

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

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

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

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

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

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

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

		transfers to the Pension Scheme are not recognised. CAH should recognise a liability in their accounts to address this, and funds should be ring fenced to reflect this future cost.			
23	CAH - State aid	A more consistent approach to agreeing land value between the Council and its wholly owned subsidiary: It does not appear to be logical for the two related entities to have materially different views on land valuation.	LBC	ED Place	January 2021
24	CAH	There is a lack of clarity on whether or not life cycle costs are being appropriately recognised. Immediate steps should be taken by LBC and CAH to assure the Board and Cabinet that suitable provisions for life cycle costs are being made. The amount not reserved may need to be backdated.	LBC	ED Place in liaison with FD/S151 Officer	February 2021
25	CAH	We recommend LBC puts in place robust governance around CAH given the value of the assets held, with dedicated team resource including a company secretary function to oversee general CAH LLP group companies house filing and require improved financial reporting from the LLPs.	LBC	ED Resources	February 2021
26	CAH	LBC should formulate a clear strategy on the use of homes in terms of tenant type to understand the impact of suggested rent levels and the ability to pay these.	LBC	ED Place	February 2021
27	AIF	Monitoring of the AIF portfolio and governance is very limited. AIF performance is not discussed at any formal board, with reporting confined to within the Asset and Estates team and Place directorate.	LBC	ED Place	January 2021

		AIF is covered by general financial monitoring on a monthly (previously quarterly) basis. The governance of AIF should be formalised with a clear regular review with reports to Cabinet on status.			
28	AIF	Making strategic decisions on asset realisation at a time of uncertainty may impact value and therefore disposals in the immediate term are currently unlikely to realise best value. We believe the best course of action at present is to seek to maximise returns on the existing investments and undertake annual strategic reviews of the AIF to assess if/when disposals will result in best value.	LBC	ED Place in liaison with FD/S151 Officer	January 2021
29	AIF	If LBC needs to release cash to mitigate financial pressures in year, the AIF does represent significant potential for unlocking cash. Assess if there is a need for cash. If there is, then undertake a more detailed review of each asset for suitability to meet this need. This could include a detailed valuation exercise.	LBC	ED Place in liaison with FD/S151 Officer	January 2021