



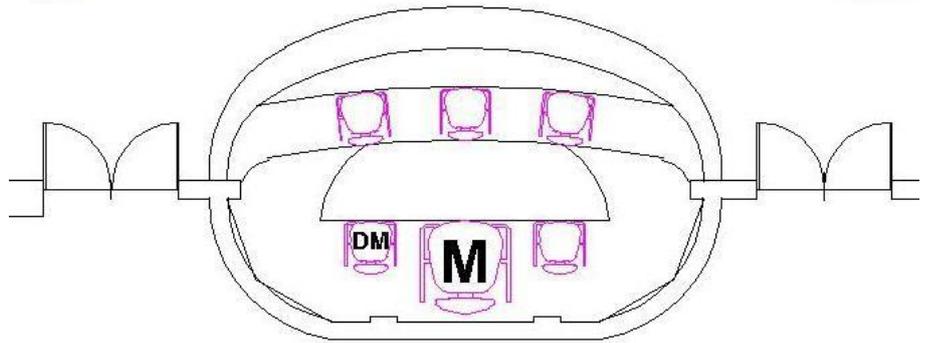
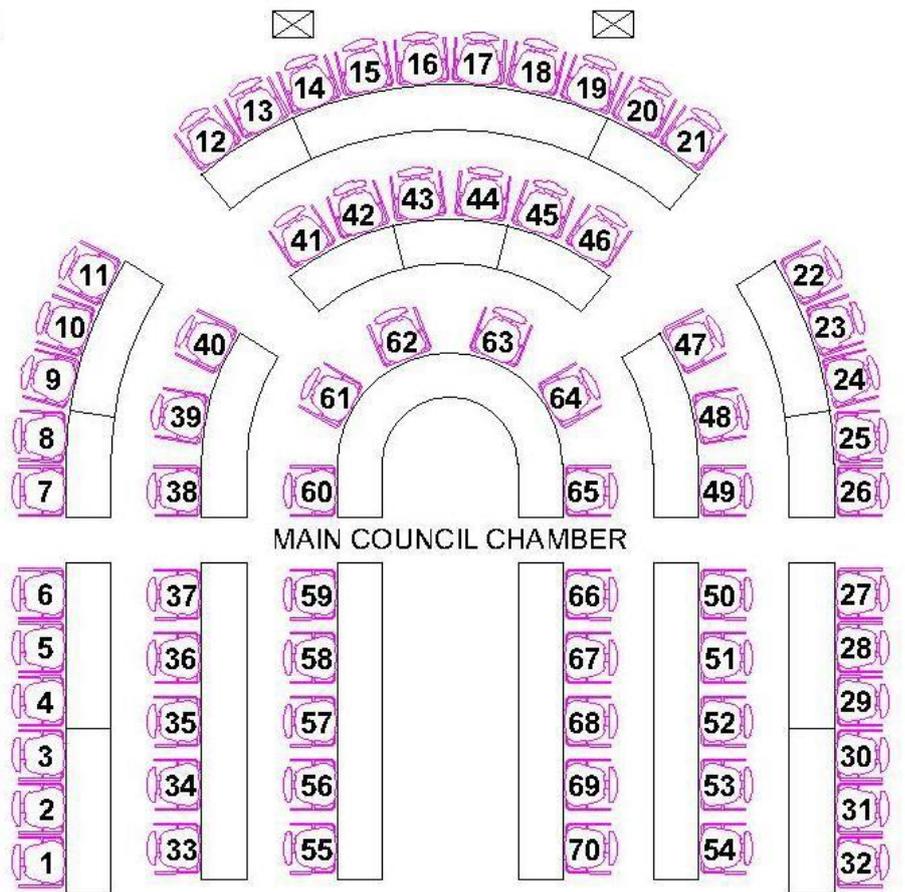
**EXTRAORDINARY
COUNCIL
MEETING
REPORT IN THE
PUBLIC INTEREST
AGENDA**

19 November 2020

at

6.30 pm

| |
|------------------------|
| 1. Callton Young |
| 2. Joy Prince |
| 3. Stephen Mann |
| 4. Jamie Audsley |
| 5. Andrew Pelling |
| 6. Pat Clouder |
| 7. Pat Ryan |
| 8. Caragh Skipper |
| 9. Mary Croos |
| 10. Robert Canning |
| 11. Leila Ben-Hassel |
| 12. Bernadette Khan |
| 13. Humayun Kabir |
| 14. Jerry Fitzpatrick |
| 15. |
| 16. |
| 17. Oni Oviri |
| 18. Steve Hollands |
| 19. Ian Parker |
| 20. Michael Neal |
| 21. Luke Clancy |
| 22. Jan Buttinger |
| 23. Sue Bennett |
| 24. Jeet Bains |
| 25. Stuart Millson |
| 26. Andy Stranack |
| 27. Helen Redfern |
| 28. Simon Brew |
| 29. Gareth Streeter |
| 30. Margaret Bird |
| 31. Scott Roche |
| 32. Richard Chatterjee |
| 33. Shafi Khan |
| 34. David Wood |



| | |
|--------------------------|--|
| 35. Nina Degrad | 56. Hamida Ali |
| 36. Patricia Hay-Justice | 57. Stuart Collins |
| 37. Louisa Woodley | 58. Alison Butler |
| 38. Clive Fraser | 59. Tony Newman |
| 39. Patsy Cummings | 60. Simon Hall |
| 40. Sean Fitzsimons | 61. Oliver Lewis |
| 41. Felicity Flynn | 62. Janet Campbell |
| 42. Jane Avis | 63. Manju Shahul-Hameed |
| 43. Karen Jewitt | 64. Paul Scott |
| 44. Chris Clark | 65. Stuart King |
| 45. Toni Letts | 66. Tim Pollard |
| 46. Mohammed Ali | 67. Jason Cummings |
| 47. Badsha Quadir | 68. Lynne Hale |
| 48. Robert Ward | 69. Maria Gatland |
| 49. Steve O'Connell | 70. Jason Perry |
| 50. Helen Pollard | Notes etc. |
| 51. Yvette Hopley | M – Mayor Councillor Maddie Henson |
| 52. Mario Creatura | DM – Deputy Mayor – Sherwan Chowdhury |
| 53. Vidhi Mohan | Please note that the numbers relate to microphone numbers. |
| 54. Simon Hoar | July 2020 |
| 55. Alisa Flemming | |

To: To All Members of the Council

Date: 11 November 2020

An Extraordinary Meeting of the **COUNCIL** which you are hereby summoned to attend, will be held on **Thursday, 19 November 2020** at **6.30 pm**. This meeting will be held remotely. Members of Council will be sent a link to remotely attend the meeting in due course.

PLEASE NOTE: Members of the public are welcome to remotely attend this meeting via the following web link: <https://webcasting.croydon.gov.uk/meetings/11114>

JACQUELINE HARRIS BAKER
Council Solicitor and Monitoring Officer
London Borough of Croydon
Bernard Weatherill House
8 Mint Walk, Croydon CR0 1EA

Annette Wiles 020 872 6000 x64877
annette.wiles@croydon.gov.uk
www.croydon.gov.uk/meetings
11 November 2020

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 officer as detailed above.

AGENDA – PART A

1. Apologies for Absence

To receive any apologies for absence from any Members.

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. Report in the Public Interest (Pages 5 - 72)

Concerning the Council's financial position and related arrangements in addition to establishing an overarching improvement board.

Agenda Item 3

| | |
|---|--|
| 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: 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 18 th January 2021 meeting of Cabinet for consideration and approval as part of the report detailed in recommendation 1.7 below. | |

1. RECOMMENDATIONS

Council is recommended to:

- 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;
- 1.2 Agree the four additional recommendations, LBC1 to LBC4, detailed in appendix B to the report;
- 1.3 Agree the Action Plan detailed at appendix B to the report, including the indicative timeline and accountabilities;
- 1.4 Note that the Action Plan includes a response to each of the external auditor's recommendations;
- 1.5 Agree that the Council continues to seek external support from across the sector to ensure that it learns from best practice nationally;
- 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

- 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 |
| 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

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| | | |
| 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

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|--|--|--|
| <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

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|---|-----------------|-------------------------|
| 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

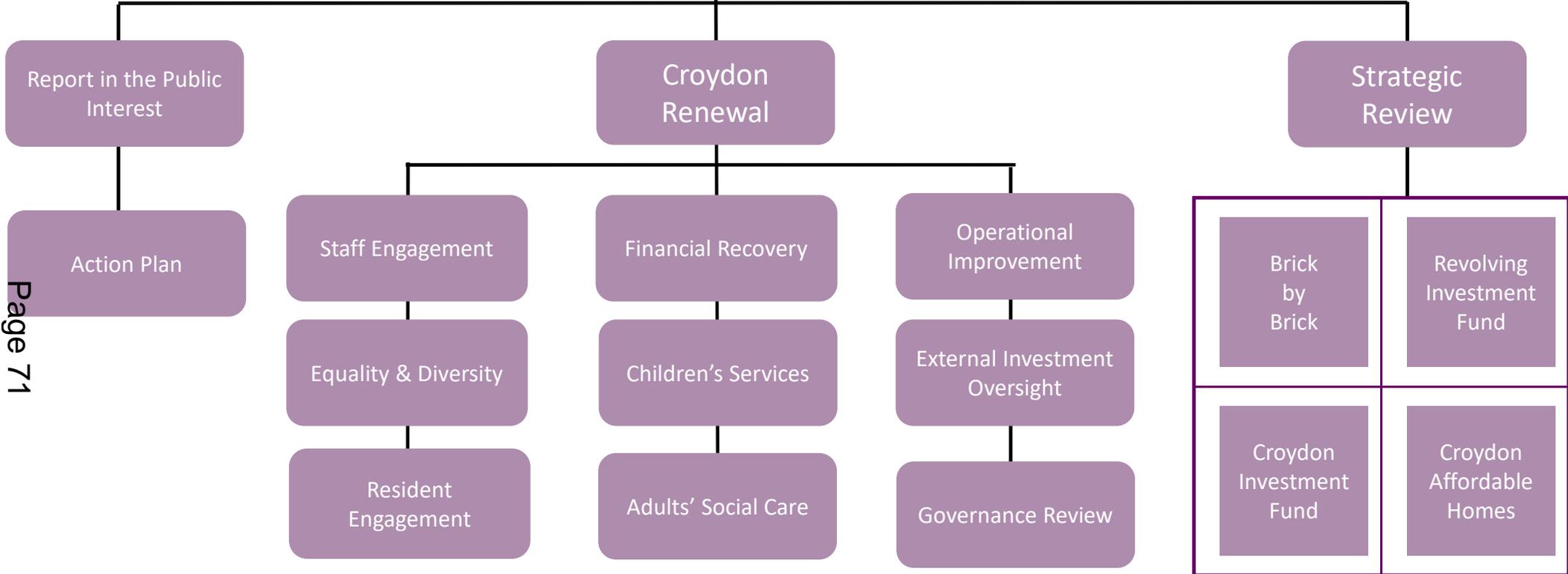
| Action | Deadline | Accountability |
|---|---|---------------------------------|
| i) Implement new Council management arrangements that ensure: <ul style="list-style-type: none"> • the delivery of high quality statutory services • finances are appropriately managed and controlled • a sound understanding 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

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|---|--------------|---------------------------------|
| 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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