s dedicated webpage following this meeting.

Other Considerations

- 4.15 In considering the Report and the proposed action plan, Members should also take into particular consideration their personal responsibilities, and the Council’s constitutional and legal responsibilities, under two further areas. These are the Seven Principles of Public Life, better known as the Nolan Principles, and the Council’s “best value” duty under the Local Government Act 1999.

- 4.16 Croydon has adopted the Nolan Principles as part of its constitution. They establish the ethical standards and framework for conduct for all those working and governing in the public sector. These standards are mandatory and lay the foundations to the Council's constitution.
- 4.17 The Nolan Principles are: selflessness, integrity, objectivity, accountability, openness, honesty and leadership. Croydon has expanded the honesty principle to also include truthfulness. These principles apply equally to elected Members as well as to officers. They frame the code of conduct that guides behaviour and governance practice in the Council's constitution.
- 4.18 The Local Government Act 1999 introduced the duty of "best value" for all local authorities. This duty requires Councils to "make arrangements to secure continuous improvement in the way in which its functions are exercised having a regard to a combination of economy, efficiency and effectiveness".
- 4.19 The Non-Statutory Rapid Review of the Council which is currently being undertaken (please see paragraph 8 for more details) is being conducted in line with the best value principles and duty under this Act.
- 4.20 In fulfilling that duty, the Council needs to be a learning organisation that focuses on improvement and development; a Council that is open to challenge and which is fully accountable to the people of Croydon.
- 4.21 When considering the recommendations and Action Plan, Members may find it helpful to reflect on the Council's overall governance practice in relation to its commitments to the Principles of Public Life and its best value responsibilities.
- 4.22 The Council will need to continue its very recent focus on learning and seeking support, advice, guidance and challenge from partners across the sector to ensure that the improvements it delivers reflect best practice nationally. The fourth LBC recommendation speaks to this area of work and seeks to create a new system of internal control and a new set of behaviours, accountabilities, role clarity and effective practice in the Council. This will be based on extensive staff engagement and consultation that ensures we can function as an efficient and effective environment, free from fear and built on trust and openness.

5. CROYDON'S ACTION PLAN

- 5.1 The recommendations in the Report will be responded to by way of a detailed Action Plan as outlined in Appendix B to this report.
- 5.2 The Action Plan has been developed with support from colleagues drawn from across the Council, ensuring that it has benefitted from a blend of knowledge and expertise. Our thanks go out to the many staff who have contributed to the development of the Action Plan and we look forward to their continued involvement in its implementation.

- 5.3 In addition to the recommendations made by the external auditor, the Council is proposing four additional local recommendations to support its improvement work. These are listed as LBC1 to LBC4 within the Action Plan.
- 5.4 This report to Council also includes an additional recommendation to note that the LGA has been commissioned to undertake an independent initial investigation into senior management actions over the period covered by the Report in the Public Interest. This independent initial investigation will advise whether there is any formal action to be pursued through any relevant formal disciplinary process. The decision to undertake this independent initial investigation supports the Council's commitment to being open and fully accountable for the actions that have led to the report being issued. The investigation will report to the Interim Chief Executive in the first instance.
- 5.5 Overall accountability for the delivery of the Action Plan will jointly rest with the Leader of the Council, Councillor Hamida Ali and the Interim Chief Executive, Katherine Kerswell.
- 5.6 Accountability for individual recommendations in the Action Plan are clearly identified by Cabinet Member, and for individual actions by chief officers.
- 5.7 Following this Extraordinary Council Meeting, the Action Plan will be submitted to both the Scrutiny and Overview Committee on 8 December 2020 and the General Purposes and Audit Committee on 2 December 2020 to consider and review it from their different constitutional positions.
- 5.8 Those Committees will submit their feedback in the form of separate reports to Cabinet at its meeting on 18th January 2021. The report to Cabinet will also provide further detail on the recommendations, timelines and accountabilities, the delivery mechanism to support the improvement work and the costs associated with implementing the recommendations.

6. DELIVERING THE ACTION PLAN WITHIN THE CROYDON CONTEXT

- 6.1 The Report has been published at a very challenging time for Croydon. In addition to managing the local response to the COVID-19 pandemic and the strain that has placed on delivering Council services, the Council is also responding to a number of other very serious issues relating to its financial position, financial governance and its overall efficiency and effectiveness as an organisation.
- 6.2 These issues include:
- i) The second national lockdown, supporting test and trace in addition to preparations for an emerging vaccine programme;
 - ii) The Council issuing a section 114 notice;
 - iii) Residents' concerns about their Council;
 - iv) Reputation, organisational confidence and staff morale;
 - v) Budget development to deliver in-year savings and savings required in future years;

- vi) The need to submit a request to the Ministry of Housing, Communities and Local Government for approval to capitalise the 2020/21 in-year budget deficit and for further capitalisation funds over the next three years to be able to safely and sustainably balance the budget;
- vii) The 75 recommendations made in the Croydon Finance Review - Phase One;
- viii) The limited assurance opinion and resulting actions specified by the Head of Internal Audit;
- ix) The Strategic Review of the Council's group of companies and entities.
- x) The MHCLG Rapid Review to advise the Secretary of State in regard to our capitalisation request and any actions / recommendations arising
- xi) The need for an overarching Improvement Programme that draws all this together

6.3 In responding to these issues, it will be necessary to reshape and resize the Council in order to ensure its resources are organised to fully support the resolution of these issues and to ensure its financial sustainability. The Council has to deliver its statutory duties and will then have to right size any further discretionary services within available funding.

6.4 Given the challenges that the Council currently faces, careful consideration will need to be given to whether the Council has the capacity and capability to undertake all of the improvements that are required within a very demanding timescale.

6.5 The Council will need to both rebalance its immediate priorities to ensure that sufficient capacity is focussed on delivering improvements at pace, as well as working to ensure that it has the necessary skills available to deliver that improvement.

6.6 This will require the Council to seek to secure those specialist skills where they do not currently exist within the Council, through a combination of seeking external support and providing opportunities to staff to be seconded and develop new skills in those roles.

6.7 The Council has already benefitted in recent months from external support, advice, guidance and challenge from a number of people and bodies. The Council is hugely grateful for the support that it has received from:

- Grant Thornton
- The Local Government Association
- Ian O'Donnell, Independent Financial Consultant
- Chris Buss, Independent Financial Consultant
- Members of the Financial Review Panel that includes:
 - o Duncan Whitfield, Strategic Director of Finance and Governance, London Borough of Southwark
 - o Debbie Warren, Chief Executive, Royal London Borough of Greenwich
 - o Matthew Kershaw, Chief Executive, Croydon Clinical Commissioning Group (CCG)
 - o Mike Sexton, Joint Chief Financial Officer, Croydon CCG

- PricewaterhouseCoopers
- David Courcoux, London Borough of Tower Hamlets
- CIPFA

6.8 The Council has also benefitted from the tireless work and contributions from staff right across the organisation. Through this report, the Council formally places on record its thanks and gratitude to staff, working under very difficult conditions for an extended period of time, for all their efforts to help improve the Council's position.

6.9 In considering the actions required to address the recommendations in the Report, it is important to note that the actions will require a change in culture and governance behaviour, as well as changes to processes and systems.

6.10 It will take some time to fully implement all of the changes required in the recommendations proposed in the Action Plan. The Council has already started to make changes that will support the required improvements. These include:

- New political and officer leadership that is prioritising new ways of working, with a focus on making the Council more open to learning and external support;
- The strengthening of governance arrangements which will include monthly reporting of financial progress and performance;
- A clearer requirement to evidence risk and benefits when programmes of work and business cases are presented for approval and during implementation;
- A clearer understanding of risk that places greater focus on the Council's overall exposure to risks and monthly reporting;
- Much more open and regular communication with staff; and
- Beginning to build an awareness and understanding across the organisation with all our staff of the urgent need to change and improve our ways of working.

7. CROYDON RENEWAL PLAN OVERARCHING IMPROVEMENT BOARD

7.1 Members will be aware that there are a number of reviews that have taken or are taking place in relation to the Council's financial position, its governance and its overall efficiency and effectiveness as an organisation.

7.2 Those reviews include:

- i) The Croydon Renewal Plan for financial recovery
- ii) The Report in the Public Interest
- iii) The Rapid Review
- iv) Croydon Finance Review Phase One
- v) The Strategic Review of the Council's Group of companies and entities
- vi) The Centre for Governance and Scrutiny (CfGS) review of Scrutiny
- vii) The Governance Review

- 7.3 A number of these already have their own reporting and governance arrangements which will need to be further reviewed. Council is now recommended to establish an independently chaired overarching Croydon Renewal Plan Improvement Board.
- 7.4 The independently chaired Board will have oversight of the overarching improvement plan for Croydon. It will support and challenge the delivery of the Council's improvement journey as it seeks to recover its financial position, strengthen its governance and ensure that it is an effective organisation that delivers value for money services.
- 7.5 The Improvement Board will submit a public report on its work to Council every three months.
- 7.6 Further details on the Board, including its terms of reference, detailed Membership, costs and the initial overarching Croydon Renewal Plan will be presented to a future meeting of Cabinet and subsequently to Council.
- 7.7 Attached at Appendix C is a diagram explaining at high level the key actions for Croydon Council's Improvement Plan.

8. NON-STATUTORY RAPID REVIEW OF CROYDON COUNCIL

- 8.1 On 29 October 2020, the Ministry of Housing, Communities and Local Government confirmed that a non-statutory rapid review of the Council was to be conducted and would run until the end of November 2020.
- 8.2 The independent review is to give assurance to the Secretary of State, with particular reference to the Croydon Renewal Plan and to the Council's request for a capitalisation direction as per Council's decision on 28 September 2020.
- 8.3 The leadership of the Council has welcomed the review, recognising it as an important opportunity to share in detail with the Government the issues that Croydon currently faces and the work that has begun to ensure that Croydon operates in a more efficient and effective way, within a financially stable and balanced budget.
- 8.4 The findings of the Rapid Review will be presented to a future meeting of Council following its completion. Any recommendations for future action will be incorporated into the overarching improvement programme.

9. CONSULTATION

- 9.1 In addition to the publicity and communications detailed in paragraphs 4.3 - 4.8 above, a briefing was held for all Members of the Council on the Report in the Public Interest on Thursday 22 October 2020, the day prior to its publication. This briefing was immediately followed by question and answer sessions with Members within their political groups.
- 9.2 Both political groups on the Council were offered further briefings following the publication of the report and these have taken place on 30 October 2020 (administration group) and 4 November 2020 (opposition group).

10. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

- 10.1 The recommendations in this report will help to ensure that the Council operates to best practice standards with regard to its financial governance and overall financial effectiveness.
- 10.2 Having stronger corporate and financial governance will help improve the underlying financial viability of the Council and the sustainability of its finances in the long term.
- 10.3 There will be costs associated with the implementation of the recommendations detailed within the report. These costs are currently unknown and an update regarding associated costs will be presented to the January 2021 meeting of Cabinet for consideration and approval.
- 10.4 Capacity and capability within the Council to deliver the recommendations is a key risk when considered against the other reviews and likely resulting recommendations and the overall improvement needed for the Council.

The impact of both forthcoming budget reductions and the reintroduction of COVID-19 restrictions preventing staff from attending the office will need to be carefully managed to ensure that it does not impair the delivery of the recommendations.

Approved by: Lisa Taylor, Director of Finance, Investment and Risk and Section 151 Officer

11. LEGAL CONSIDERATIONS

- 11.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance that the Report in the Public Interest ("the Report") is issued under the provisions of the Local Audit and Accountability Act 2014 ("the Act"). The Council must comply with the requirements of the Act in responding to the Report. At the time of writing this report, all of the relevant requirements of the Act have been fully complied with.

- 11.2 Under the provisions of the Act, the Council must decide whether the Report requires the authority to take any action or whether the recommendations are accepted. It must decide what action to take in response to the Report and its recommendations. The recommendations and proposed actions by the Council are set out in the body of this report and accompanying Action Plan.
- 11.3 After considering the Report and its response to it, the Council must notify the external auditor of its decisions, and publish a notice containing a summary of those decisions which has been approved by the external auditor.
- 11.4 The powers set out in the Act are without prejudice to the duties and responsibilities contained in sections 114 – 116 of the Local Government Finance Act 1988 and section 5 of the Local Government and Housing Act 1989 as regards reports which may be issued by the Council's Chief Finance Officer or its Monitoring Officer or indeed powers set out in Part I of the Local Government Act 1999 regarding Secretary of State intervention in a local authority.
- 11.5 The recommendations in this report focus on improving the governance of the Council. This is in line with the Council's own Constitution and seek to promote the Council's statutory duty of best value and continuous improvement.

Approved by Sandra Herbert, Head of Litigation and Corporate Law on behalf of the Director of Law and Governance & Deputy Monitoring Officer.

12. HUMAN RESOURCES IMPACT

- 12.1 There are no human resource impacts arising directly from the recommendations in this report. However, there will be impacts associated with the delivery of the improvement plan. The improvement plan is part of a range of measures relating to improving the Council's financial position and it is inevitable that this will ultimately impact on the Council's workforce, when the Council's agreed Human Resources policies and procedures will be followed.
- 12.2 Human resources impacts will be appropriately reported to the relevant decision-making bodies as individual actions from the plan are implemented.

Approved by: Sue Moorman Director of Human Resources

13. EQUALITIES IMPACT

- 13.1 There are no equality impacts arising directly from the recommendations in this report. As such, an equality analysis has not been undertaken following the initial response to the external auditor's report. However, there will be impacts associated with the delivery of the improvement plan. The improvement plan is part of a range of measures relating to improving the Council's financial position and it is inevitable that this will ultimately impact on the Council's workforce and the communities it serves.

- 13.2 Consideration will be given as each of the individual actions included in the Action Plan are implemented as to whether they are relevant to equalities and will require an equalities impact assessment undertaken to ascertain the potential impact on vulnerable groups and groups that share protected characteristics.
- 13.3 Any improvements to governance that arise from the implementation of the recommendations in the action must pay due regard to ensuring that all residents in Croydon are able to understand the actions the Council takes in their name, the decisions it makes to spend resources on their behalf, and who is accountable for that action.
- 13.4 Close attention will need to be paid to ensure the Council is as transparent as possible and is as open and engaging with all its local communities through this process of improvement and afterwards in the new governance practices that are established.

Approved by: Yvonne Okiyo, Equalities Manager

11. DATA PROTECTION IMPLICATIONS

11.1 WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?

NO

The Head of Democratic Services and Scrutiny comments that the recommendations of this report do not involve the processing of personal data and as such, there are no data protection implications arising from this report.

Approved by Elaine Jackson, Interim Assistant Chief Executive.

CONTACT OFFICER: Stephen Rowan, Head of Democratic Services and Scrutiny

APPENDICES TO THIS REPORT

- Appendix A - Report in the Public Interest
- Appendix B - Action Plan
- Appendix C - High Level Improvement Diagram

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London Borough of Croydon

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

London Borough of Croydon

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

Summary

We are issuing this report as a Report in the Public Interest under section 24 and Schedule 7 of the Local Audit and Accountability Act 2014. The Council is required to publish this report as soon as practicable, consider it at a meeting held in public within one month of the date of publication and provide a publicly available written response to us.

The London Borough of Croydon (the Council) has experienced deteriorating financial resilience for a number of years with spending pressures within both children's and adult social care and low levels of reserves which created a significant financial challenge in 2020/21. The size of the financial gap in 2020/21 has increased due to the additional financial pressures as a result of the covid-19 pandemic. The Council has reached the view that external support from the Ministry of Housing, Communities and Local Government (MHCLG) is required and a formal request has been made to allow the Council to treat some of the day to day expenditure as capital.

As the Council's external auditor, we identified concerns relating to the financial sustainability criteria of the value for money conclusion in 2017/18 and raised recommendations for improvements. The financial position deteriorated during 2018/19 and we issued an adverse qualification of 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. The spending pressures identified in 2017/18 continued into 2020/21 and we wrote to the former Chief Executive in April 2020 setting out action we considered to be vital. At the end of August 2020, the Council had failed to produce a formal action plan or to respond to our audit recommendations effectively. A formal written response was received on 28 September 2020.

The Council has had an unsustainably low level of reserves for some time. The Council has 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 the reported level of reserves has continued to decrease in each of the previous three years. We reported the risk with low level of reserves to the Council and external parties such as the CIPFA Financial Resilience Index and the Institute for Fiscal Studies highlighted the risk. The Council has failed to adequately address the low level of reserves.

In the past three years, the Council has reported significant service overspends of £39.2 million within children's and adult social care. The Council used the flexibility granted by Government to apply capital receipts to transformation schemes in both children's and adult social care. Despite applying significant amounts of transformation monies (£73 million) in the past three years the Council continues to experience overspends in both departments and planned significant growth funding in the original 2020/21 budget. There is little evidence that the transformation monies have been used to achieve the Government's intended aims of this capital receipts flexibility, namely, reducing demand, delivering savings or reducing costs. The impact of the overspends has been masked by both the accounting treatment of the Dedicated Schools Grant deficit (which we disagree with) and the use of the flexible capital receipts. The Council has failed to deliver real savings in children's and adults' social care.

The budget monitoring reports during 2019/20 showed significant overspends, which reduced following 'corporate adjustments' of £17.7 million. The reports were accepted by Members without an appropriate level of challenge to continued service overspends, continued Unaccompanied Asylum Seeker Children (UASC) overspends or the validity of adjustments made to improve the outturn position. The Council set the 2020/21 budget in March 2020 prior to the covid-19 pandemic being declared. There was insufficient challenge from Members on the financial risks in the budget, credibility of the planned level of income from third parties and deliverability of the savings plan. The Council's governance over the budget setting and monitoring has not been good enough.

In response to both the growing financial gap and our letter, the Council established a Finance Review Panel in May 2020 and retained a Financial Consultant. The Financial Consultant has reviewed budget setting, monitoring and reporting processes and identified areas for improvement. Initial progress was swift and a budget gap for 2020/21 of £65 million was identified together with £21 million of in-year savings to narrow the gap if the savings were achieved. The position was reported to Cabinet in July 2020 and subject to Scrutiny and Overview Committee call-in in August 2020. Neither meeting referred the significant fact that the budget gap exceeded the available reserves, to Full Council. In our view this was a failure of governance and showed a lack of understanding of the urgency of the financial position. In September 2020, following the departure of the former Chief Executive and progress stalling on identifying deliverable savings, the Section 151 Officer drafted, but did not formally issue, a section 114 report which was discussed with the then Leader, the Deputy Leader, the then Interim Chief Executive and Monitoring Officer who agreed to amendments to the 2020/21 General Fund Budget via Cabinet and Full Council in September 2020.

The Council has increased the level of borrowing significantly in recent years (£545 million in three years) and used the borrowing to invest in companies it established and to purchase investment properties. The strategy for investing in properties was approved at Full Council using guillotine procedures meaning there was insufficient time to discuss and challenge the strategy and the first purchase was made two months prior to approving the strategy. The Council's approach to borrowing and investments has exposed the Council and future generations of taxpayers to significant financial risk. There has not been appropriate governance over the significant capital spending and the strategy to finance that spending.

The Council established a number of companies including wholly owned and part owned companies. The Council's governance and oversight of the companies shows insufficient rigor and control. Despite heavy investment from the Council, the Council has not yet received any significant return.

There has been collective corporate blindness to both the seriousness of the financial position and the urgency with which actions needed to be taken. The Council commissioned a review of its governance arrangements in March 2020 which concluded that improvements were needed to the culture around decision making. We agree with this recommendation and we note that we have not seen an improvement in the culture of decision making as it relates to financial sustainability. For a number of years the Council focused on: improvements in service delivery without sufficient attention to controlling the related overspends; investing in the Place area without addressing whether the investment delivered the intended outcomes; and financial governance was focused on lobbying government for additional funding which was not supported by actions to contain spending within the funding provided which was its statutory duty. Councils are statutory entities which must follow the law. The law is very clear on the legal requirement for councils to set a balanced budget. The Council's fragile financial position and weak underlying arrangements have been ruthlessly exposed by the impact of the Covid-19 pandemic.

Had the Council implemented strong financial governance, responded promptly to our previous recommendations and built up reserves and addressed the overspends in children's and adult social care, it would have been in a stronger position to withstand the financial pressures as a result of the Covid-19 pandemic. The Council needs to urgently address the underlying pressures on service spends and build a more resilient financial position whilst also addressing the long-term financial implications of the capital spending and financing strategy together with the oversight of the Council's group companies.

Recommendations

This report makes a number of recommendations for the Council to address, with the high priority recommendations in bold.

- R1. *The Executive Directors need to address the underlying causes of social care overspends:***
- R1a *in children's social care and take effective action to manage both the demand and the resulting cost pressures***
- R1b *in adults social care and take effective action to manage both the demand and the resulting cost pressures***
- R2. *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.***
- R3. *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.***
- R4. *The s151 officer should set out the strategy for applying capital receipts for transformation annually as part of the budget setting process.*

- R5. *The General Purposes and Audit Committee should receive reports on the actions being taken to address the DSG deficit and challenge whether sufficient progress is being made.*
- R6. *The Executive Director (Children's) needs to review the services provided to UASC and to identify options to meet their needs within the grant funding provided by the Home Office.*
- R7. *The Executive Director (Children's) needs to identify the capacity threshold for the numbers of UASC that it has the capacity to deliver safe UASC services to.*
- R8. *The Cabinet reports on the financial position need to improve the transparency of reporting of any remedial action taken to address in year overspends.*
- R9. *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.***
- R10. *The General Purposes and Audit Committee must challenge officers on the progress in implementing the Financial Consultant's recommendations to improve the budget setting, monitoring and reporting process and actions to address the Head of Internal Audit's concerns on internal controls.*
- R11. *The s151 officer needs to revisit the Growth Zone assumptions following the pandemic and make recommendations to Cabinet and Council for the continued investment in the scheme.*
- R12. *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.***
- R13. *The s151 officer should review the purchase of Croydon Park Hotel to identify lessons learned to strengthen future due diligence arrangements.*
- R14. *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.***
- R15. *The Chief Executive should arrange detailed Treasury Management training to assist Members to better understand and challenge the long-term financial implications of matters reported within the Treasury Management Strategy.*
- R16. *The s151 officer should revisit the Minimum Revenue Provision policy to demonstrate that a prudent approach is being taken.*
- R17. *The Cabinet and Council should reconsider the financial business case for continuing to invest in Brick by Brick before agreeing any further borrowing.*
- R18. *The Cabinet and Council should review and reconsider the ongoing financial rationale for the Council in the equity investment arrangement with Brick by Brick.***
- R19. *The s151 officer and monitoring officer should monitor compliance with loan covenants with Brick by Brick and report any breaches to Members.*
- R20. *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 taxpayers interest is safeguarded.***

Introduction

We are issuing this report as a Report in the Public Interest under section 24 and Schedule 7 of the Local Audit and Accountability Act 2014. The Council is required to publish this report as soon as practicable, consider it at a meeting held in public within one month of the date of publication and provide a publicly available written response to us.

Background

The London Borough of Croydon (the Council) has experienced deteriorating financial resilience for a number of years with service overspends being met through one-off actions including the release of reserves. Ofsted assessed children's services in Croydon as inadequate in September 2017 and the Council responded with additional investment in this service area impacting further on the in-year service overspend. The low level of reserves and unresolved spending pressures meant that the Council has struggled to respond to the financial challenges created by the Covid-19 pandemic. As a result of the existing financial position and the financial pressures from the pandemic, the Council has issued an amended budget in September 2020 in an attempt to avoid a section 114 report being served, and has formally engaged with MHCLG as per the CIPFA guidance

Prior to recent events we as the Council's external auditor have expressed concerns and raised recommendations in relation to the Council's financial sustainability and it is necessary to understand the sequence of events. The key points are set out below:

2017/18 value for money conclusion reporting and recommendations

We presented our 2017/18 Audit Findings Report to the General Purposes and Audit Committee in July 2018. Within our Value for Money Conclusion Report we identified concerns relating to the financial sustainability criteria and made recommendations to address the continued overspends within social care, the use of flexible capital receipts to fund transformation expenditure and the low level of reserves.

Our overall conclusion was:

Your reserves are now at a very low position and you face a number of clear risks to your continued financial health.

You have plans in place to take appropriate action to manage cost pressures, increase income sources and address the level of your reserves. The progress and impact of your actions are vital to enable you to deliver a balanced budget over the medium term.

On the basis that you delivered a balanced budget in 2017/18 and can reasonably expect to do so in 2018/19, we concluded that the risk that we identified in respect of your budget position has been sufficiently mitigated and that you have proper arrangements.

2018/19 value for money conclusion reporting and recommendations

We presented our 2018/19 Value for Money Conclusion to the General Purposes and Audit Committee in October 2019. We identified significant cost pressures from demand led services and specific cost pressures from Unaccompanied Asylum Seeker Children (UASC) together with the reported reserve position remaining low compared to other London Boroughs. We also reported that the overspend on the Dedicated Schools Grant (which had been excluded) should be considered within the reported reserves position as the forecast deficits in both 2019/20 and 2020/21 exceed the available general fund reserves in future years.

Our overall conclusion was:

On the basis of the significance of the matters we identified with your levels of reserves and the matters relating to Children's Services raised by OFSTED, we are not satisfied that the Council has made proper arrangements to secure economy, efficiency and effectiveness in your use of resources. We therefore propose to give a qualified 'adverse' conclusion.

Adverse qualifications of the Value for Money Conclusion are not common within the Local Government sector with only 4 being issued to top tier authorities in 2017/18 (the latest data available).

Our 2018/19 report noted that the recommendations from 2017/18 had not been implemented and we raised two further recommendations on the need to manage the Dedicated Schools Grant within existing budgets and to manage the impact of Unaccompanied Asylum Seeker Children (UASC) costs and look to seek a long-term solution.

2019/20 in-year financial position and 2020/21 budget setting

We continued to review the 2019/20 in-year financial position. The Quarter 2 outturn position (reported in November 2019) forecast an outturn deficit of £10.4 million which accounted for the majority of the existing General Fund reserve at 31 March 2019. We met with the s151 Officer (Director of Finance, Investment and Risk) and the Cabinet Member for Finance and Resources in December 2019 to discuss whether the Council had exhausted its reserve position. We received verbal representations that action was being taken to address the in-year financial position. The Quarter 3 outturn position (reported in January 2020) forecast an outturn deficit of £2.4 million, which was an improvement in the planned position of £8 million in three months. We requested an analysis of the movement between the reported in-year financial position to better understand the Council's financial position.

Based on our concerns regarding the 2019/20 forecast outturn position, we reviewed the 2020/21 budget and identified assumptions that we considered to be optimistic. Our meeting to discuss our concerns in March 2020 was delayed due to officers needing to respond to the pandemic. In early April we raised our concerns in meetings first with the s151 Officer and subsequently with the former Chief Executive, Executive Director of Resources (Monitoring Officer) and s151 Officer. It was evident that the pandemic had changed a number of the original 2020/21 budget assumptions. Based on the discussions of a worsening financial position and a very low reserve position we wrote to the former Chief Executive on 22 April 2020 setting out a number of areas where we wanted a written response.

This report sets out in more detail the areas of auditor concern identified in our letter to the former Chief Executive on 22 April 2020 and subsequent events.

Previous recommendations

As the external auditor we report our findings from our audit work to Those Charged with Governance, the General Purposes and Audit Committee. We raised matters of concern together with recommended action in 2017/18 and 2018/19 with the following recommendations.

1. Address social care overspends in the Children, Families and Education and the Health, Wellbeing and Adult departments

In 2017/18 we recommended that the Council take action to address social care overspends. The budget for both Children's and Adult Social Care included growth items each year however the overspends continued in 2018/19 and 2019/20 and the Quarter 1 report for 2020/21 shows continued pressures on these budgets.

Based on the published outturn reports the net overspends reported were

Area	2016/17 £ million	2017/18 £ million	2018/19 £ million	2019/20 £ million	2020/21 (Q1) £ million
Children's social care	6.4	11	9.5	8.4	16.5
Adult social care	2.2	0	1.7	8.6	30.2
Other departments	1.8	-4.2	-4.2	-13.5	15.1
Non-departmental	-10.45	-8.1	-6.7	-12	7.5
Exceptional	0	6.3	5.1	8.7	3.3
MHCLG funding re COVID					-23.5
Reported overspend	(0.05)	5.0	5.5	0.2	49.1

The challenges of demand led services with both Children's and Adult Social Care impacts across the Local Government sector and the Council is not unique in facing pressures on these budgets. The Council has included growth items in the budgets and applied transformation funding for each area and the overspends continue indicating that any action taken has not addressed either the continuing demand or the cost of meeting that demand. Although the demand pressures differ between Children's and Adult Social Care services, the Council has not demonstrated that it can take effective action to either manage the cost pressures or establish appropriate budgets within Children's and Adult Social Care services.

R1. *The Executive Directors need to address the underlying causes of social care overspends:*

R1a *in children's social care and take effective action to manage both the demand and the resulting cost pressures*

R1b *in adults social care and take effective action to manage both the demand and the resulting cost pressures*

2. Maintain reserves at a sustainable level

The Council has the lowest level of all London Boroughs of General Fund and Earmarked General Fund Reserves (excluding schools) as a percentage of net service revenue expenditure. The reported reserves levels have continued to decrease in recent years in part due to the overspends.

Year	General Fund £ million	Earmarked reserves £ million	Total General Fund and Earmarked Reserves £ million	Change from prior year %
2015/16	10.7	47.5	58.2	
2016/17	10.7	33.4	44.1	24% reduction
2017/18	10.4	18.2	28.6	35% reduction
2018/19	10.4	18.0	28.4	0.7% reduction
2018/19 restated*	10.4	8.8	19.2	32% reduction
2019/20 draft	7.5	9.1	16.6	13% reduction

* In 2018/19 we reported in our Audit Findings Report that the Council had not accounted for its Dedicated Schools Grant deficit correctly. The DSG deficit was £9.2 million but was treated as a debtor which we disagreed with. If the appropriate amendment had been made in 2018/19 the reported reserves position would have dropped to £19.1 million as at 31 March 2019. In the unaudited 2019/20 financial statements the Council has now made this adjustment.

Section 25 of the Local Government Act 2003 requires the Chief Financial Officer (CFO) to report on the robustness of the budget estimates and the adequacy of the planned reserves when the council tax decision is being made by the Council. This forms part of the statutory advice the Section 151 officer to the Council provides together with the advice throughout the year.

The reports to Council setting the Council Tax budget did include a statement from the Section 151 officer setting out the adequacy of the planned reserves together with any concerns. The budget reports set out both the Financial Strategy target level of reserves and the Section 151 Officer's assessment of adequacy.

	2017/18	2018/19	2019/20	2020/21
Level of General Fund balances as % of net operating expenditure	3.8%	4%	3.9%	3.9%
Financial Strategy target	5%	3 – 5%	3 – 5%	3-5%

The report setting the 2018/19 budget reduced the recommended level of reserves to a range without a detailed risk assessment. The budget was approved without evidence of challenge on whether the revised level of reserves was appropriate or whether the history of delivering services within the budget or delivering savings as planned had impacted on setting the appropriate reserves range.

In our reports presented to the General Purposes and Audit Committee in 2017/18 and 2018/19 we highlighted that the Council has the lowest level of reserves of all London Boroughs and gave an adverse qualification based on low reserves in 2018/19. External parties such as the CIPFA Financial Resilience Index and the Institute for Fiscal Studies have highlighted the low level of reserves at the Council. The 2020/21 budget was approved at Cabinet and Full Council without reference to the external auditor's adverse qualification of the value for money conclusion due to the level of reserves. The Section 151 officer included a £5 million contribution to reserves in setting the 2020/21 budget despite some resistance from Members. The Council did not display sufficient understanding of their reserve position relative to the financial challenges faced.

R2. The Council (including Cabinet and Scrutiny and Overview) should challenge the adequacy of the reserves assessment which should include a risk assessment before approving the budget.

3. Reduce reliance on use of capital receipts for transformation expenditure

The Secretary of State for Communities and Local Government issued guidance in March 2016, giving local authorities greater freedoms with how capital receipts can be used to finance expenditure. The Direction allowed for expenditure to be treated as capital where conditions are met. The Council must consider the Statutory Guidance issued by the Secretary of State which requires authorities to prepare, publish and maintain a Flexible Use of Capital Receipts Strategy with the initial strategy being effective from 1st April 2016 with future Strategies included within future Annual Budget documents.

The guidance provided a definition of expenditure which qualifies to be funded from capital receipts. This is:

Qualifying expenditure is expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners. Within this definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility.

Cabinet in July 2016 agreed the approach for flexibility in the use of capital receipts to support transformation where officers and members believe this to be appropriate. The strategy was presented to Cabinet in December 2017 which set the intended usage of flexible capital receipts during 2017/18.

After the strategy was presented to Cabinet in December 2017 there have been narrative references to confirm that the capital receipts would continue to be used where appropriate to fund transformation schemes in both the 2018/19 and 2019/20 budget papers presented to Cabinet and Full Council. A detailed strategy has not been presented since December 2017.

There is limited evidence of challenge over where transformation funding was being applied or whether outcomes had been achieved. For a scheme that has invested £73 million over three years it is inadequate that the schemes receiving transformation funding were not subject to reporting and challenge by Members including whether the intended outcomes had been achieved.

The intention of the transformation funding was to generate ongoing savings, reduce demand or reduce costs. After three years of transformation funding we would expect to see a reduction in the growth required in the associated budget. The three areas receiving the majority of transformation funding continue to receive additional growth funding in the 2020/21 budget. The substantial budget growth for both children's and adults' social care together with the significant transformation funding indicates that the transformation funding may have been used to meet service overspends rather than to transform the services which is not an appropriate use of transformation funding and does not comply with the Secretary of State's Direction.

Area	Transformation funding 2017/18 to 2019/20	Growth in 2020/21 budget
	£m	£m
Digital transformation	15	2
Children's social care	28.9	10.1
Adult social care	21.1	21.2

The Council has not shown sufficient understanding of how the transformation funding has been applied or the impact the transformation funding has had in generating ongoing savings, reducing demand or reducing costs. We will need to formally consider whether the application of capital receipts in this manner has formally breached the regulations set by Government.

R3. The Chief Executive should oversee a review of the outcomes achieved from the flexible use of capital receipts for transformation to demonstrate that the funding has been applied in accordance with the Statutory Guidance.

R4. The s151 officer should set out the strategy for applying capital receipts for transformation annually as part of the budget setting process.

4. Manage Dedicated Schools Grant (DSG) within existing budgets

Across London and other parts of the country there are increasing demands and pressures on the Dedicated Schools Grant (DSG) and in particular on the High Needs Block which covers children and young people with Special Education Needs. The Council has seen an increase in demand and costs in recent years and has provided additional funding in excess of the government grant to meet local needs. The specific account which the Council needs to maintain of its use of DSG has therefore fallen into deficit.

In 2018/19, the Council chose to account for the deficit amount as a debtor at the end of the financial year which we disagreed with as the Council's approach was based on the view that the Government ought to refund the excess spending rather than any evidence that this would be the case. The accounting treatment of any overspend on DSG has been subject to review with CIPFA and the Department for Education. Our current view is that any overspends against the DSG should be carried forward as a call against the schools' budget in future years and should form part of the un-earmarked general fund reserve.

From 1 April 2020 the Regulations provide local authorities with flexibility in dealing with deficits from prior funding periods when determining the individual schools budget and enables local authorities to deduct all, some or none of the historic deficit in determining schools' budgets. The Council's estimated DSG deficit exceeds the available school balances and therefore impacts on the un-earmarked general fund.

	2017/18	2018/19	2019/20
DSG deficit in year	0.9	8.3	5.3
Cumulative position	0.9	9.2	14.5

The Council has submitted a recovery plan to the Department for Education over a five-year period. MHCLG has drafted regulations to enable a statutory override for DSG deficits for three financial years from 1 April 2020. If approved the Council will have three years to recover the DSG deficit. The actions to manage expenditure within the existing budget envelope and recover the deficit and progress on delivery of the recovery plan should be reported to Members for challenge as the current deficit reduces further the unearmarked general fund reserves or will do in 2023/24 if the draft regulation is passed.

R5. The General Purposes and Audit Committee should receive reports on the actions being taken to address the DSG deficit and challenge whether sufficient progress is being made.

5. Manage the impact of Unaccompanied Asylum Seeker Children (UASC) expenditure and look to seek a long-term solution

The Home Office building located within Croydon results in the Council being a gateway authority for Unaccompanied Asylum Seeker Children (UASC). There is a national transfer scheme for UASC however this scheme does not appear to have worked as intended as the number of UASC children that remain the Council's responsibility has increased in the past three years.

The Home Office provides funding however the Council has not been able to contain expenditure on UASC within the funding provided and therefore additional overspends have been incurred.

	2017/18 £ million	2018/19 £ million	2019/20 £ million	2020/21 (Q1) £ million
Home Office funding received for UASC	15	19.2	16.9	
UASC costs in excess of Home Office funding – Croydon	2.9	10.6	8.7	3.3

The funding is received on the basis of an amount per child per night. The Council is not able to control the numbers of children it is responsible for. The Council, with other similarly impacted authorities, has lobbied for an increase in the rate per child. The latest rate was increased in June 2020 to £143 per child per night. The focus of the Council's effort has been on increasing the daily rate.

The daily cost of the services provided by the Council exceeds the daily rate received. There is a need for the Council to review how services can be delivered within the funding provided. The overspends from meeting UASC needs beyond the funding provided by the Home Office have contributed to the reduction in reserves.

As the number of UASC continues to increase the Council needs to consider where the capacity threshold is at which the service can no longer deliver safe care.

R6. The Executive Director (Children's) needs to review the services provided to UASC expenditure and to identify options to meet their needs within the grant funding provided by the Home Office.

R7. The Executive Director (Children's) needs to identify the capacity threshold for the numbers of UASC that it has the capacity to deliver safe UASC services to.

2019/20 outturn

The 2019/20 forecast position has been reported to the Cabinet throughout the year and this highlighted continued in-year overspends. The reduction in the forecast outturn overspend of £8 million between quarter 2 and quarter 3 is unusual and based on Cabinet minutes the explanation provided that this related to one-off initiatives was accepted without challenge. In an environment of financial pressures with low reserve levels, the Council did not display sufficient understanding of the urgency of the financial position during the financial year.

Area	Quarter 1 Forecast Variance £ million	Quarter 2 Forecast Variance £ million	Quarter 3 Forecast Variance £ million	Outturn Variance £ million
Children's, families and education	0.1	1.1	0.9	8.4
Health, Wellbeing and Adults	5	9.1	9.9	8.5
Place	0	0	-2.5	-4.8
Gateway, Strategy and Engagement	1.2	0.2	1	0.5
Resources	1	0	-4.5	-9.4
Corporate items	-7.3	-8.6	-10.6	-12.1
UASC	9.4	8.6	8.2	8.7
Total overspend	9.4	10.4	2.4	0.2

The key elements of the overspend (Children and adult social care plus UASC) total £25.6 million in 2019/20. All three areas were subject to previous auditor recommendations however insufficient action was taken to prevent the overspends continuing.

The change in the forecast overspend between quarter 2, 3 and the outturn report indicates either there were errors in the forecast or that action has been taken. The movement between reports was accepted at Cabinet without challenge. The outturn report presented to the Finance Review Panel highlighted £17.7 million of one-off corporate adjustments were made to be able to report the outturn as a £0.2 million overspend.

The one-off corporate adjustments are a matter of management judgement and as such carry a degree of risk. The presence of one-off corporate adjustments was not easily identifiable in the report to Cabinet making it more difficult for Members to challenge the validity of the one-off corporate adjustments.

We will be challenging the adjustments during the audit and the table below sets out the corporate adjustment with the initial auditor commentary.

Area	Amount Auditor Commentary £ million
Covid-19 grant	-0.6 One off nature
Reject carry forward requests	-0.8 Routine approach to budgetary management
Release of earmarked reserves	-2.9 Routine approach to managing an overspend with auditor expectation that this should have been clearly identified in the outturn report
MRP review	-0.2 Subject to auditor challenge regarding treatment of Brick by Brick borrowing in respect of MRP
Housing benefit bad debt provision released	-7.6 Subject to auditor challenge as auditor expectation is that the bad debt provision would increase in an economic downturn
Allocation of transformation funding	-5.6 Subject to auditor challenge on whether this meets the definition of transformation funding
Total	17.7

Our work on the auditor challenge of corporate adjustments will be completed following receipt of the draft financial statements on 16 October 2020 (these were due on 31 August 2020) and we will report our findings in the Audit Findings Report. Where the auditor challenge is not satisfied there is a risk that the reported overspend may increase with a resulting reduction in reserves.

R8. The Cabinet reports on the financial position need to improve the transparency of any remedial action taken to address in year overspends

2020/21 original budget setting

The original budget was presented to Cabinet in February 2020 and our review of the budget identified that the total amount of savings and additional income planned had doubled from the previous year to £65 million (£41 million savings with £24 million increased income). In assessing the credibility of any savings plan we consider the previous track record together with a more detailed review of the schemes.

The growth and savings identified each year are reported as part of the budget setting process. Thereafter the in-year financial reporting focuses on the outturn against budget. There is no reporting of the progress against individual savings schemes or the extent to which savings have been delivered overall. As a balanced budget is set, any overspend we have considered to be a notional shortfall in the savings plan. Based on our notional assessment of savings delivered the Council has an annual track record of achieving between £10 and £15 million of savings. A full year savings and additional income plan of £65 million was therefore not credible.

As part of approving the budget, we would expect challenge from Members on whether a significant savings plan was deliverable. The in-year financial reports do not identify progress against the savings plans agreed as part of the budget setting process and it is difficult to determine how Members reached the view that the savings plan within the budget being approved was achievable. We do not consider the Council's governance over the setting of the original 2020/21 budget to be good enough.

	2017/18 £ million	2018/19 £ million	2019/20 £ million	2020/21 £ million
Growth items	16.4	18.8	28.8	65.1
Savings and income items	-19.5	-17.5	-27.9	-65.1
Outturn for the year	5	5.5	0.1	
Notional savings delivered (savings less overspend)	14.5	12	10.1*	

*after £17.7 million of adjustments

The savings plan in February 2020 included additional income sources that were in our view optimistic including £3 million dividend from Brick by Brick, a company the Council has already lent almost £200 million to and for which the Council has yet to receive any dividend or any interest owing on loans; additional income from property investments of £4 million and additional income from car parking and enforcement of £3.7 million. These items were included within the papers presented to Cabinet and Full Council as part of budget setting however there is limited evidence of challenge. We believe that once again, in financial matters, the Council was found wanting and has not protected council taxpayers funds to the standards expected of local authorities.

R9. The Council (including Cabinet and Scrutiny and Overview Committee) needs to show greater rigor in challenging underlying assumptions before approving the budget including understanding the track record of savings delivery.

2020/21 financial position to date

The Covid-19 pandemic changed the underlying assumptions of the 2020/21 budget with increased expenditure requirements, reduced ability to achieve income and a need to focus operational capacity on responding to the pandemic at the expense of delivering savings programmes. The pressures the Council face are not unique to Croydon however the scale of the pressure is exacerbated by both the optimism shown in the original budget setting and the low level of reserves.

Our initial concerns on the 2020/21 budget setting led us to consider issuing statutory recommendations which would require consideration at a public meeting. Following our discussions with the then Chief Executive, Monitoring Officer and S151 Officer in April 2020 we paused the statutory process as in our view issuing statutory recommendations in April 2020 during a peak of Covid-19 related deaths was not appropriate. There were actions we considered vital for the Council to take and we wrote to the former Chief Executive on 22 April 2020. Whilst a formal written response was not received from the former Chief Executive, a number of actions were taken and regular verbal updates on progress were provided to us. A formal written response was received from the Interim Chief Executive on 28 September 2020.

The actions taken included appointing a Financial Consultant and establishing a Finance Review Panel. The Financial Consultant was an experienced ex local government finance director and the Finance Review Panel (the Panel) membership included the Executive Leadership Team, two Cabinet members and three external professionals: a Director of Finance from another London Borough; a Chief Executive from another London Borough; and the Chief Executive of the local NHS Trust.

Initial progress was swift with the first meeting of the Panel on 21 May 2020 where the infrastructure to provide governance was established over the proposed actions to address the financial position. The size of the financial gap was identified as £65 million, which exceeds both the Council's level of reserves and the Council's track record of delivering in-year financial savings.

	£ million
Additional expenditure	26.3
Unachieved savings	31.7
Lost income	27.3
Total gap in 2020/21	85.3
Funding from government	19.9
Remaining budget gap for 2020/21	65.4

The Panel received reports on the broad areas for savings in May 2020 and by the June meetings had quantified savings of £21 million from actions during 2020/21 to narrow the gap. The most significant elements were:

- £2 million on staffing from a recruitment freeze, reduction of agency staff and review of layers and spans of control which was in the original 2020/21 budget to provide £1.7 million of savings
- £2.6 million from applying further transformation funding
- £2 million reduced revenue costs from reducing additional borrowing and avoiding further debt servicing costs
- £7.6 million from partnership working with the NHS of which £2.5 million is recurring. The original 2020/21 budget included £6 million of savings from this partnership
- £3 million from review of contracts

The July 2020 Cabinet paper 'Responding to the Local Government Challenge' set out the scale of the financial gap, high level actions being taken and statements from the former Head of Paid Service, Section 151 Officer and the Monitoring Officer. The Section 151 Officer highlighted that if the planned actions were not delivered then a section 114 report would be required. The written and verbal presentations to Cabinet did not refer to the concerns raised by the external auditor or to the Panel decision on 2 July 2020 to make an informal request to MHCLG to allow the Council to treat some of the day to day expenditure as capital.

During July and August 2020, the actions being taken within the Council did not increase the quantified savings being reported to the Panel: with some variation the expected savings remained between £21 and £23 million. The Scrutiny and Overview Committee on 25 August 2020 called in the Cabinet reports 'Responding to the Local Government Funding Challenge' and 'July Financial Review' and raised a number of pertinent questions. In response to member questions the Section 151 Officer confirmed that she could not guarantee that a section 114 report would be avoided. Members of the Scrutiny and Overview Committee accepted the responses received and did not refer the matter to Full Council. In our view this did not demonstrate an understanding of the urgency of the financial position.

The Panel on the 27 August 2020 highlighted that progress had stalled in July and August 2020. Renewed focus was observed during the meeting including a change in focus for the risk ratings for savings plans from being based on whether programme management documents were in place to being based on confidence in the delivery of the saving. There was also clarity that senior officers were focused on solutions with 'business as usual' activities being delegated within appropriate teams.

Following the former Chief Executive's departure in late August and the latest update to the Panel showing only £11 million of the identified £20 million savings were assessed as deliverable, the Section 151 Officer drafted her section 114 report. The draft section 114 report was discussed with the then Leader, the Deputy Leader, the then Interim Chief Executive, the Monitoring Officer and external auditor on 1 September 2020. In response the Cabinet arranged an amended budget meeting on 21 September 2020 with the intention of taking amended budget proposals to Full Council in October 2020. Cabinet identified a number of actions to close the gap in year and the Section 151 Officer agreed to reconsider her draft section 114 report dependent on the outcome of the 21 September Cabinet meeting on the emergency budget.

The pace of the actions in September and October 2020 was significantly more focused than during July and August and early indications suggest that the underlying cause of the continued overspend in both children's and adults social care is now being addressed. In our view the Council missed opportunities to take substantive action earlier to address the in-year budget gap indicating a lack of understanding of the urgency of the financial situation.

The Head of Internal Audit indicated at the 17 March 2020 General Purposes and Audit Committee that he was proposing a limited assurance opinion for 2019/20 indicating concerns on the operation of internal controls. The Financial Consultant's brief included a review of the underlying budget setting process, budget monitoring and reporting process together with proposals for an improved medium-term financial planning process. The Financial Consultant's report presented to the Panel concluded that the financial governance is currently inadequate in relation to some areas of financial planning, budget setting and budget monitoring and identified 75 recommendations for change. During the drafting period of this report the Financial Consultant's report and the Head of Internal Audit's Limited Assurance Opinion were reported formally to the General Purposes and Audit Committee on 7 October 2020. The Head of Internal Audit's report was subject to detailed questioning by Members and a dedicated meeting scheduled for 20 October 2020 to discuss the Financial Consultant's report in more detail. The progress in October 2020 indicates a more robust approach is being taken to matters of concern raised to the General Purposes and Audit Committee.

During the drafting of this report the Council has taken a number of actions including

- Agreeing an in-year savings plan of £27.9 million
- Formally seeking support from MHCLG to balance both the in-year budget and to transition to a sustainable budget over the next three years
- In-year review of the capital programme
- A strategic review of Council owned companies

R10. The General Purposes and Audit Committee must challenge management on progress in implementing the Financial Consultant's recommendations to improve the budget setting, monitoring and reporting process and actions to address the Head of Internal Audit's concerns on internal controls.

Other auditor concerns

As part of the audit we have also identified further areas of concern which impact on the Council's financial sustainability.

Treasury management

Local authorities may borrow monies for any purpose relevant to its functions or for the purpose of the prudent management of financial affairs. The Prudential Code and Treasury Management Code set out requirements for local authorities including the need to prepare a Treasury Management Strategy. Looking at the Council's Treasury Management Strategies, the amount of borrowing has increased in recent years with further borrowing planned for future years.

	2016/17 actual £ million	2017/18 actual £ million	2018/19 actual £ million	2019/20 forecast £ million	2020/21 estimate £ million	2021/22 estimate £ million	2022/23 estimate £ million
Borrowings	968	987	1,357	1,513	1,791	1,989	2,035
Increase in borrowing		19	370	156	278	198	46
% change on previous year		2%	37%	11%	18%	11%	2%

The large increase in borrowings was for four purposes: Revolving Investment Fund; Growth Zone; Asset Investment Strategy; and General Capital Programme. The Growth Zone borrowing is estimated to be £121 million by the end of 2020/21 and the underlying assumptions and actions will need revisiting following the impact of the pandemic.

Revolving Investment Fund

The Revolving Investment Fund (RIF) aims to support the delivery of the Council's strategic aims specifically for housing and other developments. The RIF is the mechanism by which the Council lends money to developments and the RIF is funded by Council borrowing. The RIF lending is shown below:

Revolving investment fund	2017/18 £ million	2018/19 £ million	2019/20 £ million estimate	2020/21 to 2022/23 £ million Estimate
Total – RIF	45.7	119.7	218.7	223.2

The significant elements of the RIF have been invested in three schemes: Brick by Brick; Croydon Affordable Homes; and Taberner House. All three schemes involve complex commercial transactions and individual business cases have been taken to Cabinet however there is little evidence of challenge by Members in meetings (Full Council or Cabinet) on the deliverability of the schemes or the impact of each scheme on the long-term financial position of the Council. Increased borrowing to the schemes within the RIF is reported however there is no evidence of challenge on whether previous borrowing to the scheme has delivered the intended benefits or whether the third parties' financial position remains sound before agreeing further borrowing. A scheme of the value of the RIF should have a risk assessment which is updated regularly to reflect changes in market conditions. No such risk assessment has been undertaken. In our view this is another example of a lack of financial rigour being exercised by Members. The risk management of the RIF needs to be considered before agreeing further loans.

The principle of the RIF was to lend on at commercial rates whilst borrowing at lower rates with the net returns contributing to the Council's financial position. The interest receivable amounts continue to increase however the outstanding debtors indicate that Brick by Brick has not made any interest payments with £5 million owing at 31 March 2019.

Asset Investment Strategy

The Medium-Term Financial Strategy for Croydon 2018 – 2022 established an Asset Acquisition Fund of £100 million to invest in property to generate an ongoing income stream for the Council.

'The Council has an aspiration to secure medium to long term revenue returns from sound property investment principally within the Borough. If chosen carefully the revenue returns should be consistent and less prone to fluctuation due to the protection within the lease agreements. These returns will be key to future revenue income and enable expenditure on services.'

'The Council will be looking at the opportunity that property investment offers to help generate a secure revenue stream over the medium - to long-term. However, less secure assets that offer future revenue potential with higher returns that also unlock the development of strategic sites will also be considered. These may typically be part vacant properties in district centres that requiring some degree of refurbishment or additional development to secure their full letting potential. Each opportunity will be assessed against a matrix. The matrix will have scoring against each of the key elements and categorise into Excellent, Fair, Good and Marginal investments.'

The original Asset Investment Strategy set out the criteria for assessing each proposed investment property and was approved by Full Council in October 2018. The meeting had reached the time specified in the constitution for it to conclude before there was discussion of the medium-term financial strategy to establish the £100 million asset acquisition fund or the Asset Investment Strategy. The guillotine procedure was therefore used to close the meeting and the reports were approved without further discussion. This procedure is in line with the Council's constitution however a significant strategy such as the medium term financial strategy and asset investment strategy should have been re-considered at a time where Members had sufficient time to challenge whether the risk assessment and management within the strategy was sufficient and again indicates a lack of urgency in understanding the Council's financial position. It also indicates again the level of scrutiny and challenge by Members in respect of significant expenditure was not good enough in terms of challenging decisions that were high risk in the context of the Council's financial position.

During 2018/19 two purchases were made using the Asset Investment Strategy: The Colonnades with an asset value of £46 million in November 2018 and the Croydon Park Hotel with an asset value of £30 million in August 2018. The Croydon Park Hotel was purchased by Leader decision in August 2018 under delegated powers agreed at the July 2018 Cabinet meeting and reported to the September 2018 Cabinet meeting. The decision was subject to Scrutiny and Overview Committee call-in during September 2018 and the strategy covering the purchase was approved in October 2018.

Minutes of the Scrutiny Committee *noted that the paper (explaining the Council's proposed decision-making matrices) was produced after the first bid had been lodged and with this paper it would not have been possible to judge the soundness of the acquisition.* Whilst opportunities can arise at short notice, good governance would require the strategy to be approved prior to the first purchase.

The Covid-19 pandemic restrictions reduced the income from these investments as The Colonnades (a retail park) was closed and in June 2020 the Croydon Park Hotel operator went into administration.

The minutes also show that the Scrutiny and Overview Committee raised queries and received assurances which were accepted. From the Autumn 2020 perspective some of the queries raised at the Scrutiny and Overview Committee appear pertinent and the Council should review the purchase of Croydon Park Hotel to identify lessons learned to strengthen the due diligence undertaken for any future purchases. The investments in The Colonnades and Croydon Park Hotel were not grounded in a sufficient understanding of the retail and leisure market and have again illustrated that the Council's strategy to invest its way out of financial challenge rather than pay attention to controlling expenditure on core services was inherently flawed.

Affordability

The Treasury Management Strategy is presented at Cabinet prior to being approved at Full Council. The strategy includes Prudential Indicators which enable officers and elected members to make decisions on the affordability of the proposed strategy. There is little evidence of Members challenging the safe use of borrowing powers when approving the Treasury Management Strategy reports in particular:

- The Capital Financing Requirement (CFR) continued to increase, and was breached in 2017/18, 2018/19 and the outturn CFR presented in the 2020/21 Treasury Management strategy indicates that £10 million more borrowing was taken out than required
- The Authorised Borrowing Limit indicator was breached by £2 million in 2018/19
- The General Fund impact of Prudential Borrowing on Band D Council tax levels shows the cumulative impact of increased borrowing between 2017/18 and 2020/21 being an increase of £124.35 on a Band D council tax.

The key prudential indicators show an increasing level of debt that is at or just above the levels considered prudent. This is a complex area and the lack of challenge from Members may indicate that specific training in this area is needed to enable Members to provide an appropriate level of challenge on the affordability of the Treasury Management Strategy.

The Council is required by statute to make a prudent provision for the repayment of its debt and to have regard to MHCLG guidance in calculating the Minimum Revenue Provision (MRP) and to publish its policy annually. (Statutory guidance issued under section 21 (1A) of the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003). The Council made changes to its 2019/20 MRP policy in respect of how much MRP is charged for borrowing related to loans to third parties and loans to purchase investment properties. The policy indicates that loan repayments from third parties and income from investment properties leads to no MRP being set aside. Earlier we noted that there were significant loans to Brick by Brick which have not been repaid and to date the Council has not received any dividends from Brick by Brick and we noted that the Croydon Park Hotel had entered administration resulting in a significant reduction in investment income and increased costs. Taken together it is difficult to see how the Council's approach of no MRP for loans to third parties and for investment properties is prudent.

	2016/17	2017/18	2018/19	2019/20	2020/21
	£ million	£ million	£ million	£ million	£ million
Interest payments	36.8	37.0	40.2	37	43
MRP	7.4	8.0	8.9	10	11

R11. The s151 officer should revisit the Growth Zone assumptions following the pandemic and make recommendations to Cabinet and Council for the continued investment in the scheme.

R12. 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.

R13. The s151 officer should review the purchase of Croydon Park Hotel to identify lessons learned to strengthen future due diligence arrangements.

R14. The Cabinet and Council needs to re-consider the Treasury Management Strategy for the ongoing affordability of the borrowing strategy, the associated risks and identify whether alternative options can reduce the financial burden.

R15. The Chief Executive should arrange detailed Treasury Management training to assist Members to better understand and challenge the long-term financial implications of matters reported within the Treasury Management Strategy.

R16. The s151 officer should revisit the Minimum Revenue Provision policy to demonstrate that a prudent approach is being taken.

Subsidiary companies

In recent years the Local Government sector has seen a number of subsidiary companies being established. The Council has established a number of subsidiary companies with the aim of generating additional income. The governance of the subsidiaries, whether wholly or partially owned by the Council, is vital to both understand whether the arrangement is delivering the intended benefits and to safeguard the Council's interests held by the subsidiary. The Council has established a complex group structure and we found little evidence that the complexity and associated risk to the Council's financial position is understood by members or officers based on two specific examples.

Brick by Brick Croydon Limited

Brick by Brick Croydon Limited (Brick by Brick) was set up as a limited company with the Council being the sole shareholder to deliver housing development aiming to address the shortage of housing and the initial business case was presented to Cabinet in September 2014 with the governance arrangements being reported to Cabinet in June 2016. By the 2020/21 Budget, the governance arrangements had been strengthened through the Shareholder Investment Board and a Client Monitoring Group.

As the sole shareholder of Brick by Brick the Cabinet receives the annual business plan from Brick by Brick which based on a review of the Cabinet minutes is subject to a limited level of challenge. We would expect the Council to have clear governance arrangements on how its interests (as sole shareholder) are safeguarded and the extent to which the original aims of the business plan are being achieved. We would also expect a formal reporting mechanism from the Council nominated Directors back to the Council. Examples where the Council has not shown sufficient scrutiny of its wholly owned company include:

- The initial intention was for a proportion of the houses developed to be affordable housing through Shared Ownership. In January 2020, when potential purchasers were unable to obtain mortgages for the properties, the Council became aware that Brick by Brick had not registered Brick by Brick as a Shared Ownership Provider. This failure indicates a lack of understanding of the requirements and how the regulatory context developed over time.
- The original business case approved by Cabinet in March 2015 included the recommendation that the key legal and structural components of the company will not be more than 50% financed by the Council. By the 2017/18 business plan, the funding mechanism was 75% borrowing and 25% equity. The ongoing financial rationale for the Council to provide 25% equity should be reviewed from the perspective of the Council's financial position.
- The annual business plans continue to extend the time that Brick by Brick will be able to utilise receipts against future funding requirements or will repay the loans. The delay in the company being self-financing and repaying loans should be reviewed to determine whether the Council can continue to afford its investment in Brick by Brick

Business Plan year	Year Brick by Brick will cover funding from receipts	Year Brick by Brick will repay loans
2018/19	2019/20	2020/21
2019/20	2021/22	2021/22
2020/21	2022/23	2024/25

- The Council agrees individual loan agreements for each scheme with Brick by Brick which include loan covenants. Based on the loan agreements, we have reviewed a number of loans where covenants have not been met. The Council should be monitoring compliance with loan covenants and reporting breaches to Members. For example
 - a covenant requiring audited accounts within 90 days of the year end. At the end of August 2020 (153 days after the year-end) the audited accounts for Brick by Brick were not available.
 - a covenant requiring loan interest to be paid at the completion of the scheme. At 31 March 2020, the Council is yet to receive loan interest payments from Brick by Brick of £14.4 million of which £5 million was outstanding at 31 March 2019.
 - The loan agreement sets out the loan repayment date. At 31 March 2019 of the £221 million loan agreements between the Council and Brick by Brick, £99 million had been drawn down with a further £94 million drawn down in 2019/20. Based on our review of the loan agreements, £110 million of those loans were due for repayment by the date of this report and had not yet been received by the Council. Repayment dates can be varied by written consent however we have been unable to obtain confirmation from the Council that written consent was formally requested or provided to vary the loan agreement repayment date. Brick by Brick's annual business plan updates the expected date when all loans will be repaid and the Cabinet approval of the annual business plan has been considered by Brick by Brick to imply consent. As the loan agreements are legal documents it would be reasonable to expect any variation to be formalized. The Council has confirmed that its opinion is that any variation of the loan repayment date would require formal documentation. The Council should take action to clarify the existing loan repayment position with Brick by Brick and agree formal processes for any future variation in loan repayment date.
- The initial business case approved by the Council expected Brick by Brick would build and sell properties and pay dividends to the Council from the profit generated. The slippage in progress in building and selling properties has delayed Brick by Brick making a profit and no dividends were received by the Council adding further pressure to the Council's financial position.
- Brick by Brick set up its own internal trading arm, Common Ground Architecture. The first reference to this is in Brick by Brick's business plan for 2018/19 presented to Cabinet in February 2018. By February 2019, the 2019/20 Business Plan refers to the trading arm taking on external clients. We have found no evidence that the Council, sole shareholder of Brick by Brick, considered the impact on the Council's interests or the risks inherent in establishing a trading arm that takes on external clients or whether the trading arm is in line with the Council's strategic intention for Brick by Brick.

- At the Cabinet in July 2020, the Council made a decision to incur an additional £30 million of borrowing to purchase properties from Brick by Brick to increase the affordable housing supply available. This is not in line with the original business case for Brick by Brick approved by Members in March 2015. The most recent business plan presented to Cabinet states Brick by Brick *'will offer first refusal on all of our homes to the local authority in order to help address local housing need'*. The underlying financial case from the Council's perspective for the purchase of these properties did not address the circular nature of the Council taking out borrowing to lend to Brick by Brick to build the properties and then the Council taking out additional borrowing to purchase properties from Brick by Brick. This should be urgently reviewed.

The continuing financial business case from the Council's perspective for Brick by Brick should be urgently reviewed before agreeing any further borrowing.

London Borough of Croydon Holdings LLP

As part of the Revolving Investment Fund, the Council has lent money to schemes designed to support the supply of housing. Two of the schemes that had £55.1 million of loans outstanding at 31 March 2019 were Croydon Affordable Homes LLP and Taberner House LLP. The Council has a 10% holding in each company and the Council's holding is held by a company, Croydon Holdings LLP, which itself is wholly owned by the Council.

The increasing complexity of the group structures, the interaction between different subsidiaries, the longer-term financial impact for the Council and how to safeguard the Council's interests is not clearly understood. The subsidiaries are covered by Companies Act legislation and there is a knowledge and experience gap which puts the Council at risk of unintended consequences. For example, the Council does not have direct access to Croydon Affordable Homes LLP despite providing significant loans and the Council's representation is through London Borough of Croydon Holdings LLP. In December 2019, London Borough of Croydon Holdings LLP was dissolved by compulsory strike off by Companies House for a failure to comply with filing financial accounts and the assets of this company were transferred to the Crown. The Council is taking action to recover the company and associated assets but was unable to quantify the assets and liabilities of this company (£100) until late October 2020.

Having a company dissolved by compulsory strike off is a failure of governance and we have not identified evidence that the dissolution of London Borough of Croydon Holdings LLP has been reported to Cabinet or the General Purposes and Audit Committee. The Council has failed to establish adequate arrangements to govern its interests in subsidiaries and there is therefore not an appropriate mechanism for members to challenge either the arrangements or the continued extension of establishing additional companies.

R17. The Cabinet and Council should reconsider the financial business case for continuing to invest in Brick by Brick before agreeing any further borrowing.

R18. The Cabinet and Council should review and reconsider the ongoing financial rationale for the Council in the equity investment arrangement with Brick by Brick.

R19. The s151 officer and monitoring officer should monitor compliance with loan covenants with Brick by Brick and report breaches to Members.

R20. The Cabinet and Council should review the 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 taxpayers interest is safeguarded.

During the drafting of this report the Council has engaged with the matters raised and has taken a number of actions including

- Engaged external consultants to undertake a strategic review of the Council's group of companies and entities
- Commissioned external support to prepare accounts for all seven companies that form part of the Croydon Affordable Housing company structure including preparing a set of financial statements to enable London Borough of Croydon Holdings LLP's registration to be reinstated

Governance

The Council commissioned a Governance Review Panel to review governance arrangements and the final report was presented to Full Council in March 2020. The Introduction to the report states:

'it is clear that there is nothing fundamentally wrong with how Croydon takes its decisions... But there was nevertheless considerable dissatisfaction with the present arrangements.'

'The Panel does not believe that the answer lies in structural change to governance... but rather lies in improving the current culture around decision making.'

It is clear that there are improvements needed in the culture of decision making as it relates to financial sustainability. The Council's Financial Position has deteriorated to the level where external support from MHCLG is required. Whilst the covid-19 pandemic has created significant financial pressures for local government, the depth of the issues facing Croydon existed prior to the pandemic. The Council has shown collective corporate blindness in missing opportunities to tackle its financial position across three key areas:

- 70% of the Council's spend is on demand led services (children's and adult social care) where the focus has been on improvements in service delivery without sufficient focus on controlling the related costs
- The 'Place' area of Croydon became an area of high focus with significant financial resources invested to deliver the Council's vision but this was not supported by good governance and assessment of risk on how the resources were invested to deliver the intended outcomes
- Financial governance during the austerity period was focused on lobbying government which of itself is for the Council to decide, the Council should have taken actions to contain spending within the funding provided.

There have been opportunities in recent years where the Council could and should have taken action to mitigate the financial pressures that have led to the 2020/21 in-year pressures exceeding the Council's reserve position. Examples include:

- The Council failed to address the underlying causes of service overspends which during 2017/18, 2018/19 and 2019/20 had a combined overspend of £59.3 million. The overspends were reported in budget monitoring reports but there is little evidence of Member challenge or holding officers to account for the underlying reasons for the overspends or for taking action to address and mitigate the impact in future years.
- When UASC service costs were seen to exceed the funding available, the Council's response was to lobby government for increased funding. Whilst of itself this is appropriate action, the lobbying should have been combined with action to contain service delivery costs within the funding available. The financial pressure created by large numbers of UASC was clearly understood and reported however there is little evidence of challenge by Members of the appropriateness of the costs being incurred either at the budget setting or budget monitoring stage.
- Auditor concerns on the low level of reserves were reported to officers and Members of the General Purposes and Audit Committee in July 2018. The resulting recommendations remained outstanding at the end of August 2020 indicating a lack of urgency.
- The adverse qualification of the value for money conclusion was reported by the external Auditors to the General Purposes and Audit Committee in October 2019. Adverse qualifications are not common in local government and there was limited challenge of the auditor or officers at the meeting and no evidence that meaningful action was taken to address auditor concerns or to escalate the significance of the auditor concerns to the wider members of the Council.
- The 2019/20 Quarter 2 financial position reported to Cabinet in November 2019 showed an in-year overspend of £10.4 million. There was no indication that Members understood the implication of using the remaining general fund reserve on in-year pressures and this in our view contributed to the lack of urgency.
- The 2019/20 Quarter 3 financial position reported to Cabinet in January 2020 reduced the in year overspend by £8 million. This is an unusual movement and there was limited explanation in the report and no evidence of challenge to understand the validity of the adjustments to achieve the revised position.

- The outturn report for 2019/20 was reported to Cabinet in July 2020 and showed movements from the position reported previously. There was no evidence of Members challenging the movements. The outturn report presented to the Financial Review Panel in June 2020 highlighted service overspends that indicated poor budget management and set out corporate adjustments of £17.7 million to reach the outturn position. None of the officers or Members present at both the Financial Review Panel and the Cabinet drew attention to the significant in-year corporate adjustments. The challenge of the outturn figures was limited and, in our view, contributed to the lack of urgency in addressing the financial position.
- The outturn report did include a statement from the Section 151 officer that referred to the challenges identified in the budget together with commentary that if the proposed actions were not sufficient a section 114 report would be required. Given the size of the financial gap, the Scrutiny and Overview Committee reviewed the report on 25 August 2020 where in response to a question the Section 151 officer confirmed she was not confident that a section 114 report could be avoided. The Committee raised pertinent questions in relation to the financial position but chose not to refer the reports back to Full Council. The seriousness of the financial position would in our view have warranted a Full Council discussion.
- The 2020/21 budget was presented at both Cabinet and Full Council in early 2020. The budget included a larger savings target than previously delivered and some optimistic income assumptions. From a review of the minutes there was limited challenge on the credibility of the budget and no evidence that members who were aware of the adverse auditor qualification brought this knowledge to challenge the proposed reserves position indicating a lack of understanding of the financial position.
- The Treasury Management Strategy aimed to deliver the Council's ambitious vision and involved a significant increase in borrowing with increasing risk to the Council. The longer-term risk to the financial position associated with the borrowing was not clearly set out nor was there challenge to the reported prudential indicators which show that the Council's approach to borrowing was at or above prudent levels.
- The Medium Term Financial Strategy for Croydon 2018-2022 established the Asset Acquisition Fund and the Asset Investment Strategy. The first purchase under the strategy was Croydon Park Hotel in August 2018 which was before the strategy was approved by Full Council in October 2018 using guillotine procedures. Good governance would require a strategy to be approved prior to the first purchase indicating a lack of transparency in the decision-making process.
- The Treasury Management strategy included the approach for the Council to borrow to fund the Revolving Investment Fund where significant amounts are invested through groups and subsidiaries. There was a lack of understanding of the complexity of the arrangements, the risk associated with the arrangements, how to safeguard the Council's investments, whether the increased borrowing achieved the intended outcomes or the impact of increased borrowing on the Council's future revenue position. The continued approval of the expansion of the Revolving Investment Fund showed a collective corporate blindness to the risks the Council is exposed to.
- London Borough of Croydon Holdings LLP was dissolved by compulsory strike off due to a failure to file accounts. The facts or progress in remedying the situation have not been reported to Members or subject to scrutiny.

The missed opportunities represent deficiencies in financial planning, financial management, risk assessment, communication between officers and Members and challenge from Members before approving the strategies and plans that have led the Council needing in-year external financial support. Action must be taken to restore the Council to a sound financial position supported by effective governance.

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ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

1. The Council has fully accepted all recommendations made by the external auditor (R1-R20)
2. The Council has added additional recommendations LBC1-4
3. There are 9 high priority recommendations from the external auditor for the Council to urgently address:

R1a Children's Social Care	R12 Revolving Investment Fund
R1b Adult Social Care	R14 Treasury Management
R2 Adequacy of Council Reserves	R18 Ongoing investment in Brick by Brick
R3 Use of Transformation Funding	R20 Governance of subsidiaries
R9 Budget Challenge/Rigour	

Overall accountability for the action plan rests with the Interim Chief Executive

Recommendation 1a – HIGH PRIORITY

The Executive Director Children Families and Education needs to address the underlying causes of social care overspends in children's social care and take effective action to manage both the demand and the resulting cost pressures.

Cabinet Member Accountability: Councillor Flemming, Cabinet Member for Children, Young People and Learning

Action	Deadline	Accountability
i) Develop a strategy for managing demand and expected impact / outcome and set up panels to manage activity and cost: <ul style="list-style-type: none"> - Weekly care panel to divert children from care - Bi-weekly Children Looked After review panel to identify children who can be supported to be reunited with families from care, and to systematically review higher cost placements 	February 2021	Director, Early Help and Children's Social Care
ii) Develop a monthly Corporate Finance, Performance and Risk report to progress, track and measure activity. Specifically for Children's social care, this will monitor the effectiveness of actions to reduce the number of local children in care. This progress report will bring together data on the monthly movement in numbers of children in care, the achievement of care outcomes, the financial impact including full year forecast, and benchmarking against best practice.	Monthly Departmental Leadership Team (DLT) meetings whilst Corporate Finance, Performance & Risk report is developed with	Interim Executive Director, Children Families and Education

ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

	target date for March 2021	
iii) The progress report will be routinely presented to the Children's Improvement Board, Executive Leadership Team, Cabinet, General Purposes and Audit Committee and Scrutiny & Overview Committee which will bring a greater level of control and transparency (see Recommendation 5 which will also be incorporated into this process).	March 2021	Interim Executive Director, Children Families and Education
iv) Secure independent external challenge through the Partners in Practice programme to enable valid judgements to be made about the correct level of funding to meet the needs of Croydon's children in care.	January 2021	Interim Executive Director, Children Families and Education

ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

Recommendation 1b – HIGH PRIORITY

The Executive Director Health, Wellbeing and Adults needs to address the underlying causes of social care overspends in adults social care and take effective action to manage both the demand and the resulting cost pressures.

Cabinet Member Accountability: Councillor Campbell, Cabinet Member for Families, Health and Social Care

Action	Deadline	Accountability
i) Commission a diagnostic of spend and opportunities to be carried out by the Local Government Association (LGA) National Care & Health Improvement Adviser Finance and Risks to inform future shape of transformation opportunities.	COMPLETED October 2020	Executive Director Adult Social Care
ii) Review the current service delivery models of adult social care and gateway services to right size the budget and delivery model to benchmark with comparator Councils in relation to population and service outcomes	December 2020	Executive Director Adult Social Care
iii) To create a placements board to challenge the Council on current cost of placements, managing demand for new placements and ensuring value for money in procurement of placements	January 2021	Executive Director Adult Social Care
iv) Use the output from the diagnostic review to remodel financial implications to help shape the Medium Term Financial Strategy (MTFS)	December 2020	Director of Finance, Investment & Risk
v) Develop a monthly Corporate Finance, Performance and Risk report to progress, track and measure activity. This will include monitoring of the new service delivery model to track progress and challenge effectiveness of the plan.	Monthly DLT meetings whilst wider Finance, Performance & Risk Report is developed with target date for March 2021	Executive Director Adult Social Care
vi) Progress will be governed by reporting to the Executive Leadership Team, Cabinet, General Purposes and Audit Committee and Scrutiny & Overview Committee which will bring a greater level of control and transparency.	March 2021	Executive Director Adult Social Care

ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

vii) Ensure that cost of care tool is used effectively to track all case expenditure to improve financial control, identify areas of focus for further improvement and to enable better decision making.	December 2020	Executive Director Adult Social Care

ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

Recommendation 2 – HIGH PRIORITY

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.

Cabinet Member Accountability: Councillor King, Cabinet Member for Croydon Renewal

Action	Deadline	Accountability
i) Develop a reserves strategy as part of the Medium Term Financial Strategy (MTFS) and present it for approval with the Budget reports to Cabinet and Full Council. This needs to incorporate a clear assessment of risks and liabilities that demonstrate all current and future exposure has been thought through and factored into the recommendations.	February /March 2021	Director of Finance, Investment and Risk
ii) In considering future budget reports, Cabinet will assure itself that all risks and liabilities have been properly considered by requesting that the Scrutiny & Overview Committee and the General Purposes and Audit Committee review the adequacy of the strategy and its relationship to the MTFS prior to Cabinet taking a decision.	February/March 2021	Director of Finance, Investment and Risk

ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

Recommendation 3 – HIGH PRIORITY

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.

Cabinet Member Accountability: Councillor King, Cabinet Member for Croydon Renewal

Action	Deadline	Accountability
i) A review of all schemes previously funded from transformation capital receipts be undertaken and a report produced that assesses whether the funding has been applied in accordance with the scheme.	January 2021	Director of Finance, Investment & Risk

ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

Recommendation 4

The s151 officer should set out the strategy for applying capital receipts for transformation annually as part of the budget setting process.

Cabinet Member Accountability: Councillor King, Cabinet Member for Croydon Renewal

Action	Deadline	Accountability
i) A strategy for funding transformation to be incorporated into the budget setting process using the current Ministry of Housing, Communities and Local Government (MHCLG) Flexible Use of Capital Receipts Scheme. Note: information at the time of writing this report is that this scheme is coming to an end.	January 2021	Director of Finance, Investment & Risk
ii) In the absence of any national capital receipts for transformation scheme, the strategy for funding transformation will set out how future schemes will be funded using invest to save principles using rolling investment that is set aside and supported by business cases that demonstrate return. Any business case will have to demonstrate governance of the programme to assure the section 151 officer and Cabinet that the deliverables are being met. All schemes approved for funding under this strategy will be assessed individually and against the overarching risk exposure and affordability for the Council.	February 2021	Director of Finance, Investment & Risk
iii) There will be an annual report to the Scrutiny & Overview Committee on the use of transformation funding and the delivery of schemes.	December 2021	Director of Finance, Investment & Risk

ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

Recommendation 5

The General Purposes and Audit Committee should receive reports on the actions being taken to address the Dedicated Schools Grant deficit and challenge whether sufficient progress is being made.

Cabinet Member Accountability: Councillor Flemming, Cabinet Member for Children, Young People and Learning

Action	Deadline	Accountability
i) The Dedicated Schools Grant recovery plan should be presented to General Purposes and Audit Committee and Scrutiny and Overview Committee for review and agreement to ensure that it is adequate to meet objectives and timelines that have been set.	February 2021	Interim Director of Education
ii) Special Educational Needs Finance Board to be established and chaired by the interim Director of Education to oversee the delivery of the Dedicated Schools Grant recovery plan.	COMPLETED October 2020	Interim Director of Education
iii) Implement the 'New Approach to Special Educational Needs delivery' strategy working with schools to ensure that more of our Special Educational Needs pupils are educated in mainstream provision to include: <ul style="list-style-type: none"> • Developing more capacity within the post-16 provision • Opening of new Special Educational Needs free schools 	Early adopter Locality areas from September 2020 Ongoing discussions with current provider (Croydon College) for 2020/21 academic year Opened September 2020 in temporary location and from September 2021 in substantive location	Interim Director of Education

ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

<p>iv) Progress against the recovery plan to be included in the monthly budget monitoring report to Children's, Families and Education Department Leadership Team, the Executive Leadership Team, the Children's Improvement Board and the quarterly Cabinet, General Purposes and Audit Committee and Scrutiny & Overview Committee which will bring a greater level of control and transparency.</p>	<p>Period 7 report to Department Management Team November 2020</p> <p>Period 7 report to Extended Leadership Team December 2020</p> <p>Quarter 3 report to Cabinet February 2021</p>	<p>Interim Executive Director, Children Families and Education Head of Finance - CFE</p>
<p>v) Progress on Dedicated Schools Grant recovery plan to be reported to the Schools' Forum on a termly basis</p>	<p>December 2020</p>	<p>Interim Head of Finance, Children, Families and Education</p>

ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

Recommendation 6		
The Executive Director Children, Families and Education needs to review the services provided to UASC and to identify options to meet their needs within the grant funding provided by the Home Office.		
Cabinet Member Accountability: Councillor Flemming, Cabinet Member for Children, Young People and Learning		
Action	Deadline	Accountability
i) Complete a forensic review of grant income against the total expenditure for unaccompanied asylum seeking children and care leavers over the past 3 years, including the co-ordination of pan-London arrangements	December 2021	Interim Head of Finance, Children, Families and Education
ii) Negotiate with the Home Office and Department for Education to secure the same financial support provided to other port of entry authorities such as Kent and Portsmouth to cover the exceptional overhead costs caused by the volume of unaccompanied asylum seeking children received in the Borough. <ul style="list-style-type: none"> • Full cost recovery for exceptional overheads provided by Croydon such as age assessments, the social care duty service at Lunar House and legal fees. Due to volumes in the Borough from its port of entry position, these cannot be absorbed within normal overhead cost as per all other local authorities. • Increased funding for children cared for over and above the voluntary national rate to match the funding of Croydon's children in care. 	Initial meeting end November 2020	Interim Executive Director, Children Families and Education
iii) Work with London local authorities to safely transfer responsibility for an agreed number of children in Croydon's care to reduce disproportionate burden on Croydon.	Initial meeting held October 2020	Interim Executive Director, Children Families and Education
iv) Introduce a needs based approach to withdrawing services to young people whose appeal rights are exhausted alongside earlier, robust triple planning as part of their pathway at 16 plus. This will assist and support a planned, safe voluntary return when all legal routes to remain have been exhausted and avoid a forced detention and removal when young people have no recourse to public funds, limited access to NHS and education and cannot work legally in UK.	December 2020	Director Early Help and Children's Social Care

ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

Recommendation 7

The Executive Director Children, Families and Education needs to identify the capacity threshold for the numbers of UASC that it has the capacity to deliver safe UASC services to.

Cabinet Member Accountability: Councillor Flemming, Cabinet Member for Children, Young People and Learning

Action	Deadline	Accountability
i) Draw on the analysis and review at 6 (i) to develop options to establish a capacity threshold for Croydon for unaccompanied asylum seeking children that is commensurate with other Local Authorities and in line with the nationally agreed standards and funding.	December 2020	Interim Executive Director, Children Families and Education
ii) Present options for the Council to deliver safe services within the capacity threshold to the Children's Improvement Board, Cabinet and General Purposes and Audit Committee and Scrutiny & Overview Committee to increase levels of control and improve transparency.	February 2021	Interim Executive Director, Children Families and Education

ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

Recommendation 8		
The Cabinet reports on the financial position need to improve the transparency of reporting of any remedial action taken to address in year overspends.		
Cabinet Member Accountability: Councillor Young, Cabinet Member for Resources and Financial Governance and Councillor King, Cabinet Member for Croydon Renewal		
Action	Deadline	Accountability
i) A review of financial reporting best practice be undertaken and the results used to design reports and a system of reporting that will improve its approach to managing finance, performance and risk to introduce a greater level of transparency and better grip of expenditure. All departments will be required to report against their budgets to the Departmental and Executive Leadership Teams on a monthly basis.	September 2021	Director of Finance, Investment & Risk
ii) The Council will develop a new corporate framework for monthly reporting that includes finance, performance and risk. This will report to the Executive Leadership Team, Cabinet, General Purposes and Audit Committee and Scrutiny and Overview Committee as appropriate. The new framework will include progress against service delivery, departmental actions plans, savings opportunities and actions contained within the Croydon Renewal Plan. All actions will be assigned to an accountable person and will be tracked through a central reporting team to ensure that the process is joined up, consistent and timely. This will be a recognised Programme Management Office function using savings and actions trackers.	April 2021	Interim Chief Executive
iii) A review of the capacity within the Finance Team to ensure there is adequate support for departmental cost centre managers to fulfil their responsibilities as budget holders.	November 2020	Director of Finance, Investment & Risk

ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

Recommendation 9 – HIGH PRIORITY

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.

Cabinet Member Accountability: Councillor King, Cabinet Member for Croydon Renewal

Action	Deadline	Accountability
i) To support the Annual Budget setting process Budget Development Meetings will be held for each department and will be attended by Executive Directors, Corporate Leadership Team and Members with accountability for their service area and staff who are responsible for service delivery that understand what impact growth and savings plans will have on the services. To support this process Members will be provided with a clear set of proposals that demonstrate cost pressures (growth) and savings opportunities with narrative and comparators on budget and outcomes delivered to describe the impact of the decisions that are required to be taken.	October / November 2020	Director of Finance, Investment & Risk
ii) To support the budget exercise the Council will seek external support to test the draft budget proposals, seek ideas and good practice and will take the same approach by seeking support for the scrutiny process.	December 2020	Director of Finance, Investment & Risk
iii) Develop a budget savings tracker that profiles savings by month to enable Members to track that savings are on target. This will need to correlate with the finance, performance and risk reporting that Council will introduce.	January 2021	Director of Finance, Investment & Risk
iv) To increase understanding of the choices Cabinet Members are making with regards to the emerging budget and to effectively challenge budget assumptions, Scrutiny and Overview Committee Members to receive regular briefings on the progress of budget setting.	January 2021	Director of Finance, Investment & Risk
v) To review the budget setting-timetable to ensure that the Scrutiny & Overview Committee has the time to digest and review the budget proposals and underlying assumptions and for Cabinet to respond fully to any challenge or comments and for Cabinet to be able to consider changing its proposals.	April 2021	Director of Finance, Investment & Risk

ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

Recommendation 10

The General Purposes and Audit Committee must challenge officers on the progress in implementing the Financial Consultant's recommendations to improve the budget setting, monitoring and reporting process and actions to address the Head of Internal Audit's concerns on internal controls.

Member Accountability: Councillor Karen Jewitt, Chair of General Purposes and Audit Committee

Action	Deadline	Accountability
i) Delivery of the Financial Consultant's recommendations and the Head of Internal Audit's recommendations will be reported to the General Purposes and Audit Committee and to the Improvement Board as part of the Croydon Renewal Plan.	Underway	Executive Director of Resources

ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

Recommendation 11

The s151 officer needs to revisit the Growth Zone assumptions following the pandemic and make recommendations to Cabinet and Council for the continued investment in the scheme.

Cabinet Member Accountability: Councillor King, Cabinet Member for Croydon Renewal

Action	Deadline	Accountability
i) The Council have commissioned PwC to undertake a strategic review of the Growth Zone with completion expected November 2020. The report with recommendations on a way forward will be discussed with Cabinet and agreed by Members.	December 2020	Director of Finance, Investment & Risk
ii) Revised financial model profile to be presented alongside budget review in February 2021 to Cabinet, General Purposes and Audit Committee and the Scrutiny and Overview Committee.	February 2021	Director of Finance, Investment & Risk
iii) Cabinet paper with revised profile and recommendations to be issued March 2021.	March 2021	Director of Finance, Investment & Risk

ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

Recommendation 12 – HIGH PRIORITY

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.

Cabinet Member Accountability: Councillor King, Cabinet Member for Croydon Renewal

Action	Deadline	Accountability
i) The Council have commissioned PwC to undertake a strategic review of the Revolving Investment Fund with completion expected in November 2020. The report with recommendations on a way forward will be discussed with Cabinet and agreed by Members.	December 2020	Director of Finance, Investment & Risk
ii) Recommendations to be presented alongside budget review in Feb 2021 to Cabinet, General Purposes and Audit Committee and Scrutiny and Overview	February 2021	Director of Finance, Investment & Risk
iii) Cabinet paper with recommendations be issued March 2021.	March 2021	Director of Finance, Investment & Risk

ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

Recommendation 13

The s151 officer should review the purchase of Croydon Park Hotel to identify lessons learned to strengthen future due diligence arrangements.

Cabinet Member Accountability: Councillor King, Cabinet Member for Croydon Renewal

Action	Deadline	Accountability
i) The Council have commissioned PwC to undertake a strategic review of assets that have been purchased with completion expected in November 2020. The report with recommendations on a way forward will be discussed with Cabinet and agreed by Members.	December 2020	Director of Finance, Investment & Risk
ii) Recommendations, including lessons learned, will inform changes required to governance arrangements and training/development that might be required. These recommendations to be presented alongside budget review in February 2021 to Cabinet, General Purposes and Audit Committee and Scrutiny and Overview.	January 2021	Director of Finance, Investment & Risk
iii) Review and re-write the asset investment strategy that was approved by Cabinet in October 2018 incorporating advice from each of the Strategic Reviews. The review will explicitly consider best practice from the sector and lessons learned from other local authorities, the external auditor and the National Audit Office on effective investment practice.	March 2021	Director of Finance, Investment & Risk/ Executive Director of Place
iv) Cabinet paper with recommendations to be issued March 2021.	March 2021	Director of Finance, Investment & Risk/ Executive Director of Place

ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

Recommendation 14 – HIGH PRIORITY

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.

Cabinet Member Accountability: Councillor Young, Cabinet Member for Resources and Financial Governance and Councillor King, Cabinet Member for Croydon Renewal

Action	Deadline	Accountability
i) The Treasury Management Strategy will be reviewed as part of the budget setting for 2021/22 and will take into consideration the outcome of the strategic reviews to factor in the overall financial position and best practice from other local authorities. The report with recommendations on a way forward will be discussed with Cabinet and agreed by Members.	February 2021	Director of Finance, Investment & Risk
ii) The outcome of the strategic reviews that the Council have commissioned will inform the Treasury Management Strategy for 21/22 onwards and any changes in governance that may be required.	February 2021	Director of Finance, Investment & Risk

ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

Recommendation 15		
The Chief Executive should arrange detailed Treasury Management training to assist Members to better understand and challenge the long-term financial implications of matters reported within the Treasury Management Strategy.		
Cabinet Member Accountability: Councillor Young Cabinet Member for Resources and Financial Governance		
Action	Deadline	Accountability
i) Members to attend training sessions facilitated by the Local Government Association to cover treasury management to enable better and effective financial leadership.	January 2021	Interim Chief Executive

ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

Recommendation 16

The s151 officer should revisit the Minimum Revenue Provision policy to demonstrate that a prudent approach is being taken.

Cabinet Member Accountability: Councillor King Cabinet Member for Croydon Renewal

Action	Deadline	Accountability
i) Link Asset Management has been commissioned to carry out a review of the Minimum Revenue Position policy. The report with recommendations will be discussed with General Purposes and Audit Committee and then on to Cabinet.	December 2020	Director of Finance, Investment & Risk

ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

Recommendation 17

The Cabinet and Council should reconsider the financial business case for continuing to invest in Brick by Brick before agreeing any further borrowing.

Cabinet Member Accountability: Councillor King Cabinet Member for Croydon Renewal

Action	Deadline	Accountability
i) PwC has been commissioned to undertake a strategic review of Brick by Brick with completion expected in November 2020. The report with recommendations regarding the financial business case will be reviewed by the Scrutiny and Overview Committee prior to being presented to Cabinet.	December 2020	Interim Chief Executive

ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

Recommendation 18 – HIGH PRIORITY

The Cabinet and Council should review and reconsider the ongoing financial rationale for the Council in the equity investment arrangement with Brick by Brick.

Cabinet Member Accountability: Councillor King Cabinet Member for Croydon Renewal

Action	Deadline	Accountability
i) PwC has been commissioned to undertake a strategic review of Brick by Brick. The report and recommendations will consider the ongoing financial rationale and equity invested and will detail options for the Council that will be considered by the Scrutiny & Overview Committee Cabinet prior to being presented to Cabinet.	December 2020	Interim Chief Executive

ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

Recommendation 19

The s151 officer and monitoring officer should monitor compliance with loan covenants with Brick by Brick and report any breaches to Members.

Cabinet Member Accountability: Councillor King Cabinet Member for Croydon Renewal

Action	Deadline	Accountability
<p>i) Loan covenants are within scope of the PwC strategic review and will be considered as part of the overall recommendations.</p> <p>A review of the existing loan covenants and their governance is to be undertaken. Learning from this review, a new system of control for all loan agreements entered into by the Council will be presented to Members and this will form part of the new Corporate Finance, Performance and Risk reporting system.</p> <p>The review and the proposed new system for loan covenants will be presented to the Scrutiny and Overview Committee prior to being presented to Cabinet for approval.</p>	January 2021	<p>Executive Director of Resources</p> <p>Director of Finance, Investment & Risk</p>

ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

Recommendation 20 – HIGH PRIORITY

The Cabinet and Council should review its arrangements to govern its interest in subsidiaries, how the subsidiaries are linked, and the long-term impact of the subsidiaries on the Council's financial position and how the Council's and taxpayers' interest is safeguarded.

Cabinet Member Accountability: Councillor Young Cabinet Member for Resources and Financial Governance

Action	Deadline	Accountability
i) An audit of the Council's approach to membership of each subsidiary board will be undertaken. The audit will involve officers of the Council and any Chairs/Members of company boards.	March 2021	Executive Director of Resources
ii) As part of this review the membership balance of the boards will be considered in aggregate in regard to best practice for achieving diversity, skill set, sectoral knowledge and Croydon Council representation.	March 2021	Executive Director of Resources
iii) External guidance on best practice will be sought. Roles, responsibilities and legal requirements for local authority company directors and guidance on skill set will be sought and this will include the best way to assess the competence of Members and Chief Officers for these roles.	March 2021	Executive Director of Resources
iv) Process for identifying gaps in knowledge and or experience will be brought forward to include training considerations. If necessary interim arrangements will be made to remove risks and ensure effective governance.	March 2021	Executive Director of Resources
v) Essential mandatory training will be undertaken on an annual basis and the retention of the director role for each Councillor and Council official will rely on completion of the recommended training.	March 2021	Executive Director of Resources
vi) The impact of these changes will need to be reflected in the Council's Constitution and relevant protocols.	March 2021	Executive Director of Resources
vii) Support for the effective governance of the Council's subsidiaries and retaining a corporate overview of activity of individual companies and the whole group of companies is to be developed.	March 2021	Executive Director of Resources

ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

LBC Recommendation 1

Given the challenges ahead there will need to be improvement of the Council's approach to risk management to enable a satisfactory turnaround of the financial position.

Cabinet Member Accountability: Councillor King Cabinet Member for Croydon Renewal

Action	Deadline	Accountability
i) An externally led review of the Council's appetite for risk needs to be undertaken with Members and Officers to ensure that the council's financial capacity for managing risk is fully understood.	January 2021	Director of Finance, Investment & Risk
ii) Corporate Finance, Performance and Risk management to be combined into one reporting function to remove silo thinking and increase the rigour to enable delivery of services, savings plans and the overarching Improvement Plan. This will require one new unified system of corporate reporting.	February 2021	Executive Director of Resources
iii) Risk considerations to be made at the outset of all new decisions will ensure the Council has capacity, capability and financial resources needed to deliver. The assessment of risk is on the individual decision and its impact on the whole of the Council.	November 2020	All Executive Directors
iv) Develop training for Members and Officers to understand effective risk management.	January 2021	Executive Director of Resources
v) The Council to review the terms of reference in regards the General Purposes and Audit Committee and Scrutiny & Overview Committee with regards to risk management to ensure there are no gaps in governance, to remove silo thinking and that both committees have a clear understanding of their responsibilities. This will include new guidance and joint training.	March 2021	Executive Director of Resources

ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

LBC Recommendation 2 Clarifying member and officer roles to support good governance arrangements		
Cabinet Member Accountability: Councillor Young Cabinet Member for Resources and Financial Governance		
Action	Deadline	Accountability
i) The Council will need to undertake a review to consider its operating model to ensure it has capacity and specialist skills required to deliver the financial and operational improvements that are needed to deliver.	February 2021	Interim Chief Executive
ii) The Member/Officer protocol is to be reviewed to ensure that it gives clarity on the respective roles and responsibilities for both Members and officers. The protocol should also explicitly place the seven principles of public life, known as the Nolan principles, at its heart. https://www.gov.uk/government/publications/the-7-principles-of-public-life . Training will be held for all Councillors and senior officers to develop good practice.	March 2021	Executive Director of Resources
iii) A review of the member and officer Codes of Conduct will be undertaken to incorporate any learning from recent events and to ensure that they explicitly include the seven principles of public life, known as the Nolan principles, as the basis of the ethical standards expected of elected and appointed public office holders.	March 2021	Executive Director of Resources
iv) Development sessions for Members and officers to better understand each other's respective roles.	March 2021	Executive Director of Resources
v) Review the level of support and advice Scrutiny & Overview Committee and the General Purposes and Audit Committee receives from the Head of Paid Services, Section 151 Officer and Monitoring Officer to ensure that the advice is in line with their statutory responsibilities.	March 2021	Executive Director of Resources
vi) Review the capacity of the organisation to support the Scrutiny & Overview Committee and the General Purposes and Audit Committee so that activity is prioritised within the financial resources for these functions.	Commenced October 2020	Executive Director Social Care

ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

LBC Recommendation 3		
Ensuring that Members are appropriately trained across all aspects of the Council's financial duties and responsibilities		
Cabinet Member Accountability: Councillor Young, Cabinet Member for Resources and Financial Governance		
Action	Deadline	Accountability
i) A detailed training and development programme is being designed to enable all Members to fulfil their roles in regard to their role with sufficient rigour. The programme being developed will cover: <ul style="list-style-type: none"> • Financial management to include the importance of effective budget setting, a robust Medium Term Financial Strategy and rigorous budget monitoring • Understanding funding sources, eg general fund, housing revenue account and direct schools grant • The role of Audit and the external auditor • Treasury management and capital strategies and the Council's approach to subsidiaries • Risk assessment • Commercial Investment • Mentoring 	December 2020	Interim Chief Executive and the Executive Director of Resources
ii) Further work on Cabinet development will be undertaken to support members to explore priorities for the new Cabinet, agree how the Members will work together to make the most of shared skills and consider individual and collective leadership styles and ways of working.	December 2020	Executive Director of Resources
iii) Target support to be provided for Cabinet Members, Scrutiny & Overview Committee Members and General Purposes and Audit Committee Members to strengthen the approach to reviewing the emerging plans, actions and risks that are being developed as part of the Croydon Renewal Plan, Financial recovery and progress against the Report in the Public Interest. In particular the training will include: <ul style="list-style-type: none"> • The role of Scrutiny and Overview in relation to finance and General Purposes and Audit Committee • Developing an effective culture of scrutiny and key questioning skills • Maintaining a 'big picture' view of the financial pressures affecting the council • Assessing effectively budget and financial plans, budget monitoring, reserves approach • Challenging how resources are allocated • Scrutinising partnership arrangements • Key finance issues for Scrutiny and Overview Committee to consider 	December 2020	Executive Director of Resources

ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

LBC Recommendation 4

The Council develops an improvement programme that has the necessary elements for it to function effectively and within its financial resource.

Cabinet Member Accountability: Councillor Hamida Ali, Leader of the Council

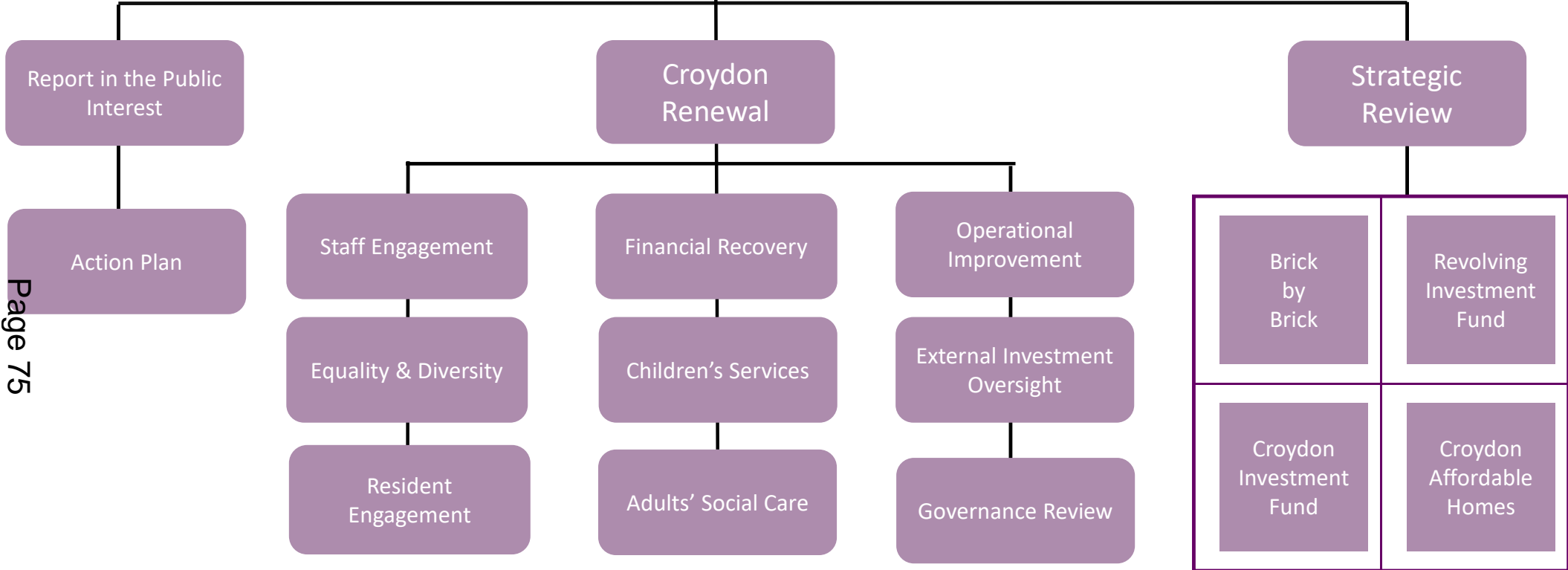
Action	Deadline	Accountability
i) Implement new Council management arrangements that ensure: <ul style="list-style-type: none"> • the delivery of high quality statutory services • finances are appropriately managed and controlled • a sound understanding of risk management is at the heart of the organisation 	April 2021	Executive Director of Resources
ii) Working with local residents, rebuild the trust with their local Council by focussing on effective delivery of core services, responding promptly and appropriately to queries and complaints and learning from good practice as well as failures and from each other.	April 2021	Executive Director of Resources
iii) Introduce a new system of internal control focussed on finance, performance and risk to manage financial expenditure, risk management, service performance and the delivery of Council priorities. This will follow a monthly cycle of Departmental Leadership Teams, Executive Leadership Team, Cabinet and Scrutiny & Overview as appropriate.	April 2021	Executive Director of Resources
iv) Building on the work done to date and listening to staff concerns about equality and diversity in the workplace, co-create a working environment that respects and values all our staff and take positive action to ensure that this is the case.	April 2021	Executive Director of Resources
v) Create a new system of staff performance appraisal, co-created with staff and agreed with the trade unions.	April 2021	Executive Director of Resources
vi) By working with Council staff, co-create an environment that is open to listening, free from fear, built on trust and openness and reflects the diverse borough that we serve.	Commenced with appointment of Interim Chief Executive	Led by Interim Chief Executive

ACTION PLAN IN RESPONSE TO THE REPORT IN THE PUBLIC INTEREST

vii) Agree a training programme for Council staff that includes finance for non-financial managers, Business Case Development, understanding risk, project management and the Council's own governance processes.	January 2021	Executive Director of Resources
viii) Ensure the actions contained in this plan are supported by a corporate programme office that can provide assurance to Members.		

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Croydon Renewal Improvement Board



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Agenda Item 5

REPORT TO:	SCRUTINY & OVERVIEW COMMITTEE 8 th December 2020
SUBJECT:	Strategic Review of Companies and other investment arrangements. Brick by Brick Croydon Ltd (“BBB”) -Shareholder decision
LEAD OFFICER:	Katherine Kerswell - Interim Chief Executive
CABINET MEMBER:	Councillor Hamida Ali - Leader of the Council
PERSON LEADING AT SCRUTINY COMMITTEE MEETING:	Chris Buss – Independent Consultant
PUBLIC/EXEMPT:	Public

POLICY CONTEXT/AMBITIOUS FOR CROYDON:

The Strategic review arises from the report in September on the wider review of the Council’s general fund budget and the development of the Croydon renewal plan

ORIGIN OF ITEM:	This report has been referred to the Scrutiny & Overview Committee by the Cabinet for its challenge and assessment.
BRIEF FOR THE COMMITTEE:	The Committee is recommended to: <ol style="list-style-type: none">1. Consider and review the Cabinet report (attached Appendix 1A-1C) and the Action Plan (attached Appendix 2);2. Consider any proposed amendments or feedback that it wishes to make on the action plan; and3. Submit that feedback in a report to Cabinet at its meeting on 18 January 2020.

1. EXECUTIVE SUMMARY

- 1.1. The report includes a set of recommendations arising from the work commissioned by PwC. These were considered by the Cabinet at its meeting on November 25th and the Council at its meeting on November 30th. The recommendations deal with a range of governance and related financial issues and have been included in an action plan which is attached and which the Committee are requested to give views on

- 1.2. The report considered by Cabinet also requested that further work be undertaken with regard to BBB so that the Council can consider its options more fully once that work has been undertaken
 - 1.3. The report also amended some of the articles of association of BBB to improve the Council's oversight of the company of which it is the sole shareholder
 2. ***Strategic Review of Companies and other investment arrangements and Brick by Brick Croydon Ltd ("BBB") - Shareholder decision***
 - 2.1. The report as submitted to the Cabinet including its own appendices is appended in full at Appendix 1A to 1C to this summary
 - 2.2. The draft action plan which is based on the full recommendations of the PwC report is attached as appendix 2 to this main report
-

CONTACT OFFICER: Chris Buss- Independent Consultant

APPENDICES TO THIS REPORT

Appendix 1A - Cabinet report of 25th November

Appendix 1B – PwC Report

Appendix 1C – Proposed Brick by Brick Shareholder Resolutions

Appendix 2 - Draft action plan

REPORT TO:	CABINET 25th November 2020 COUNCIL 30th November 2020
SUBJECT:	Strategic Review of Companies and other investment arrangements Brick by Brick Croydon Ltd (“BBB”) Shareholder decision – Directors and articles of association
LEAD OFFICER:	Katherine Kerswell – Interim Chief Executive
CABINET MEMBER:	Leader of the Council Councillor Hamida Ali
CORPORATE PRIORITY/POLICY CONTEXT/ AMBITIOUS FOR CROYDON	
The strategic review arises from the report in September on the wider review of the Council’s general fund budget and the development of the Croydon renewal plan.	

FINANCIAL IMPACT
In order to ascertain the financial impact of the Council’s previous investment and lending decisions in particular those relating to BBB, further detailed work will be required. The impact of the non payment to date of any interest and dividends is reflected in revised spending plans.
In relation to Director changes and changes to BBB’s articles of association, this does not have a direct financial impact on the Council.
FORWARD PLAN KEY DECISION REFERENCE NO.: 3320CAB
The decision is due to be taken under Special Urgency (notice published on 20 November 2020).
This decision cannot reasonably be deferred because the results of the Strategic review need to be reported as a matter of urgency to limit the Council’s cost exposure. When commissioned at the September Cabinet, it was always the intention to report to the November Cabinet, but no separate listing was made in the forward plan. If the report is not considered at this meeting, the Council will not be able to take appropriate action in regard to its associated companies and other entities where necessary.
The agreement of the Chair of the Scrutiny & Overview Committee has been obtained.

1. CABINET RECOMMENDATIONS
The Leader of the Council has delegated to the Cabinet the power to make the decisions set out in the recommendations below
The Cabinet is recommended to:
1.1 Note the recommendations set out in the report by PwC, and refer the report to the December meeting of the Scrutiny and Overview Committee for their

challenge and assessment. A report from that meeting to be presented at the January Cabinet meeting alongside an action plan.

- 1.2 Authorise the initial further work required on the options identified by PWC regarding the Council's interest in BBB in order to best inform further consideration of those options at the January Cabinet meeting.
- 1.3 Agree that funding of BBB shall continue in line with current loan arrangements and conditions, provided that all funding for construction, and completed unit purchases shall be reviewed on a site by site basis.
- 1.4 Agree that all site transfers to BBB, be halted until the Council has completed the options appraisal.

The Cabinet, on behalf of the Council, exercising its functions as sole shareholder of BBB is recommended to:

- 1.5 Approve the special resolutions contained in Appendix [2] to amend the articles of association of BBB to
 - i. allow quorate meetings to take place with any two Directors present, removing the requirement for an Executive Director to be present and
 - ii. provide for the provision of all unanimous or majority decisions taken by the Directors and minutes of all Directors meetings to the Council as sole shareholder.
- 1.6 Approve the ordinary resolutions contained in Appendix [2] to appoint two Non-Executive Directors to the Board of BBB (both with a finance background), also noting and agreeing that BBB shall indemnify those new Directors in accordance with the company's articles of association and by utilising the company's own insurance policy.
- 1.7 Approve the ordinary resolutions contained in Appendix [2] to remove the two current Directors of BBB, in their capacity as Directors (also noting Executive Directors are employees of the company).
- 1.8 Approve the ordinary resolution contained in Appendix [2] to provide for the right of the Council as sole shareholder to inspect any of the Company's accounting or other records or documents at any time.

2. COUNCIL RECOMMENDATIONS

- 2.1 The Council is asked to note the recommendations set out above, which are to be considered by Cabinet on 25th November 2020 and that Council shall receive a verbal update in respect of the outcome, in accordance with recommendation xii of the "Croydon Renewal Plan and amendments to the 2020/21 General Fund Budget" report to Council of 21st September 2020.

2. EXECUTIVE SUMMARY

- 2.1 This purpose of this report is to receive and note the reported outcomes of the strategic reviews requested by Cabinet and Council in September 2020. The review has highlighted that the governance arrangements with the Council's subsidiaries are not adequate and that existing protocols need to be enforced and enhanced. In addition governance of the Council's loan portfolio has also been inadequate.
- 2.2 The initial financial conclusions of these past decisions have been included in forecasts for the current year. However, further detailed work will be required with regard to BBB to enable the Council to determine the optimum future relationship with BBB.
- 2.3 Additionally, the purpose of this report is to seek approval from Cabinet, exercising their functions as the sole shareholder of BBB on behalf of the Council, to resolve by ordinary and special resolutions of the company the changes to the Board of Directors and amendments to the articles of association of the company as detailed in the recommendations set out in Appendix[2].

3. THE REVIEW

Background

- 3.1 The Cabinet at its meeting on 21st September 2020, instructed that a strategic review be undertaken of the Council's group of companies and other entities and to report back to the November Cabinet. To ensure that the review was independent the Council asked Mr Chris Buss former Director of Finance and Deputy Chief executive of Wandsworth council to act as client for the review and reporting direct to the Interim Chief Executive.
- 3.2 Following a procurement exercise PwC were appointed to undertake the review which covered the following five areas:
- BBB – Council's wholly owned company
 - Croydon Affordable Housing - LLP group structure
 - Growth Zone
 - Revolving investment fund (RIF)
 - Asset investment fund (AIF)

The review concentrated on BBB due to the high value of loans with the company and the higher public profile of that investment.

- 3.3 PwC undertook the review over four weeks interviewing a range of council staff, staff from BBB and a number of other parties. Daily report backs were made to the Council and the project was completed in time for this report to be made to the November committee as requested. The report from PwC is attached and the key findings are summarised in paragraphs 3.4 - 3.9.

Key Findings

- 3.4 The review commenced by examining BBB and reached the following findings. The financial governance arrangements within BBB are lacking, there is an absence of company wide cash flow and forecasting arrangements and inadequate reporting at board level of financial issues. BBB's performance has consistently been below that forecasted in its business plan. As a matter of urgency a Finance Director should be appointed. The Council's oversight of BBB has been lax, allowing inadvertently for loans to expire without formal agreement to extend them. BBB's ambitious strategy of development, endorsed by the Council when it agreed the business plans, has placed the Council at risk in relation to these loans.
- 3.5 The absence of adequate financial systems and processes in BBB means that the Council cannot have assurance as to the accuracy or veracity of the financial information produced by BBB. The outcome is that additional work will be required to enable the Council to determine what is the best strategy for the Council in its future relationship with BBB including which of the options detailed in the report is recommended for future action. It is for the Council as the sole shareholder to determine the future arrangements for BBB including future funding of the company. The work to enable this decision to be made has commenced and will report back as soon as it is completed.
- 3.6 The review has indicated that budgeted income figures within the Council in respect of interest receivable in the current year and potential dividends are at risk. The likelihood of receiving them cannot be confirmed due to forecasts and financial systems within BBB not being suitably robust to enable the Council to place reliance on them.
- 3.7 With respect to the Croydon Affordable Housing, the review identified a range of governance and possible accounting issues as well as issues over tenants having the ability to pay. However, the report does not recommend discontinuing the current arrangements with external investors and suggests exercising caution about further delivery of affordable housing through this route until a further review is undertaken .
- 3.8 The review of the Growth Zone arrangements has noted that the Council's financial circumstances mean that investment though the Growth zone will be limited but that at present the Growth Zone should remain in existence.
- 3.9 The RIF, which was set up as a Council investment portfolio with Cabinet approval in September 2014, and AIF, set up as part of the Council's investment strategy in 2018, both need improved governance around them and clearer reporting to the Council both in terms of costs and reporting. The asset investment fund is under performing compared to the original business plan and there is currently a loss of asset value, this will need to be considered in any decision to dispose of any of the assets.

Next steps

- 3.10 The review makes a number of recommendations for acceptance and implementation by the Council. These are detailed in Appendix 1 and relate

both to the Council's own arrangements but also those of its subsidiaries (BBB and the Croydon Affordable Housing LLP group companies). Many of the findings of the review echo the findings of the report in the public interest issued by Grant Thornton. As with that report, it is recommended that the Council accepts all the recommendations and instructs officers to draw up an action plan to ensure that these recommendations are implemented.

- 3.11 The issues arising with BBB have been raised with the management of BBB at a meeting attended by the Chief Executive and the Leader of the Council. They were also discussed at a Shareholder Investment Board meeting held on the 17th November.
- 3.12 Once the second phase of the review has been completed, the Council should be in a position to determine the future of BBB. This will take some time. There are over 20 schemes currently on site which have existing funding agreements in place, although some of these are past the repayment period. To stop BBB drawing down on those agreements could present cash flow issues with consequences that would further increase the risk to the Council. It will therefore be necessary to make payments to BBB in line with current loan arrangements ensuring that conditions for funding are met. The purchase of completed units previously agreed in July will also need to be reassessed on a site by site basis and reviewed in the light of the resources available to the Council.
- 3.13 The Council is also due to transfer a number of sites to BBB, including some with planning approval, in the light of the current review, it is proposed to suspend the transfer of all sites to BBB until the Council has completed the options appraisal.

Functions as sole shareholder

- 3.14 The Council, as BBB's sole shareholder, is able to amend the company's articles of association and also has the ability to appoint and remove Directors.
- 3.15 There have been recent changes to the Board of Directors at BBB, meaning there are currently only two appointed Directors of BBB (which is the minimum number of Directors to enable quorate meetings to take place). Given the proposed removals, it is necessary to appoint two new Directors of BBB.
- 3.16 Given PwC's report and recommendations, it is proposed that the new Directors have a strong background in finance. The following individuals are recommended to be appointed as Directors because of the skills and experience they have, as detailed below:
- a. Duncan Whitfield is the Strategic Director of Finance and Governance at the London Borough of Southwark with over 20 years experience in the local government finance sector.
 - b. Ian O'Donnell is a finance consultant working on the financial review at the Council. A CIPFA accountant, he has been a consultant since June 2019 and has previously worked as the Executive Director of Resources and s151 officer at Ealing Council as well as the Director of Finance at Waltham Forest Council with a career spanning over 30 years in local government.

- 3.17 In relation to the associated indemnity, it is recommended that the Directors be indemnified under BBB's own insurance policy. This would not cover criminal acts, any other intentional wrongdoing, fraud, recklessness, any acts outside of their powers or the bringing of any action in defamation.
- 3.18 To strengthen oversight of the Company by the Council, as sole shareholder, two further resolutions are recommended. The first enables the Council to have sight of all minutes of Directors meetings and records of all decisions made by the Directors in future. The second ensures the ability of the Council to inspect all Company accounting or other records or documents at any time.

4. CONSULTATION

- 4.1 No formal consultation has been made on this report, other than factual accuracy checks with external third parties including BBB .

5. PRE-DECISION SCRUTINY

- 5.1 The Report in the Public Interest which was discussed at the emergency council meeting on the 19th November 2020 raised a series of concerns in regard to BBB and the Council's relationship with its external companies and entities. Recommendations 17 and 18 in the Action Plan for the Report in the Public Interest describe the strategic review report being presented to Scrutiny and Overview before being presented at Cabinet.
- 5.2 With the kind support of the Chair of Scrutiny and Overview, the report has in fact been presented to Cabinet first. This is due to the timing of the receipt of the report and the need to progress some interim urgent measures based on its findings. The strategic report and proposed action plan is referred to the December meeting of Scrutiny and Overview committee for a full review and challenge prior to it returning in January to Cabinet for final decision.

6. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

- 6.1 It is important that the Council has a thorough understanding of all of its investments, particularly where they are deemed high risk or the financial exposure can change. This will enable the Council to mitigate and manage those risks and inform any future decisions.
- 6.2 The Council has budgeted £16.7m of interest and investment income from BBB within the 2020/21 Budget and therefore the financial position of BBB has a considerable impact on the Council's finances.
- 6.3 The estimated cost of this review to date is £125k These costs have been included in the quarter two financial monitoring.
- 6.4 In order to respond to the recommendations in the review , it will be necessary

to review the capacity and skills of officers and Members to ensure they are suitably qualified and trained to undertake their roles.

6.5 Options

The Council has a clear need to carry out this work, in order to inform its Medium Term Financial Strategy and the financial support required from MHCLG.

The Council did not have sufficient capacity or in-house expertise to carry out this review, so external support has been commissioned.

6.6 Risks

By accepting and responding to the recommendations of this review, the Council can address the ongoing risks:

- That the Medium Term Financial Strategy will not properly reflect the financial impact of its investments; and
- The Council may be exposed to financial losses over the medium to long term
- The Council needs to make significant improvements to its governance arrangements over external organisations and its investments.

Approved by: Lisa Taylor, S151 Officer and Director of Finance, Investment and Risk

7. LEGAL CONSIDERATIONS

7.1 The Interim Director for Law and Governance comments that as sole shareholder of BBB, the Council has the ability to act on this Report and its recommendations. The Council has authority under the general power contained in Section 1 of the Localism Act 2011 to continue to take steps in relation to the operation of the company (including its financial relationship with the company), having particular regard to the Council's fiduciary duties.

Approved by: Sean Murphy, Interim Director of Law and Governance and Deputy Monitoring Officer

8. HUMAN RESOURCES IMPACT

8.1 There are no direct implications for LBC employees. However, the implications of the issues raised and how they are addressed may have an effect on the medium term financial plan. Any subsequent savings plans that have a staffing impact will be subject to agreed HR procedures and formal consultation

Approved by: Sue Moorman, Director of Human Resources

9. EQUALITIES IMPACT

- 9.1 There are no equalities impacts arising from this report. However the implications of the issues raised and how they are addressed may have an effect on the medium term financial plan. Any subsequent savings plans that have a staffing impact or impact on vulnerable and/or groups that share a protected characteristic will be subject to agreed HR procedures, formal consultation and equality analysis

Approved by: Yvonne Okiyo, Equalities Manager

10. ENVIRONMENTAL IMPACT

- 10.1 There are no environmental impacts arising from this report

11. CRIME AND DISORDER REDUCTION IMPACT

- 11.1 There are no Crime and disorder reduction impacts arising from this report

12. REASONS FOR RECOMMENDATIONS/PROPOSED DECISION

- 12.1 The report by PwC details a wide range of governance failures on behalf of the Council, in its relationship with BBB in particular but also in respect of Croydon Affordable Housing. The recommendations made by PwC will improve the Council's oversight of all of the areas covered by the review. The additional work required on BBB will enable the Council to fully consider its options with regard to the future of BBB with a view to minimising the future financial risk to the Council and maximising the return on its financial outlay in support of the company.

13. OPTIONS CONSIDERED AND REJECTED

- 13.1 The Council has the option of either accepting all or in part the recommendations included within the strategic review. Having examined the recommendations it is difficult to argue from a Council perspective that none of the recommendations should be implemented as they will improve the Council's governance of its directly owned companies and other investments.
- 13.2 In relation to the exercise of the Council's functions as sole shareholder of BBB, the option to do nothing has been considered but is not recommended. In particular, the appointment of Directors with the right expertise will assist with implementing the recommendations of the PwC report, and the carrying out of any further agreed options for its future.

14. DATA PROTECTION IMPLICATIONS

14.1 WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?

NO

14.2 HAS A DATA PROTECTION IMPACT ASSESSMENT (DPIA) BEEN COMPLETED?

NO

CONTACT OFFICER:

Chris Buss, consultant

APPENDICES TO THIS REPORT:

Appendix 1 - PwC Report
Appendix 2 – Proposed BBB Shareholder resolutions

BACKGROUND PAPERS:

PwC Report

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London Borough of Croydon

Independent strategic review of Brick by Brick Croydon Ltd, Growth Zone, Croydon Affordable Homes LLP, the Revolving Investment Fund and the Asset Investment Fund

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13 November 2020





Guidance

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London Borough of Croydon Council
Bernard Weatherill House
8 Mint Walk
Croydon
CR0 1EA

We report on London Borough of Croydon Council (“LBC”) and its subsidiaries, Brick by Brick Ltd (“BBB”) and Croydon Affordable Homes LLP (“CAH”) (together, the “group”) in accordance with our engagement contract dated 5 October 2020.

This report has been prepared in connection with the purpose as stated in the engagement contract. This review was carried out for LBC only.

We draw your attention to important comments regarding the scope and process of our work, set out in the appendices.

Save as described in the agreement or as expressly agreed by us in writing, we accept no liability (including for negligence) to anyone else or for any other purpose in connection with this report, and it may not be provided to anyone else.

Yours faithfully

PricewaterhouseCoopers LLP

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PwC scope and limitations of our work

Scope of our work

The London Borough of Croydon Council (“LBC” / “the Council”) has engaged PwC to carry out an independent review of its property development related subsidiaries/funding vehicles (“the entities”).

The scope of our engagement specified that c.75% of time should be spent on the review of Brick by Brick Croydon Limited (“BBB”) with the balance spent on the remaining entities. Accordingly, the depth of analysis on BBB is greater than that delivered on Croydon Affordable Homes LLP (“CAH”); Growth Zone (“GZ”); the Revolving Investment Fund (“RIF”); or the Asset Investment Fund (“AIF”). We have taken a prioritised approach to this review given the finite amount of time and resource available.

Key parts of our review work:

- Rapid financial and operational review of BBB;
- Strategic options review of BBB;
- Review of governance arrangements between LBC and BBB plus desktop review of governance arrangements with the other subsidiaries/funding vehicles;
- Current performance, Value for money and Governance arrangements of CAH, GZ, RIF and AIF.

Due to Government mandated Covid-19 travel restrictions, all meetings were held by video conference or telephone call with correspondence via email.

Approach to our review

We have taken a prioritised approach to this review given the short timeframe (four weeks). Whilst information was provided quickly by LBC, some financial information from BBB took over two weeks to be provided, limiting our ability to undertake analysis.

We have carried out initial and follow-up reviews of documentation provided by BBB and LBC to build understanding of the BBB financial position and performance including detailed Board, committee and other working papers for FY19/20 and FY20/21, plus any other available and relevant supporting documentation (including governance structures, loan agreements and detailed development site reporting where available).

We held initial and follow-up interviews with the Board and key staff members of BBB as well as key Council personnel, to form a view on performance, operations, governance and strategic options.

A similar approach was adopted for the other entities within scope albeit on a reduced scale due to the agreed focus of review work toward BBB.

Limitations in relation to our work

Our work commenced on 5 October 2020 with a first draft reporting deadline of 3 November 2020.

It was recognised that this short time frame of four weeks would require prioritisation of work, and that this would result in a high level of review across a large number of complex issues.

The full details required by the Council in respect to certain matters will require further work up, using information that has not been available to us during the course of our review.

In particular, in respect to BBB, delays in receiving information and the quality of information received have impacted the depth of review analysis we have been able to perform, in particular in relation to the current financial position and forecast performance of BBB.

Additional time would be required to refine the analysis, particularly regarding the strategic options available to the Council. Therefore the options set out should be considered indicative. We would recommend further work before a final decision is made by LBC on the future of its investments.

We also bring attention to the following:

- There are several examples of information provided not reconciling with information held by the Council (e.g. loan amounts and drawdown amounts) and we have had to work through these on a line by line basis to understand the correct current position;
- Audited FY19/20 accounts for BBB were outstanding during our review and accordingly we have based our analysis on the draft 2019/20 accounts provided to us by BBB;
- We have not conducted scenario modelling to assess the likely impact of COVID-19 or Brexit on the future performance of the entities or the Council's requirements.

Brick by Brick - operational review

Section two

2a

At a glance

1 LBC created BBB in FY15/16 to increase the quantity and quality of affordable housing available and deliver a positive contribution.

Against a backdrop of a nationwide shortage of social housing and affordable homes, with particular acuity felt in London, London Borough of Croydon (“LBC”) established a commercial subsidiary, Brick by Brick Croydon Limited (“BBB”) in FY15/16 to support an increase in the pace and quality of affordable housing being brought to market in the borough.

Delays in development timelines together with market uncertainty created by COVID and Brexit have impaired BBB’s performance against plan and resulted in significant delays to LBC’s return on investment.

BBB’s draft accounts for the year ended 31 March 2020 (FY19/20) suggest a small profit before tax against LBC’s cumulative lending of £199.5m and £14.4m of interest due.

LBC has proactively sought to gain a better understanding of the current and future performance of BBB and strategic options by commissioning this independent review of BBB.

3 We have completed our work through a combination of interviews and review of documentary evidence.

Our independent review has been conducted through the following:

- Initial and follow-up review of documentation provided by BBB and LBC to build understanding of the BBB financial position and performance including detailed Board, committee and other working papers for FY19/20 and FY20/21 plus any other available and relevant supporting documentation (including governance structures, loan agreements and detailed development site reporting where available);
- Initial and follow-up interviews with the Board and key staff members of BBB as well as key Council personnel to form a view on performance, operations, governance and strategic options.
- Council and BBB staff have been supportive of this process however there have been delays and limitations to the information available, that have impeded the ability to meet the scope in the timeframe available.

2 The depth of our work has been limited by unavailability of robust financial information from BBB. The lack of management accounts and a 13 week rolling cash flow is concerning.

- We have been asked to perform a rapid review of BBB finances, operations and governance and identify strategic options for LBC.
- Our review and analysis has been limited by the absence of BBB financial documents, such as up to date management accounts, forecast financial performance for the Company and a 13 week rolling cash flow. The business keeps a detailed summary of incoming and outgoing funds, but this does not give the Board, shareholders or lenders an up to date overview of Company performance, profitability or cash requirements. This lack of financial oversight is concerning.
- Our review has been limited by the time in which to conduct the fieldwork, analyse and prepare outputs. It was agreed with LBC that a prioritised approach should be taken. Further detailed work is required in a number of areas.

4 BBB has significantly underperformed against the FY19/20 business plan.

- Since its inception in 2015, BBB has been entirely dependent on funding from LBC and to date (September 2020) has total borrowings of £214m, comprising loans of £199.5m plus interest payable of £14.4m.
- In its FY19/20 business case, BBB ambitiously stated an ambition to deliver c.500 residential units per annum, targeting the completion of 14 sites already in development (307 units). Planned sales of £132.3m and a profit of £10.3m (7.8%) should have allowed the commencement of repayment of debt to LBC. No interest or loan capital was repaid to LBC in FY19/20.
- BBB attributes this to a number of factors including delays due to COVID, development issues and delays with actions sat with Council departments (such as Planning). We believe COVID was a relatively minor causal factor given the year ended on 31 March 2020. We note there is no reference to a FY19/20 impact in BBB’s March or April Board minutes.

At a glance

5

BBB's governance requires significant strengthening at Board level with a need for substantially improved financial oversight. LBC also needs to enhance oversight of BBB.

- BBB's governance structure and practices require significant improvement. In particular there is a need for greater financial stewardship and assurance to both the Board and its shareholder (LBC).
- The Board lacks a qualified Finance Director. In addition, the business' in-year financial reporting processes have significant gaps and must improve substantially.
- The appointment of a suitably qualified Director of Finance to strengthen the Board is essential. BBB should prepare monthly management accounts including both year to date overall performance versus plan and forecast outturn for the year, with narrative against any variance. This will provide increased Board oversight of BBB's financial performance and allow it to provide greater assurance to its shareholder and lender, LBC.
- LBC's shareholder oversight of BBB must improve. We recommend rapid appointment of suitable LBC representatives to the BBB Shareholder and Investment Board.

7

Land transfers have been conducted in a way which appears to be s123 compliant, but the method used has been inconsistent.

- The Council has sought to comply with obligations under s123 of the Local Government Act 1972 in relation to best consideration for any land which transfers to BBB. However, there are inconsistencies and differences in the approach that the Council and BBB have used in valuing the land, and where there are material valuation differences these should be better understood and resolved;
- There has been no previous formal documentation or agreement on the 'high' value of affordable housing units to be acquired from BBB which underpinned the valuation BBB has ascribed to the land acquired from the Council;
- The Council and BBB should ensure that all commercial arrangements between them are comprehensively documented going forward.

6

BBB's loan portfolio has not been properly managed by LBC or BBB, and several of the Company's loans are technically in default as a result.

- BBB and LBC put in place loan agreements which cover the lending against specific developments. We have had sight of 30 of these documents.
- In many of the documents we have reviewed, the loans have breached their final repayment dates, and as a result BBB is technically in default on those loans. This is despite the fact that BBB continues to request further drawdowns against the loans.
- We understand that the loans were treated as extended by virtue of discussion of BBB's business plans but have seen no documentary evidence of Board or Cabinet discussions in this respect. This has resulted in loans not defaulting, due to an informal renegotiation apparently endorsed by LBC's lack of action in this respect.
- The loan drawdown process has not operated as stipulated in the loan agreements. The appropriate controls have not been applied by LBC to the LBC lending to the Company.

8

BBB's ambitious strategy of developing large numbers of small, complex and more risky sites has led to significant delays. This strategy has put LBC's investment at risk.

The 2016 Cabinet proposal for the establishment of BBB included the following:

1. Maximise the use of the Council's assets to deliver new homes;
2. Enable an innovative commercial model which will benefit the Council financially and help meet savings targets;
3. Bring forward the development of key sites across the borough;
4. Secure improved community facilities.

As of October 2020, the delays in bringing new homes to the market has put the Council at serious financial risk and resulted in only a handful of new homes being available. As a consequence, savings have not been made. The severity of this situation has not been exposed until late in 2020, as the formal controls that should have been in place were absent.

At a glance

9 Next steps

- As BBB's sole funder, LBC has a number of options in respect to how to address this situation and maximise potential value from BBB. We have set these out for LBC in section 2b.
- Irrespective of the options, LBC should:
 - Review the governance and management of BBB, tightening controls around loan funding in particular;
 - Improve capacity and capability of the teams that interact with BBB on a daily basis including in finance and planning;
 - Require BBB to improve its financial oversight by producing a 13 week rolling cash flow forecast and integrated forecast profit & loss and balance sheet statements; and
 - Require BBB to appoint a sufficiently qualified Director of Finance.

Brick by Brick - Strategic options

Section two

2b

At a glance: Options available to the Council regarding BBB

Page 99

1 We have set out what we consider to be the options available to the Council at this point in time.

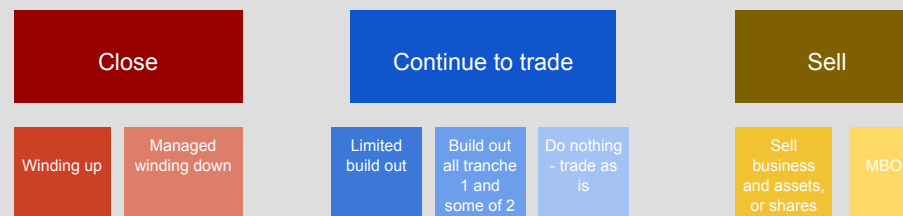
- We have used the available information to assess the options in respect to BBB, taking into account:
 - The likely costs and potential revenue from BBB’s development activities;
 - Further funding required (noting that LBC’s financial position is extremely challenged);
 - The status of BBB’s developments, and known problem areas;
 - The potential impact on LBC’s loan funding to BBB, and interest accrued;
 - The impact of insolvency on BBB’s assets;
 - The likely challenges in implementing the options;
 - The likely time requirement to deliver the options.

3 The options that present the best financial outcomes for the Council are continuing to trade: Limited build out or build out tranche 1 and some of 2.

- We believe, based on the available information and our discussions to date, that continuing to trade the business while further examining build out or sales options but they do require continued investment in BBB before a cash return is generated.
- Please note that our ability to assess the future costs, future sales and impact on the assets values has been extremely limited. LBC should undertake further work in respect to the detail on these options.
- All of the options result in the Council writing off substantial loan funding and accrued interest.

2 Seven options are available to the Council under three categories: Close, Continue to trade or Sell

- We have assessed the options available to LBC having considered the available limited information, and have classified seven options under three categories:



4 There is a significant amount of detailed work still to do, to firm up the options, the financial impact of each and their viability

- At this time, we do not believe BBB’s information (i.e. lack of company level financial forecasts) is robust enough for the Council to make a strategic decision in respect of these options.
- As a result, the following actions should be immediately taken, to ensure that the Council is able to make a fully informed decision about the best option to select:
 - The appointment of a Director of Finance;
 - The rapid work up of robust BBB financial (P&L) forecasts; and
 - Further asset review work to test asset values.

Growth Zone - review

Section four

3

At a glance

1 Growth Zone is LBC's funding vehicle for investment regeneration in Croydon and is set up to retain and invest business rate increases.

Growth Zone was set up to provide LBC with a vehicle to coordinate its regeneration funding. The original business plan included £309m of Council and £209m of partner funding (GLA, TfL and others) and was predicated on the building of a Westfield retail centre in Croydon.

- Since the submission of the final business model in 2018 the economic climate has changed substantially and the planned scope has been greatly reduced.
- An original £167.8m of approved spend was reduced to £78m by LBC in February 2020, with FY20/21 planned spend reduced from an initial £21m to £6.7m.
- Of an initial 100 projects, 35 are paused and 15 have been stopped.

3 The impact of COVID-19 on the Council and its partners presents a significant risk to fund planned investments and a future business rates receipts on which the model relies.

- There is a significant risk that the parties involved in GZ will have a reduced scope to invest in the near future given the competing demands and costs of the COVID-19 response to date and the potential reduction in forecast business rate increases on which GZ is reliant for future investment.
- Furthermore any increase in lockdown measures may adversely impacted existing project timescales and/or increase the costs of delivery.
- We recommend that LBC continues to communicate clearly with its GZ partners and seeks assurance from each on the forecast ability to fund existing projects to support its own investment decisions and before committing to fund any projects that have not yet commenced.
- A revised business case is recommended to adequately reflect changes in current and future population behaviours and requirements. This should come back to the LBC's cabinet in light of the severity of the cash issue in LBC.

2 Given the ongoing COVID-19 pandemic and economic uncertainty, reducing planned funding in FY20/21 to £6.7m was a sensible step as the original business plan is no longer fit for purpose and requires revision.

- Further to the case by case COVID-19 review undertaken by LBC that resulted in the pausing of 35 projects and the cessation of 15, we recommend a project by project review of the remaining 47 projects be made to assess the return on investment (financial and non-financial) be undertaken to ensure further investment still delivers value.
- This review should also consider if the £6.7m currently forecast in FY20/21 should continue. We understand LBC are in the process of reviewing this.
- Reappraisal may enable LBC to pause further investment. However, we would not recommend closing down the GZ programme as this provides LBC with a vehicle to focus any recovery investment required of it and (dependent on central government policy) does provide LBC with the ability to use Business rates that it may otherwise have to return to central government.

4 Governance structures appear reasonable but the frequency of meetings with partners may need to increase to provide more assurance to LBC in the current climate.

- The monthly suite of meetings including the GZ Steering committee and subgroups seems appropriate in terms of membership and frequency, but the frequency of meetings with key stakeholders may need to increase in particular with GLA given current uncertainty.
- Processes for risk assessment of ongoing projects gives a means of exception reporting but should be completed consistently in order to give a complete picture.

At a glance

5

There are a number of key next steps LBC should consider in relation to Growth Zone

Given the current economic uncertainty, the steps the Council have taken to review and revise down the ambitious investment plan for Growth Zone are sensible.

There will be a continuing need for some investment in Croydon, particularly in light of the need to generate growth after the pandemic, and so switching off all planned investment would be unwise.

Any subsequent increase in planned investment should be supported by a business case and taken through robust governance and sign off processes for full scrutiny.

Croydon Affordable Homes LLP - review

Section five

4

At a glance

Page 104

1 The LLPs were created as commercial entities to provide affordable housing and generate a positive contribution to the LBC general fund of £1.4m per annum.

- The LLPs are jointly owned by LBC (10%) and Croydon Affordable Housing LLP (90%) which is a registered charity.
- They currently lease 344 properties (248 in CAT and 96 in CAH) from the Council on 80 year leases with a 40 year Council break clause. These properties were purchased through sale and lease back to two funders.
- The LLPs' structure has enabled LBC to utilise right to buy receipts previously not permitted through the housing revenue account allowing investment in Croydon Borough rather than releasing these funds to central government.
- The transfer of assets to LBC's Pension Fund is outside of our review, however we note that the Council is planning to transfer the properties to LBC's pension fund at the 40 year lease break clause to reduce the annual LBC pension contributions.

3 The life cycle costs of maintenance and repair do not appear to be reserved for in the LBC accounts. This must be addressed and may create an additional increasing annual liability.

- We understand that reserves for life cycle costs for the leased properties are currently not being made in the accounts of LBC. We understand that legal advice suggests the LLPs cannot make the provision in their own accounts.
- We note that the model used for CAH's development included average lifecycle costs of c.£1.4k per property per annum based on 8% of rental income. RICS life cycle costing guidance suggests that provision should be made of c.3% of the asset value per annum. The CAH approach is significantly lower than this but we note that 3% of asset value may be excessive for affordable housing and a tailored approach may be required.
- Immediate steps should be taken by LBC and CAH to assure the Board and Cabinet that suitable provisions for life cycle costs are being made. The amount not reserved may need to be backdated.
- This is particularly important given the planned transfer of the benefit of the properties to LBC's pension fund and reliance on the future rental revenues.

2 The LLPs' latest financial statements were not available for review, but the FY19/20 forecast outturn was £317k (68% behind target) behind plan, due to bad debts and voids.

- Detailed financial information regarding the group's financial performance in 2019/20 was not available, nor was any record of FY20/21 financial performance in the year to date. We understand that 2019/20 accounts are currently with the external auditors but have not received these. This is a clear shortcoming in the LLP's financial monitoring and governance, given the value and significance of the assets held.
- The forecast outturn as at Q3 FY19/20 indicated the LLPs expected to deliver a combined surplus in 2019/20 of £148k against a budget of £465k. This shortfall in performance was attributed to higher than budgeted voids in CAH (12% in year, reducing income by £108k and a growing bad debt provision in CAT (£127k over budget). Lettings management performance may also be a factor.
- We note that in Q4 a further 81 homes were transferred but these would not be reflected in the Q3 figures.

4 The governance arrangements of the CAH LLPs require significant strengthening, as they have been run with insufficient financial oversight.

- Our desktop review of Board and other papers plus interviews with CAH personnel suggests that the quality of financial reporting internally and externally needs to improve. Board papers suggest the last detailed financial update was in February 2020 (in the previous financial year) but only gave a forecast outturn and there is no evidence of the Board receiving a final 2019/20 position or update on FY20/21 trading performance.
- LBC's holding company was dissolved as Companies House filing deadlines were not met. We understand this position is being addressed by LBC, but indicates a need to significantly improve corporate governance and administration.
- We recommend LBC puts in place robust governance around the LLPs given the value of the assets held, with dedicated team resource aligned to the funding that the LLPs provide.

At a glance

5

CAH and CAT have partially met their purpose of increasing affordable housing available to Croydon residents, however we understand there is an ongoing mismatch of tenants to appropriate properties, resulting in the increase in rent arrears.

- We note that whilst the LLPs have increased the affordable housing available to Croydon residents, they are not forecast to deliver the surplus in line with business plans.
- If the 2019/20 Q3 forecast outturn was accurate, small cost increases or reductions in rental income would result in a failure to breakeven. This would trigger a waterfall payments model that may result in the Council not receiving its full management fee. The Council's overall position would be exacerbated by the need to increase lifecycle reserves.
- Properties are not generating rents in line with plan and costs of chasing rent arrears and increasing bad debt provision are driving financial underperformance.
- Better matching of tenants to appropriate properties is required if the LLP model is to deliver returns in line with the business plan.

6

The operational and business model for the CAH group of LLPs requires detailed review before further investment is made by LBC, and dedicated oversight of the LLPs should be established.

- Before LBC invests any further funds in properties via the CAH LLPs, it should undertake a detailed review of the businesses to ensure:
 - The full future cost of the properties is understood and accounted for appropriately, including lifecycle reserves.
 - There is a clearly understood cash impact for LBC in terms of forecast flow of funds from the LLPs.
 - There is a clear strategy on the use of homes in terms of tenant type and affordability.
 - The quality of financial reporting LBC receives from the LLPs improves, so that LBC has a detailed monthly phased financial plan at the start of each year with monthly progress reports against this at an income and expenditure level, with variance analysis and narrative plus a revised forecast outturn for the year.

Revolving investment fund - review

Section six

5

At a glance

Page 107

1 The RIF was set up in 2014 to increase the amount of funding available to drive growth. Loans totalling £269.7m have been provided through the RIF, mainly to BBB. Many are in default.

- The RIF was set up with Cabinet approval on 29 September 2014, to accelerate the provision of homes, fund development projects, drive growth and sustainable employment opportunities. The RIF was explicitly intended to deliver capital and revenue returns for the Council.
- Since inception, RIF has provided loans totalling £269.7m to Council initiatives and subsidiary companies owned by LBC.
- The main areas of lending are to BBB (£208.8m*), Real letting property investments - relating to a management property fund providing housing to homeless individuals (£45m), and CAH (£8.4m).
- As at July 2020, the outstanding balances against loans, including accrued interest, provided through the RIF totalled £269.7m.
- No BBB loans have been repaid as a consequence of the lending, in direct contravention of multiple loan agreements which are technically in default.

3 Governance around the Loans provided has been informal and is not in line with the plan agreed by Cabinet, or best practice.

- The RIF fund was intended to be ring-fenced and have clear governance and decision making. Neither of these stated intentions have been put into place.
- There is no robust treasury plan for management of these loans, or set of standard operating procedures in relation to the management of RIF loans and loan management is not in keeping with industry best practice in relation to management of loans of this size.
- Changes in personnel have left a lack of corporate memory in relation to the RIF loans. It has been particularly challenging to locate copies of loan documentation for the purposes of this review.
- Management of the RIF's loan book has been left to the LBC finance team, but up until mid-October 2020 there was no individual within LBC who had current active oversight of the RIF loan portfolio.

2 A limit of £272.2m was placed on lending by RIF in the 2018-22 Medium Term Financial Strategy. The RIF has loaned £17.5m more to date than budgeted, in contravention of the Strategy.

- The 2018/22 Medium Term Financial Strategy (“MTFS”) noted that total RIF borrowing from 2018 to 2022 would be £272.2m.
- However, the scale of the funding through the RIF suggests that no cap has been exercised on the funding that the RIF has provided per annum to the extent that in FY20/21 the RIF can currently only lend a further £2.5m before reaching the £272.2m limit stated in the MTFS.
- Since there was an expectation that funding provided would revolve back from BBB to the Council to reinvest, there may have been an expectation that funding would not become excessive. However since the majority of funding to date (£208.8m to BBB*) has not delivered returns, any further investment represents an increased borrowing requirement for the Council.

4 RIF lending is currently invested in 23 development projects, several of which are not performing as planned.

- Key investments are not performing as intended. Indeed, many BBB loans are overdue with no evidence of having been renegotiated or interest paid to date.
- The risk profile of the RIF loan book is therefore much higher than planned.
- The RIF has not been revolving, because very few of the loans have repaid with £208.8m* tied up in BBB loans with no interest received to date.
- The Council has not operated a balanced lending approach in contradiction to the careful analysis set out in the 2018 MTFS paper, with the majority on RIF investment focused on residential development.

* Note: £208.8m as at July 2020. Total funding as at 30 September is £214m.

Asset Investment Fund (“AIF”) - review

Section six

6

At a glance

1

The AIF was set up in 2018 as part of LBC's investment strategy, to fund non-residential property investments. LBC has made investments of £98.8m through the AIF.

- The AIS was designed to group Council investments in commercial property as a vehicle to deliver revenue returns. The fund created is referred to as the Asset Investment Fund ("AIF") and was capped at £100m. The purchase of Croydon Park Hotel ("CPH") at £31.3m was completed before the AIF's inception but is accounted for in the AIF, bringing the fund limit to £131.3m.
- Based on the latest LBC documentation, the AIF has spent £98.8m on £93.5m of assets plus £4.9m of purchase costs, funded through general LBC borrowing.
- Assets purchased (including purchase costs) are: Croydon Park Hotel (£31.3m), Colonnades phases 1 & 2 (£53.5m), 60 Vulcan way (£7.4m); and 37-39 Imperial Way (£6.6m.)

3

Croydon Park Hotel and the Colonnade leisure and retail park both present significant financial risks to LBC that need to be addressed.

- The closure of CPH creates a £1.7m shortfall in FY20/21 rent receipts and exposes the Council to unbudgeted costs for the vacant property including maintenance, repairs, security and insurance.
- LBC currently estimates CPH is worth less than the purchase price. The asset should be appropriately impaired following external valuation, with the corresponding impact reflected in the income and expenditure statement.
- To mitigate this LBC are in the process of assessing alternative uses for the site with a view to generating income and currently expect to retain the property until the market recovers. This process should be prioritised.
- The Colonnades leisure & retail park has a number of tenants that have and will continue to be impacted by COVID-19 restrictions. Rents have underperformed and there is further risk of rent default. LBC should monitor this investment closely and plan for a downside scenario on rent receipts.
- The forecast net return on investment may be overstated by up to £0.6m as described in point 2. LBC should review and agree on the appropriate rate at which the AIF interest is calculated.

2

LBC is forecasting significant AIF underperformance in FY20/21, with a £82k forecast net return against a budget of c.£2.4m. We think the actual return could be a loss of £(0.5m).

- The AIF is forecast to deliver a £82k net return to the Council in FY20/21 against a FY20/21 budget net return of c.£2.4m. The target return based on 2% of total investment of £131.3m is £2.6m.
- Forecast underperformance is driven by two key factors:
 - Croydon Park Hotel ("CPH"). This was expected to deliver rents of £1.7m p.a. but the tenant trading company went into administration in June 2020 in part due to COVID-19 trading pressures with no rent expected in FY20/21.
 - Colonnades leisure & retail park - COVID-19 restrictions have impacted several tenants, leading to rent deferrals and reduced interest in vacant slots, all reducing in year rent receipts.
- The forecast net return of £82k is predicated on an assumed 2.44% rate of interest on borrowing. The current average borrowing rate for LBC is 3.15% which equates to an additional c.£0.6m cost per annum. Adjusting the forecast £82k net return for this additional interest cost would result in a net loss to LBC of c.£0.5m.

4

The monitoring and governance of AIF investments is very limited, and should be strengthened with clear Cabinet scrutiny.

- The process by which assets were acquired is clearly documented and followed LBC policy in terms of formal notices, recorded decisions and supporting documentation.
- The timeframes around making offers for the assets were short and delegated authority was used to make offers, but the commercial rationale behind this was documented.
- However, ongoing monitoring of the AIF portfolio and governance is very limited. AIF performance is not discussed at any formal board, with reporting confined to within the Asset and Estates team and Place directorate. AIF is covered by general financial monitoring on a monthly (previously quarterly) basis.
- The current underperformance of investments, in part due to COVID-19, underlines the importance of the AIF receiving suitable and regular executive oversight. Given the issues regarding Croydon Park Hotel and the need to quickly address these, we recommend higher levels of Cabinet scrutiny going forward.

5

The Council will need to make a strategic decision on the future of the AIF, considering current financial pressures vs long term investment. Immediate sales are likely to reduce value achieved.

- Given the the Council's financial pressures and the current economic uncertainty in the UK due to COVID-19, we agree with the decision to not pursue any further investment in the AIF.
- Making strategic decisions on asset realisation at a time of uncertainty may impact value and therefore disposals in the immediate term are currently unlikely to realise best value.
- We believe the best course of action at present is to seek to maximise returns on the existing investments and undertake annual strategic reviews of the AIF to assess if/when disposals will result in best value.
- However, if LBC needs to release cash to mitigate financial pressures in year, the AIF does represent significant potential for unlocking cash.

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Recommendations and next steps

Section six

7

Key observations and recommendations

Priority

The actions have been given a 'Priority' rating from high to low. This reflects the degree of urgency with which we believe the actions should be addressed.

High	This is critical to progress.
Medium	This is important to progress.
Low	This is least important to progress.

Ease of implementation






The 'Ease of implementation' rating in the final column indicates the level of difficulty of implementation, taking into account any work already undertaken

	Hardest to implement in the available time period.
	Can be implemented in short to medium term.
	Easiest to implement in the available time period.

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Key observations and recommendations

Page 113

Ref.	Area	Observation and action	Responsible Organisation	Priority (High / Med / Low)	Ease of implementation (Red / Amber / Green)
1	BBB - Financial planning	The Company does not currently produce a consolidated phased plan against which to assess year to date financial performance, nor does it produce consolidated forecasts in terms of cash flow, profit and loss or financial position. We recommend that BBB should improve its financial oversight by producing: A 13 week rolling cash flow forecast; and integrated forecast profit and loss and balance sheet statements.	BBB	High	
2	BBB - Financial governance	There is currently no financially qualified member of the Board to provide challenge to BBB's reported performance or forecasts. BBB should ensure that there is a sufficiently qualified Director of Finance in post to increase the internal financial scrutiny and challenge and support the Shareholder Board to improve its understanding of the business's finances.	BBB	High	
3	BBB - Financial Governance - reporting	BBB does not currently have any integrated company-wide financial monitoring or forecast and therefore it is challenging for the Board to make effective decisions on the basis of Company financial performance. Whilst we understand there is an ambition to produce monthly management accounts moving forward, BBB should integrate development, sales and financial projections into a monthly reporting cycle to provide visibility to the Board on the Company's financial position.	BBB	High	
4	BBB - Financial Governance	There is a lack of financial capacity and capability within BBB. In addition to the appointment of a qualified Director of Finance we expect there to be at least one additional suitably qualified member of staff who can support the development of robust financial information to proactively manage the BBB business.	BBB	High	
5	BBB - State aid	Improve documentation of arrangements for the subsequent sale of assets by BBB, particularly where this has a direct influence on the valuation of land to be acquired / transferred.	LBC	Med	








Key observations and recommendations

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Ref.	Area	Observation and action	Responsible Organisation	Priority (High / Med / Low)	Ease of implementation (Red / Amber / Green)
6	LBC - Purchase of BBB properties	<p>The Cabinet has approved in July the further purchase of 231 BBB properties, but has not yet entered into contract for any of these. We understand that the status of these property purchases is pending, subject to review. The Council will need to decision on a site by site basis whether to pursue this option and notify BBB accordingly immediately prior to the practical completion of the schemes.</p> <p>LBC should review the proposed purchases of these properties in light of current market conditions, so that it does not exceed these thus exposing the Council to risk under S123.</p>	LBC	High	
7	LBC - BBB developments	<p>LBC has not created sufficient capacity in its own teams (such as planning) to allow for the increased demand for services that its drive to create affordable homes is generating. There is evidence that some of the delays experienced on BBB development sites are being driven by longer than normal process time in the Council's operational teams. Since the Council must avoid preferential treatment to BBB, it may wish to consider general additional capacity in these teams to support quicker processing across the board. This will support quicker resolution for all developer delays including BBB.</p>	LBC	High	
8	LBC - BBB - State aid	<p>The Council should regularly review the financing and operational arrangements of BBB for ongoing compliance with State Aid requirements, particularly in the context of:</p> <ul style="list-style-type: none"> • Maintaining a state aid compliant capital structure including the equity loan debt model • Pricing loans on a state aid compliant basis which reflect the risk associated with investing in BBB specifically. 	LBC	High	

Key observations and recommendations

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Ref.	Area	Observation and action	Responsible Organisation	Priority (High / Med / Low)	Ease of implementation (Red / Amber / Green)
9	LBC - Governance	There are significant concerns around the adherence to governance procedures within LBC and its subsidiaries. LBC should consider commissioning a wider and thorough governance review of the organisation.	LBC	High	
10	LBC - Governance	There is insufficient capacity within the LBC corporate governance team to appropriately oversee the application of governance across the organisation. LBC should review its governance team structure and ensure it has the required level of capacity and capability along with senior input to ensure best practice governance procedures are adhered to.	LBC	High	
11	LBC - Governance	It has proven difficult to obtain a complete set of documentation in relation to loans and other agreements between LBC and its subsidiaries. LBC should ensure that it collates and maintains a complete central repository of all commercial arrangements between itself and its subsidiaries,	LBC	Med	
12	LBC - Governance	Given the level of risk associated with BBB, the Council should consider reviewing the BBB risk entry on the central risk register and reflect the risk outside of general governance matters.	LBC	Med	
13	LBC - Disposals	Where analysis and calculations are undertaken with regard the allocation of negative land value across sites, greater levels of clarity and explanation as to the process undertaken should be developed and retained for future audit trail purposes.	LBC	Med	
14	LBC - Disposals	Consider the greater use of third party external valuers for all future site disposals, transfers or acquisitions.	LBC	Med	
15	LBC - Disposals	Maintain an audit trail or log of key assumptions employed in developing valuations and analyses related to land transfers, disposals and acquisitions, particularly where this is performed in house (external valuers typically provide detailed reports on valuation, including assumptions employed).	LBC	Med	

Key observations and recommendations

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Ref.	Area	Observation and action	Responsible Organisation	Priority (High / Med / Low)	Ease of implementation (Red / Amber / Green)
16	GZ - Business case	<p>The assumptions on which the original business case was based (forecast business rates increases and the development of a Westfield retail complex) are no longer valid and the business case should be revised.</p> <p>This should be done building on the COVID-19 impact review already completed and must consider the change in the economic forecast for the duration of the proposed investment period and the changes in the requirements of Croydon's population and behaviours following COVID-19 and any associated downturn.</p>	LBC	High	A
17	GZ - Governance	<p>Annual and quarterly review meetings with GLA and the Mayor of London's office: Frequency of governance meetings with stakeholders may not be sufficient in light of ongoing economic uncertainty.</p> <p>LBC may wish to consider increasing frequency until such time as a revised GZ business plan is agreed including the underpinning assumptions over funding - i.e. business rate increases and the Councils ongoing ability to utilise these.</p>	LBC	High	A
18	GZ - Governance	<p>Any subsequent increase in planned investment should be supported by a business case and taken through robust governance and sign off processes for full scrutiny.</p>	LBC	Low	A

Key observations and recommendations




Ref.	Area	Observation and action	Responsible Organisation	Priority (High / Med / Low)	Ease of implementation (Red / Amber / Green)
19	RIF	The RIF fund was intended to be ring-fenced and have clear governance and decision making. Neither of these stated intentions have been put into place. Cabinet should urgently revisit the purpose of the RIF fund, and set clear lending controls with well enforced drawdown requirements to prevent any further loss of control.	LBC	High	
20	RIF	Management of the RIF's loan book has been left to the LBC finance team, but up until mid-October 2020 there was no individual within LBC who had current active oversight of the RIF loan portfolio. Changes in personnel have left a lack of corporate memory in relation to the RIF loans. It has been particularly challenging to locate copies of loan documentation for the purposes of this review. Loan documents should all be properly archived and filed so that they can be easily located. An automated reminder and alert system should be established so that Loans are properly managed.	LBC	High	
21	RIF	There is no robust treasury plan for management of these loans, or set of standard operating procedures in relation to the management of RIF loans and loan management is not in keeping with industry best practice in relation to management of loans of this size. A robust set of operating procedures should now be put into place with immediate effect.	LBC	High	

Key observations and recommendations

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Ref.	Area	Observation and action	Responsible Organisation	Priority (High / Med / Low)	Ease of implementation (Red / Amber / Green)
22	CAH - Life cycle cost provision	We understand that there should be a provision in the LBC accounts for the life cycle costs of the lease properties managed by the CAH group of LLPs. There is no evidence that this provision exists suggesting there is a risk that the true future costs of the leases through to the planned transfers to the Pension Scheme are not recognised. CAH should recognise a liability in their accounts to address this, and funds should be ring fenced to reflect this future cost.	CAH	High	
23	CAH - State aid	A more consistent approach to agreeing land value between the Council and its wholly owned subsidiary: It does not appear to be logical for the two related entities to have materially different views on land valuation.	LBC	Med	
24	CAH	There is a lack of clarity on whether or not life cycle costs are being appropriately recognised. Immediate steps should be taken by LBC and CAH to assure the Board and Cabinet that suitable provisions for life cycle costs are being made. The amount not reserved may need to be backdated.	LBC	High	
25	CAH	We recommend LBC puts in place robust governance around CAH given the value of the assets held, with dedicated team resource including a company secretary function to oversee general CAH LLP group companies house filing and require improved financial reporting from the LLPs.	LBC	Med	
26	CAH	LBC should formulate a clear strategy on the use of homes in terms of tenant type to understand the impact of suggested rent levels and the ability to pay these.	LBC	Med	

Key observations and recommendations

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27	AIF	<p>Monitoring of the AIF portfolio and governance is very limited. AIF performance is not discussed at any formal board, with reporting confined to within the Asset and Estates team and Place directorate. AIF is covered by general financial monitoring on a monthly (previously quarterly) basis.</p> <p>The governance of AIF should be formalised with a clear regular review with reports to Cabinet on status.</p>	LBC	Med	
28	AIF	<p>Making strategic decisions on asset realisation at a time of uncertainty may impact value and therefore disposals in the immediate term are currently unlikely to realise best value. We believe the best course of action at present is to seek to maximise returns on the existing investments and undertake annual strategic reviews of the AIF to assess if/when disposals will result in best value.</p>	LBC	Med	
29	AIF	<p>If LBC needs to release cash to mitigate financial pressures in year, the AIF does represent significant potential for unlocking cash.</p> <p>Assess if there is a need for cash. If there is, then undertake a more detailed review of each asset for suitability to meet this need. This could include a detailed valuation exercise.</p>	LBC	High	

Appendices

Section eight

8

Scope and process

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Scope	Process
Purpose	The report was produced for LBC only and is a confidential document.
Access to management	In general, we have had reasonable access to LBC staff and directors, the Board and staff of BBB, personnel linked to the CAH group, RIF and AIF.
Management representation	We have shown sections of this draft report (excluding section 3 - strategic options), plus supporting appendices to: BBB's CEO (sections related to BBB), the former LBC Section 151 officer (historical pages only); a Trustee of CAH LLP and the Head of Asset Management and Estates (the AIF and RIF sections). They have confirmed that, to the best of their knowledge and belief, the report does not contain any material error of fact, there has been no material omission and it fairly sets out the recent results, state of affairs and (where relevant prospects of the subjects of this review. To the extent that we consider appropriate, we have incorporated their comments in this report.
Access to information	Our work has comprised a review and analysis of the financial and other information provided to us by LBC, BBB, the Trustee of Croydon Affordable Housing LLP and other individuals, plus discussions with individuals related to each of the entities that form the subject of our report. We have assumed that this information and management's explanations and representations are complete, accurate and reliable. The quality and availability of financial information available from BBB has impacted the level of detail we have been able to provide in our strategic options analysis. Further work would be required to deliver more detailed modelling of the proposed options.
Clarity of information	The information provided to us, together with our access to management, has allowed us to gain insight and understanding into some of the more significant risks, trends and issues faced by each of the entities.
Review process	Our work was performed over a 4 week period commencing 5 October 2020. We had access to LBC officers. We also had access to the CEO, BBB and the BBB senior management team and other staff.
Exclusions from scope	LBC should consider our recommendations in the light of its own assessment of the security position. We point out that the scope of our work did not include a detailed review of the Croydon Housing market BBBs competitive position in this markets. Furthermore, our work did not include a review of any of the entities tax affairs or its pension arrangements.
Financial projections and short-term cash flow forecast: Prospective Financial Information ("PFI")	Any underlying PFI referred to in this report was not prepared or developed by us and we have not restated any PFI or made assumptions or projections relating to PFI. Management has full responsibility for the judgements involved in, and results of, its PFI preparation processes. While we may have performed sensitivity analyses on PFI and underlying assumptions, any tables aggregating our comments or observations of vulnerabilities and sensitivities do not represent restatements of or revisions to PFI; they are only a summary of our analysis to assist you with your evaluation of PFI. It is your responsibility to consider our analysis and make your own decisions. As events and circumstances frequently do not occur as expected, there may be material differences between PFI and actual results and cash flows. See also our comment below re BREXIT. We take no responsibility for the achievement of predicted results.
BREXIT	Given the UK referendum result and the subsequent triggering of Article 50 there is uncertainty, which could persist for some time, as to what this may mean for businesses, whether in the UK or outside it but with trading or other connections with the UK. As a result, our work may not have identified, or reliably quantified the impact of, all such uncertainties and implications.
COVID-19	It is not possible for LBC, its subsidiaries or us to assess with any certainty the implications of COVID-19, either in terms of how long the current crisis may continue or in terms of its impact, potential or actual, on LBC or subsidiary business. For example, BBB may face significant supply issues if its supply chain includes entities in regions where the authorities have implemented, or may implement, measures to contain and/or prevent the spread of COVID-19. Similarly, demand for products and services may be significantly impacted. BBB has modified its projections to try and show a possible outcome. It has not considered the potential impact on balance sheet items (such as impairment to assets (such as fixed assets, investments, inventory, receivables), or liabilities and provisions (including potential claims)). BBB has not implemented contingency measures. We note that the potential variation between projected and actual results is likely to be materially greater than it might otherwise have been. We take no responsibility for the achievement of projected or predicted results or balances."

PwC scope and limitations

Interviews conducted

Key individuals we have interviewed:

BBB

- CEO
- Chair
- Financial Controller
- Head of Operations
- Head of Delivery
- Head of Property & Engagement,
- Head of Design
- 4x Development managers

LBC

- Interim CEO
- Director of Growth Zone
- Executive Director of place
- Executive Director of resources and monitoring officer
- Head of Asset Management and Estates
- Head of Growth Zone
- Head of Internal Audit
- Interim Director of Law & Governance
- Risk and Corporate Programme Officer
- S151 Officer and Director of Finance

Others

- External Auditors of the Council and former auditors of BBB
- Former S151 Officer at LBC
- Trustee of Croydon Affordable Housing LLP

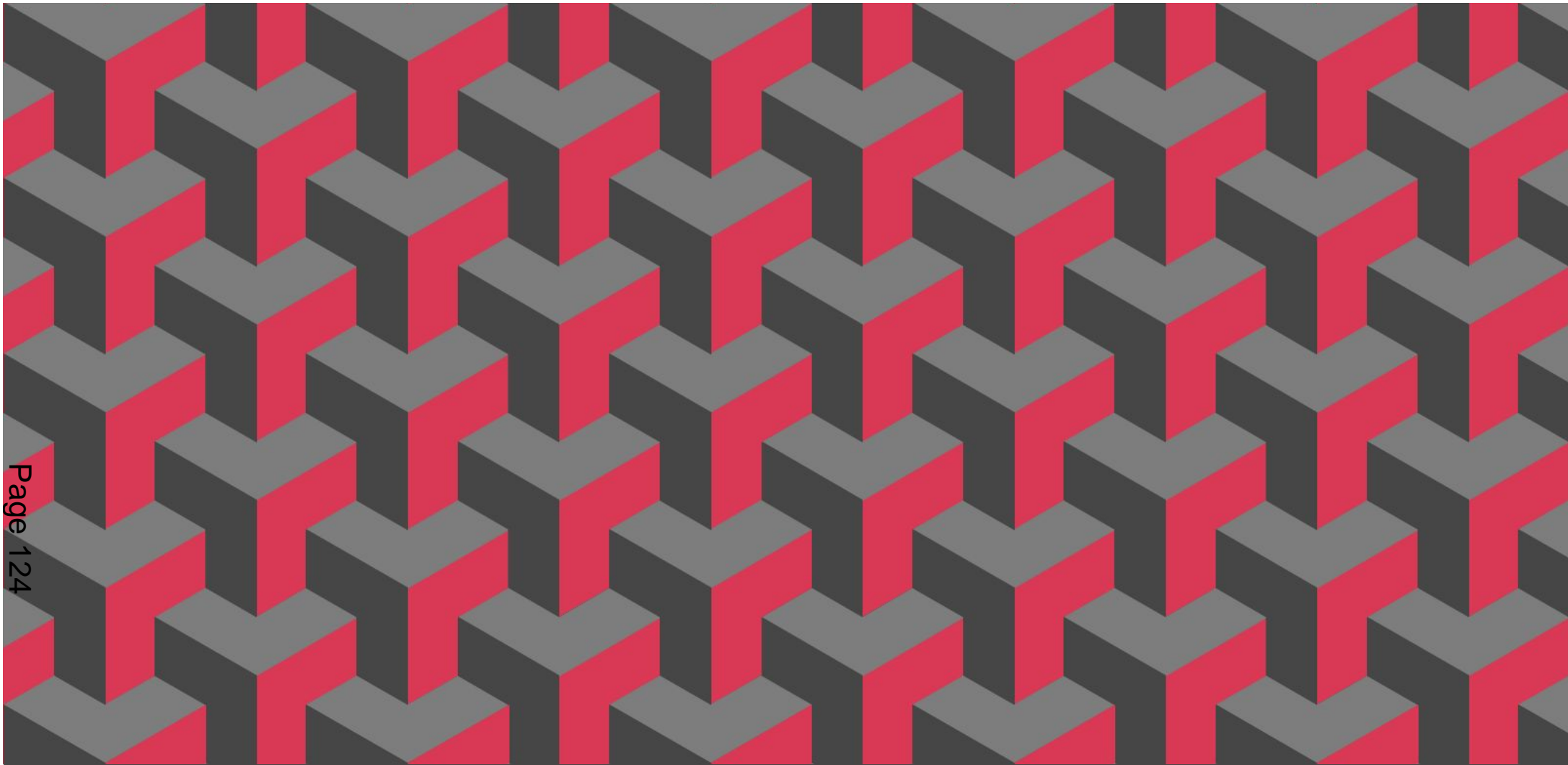
Glossary

Our report includes a number of terms and short descriptions, which we define alongside:

Term	Definition
AR	Affordable rent
BBB	Brick by Brick Croydon Ltd
BTR	Built to rent
CAH	Croydon Affordable Homes LLP
CAT	Croydon Affordable Tenures LLP
CEO	Chief Executive Officer
CGA	Common Ground Architecture
Company	Brick by Brick Limited
Council	London Borough of Croydon
CT	Corporation tax
EBIT/ EBITDA	Earnings before interest and tax/ Earnings before interest, tax, depreciation and amortisation
EUV	Existing use value
FOT	Forecast outturn
FY19/20, FY20/21, FY21/22	Financial years ending March 2019, March 2020 and March 2021
GLA	Greater London Authority
Group	LBC's subsidiaries, Brick by Brick Ltd and Croydon Affordable Homes Ltd.
GZ	Growth Zone
HMRC	Her Majesty's Revenue & Customs
HTB	Help to buy
LBC	London Borough of Croydon Council
LLP	Limited liability partnership

Term	Definition
Ltd	Private limited company
M6	Month 6 financial period, ending 30 September 2020
MBO	Management buy out
MEIP	Market Economy Investor Principle
MTFS	Medium term financial strategy
MVL	Members voluntary liquidation
NED	Non-executive director
P&L	Statement of profit and loss
p.a.	Per annum
PAYE	Pay as you earn
PC	Practical completion
PFI	Prospective financial information
PwC	PricewaterhouseCoopers LLP
Q1, 2, 3, 4	Quarters ended/ending June, September, December, March
RIF	Revolving Investment Fund
S/O	Shared ownership
S106	Section 106 - the legal agreement between a developer seeking planning permission and the council
S125	Legal agreement between tenant and landlord when tenant is eligible for the Right to Buy to Right to Acquire
Sensitivity	The estimated illustrative financial effect of a change to a key assumption, to reflect either a vulnerability or an upside
SME	Small and medium enterprises
SWOT	Strengths, weaknesses, Opportunities, Threats
TFL	Transport for London
Tranche 1	Site developments in construction

Term	Definition
Tranche 2	Site developments with approved / submitted planning applications
TUPER	Transfer of Undertakings (Protection of Employment) Regulations
VAT	Value added tax
VFM	Value for money
Vulnerability	An unquantifiable sensitivity that may present upside or downside risk
YTD	Year to date



COMPANY NUMBER 09578014

PRIVATE COMPANY LIMITED BY SHARES

WRITTEN RESOLUTION

of

BRICK BY BRICK CROYDON LIMITED (Company)

Date: 2020 (Circulation Date)

Under Chapter 2 of Part 13 of the Companies Act 2006, the member of the Company has required the Company to propose that resolution 1 is passed as a special resolution and resolutions 2 to 5 are passed as ordinary resolutions (the **Resolutions**).

SPECIAL RESOLUTION

1 THAT, the articles of association of the Company be amended by:

a. Inserting a new definition of ‘*Finance Director*’ as below:

“Finance Director means the Director appointed and designated as the finance Director,”

b. Amending the existing definition of ‘*Director*’ to:

“Director means a director for the time being of the Company (including any Executive Director, Finance Director and Non-Executive Director), and includes any person occupying such position, by whatever name called,”

c. Deleting article 12.2 and replacing it with the following new article 12.2:

“Subject to Article 12.3, the quorum for the transaction of business at a Directors’ meeting shall be any 2 Directors”:

d. Inserting a new Article 15.3 as below:

“Following any unanimous or majority decision taken by the Directors (whether such decision is taken by electronic means or otherwise) the record of such decision shall be circulated to the Shareholder within 2 working days of the date of the decision and in any event all meetings of the Directors shall be properly minuted and those minutes provided to the Shareholder within not more than 5 working days of such meeting taking place.”

e. Deleting article 18.1 and replacing it with the following new article 18.1:

“Unless otherwise determined by ordinary resolution, the number of Directors shall not be less than 2 (and shall not be more than 4 and may

comprise of an Executive Director (if appointed), Finance Director (if appointed) and Non-Executive Director(s)). No shareholding qualification for Directors shall be required”

ORDINARY RESOLUTIONS

- 2 THAT, pursuant to Article 19.2 of Company’s articles of association, Colm Lacey be removed from office as Director of the Company with immediate effect.
- 3 THAT, pursuant to Article 19.2 of Company’s articles of association, Martyn Evans be removed from office as Director of the Company with immediate effect.
- 4 THAT Duncan Whitfield be appointed to the office as Non-Executive Director of the Company with immediate effect.
- 5 THAT Ian O’Donnell be appointed to the office as Non-Executive Director of the Company with immediate effect.
- 6 THAT, pursuant to Article 51.3 of the Company’s articles of association, for so long as the Council is the sole shareholder of the Company, it shall be entitled to inspect any of the Company’s accounting or other records or documents at any time.

Appendix 2. Action Plan arising from PwC -Key observations and recommendations

Ref.	Area	Observation and action	Responsible Organisation	Responsible person	Due date
1	BBB - Financial planning	The Company does not currently produce a consolidated phased plan against which to assess year to date financial performance, nor does it produce consolidated forecasts in terms of cash flow, profit and loss or financial position. We recommend that BBB should improve its financial oversight by producing: A 13 week rolling cash flow forecast; and integrated forecast profit and loss and balance sheet statements.	BBB	BBB – Board of Directors	January 2021
2	BBB - Financial governance	There is currently no financially qualified member of the Board to provide challenge to BBB's reported performance or forecasts. BBB should ensure that there is a sufficiently qualified Director of Finance in post to increase the internal financial scrutiny and challenge and support the Shareholder Board to improve its understanding of the business's finances.	BBB	BBB – Board of Directors	February 2021
3	BBB - Financial Governance - reporting	BBB does not currently have any integrated company-wide financial monitoring or forecast and therefore it is challenging for the Board to make effective decisions on the basis of Company financial performance. Whilst we understand there is an ambition to produce monthly management accounts moving forward, BBB should integrate development, sales and financial projections into a monthly reporting cycle to provide visibility to the Board on the Company's financial position.	BBB	BBB – Board of Directors	February 2021

4	BBB - Financial Governance	There is a lack of financial capacity and capability within BBB. In addition to the appointment of a qualified Director of Finance we expect there to be at least one additional suitably qualified member of staff who can support the development of robust financial information to proactively manage the BBB business.	BBB	BBB – Board of Directors	February 2021
5	BBB - State aid	Improve documentation of arrangements for the subsequent sale of assets by BBB, particularly where this has a direct influence on the valuation of land to be acquired / transferred.	LBC	ED - Resources	January 2021
6	LBC - Purchase of BBB properties	The Cabinet has approved in July the further purchase of 231 BBB properties, but has not yet entered into contract for any of these. We understand that the status of these property purchases is pending, subject to review. The Council will need to decision on a site by site basis whether to pursue this option and notify BBB accordingly immediately prior to the practical completion of the schemes. LBC should review the proposed purchases of these properties in light of current market conditions, so that it does not exceed these thus exposing the Council to risk under S123.	LBC	ED Place	March 2021
7	LBC - BBB developments	LBC has not created sufficient capacity in its own teams (such as planning) to allow for the increased demand for services that its drive to create affordable homes is generating. There is evidence that some of the delays experienced on BBB development sites are being driven by longer	LBC	ED Place	June 2021

		than normal process time in the Council's operational teams. Since the Council must avoid preferential treatment to BBB, it may wish to consider general additional capacity in these teams to support quicker processing across the board. This will support quicker resolution for all developer delays including BBB.			
8	LBC - BBB - State aid	<p>The Council should regularly review the financing and operational arrangements of BBB for ongoing compliance with State Aid requirements, particularly in the context of:</p> <ul style="list-style-type: none"> • Maintaining a state aid compliant capital structure including the equity loan debt model • Pricing loans on a state aid compliant basis which reflect the risk associated with investing in BBB specifically. 	LBC	LBC- Exec Director Resources + Finance Director/S151 Officer	Ongoing Ongoing
9	LBC - Governance	There are significant concerns around the adherence to governance procedures within LBC and its subsidiaries. LBC should consider commissioning a wider and thorough governance review of the organisation.	LBC	LBC – CEO	April 2021
10	LBC - Governance	There is insufficient capacity within the LBC corporate governance team to appropriately oversee the application of governance across the organisation. LBC should review its governance team structure and ensure it has the required level of capacity and capability along with senior input to ensure best practice governance procedures are adhered to.	LBC	LBC – CEO	April 2021

11	LBC - Governance	It has proven difficult to obtain a complete set of documentation in relation to loans and other agreements between LBC and its subsidiaries. LBC should ensure that it collates and maintains a complete central repository of all commercial arrangements between itself and its subsidiaries,	LBC	LBC – ED Resources	January 2021
12	LBC - Governance	Given the level of risk associated with BBB, the Council should consider reviewing the BBB risk entry on the central risk register and reflect the risk outside of general governance matters.	LBC	ED Place in liaison with FD/S151 Officer	December 2020
13	LBC - Disposals	Where analysis and calculations are undertaken with regard the allocation of negative land value across sites, greater levels of clarity and explanation as to the process undertaken should be developed and retained for future audit trail purposes.	LBC	ED Place in liaison with FD/S151 Officer	December 2020
14	LBC - Disposals	Consider the greater use of third party external valuers for all future site disposals, transfers or acquisitions.	LBC	ED Place	January 2021
15	LBC - Disposals	Maintain an audit trail or log of key assumptions employed in developing valuations and analyses related to land transfers, disposals and acquisitions, particularly where this is performed in house (external valuers typically provide detailed reports on valuation, including assumptions employed).	LBC	ED Place in liaison with FD/S151 Officer	January 2021

16	GZ - Business case	<p>The assumptions on which the original business case was based (forecast business rates increases and the development of a Westfield retail complex) are no longer valid and the business case should be revised.</p> <p>This should be done building on the COVID-19 impact review already completed and must consider the change in the economic forecast for the duration of the proposed investment period and the changes in the requirements of Croydon's population and behaviours following COVID-19 and any associated downturn.</p>	LBC	ED Place in liaison with FD/S151 Officer	March 2021
17	GZ - Governance	<p>Annual and quarterly review meetings with GLA and the Mayor of London's office: Frequency of governance meetings with stakeholders may not be sufficient in light of ongoing economic uncertainty.</p> <p>LBC may wish to consider increasing frequency until such time as a revised GZ business plan is agreed including the underpinning assumptions over funding - i.e. business rate increases and the Councils ongoing ability to utilise these.</p>	LBC	ED Place	Ongoing
18	GZ - Governance	<p>Any subsequent increase in planned investment should be supported by a business case and taken through robust governance and sign off processes for full scrutiny.</p>	LBC	ED Place	Ongoing
19	RIF	<p>The RIF fund was intended to be ring-fenced and have clear governance and decision making. Neither of these stated intentions have been put into place.</p>	LBC	Finance Director	February 2021

		Cabinet should urgently revisit the purpose of the RIF fund, and set clear lending controls with well enforced drawdown requirements to prevent any further loss of control.			
20	RIF	<p>Management of the RIF's loan book has been left to the LBC finance team, but up until mid-October 2020 there was no individual within LBC who had current active oversight of the RIF loan portfolio. Changes in personnel have left a lack of corporate memory in relation to the RIF loans. It has been particularly challenging to locate copies of loan documentation for the purposes of this review.</p> <p>Loan documents should all be properly archived and filed so that they can be easily located. An automated reminder and alert system should be established so that Loans are properly managed.</p>	LBC	Finance Director	February 2021
21	RIF	<p>There is no robust treasury plan for management of these loans, or set of standard operating procedures in relation to the management of RIF loans and loan management is not in keeping with industry best practice in relation to management of loans of this size.</p> <p>A robust set of operating procedures should now be put into place with immediate effect.</p>	LBC	Finance Director	February 2021
22	CAH - Life cycle cost provision	We understand that there should be a provision in the LBC accounts for the life cycle costs of the lease properties managed by the CAH group of LLPs. There is no evidence that this provision exists suggesting there is a risk that the true future costs of the leases through to the planned	CAH	ED Place in liaison with FD/S151 Officer	February 2021

		transfers to the Pension Scheme are not recognised. CAH should recognise a liability in their accounts to address this, and funds should be ring fenced to reflect this future cost.			
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29	AIF	If LBC needs to release cash to mitigate financial pressures in year, the AIF does represent significant potential for unlocking cash. Assess if there is a need for cash. If there is, then undertake a more detailed review of each asset for suitability to meet this need. This could include a detailed valuation exercise.	LBC	ED Place in liaison with FD/S151 Officer	January 2021