

## **DRAFT ANNUAL GOVERNANCE STATEMENT (AGS) 2021/22**

### Introduction

1. Croydon Council is responsible for ensuring that its business is conducted in accordance with the law and the proper standards of good governance. The Accounts and Audit Regulations (2015), as amended by the Accounts and Audit (Coronavirus)(Amendments) Regulations 2020, require the Council to conduct a review, at least annually, of the effectiveness of its systems of internal control and to prepare an Annual Governance Statement (AGS) reporting on the review with the Statement of Accounts.
- 1A. This Governance Statement is informed by the Croydon Renewal & Improvement Plan (that include the Finance Review (2020), Governance Review (2020), Review of Council Companies (2020), Non-Statutory Rapid Review, Report in the Public Interest 2020 concerning the Council's financial situation and the Report in the Public Interest 2022 on the refurbishment of Fairfield Halls and related governance arrangements) and the various governance issues arising. Also, the Corporate Directors Assurance Statements and the Annual Report of the Head of Internal Audit 21/22. This Statement reflects the Council's assessment of its governance arrangements as of 31<sup>st</sup> March 2022 and identifies actions undertaken and planned to address areas of weakness.

### Summary

2. During 2021/22, the Council continued to experience significant governance issues arising from the previous and current year and include the following:
  - a) The External Auditors October 2020 published 'Report in the Public Interest' (RIPI 1) that set out serious concerns about the Council's financial situation, its financial decision-making and governance and there are ongoing actions to implement the Report recommendations.
  - b) The PWC November 2020 strategic review of Brick by Brick, Croydon Affordable Homes LLP and the Council's Revolving Investment, Asset Investment and Growth Zone Funds and findings<sup>1</sup> that included significant improvement in the governance arrangement for the oversight of these companies. This has led to the establishment of Croydon Companies Supervision and Monitoring Panel. The Council has strengthened its governance arrangements and oversight of Brick by Brick with a (Member only) Brick by Brick Shareholder Cabinet Advisory Board and a new Board of Chair and non-executive Directors now in place at Brick by Brick
  - c) The accounting treatment of Croydon Affordable Homes and Croydon Affordable Tenures remains an ongoing issue and the implications could have a significant impact on the Council's budgetary position.
  - d) Following an adverse qualification in the external auditor's conclusion on Value For Money for 2018/19, work on the 2019/20 Audit Findings report has not yet been completed. The accounts for 2019/20 and 2020/21 are in draft and some significant issues are still to be resolved.
  - e) The Council issued two 'Section 114 reports' in November and December 2020. The Council identified actions to achieve a balanced budget and included a capitalisation directive from the Department for Levelling Up, Housing and Communities (DLUHC) in December 2020. Significant work remains to achieve a sustainable Medium Term Financial Strategy over the next three years.
  - f) In January 2022, the Council's External Auditor issued a second Report in the Public Interest (RIPI 2) concerning the refurbishment of Fairfield Halls and related governance arrangements and made recommendations which are the subject of an Action Plan to be included in the Croydon Renewal and Improvement Plan.
  - g) The Annual Report of the Head of Internal Audit for the year ending March 2021/22 provided only 'Limited Assurance' that the system of internal control accorded with proper practice. Several internal audit reports

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<sup>1</sup> that Brick by Brick significantly underperformed against its 2019/20 business plan, there was an absence of company-wide cash flow and forecasting arrangements and the company's ambitious strategy of development had placed the Council at risk in relation to loans.

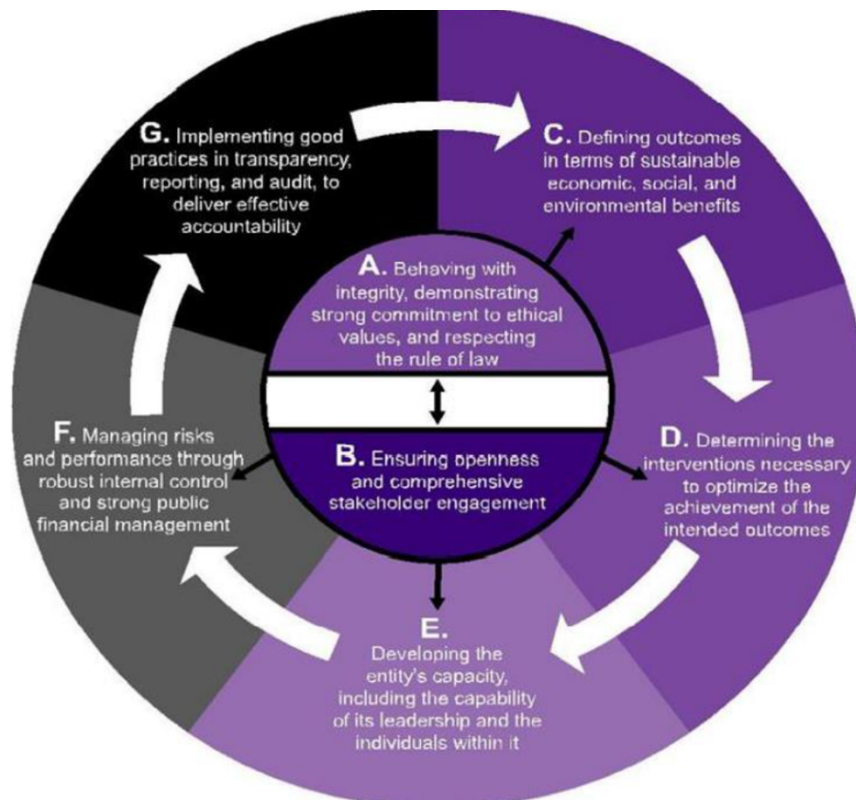
have nil or limited assurance in areas such as service-based budget monitoring, information management, capital budgeting, contract management and temporary accommodation

3. The Council has put in place measures to improve on its governance arrangements. The Croydon Renewal and Improvement Plan is the major programme to, amongst others, deliver savings, strengthen governance and financial practices in response to the RIPI and embed new ways of working to put the Council on a more sustainable financial footing.
- 3A The progress made with the AGS Action Plan identified in the 2020/21 Statement is attached as Appendix 1. There is still significant work to be done to embed good practice in decision-making, financial, capital project and risk management, contracts and information management, and the management of the Council's housing stock. The Action Plan to this 2021/22 AGS is attached as Appendix 2.

#### The Principles of Good Governance

4. The Council's Code of Governance sets out the Council's commitment to work to uphold the highest possible standards of good governance. These standards are designed to ensure that the Council conduct its business in accordance with the law and that public money is properly accounted for, as the Council work to achieve the best outcomes for residents.
5. The diagram below, taken from the International Framework: Good Governance in the Public Sector (CIPFA/IFAC, 2014) (the 'International Framework'), illustrates the various principles of good governance in the public sector and how these relate to each other.

#### DIAGRAM



6. The Council's Code of Governance (available here link [code-of-governance-2022.pdf](#)) identifies how component parts of Croydon's Governance Framework meet the principles of good governance in the International Framework. The Code was reviewed and updated in 2021/22.

#### The Governance framework

7. The Council's Governance Framework (available here [Governance - how we do things overview | Croydon Intranet](#)) was reviewed in 2021/22. The framework is the set of systems, rules, processes, procedures, and values by which the Council is directed and controlled and through which it is accountable to, engages with and, where appropriate, leads the community. The framework sets out the three lines of defence model operated by the Council<sup>2</sup>, the governance structure in place and the key documents that provide the rules and processes.

#### The Constitution

9. The Council's arrangements for decision making and conduct of its statutory functions are set out in the Constitution. It contains rules for the conduct of decision-making meetings and the roles and responsibilities of members and officers.
10. Full Council which comprises all 70 Members (Councillors) is responsible for making non-executive decisions such as setting the Budget for the Authority or approving the policies, plans and strategies that are specified in the Council's Budget and Policy Framework detailed in article 4 of the Constitution. The Executive (Leader and Cabinet) is responsible for making all executive decisions which are generally decisions that are not the responsibility of Full Council.
11. Following the outcome of the referendum, the Council changed the governance model from Executive Leader and Cabinet to Mayor and Cabinet. Subsequently arrangements were put in place for the change to the governance model through the Mayor Readiness Board including the necessary constitutional changes, amendments required to the Scheme of Members' Allowances and other relevant matters. In March 2022, the Council approved changes to the Constitution necessary for the implementation of the mayoral model of executive governance. It also approved other constitutional changes to improve the Council's governance, which had been recommended by the Constitution Working Group. A complete review and update of all parts of the Constitution was not conducted but is planned to be carried out during 2022/23.
12. A Mayor and Cabinet executive governance model was to be put in place from 9<sup>th</sup> May 2022, but through 2021/22, the Council's policy and decision making was conducted through the Leader and Cabinet executive model.
13. The Council publishes a 'Forward Plan' that details the key decisions to be made by the Leader and Cabinet in relation to executive matters.
14. Full Council delegates various non-executive functions to Committees, Sub-Committees and to the Chief Executive for the efficient conduct of business. These Delegations are set out in 'Responsibility for Functions' contained in Part 3 of the Constitution. As with the Scrutiny and Overview Committee, seats on the non-

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<sup>2</sup> The Council operates the three lines of defence model. This model, endorsed by the Institute of Directors and the Institute of Internal Auditors, provides a comprehensive framework for considering the overall arrangements for managing risk and exercising control within an organisation. The **first line of defence** consists of all operational managers (and their staff) doing the right thing (i.e. know and understand the rules, comply with the rules, and shout out any wrongdoing). The **second line of defence** reporting to senior management comprises risk management and compliance functions to help build and/or monitor the first line of defence controls. These are the functions that set direction and define policy and procedures and include: Finance, Performance, Legal, Information Security, Quality Assurance, Health & Safety, Risk Management etc. Each function will also have its own oversight and reporting. The **third line of defence** is to provide independent assurance over risks and consists of Internal Audit (who reports to Audit and Governance) and externally bodies such as External Audit, Ofsted, HMRC, CQC, etc.

executive committees are allocated between the political groups in proportion to their respective numbers of Members.

15. As part of the review of the Constitution, Council approved revisions to the terms of reference of the Appointments and General Purposes and Audit Committees with the aim of:
  - Creating an Audit and Governance Committee with capacity to undertake the full range of functions of a local authority Audit Committee.
  - Implementing the decision of the Ethics Committee that the JNC Model Disciplinary Procedure for Statutory Chief Officers be adopted by the Council. This included revising the Appointments Committee to become the Appointments and Disciplinary Committee and the creation of an Appeals Committee.
  - Creating a non-executive General Purposes Committee to conduct the non-audit functions of the General Purposes and Audit Committee and the staffing functions of the Appointments Committee.
16. The Audit and Governance Committee is responsible for discharging the functions of an audit committee, including reviewing the risk management process, the performance of Internal Audit and agreeing the external audit plan. The appointment of an independent chair of General Purposes and Audit Committee during 2021/22, in response to a recommendation of the MHCLG (now DLUHC) rapid review, was designed to enhance the Committee's effectiveness as a source of independent assurance.

#### Overview and Scrutiny

17. The role of scrutiny is to scrutinise the decisions of the executive and to contribute to policy review and development.
18. During 2020/21 the Centre for Governance and Scrutiny conducted a Scrutiny Improvement Review. A number of recommendations were made to assist in strengthening the effectiveness of scrutiny and were implemented during 2021/22. Some continue to be implemented and embedded following appointments to the Scrutiny and Overview Committees in May 2022, and the decision to have a pre-scrutiny focus. This will form part of the 2022/23 AGS action plan.

#### Codes of Conduct

19. The Council has adopted a Code of Conduct for Members (including Co-opted Members). All Members are required to undertake to observe the Code of Conduct when they accept office as Councillors or are appointed to a committee.
20. A review of the Members' Code of Conduct and arrangements for handling complaints on member conduct was completed during 2021/22, informed by recommendations by the Committee on Standards in Public Life and the new national Model Member Code of Conduct.
21. Details of Members' interests are published on the Council's website.
22. The Council has determined that its Ethics Committee shall be responsible for receiving and considering reports on matters of probity and ethics and to consider matters relating to the Members' Code of Conduct. The Monitoring Officer conducts investigations into complaints on Member conduct and, where appropriate, convenes meetings of the Hearings Panel.
23. The Council has appointed several Independent Persons who are consulted on investigations on Member conduct complaints and may advise on other standards matters.
24. The Council also has a Code of Conduct for Officers: all staff are given their own copy as they are inducted into the organisation. This Code was reviewed in 2021/22 to ensure consistency of arrangements for reporting interests, gifts and hospitality for Members and Officers.
25. The Codes are supported by Protocols such as the Protocol on Staff / Councillor Relations and the Planning Code of Good Practice, which are all contained within the Constitution. The Protocol on Staff / Councillor Relations was reviewed during 2021/22; and the Planning Code of Good Practice will be reviewed as part of the 2022/23 review of the Constitution.

26. An officer 'Guardians programme' was implemented in 2021/22 and promoted via a series of webinars, to provide staff with a safe space to share concerns about behaviour or the culture at Croydon. The Guardians can signpost staff where appropriate to mechanisms within and outside the Council where they can get advice about situations that cause them concern, such as perceived bullying or inappropriate behaviour. This is an approach which is recognised as contributing to the development of an open culture. It was modelled on the NHS duty of candour and the speak out champions.

#### Officer-Level

27. The Chief Executive is the most senior officer in the Council. The Chief Executive and the Corporate Directors may exercise any functions of the Council or the Executive which have been delegated to them and they in turn may delegate decisions or functions to one or more officers in any of the Council's directorates, except when prohibited to do so by the Constitution or law.
28. The current Council structure, approved by full Council on 5 July 2021, provides for a corporate management team, with seven members as its core membership, and six directorates. A programme and project management resource were also established and the post of Director: Commercial Investment and Capital was created to bring commercial expertise into the Council. Management capacity was also built into the structure or retained for the delivery of the Croydon Renewal Plan.
29. The law also requires the Council to appoint certain statutory chief officers that are responsible for the governance of the Council and have specific statutory powers. Similarly, the Council must name the 'proper officers' to undertake specific statutory functions. Each of the above are described in more detail below:
- 1) **Chief Executive:** The most senior officer in the Council is the Chief Executive Officer (and Head of Paid Service). Certain matters not reserved to the Council, Leader and Cabinet, or a Cabinet Committee (acting either individually or collectively) are decided by the Chief Executive acting under delegated powers, and the Chief Executive is responsible for deciding how executive decisions are implemented.
  - 2) **Corporate Management Team (CMT):** This is the Council's senior management team, consisting of the Chief Executive, the Assistant Chief Executive and the **five** Corporate Directors. Reporting into CMT are the respective Directorate Management Teams and the Internal Control Boards.
  - 3) **Directorate Management Teams (DMTs):** These are the management teams within each of the Council's six directorates, each headed up by either a Corporate Director or the Assistant Chief Executive and consisting of Directors and, where these report directly to the Corporate Director or the Assistant Chief Executive, Heads of Service. These directorates are the:
    - Adult Social Care and Health Directorate
    - Assistant Chief Executive's Directorate
    - Children, Young People and Education Directorate
    - Housing Directorate
    - Resources Directorate
    - Sustainable Communities, Regeneration & Economic Recovery DirectorateEach directorate has its own underlying departmental management structure reporting to the DMT.
  - 4) **Internal Control Boards (ICB) –** The ICBs are corporate boards which operate alongside the respective directorate structures providing governance over cross directorate matters and include the:
    - Capital Board
    - Commissioning and Contracts Board
    - Corporate Resilience Board
    - Digital Board
    - Equality, Diversity & Inclusion Board
    - Finance, Risk & Assurance Board
    - Health & Safety Board

- Information Management & Transparency Board
- Performance Board
- Procurement Board
- Resident Voice and Improvement Board
- Statutory Officers Board
- Workforce Board

Each ICB has terms of reference and includes membership from each directorate management team and other officers and is allocated corporate strategies to own on behalf of the Council. The minutes of each Board are presented at the CMT and shared with all directors.

The ICBs can also act as a 'Programme Board' in the overall Project & Programme Management Framework for cross-departmental pieces of work, with highlight reports, exception reports, plans and logs being reported to these meetings. Where projects or programmes are specific only to a directorate, the Directorate DMT may act as Programme Board.

5) **Statutory Chief Officers:** The statutory chief officers are the:

- Head of Paid Service (Local Government and Housing Act 1989, s 4)
- Monitoring Officer (Local Government and Housing Act 1989, s 5)
- S151 (or Chief Finance) Officer (Local Government Act 1972, s 151)
- Director of Children's Services (Children Act 2004, s 18)
- Director of Public Health (National Health Service Act 2006, s 73A(1)); and
- Director of Adult Social Services (Local Authority Social Services Act 1970, s 6(A1))

These are officers that the Council must have in place, some of which may be combined and some of which cannot, but they all have additional personal responsibilities. These officers have statutory mechanisms for bringing concerns to the attention of the Council, and for requiring the Council to consider their decisions and actions publicly. Each of these officers has special employment protection to enable them to highlight their concerns.

There are a number of other statutory officer roles that a local authority must have in place, (such as, but not limited to, a Scrutiny Officer, a Caldicott Guardian, a Head of Internal Audit and a Chief Information Officer) but these are not chief officer posts in their own right.

6) The three chief officer roles with leading responsibilities relating to governance are the:

- **S151 Officer (Chief Finance Officer)** – who is responsible for finance and spending. The Council designated the Corporate Director Resources as the Chief Finance Officer in accordance with Section 151 of the Local Government Act 1972. This role was held on an interim basis from February 2021 with a permanent appointment being made in March 2022.
- **Monitoring Officer** – who is responsible for lawful behaviour. The Council designated the role of the Director of Legal Services as the Monitoring Officer in accordance with Section 5 of the Local Government and Housing Act 1989). The Monitoring Officer role was covered on an interim basis from March 2021 with a permanent appointment being made from 1 July 2022.
- **Head of Paid Service (Chief Executive)** – who is responsible for overall functioning of the Council. This role was held on an interim basis from September 2020: a permanent appointment to the role was made in July 2021.

Each of these statutory officers has the power to refer certain matters to the Council. During 2021/22 regular meetings of the Statutory Officers Group were established, chaired by the Chief Executive, to discuss current issues and liaise regularly between meetings on matters affecting the governance of the authority. The Statutory Officers Group ensures the provision of professional advice on all decision-making reports to ensure legal, financial, risk management and equality implications are addressed, including compliance with the Public Sector Equality Duty.

The terms of reference for the meeting have been reviewed to ensure that declarations of interest are managed, and any conflicts are routinely declared. The Board enables a review of adult, children and young peoples' safeguarding and enables an overview of significant contractual arrangements, ensuring that appropriate documentation and compliance is in place.

30. The Chief Executive chairs a weekly meeting of the Corporate Management Team to consider key items of business and ensure the organisation is delivering the Council's priorities. Each Corporate Director holds weekly Directorate Management Team meetings. These are used to support internal control processes (e.g. budget and risk management, diversity and inclusion compliance, monitoring of complaints, corporate performance) as well as key business within the department. Directors are then responsible for cascading information down to Heads of Service (and vice versa) to ensure effective delivery of Council services and decision making in accordance with the scheme of delegation. There is a meeting each month of CMT and Directors and a meeting each month of CMT, Directors and Heads of Service.
31. The Statutory Officers and Directors with responsibility for the development and maintenance of the Council's governance keep the effectiveness of the Council's governance framework under review. The processes which maintain the effectiveness of the governance framework include:
- a) The Council's Constitution, which sets out how decisions are made and the procedures that are followed to evidence open and transparent policy and decision making, ensuring compliance with established policies, procedures, laws and regulations;
  - b) The Council's internal management processes, such as performance monitoring and reporting, the staff performance appraisal framework and monitoring of policies such as corporate complaints and health and safety policies;
  - c) Mandatory training for officers and a 'Re-Induction' of all managers to focus on key accountabilities and corporate objectives as part of the appraisal process is planned for the forthcoming year as part of changing and improving the culture of the Council;
  - d) The financial management of the Council is conducted in accordance with the Financial Regulations set out in the Constitution. The Council's financial management arrangements conform to the requirements of the CIPFA statement on the role of the Chief Financial Officer in Local Government (2013);
  - e) Review by the CMT and DMTs of departmental and corporate risk registers;
  - f) The annual report of the Head of Internal Audit, the opinion of the external auditors in their reports and annual letter;
  - g) Findings from fraud and whistleblowing investigations;
  - h) The work of Scrutiny and Overview Committees and the GPAC (now Audit and Governance Committee); and
  - i) Other review agencies, through their inspection arrangements, such as the Care Quality Commission and Ofsted.

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#### Corporate Directors Assurance Statements

33. The 2021/22 Annual Governance Statement has been underpinned by Corporate Director Assurance Statements. The feedback from the Statements received suggest that there are gaps in areas such as awareness of financial and performance management, counter fraud arrangements, and complaints and information governance. These needs to be addressed in the 2021/22 AGS Action Plan.

#### Council Priorities, MTFS and Internal Control Boards

34. In November 2020, the Council adopted new Council Priorities and ways of working (replacing the Council's Corporate Plan 2018-2022) and this formed part of the Council's policy framework. The focus of the new Priorities and Ways of Working was on practising sound financial management, being transparent about spending and what the Council can afford by concentrating on core services and a small number of evidence-based outcomes. Delivery of these priorities was supported by new ways of working, namely: becoming a more transparent, open and honest council, involving residents in decision making and being clear about what

the Council can do, and what it can't. These priorities will be replaced during the 2022/23 financial year by the Executive Mayor's priorities.

35. The savings projects within the Medium-Term Financial Strategy have been prioritised in 2021/22 and beyond. Every project and action within the Croydon Renewal Plan has a clearly identified senior accountable officer (SAO) and a named project manager responsible for delivery. A Corporate Programme Management Office (PMO) is in place and works with the SAO and project managers to monitor progress against each project and to capture and report regular updates through a tracker system.
36. Each month, as part of the budget monitoring process, the PMO provides updates and insights on savings delivery which is then compared against service forecasts to identify any anomalies requiring further investigation. The Chief Executive and the Corporate Director of Resources chairs monthly savings assurance meetings to hold the SAO to account and to identify any risk areas, mitigating actions and savings.
37. A three-year Medium Term Financial Strategy (MTFS) is updated annually supporting the Council's strategic objectives. The financial strategy has been designed to ensure the economical, effective and efficient use of resources including a financial management process for reporting the Council's financial standing. There is still significant work required to balance the MTFS over the three years and to deliver the commitments made in the capitalisation direction submission in December 2020.
38. During 2020/21 a Programme Steering Group was established to oversee delivery of key projects and programmes within the Croydon Renewal Plan. As these plans were developed and projects mobilised, programme governance structures were reviewed. Internal Control Boards (ICB) were proposed as part of the senior restructure. These play a key role in the overall governance structure, providing a venue for senior leaders and key others to consider matters within the terms of reference of the respective ICB. Their intention is to enhance internal control and provide CMT with the assurance that the expected deliverables are being developed within agreed time, cost and quality tolerances. This also addresses governance related issues highlighted by the two RIPIs. The ICBs play a role in project and programme governance, in so far as they act as 'Programme Board' in the overall Project and Programme Management Framework for cross-departmental pieces of work.

#### Croydon arm's length companies

39. The Committee on Standards in Public Life report dated January 2019 made a best practice recommendation regarding separate bodies created by local authorities and how such bodies should be referenced in the Council's AGS together with the transparency expected from those bodies, namely that, *'Councils should report on separate bodies they have set up or which they own as part of their annual governance statement, and give a full picture of their relationship with those bodies. Separate bodies created by local authorities should abide by the Nolan principle of openness, and publish their board agendas and minutes and annual reports in an accessible place'*.
40. Croydon Council acknowledges that it has an 'arm's length' interest in the following organisations:
  - a) Croydon Council owns a 100% stake in the development company Brick By Brick Croydon Limited, which was established to deliver housing across a number of Council owned sites in the Borough. The Council took a decision in February 2021 to trade out 23 sites to completion and dispose of all of its remaining sites. It is anticipated that this process will be completed in 2023/4.
  - b) The Council has a 99% membership of LBC Holdings LLP which itself holds 10% holdings of the other LLPs in the structure. An independent charity, Croydon Affordable Housing, holds a 90% membership in each of the LLPs (other than LBC Holdings LLP). The Council has entered into 80 year leases and 40 year loan transactions (amongst other agreements) with Croydon Affordable Homes LLP ('CAH') and Croydon Affordable Tenures LLP ('CAT'). A review of the financial accounting position in respect of CAH and CAT was completed by PWC in February 2022 and is necessary as part of finalising the accounts for 2019/20 and 2020/21.



- c) Croydon Council held 40% of control of the board of Octavo Partnership Limited, which was created to deliver school improvement services across the Borough of Croydon and beyond and sells discretionary support services to schools directly whilst delivering statutory services on behalf of Croydon Council. Services were brought inhouse and company dissolved in September 2021. Financial activity in 2021/22 was not considered material.
- d) Croydon owns a 100% stake in YourCare (Croydon) Ltd, a company that carries out sales of aids to daily living equipment to the public. Company is in the process of dissolution. This started in September 2021. Turnover and balances are not considered material. The service has now been insourced.
41. In July 2021, Cabinet agreed the establishment of a Croydon Companies' Supervision and Monitoring Panel, chaired by the s151 Officer, to ensure good governance of the Council's external entities. The Panel should formally report at least biannually to Cabinet, making recommendations as appropriate. The Council has strengthened its governance arrangements and oversight of Brick by Brick Croydon Ltd with a (Member and Senior Officer) Brick by Brick Shareholder Cabinet Advisory Board and a new Board of Chair and non-executive Directors now in place at Brick by Brick.

#### Croydon Renewal & Improvement Plan

42. During 2020/21, following the Report in the Public Interest relating to the Council's financial position and various other governance related reports, the Council fully recognised the scale and significance of issues to be addressed and the systemic change required. In December 2020, it adopted actions to address areas for improvement through the Croydon Renewal and Improvement Plan, a major programme to deliver savings, strengthen governance and financial practices and embed new ways of working to put the Council on a more sustainable financial footing. The Croydon Renewal Plan is an umbrella term that covers the financial recovery plan, the submission to the MCHLG (now DLUHC) for a capitalisation direction and actions to respond to the RIPIs. Updates were provided to the Cabinet and the Audit and Governance Committee on progress in addressing the RIPI action plans.

#### Second Report in the Public Interest (Fairfield Halls)

43. In January 2022, the Council's external auditor, Grant Thornton, issued a second Report in the Public Interest – this one concerning the refurbishment of Fairfield Halls and related governance arrangements. The report detailed significant concerns regarding the decision making, value for money, behaviour and governance arrangements that were associated with this major project during the financial years 2016/17 to 2019/20. On 3 February 2022, the Council accepted in full the Report and recommendations. It also agreed that the action plan be included in the Croydon Renewal and Improvement Plan, which would be refreshed for 2022/23 and beyond. The recommendations fall under the following themes:

**R1** Cabinet reports for major projects / legal powers, risk & protecting council's interest

**R2/4** Contract execution prior to the discharge of obligations / adhering to legal advice and requirements/ safe keeping of contractual documentation

**R3/7** Record keeping arrangements for executive decisions / Updating Cabinet on changes in legal advice / risk

**R5** Compliance with procurement/subsidy controls rules

**R6** Response to challenge on decisions and corrective action

**R8** Governance arrangement for strategic developments and expectations of nominated representatives

**R9** Roles and responsibilities Members, officers, and representatives

**R10/11** Financial reporting on significant capital projects and likely spend in excess of allocated budget

**R12** Arrangements for inherent conflict of interest for executive directors

These recommendations are now built into the 2021/22 AGS Action Plan in Appendix 2.

## SoS Improvement & Assurance Panel

44. The Improvement and Assurance Panel, appointed in January 2021 provides external advice and challenge to the Council and assurance to the Secretary of State via reports on a quarterly basis as the Council continues to deliver the Croydon Renewal Plan. In March 2022, the Improvement and Assurance Panel's fourth report acknowledged the Council's continued progress in making the necessary improvements. The Panel highlighted that the Council remains on the right track, but that it was at a critical point and considerable energy and patience would need to be invested in the recovery journey to ensure a sustainable future moving forward.
45. In addition to input from the Improvement and Assurance Panel, support has been sought from a number of different sources including the Local Government Association and a review of the Council's scrutiny arrangements informed by the Centre for Governance and Scrutiny.
46. In order to balance the 2020/21 budget, borrowing of up to £70m for the financial year 2020-21 was sanctioned by the MHCLG (now the DLUHC) in March 2021 under a 'Capitalisation Direction' and a further £50m in March 2022 for 2021/22. This agreement was and continues to be conditional on the Council delivering its renewal plans at pace and the provision of regular positive progress updates by the Improvement and Assurance Panel to DLUHC.

## Housing Improvement

47. Following the coverage of poor housing conditions at Regina Road in March 2021, the Council committed to the creation of the independently chaired Housing Improvement Board and the development and implementation of the Housing Improvement Plan in May 2021. The Cabinet had agreed that the purpose of the Plan would be to address the failings of the housing service highlighted in the ARK Consultancy Investigation into Conditions at 1-87 Regina Road, South Norwood. Since July 2021, the housing service has developed and begun to deliver the Housing Improvement Plan. Improvements to the Council's housing service have since remained a concern of the Improvement and Assurance Panel and the housing directorate's improvement planning must provide a path to compliance with the Regulator for Social Housing's Home Standard and Tenant Involvement & Empowerment Standard. In March 2022, the Council agreed the content of the Plan. In March 2022, Cabinet also required quarterly updates on the implementation of the improvement plan and that going forward it would include commentary from the Housing Improvement Board. In July 2022, proposals were approved to considerably strengthen the Housing Improvement Plan.

## Performance and risk management

48. The first RIPI identified signs that basic systems and controls were not in place, including a lack of appropriate performance management. From January 2021, work has been undertaken to rebuild the Council's performance and risk framework.
49. The performance management system sets key targets and produces performance monitoring reports for Cabinet and Scrutiny. The system includes measures of the quality of services for users, use of resources and value for money. The corporate performance team supports benchmarking activities for services and key performance indicators (KPIs), drawing on sector wide data sets from various organisations including the Local Government Association.
50. The Council's risk management process is designed to identify, assess and manage significant risks to the Council's objectives including risks associated with delivering the Croydon Renewal Plan. The process includes a risk management policy statement, corporate and departmental risk registers, and appropriate staff training delivered to risk owners (Directors and above).
51. Since January 2021, the Council has started to work towards an approach to risk management including actions consistent with the 'Three Lines of Defence' model recognised by the Institute of Internal Auditors and HM Treasury 'Orange Book' standards, as good practice. The first 'line of defence' is implemented by the risk owners (the Council's directorates, Corporate Directors, Directors and Heads of Service) to ensure an effective control environment, implement risk management policies in relation to their roles and responsibilities, being fully aware of the risk factors to be considered in every decision and action. The second line of defence is the

maintenance of a risk management framework and compliance functions, in supporting structured risk management implemented by risk owners. The third line of defence is implemented by both internal and external audit who take an independent view of the application of risk management, reviewing and evaluating the design and implementation of risk management and the effectiveness of the first and second lines of defence.

52. Key corporate risks are reviewed quarterly by the Directorate Management Teams, CMT and the Audit and Governance Committee. In addition, risk management 'deep dives' on individual risks are undertaken by the Audit and Governance Committee in addition to a monthly review of corporate 'red' risks by CMT.
53. The action plan in response to the first RIPI includes actions to increase ownership of and capability for risk management across the Council, including risks of non-delivery of financial savings. This included:
  - An externally-led review of the Council's financial risk appetite with Members and Officers to ensure that the council's financial capacity for managing risk is fully understood.
  - A development session for Cabinet on risk management.
  - 1-1 training sessions for relevant officers, Corporate Directors and Directors on the identification of risks and use of risk management software.
  - During 2021/22, reporting on finance, performance and risk was combined into one reporting function to enable a corporate overview, with monthly reports to Cabinet. This report also presents financial risks and opportunities offering a net risk assessed forecast outturn for members to review.
  - Ensure risk considerations are identified at the outset of all new decisions, both for the individual decision and its impact on the whole of the Council by way of the risk and financial impact sections of Member reports.
  - All new programmes of work will be subject to sign off at a Programme Steering Group to ensure appropriate consideration of risk.
  - Terms of reference for the Audit and Governance and Scrutiny and Overview committees were reviewed as part of the review of the Constitution, to ensure clarity of roles and responsibilities in relation to risk.

#### Procurement & Project Management

54. A Procurement Board meets weekly with director-level attendance to ensure compliance with the Council's Contract and Tender Regulations, holding managers to account and providing challenge to ensure that the use of waivers is minimised. Internal Audit identified a number of improvements required to tender evaluations, contract frameworks, systems and documentation. These are being addressed through the contract's improvement plan.
55. The Council identified a need to develop a more strategic overview of the pipeline of commissioning and contracts and in 2021.
56. While the Council's capacity in relation to project and programme management has been strengthened through the establishment of the PMO, significant underspends on capital projects continue and considerable work is still required to ensure robust management of capital projects, including financial appraisal skills for those leading projects.

#### Complaints, Fraud and Whistleblowing

57. The Council's formal complaints policy sets out how complaints can be made by the public, what should be expected in terms of response and how to appeal. Lessons learned from complaints are reported in an annual report to directorate management teams and CMT.
58. The Local Government and Social Care Ombudsman (LGO) issued 2 public reports about the Council during 2021/22. The Council accepted the Ombudsman's final report and recommendations, and the Ombudsman confirmed their satisfaction with the actions taken. The LGO annual report is discussed at CMT and taken to Scrutiny and Overview for review and challenge lessons learned.

59. The Council reviewed its Anti-fraud and Corruption Policy and Strategy in 2021/22. It also reviewed its Whistleblowing Policy which enables staff, partners and contractors to raise concerns of crime or maladministration confidentially. This has been designed to enable referrals to be made without fear of being identified and is supported by a whistle blowing hotline supported by a third sector partner. The associated training was to be delivered in July 2022.
60. The Council has commissioned Kroll Associates (UK) Limited (“Kroll”) to undertake an independent, fact-finding review of the circumstances and decision-making process leading up to and following the Council’s approval for Brick by Brick Ltd (a company wholly owned by the Council) to undertake the refurbishment of the Fairfield Halls venue and which was the subject of the second RIPI report. The aims of the investigation include to provide clarity over the probity and integrity of decision making around the Fairfield Halls project, the reasons for the cost overrun and late delivery and the governance failures and whether there is evidence of potential wrongdoing by relevant individuals.

#### Health and Safety

61. Responsibility for health and safety ultimately rests with the Chief Executive. To ensure this responsibility is discharged effectively across the Council the Corporate Health and Safety Board and departmental subgroups were established. Their role includes the monitoring of statistics, safety audit reports and trends of accidents, dangerous occurrences and notifiable diseases and making recommendations for and monitoring progress on corrective action on unsafe and unhealthy conditions and practices. The Board also monitors the effectiveness of health and safety training and communications and escalating any issues to CMT as appropriate. The Board is chaired by a corporate director and attended by departmental representatives, the corporate health and safety team and trade union representatives. The minutes of the Health and Safety Board are presented at CMT and shared with all directors. The Council’s health and safety policy and terms of reference of the Board were reviewed during 2021/22.

#### Information Governance

62. The Information Management Steering Group (IMSG) leads the Council’s strategic approach to governance of information management. Chaired by the Council’s Chief Information Officer and Senior Information Risk Owner (SIRO), its membership includes the Caldicott Guardian, Data Protection Officer, Information Manager and key service leads. The Group’s role is to support the Council to ensure compliance with Data Protection, Freedom of Information (FOI) and Caldicott requirements and assist in making good Information Management (IM) part of the culture of the Council. The Group provides advice to the CMT in respect of IM issues/incidents and has an overview of the Council’s compliance with policies, procedure and guidance and commissions reviews of policies, procedure and guidance as appropriate.
63. The first RIPI highlighted a number of gaps in information which may have contributed to poor decision making. Work is being completed to ensure that the IM service is appropriately structured and staffed, and to develop a programme of improvement work in relation to document retention, data protection and associated training.
64. The Council is not meeting targets for responses to FOIs and Subject Access Requests. Steps have been taken to improve capacity and improve the management of the processes and reporting. This an area for ongoing work in 2022/23.

#### Safeguarding

65. The Council’s approach to safeguarding both in relation to vulnerable adults and children is led by the corporate directors for adult social care and children young people and education respectively and also subject to the relevant statutory inspections. The Croydon Safeguarding Adult Board is independently chaired. Croydon Safeguarding Children Partnership (CSCP) is also chaired by an independent scrutineer.

#### Learning and organisational development

66. A comprehensive Members' induction and training programme training was developed for implementation after the local government election. This is currently being implemented. In addition, an ongoing programme of training and awareness is available for Members with formal and informal events each year, including all major changes in legislation and governance issues.
67. The development of the programme is overseen by a member-led Member Development Panel and includes training identified as a requirement by the first RIPI.
68. Staff developmental needs are identified through the Council's Appraisal Scheme. The Council's Learning and Organisational Development service delivers and/or commissions a suite of elective and mandatory courses, children, and adult social care specialisations in a variety of formats, including e-learning through a centralised learning management system. Work has been completed to revise the corporate virtual induction programme 'Welcome to Croydon'. The new contents cover three key thematic areas: (i) managers' induction checklist, to ensure effective compliance (ii) mandatory training for new staff on fundamental topics such as health and safety, information governance, and equality and diversity (iii) understanding the council – to ensure effective orientation and understanding of the council, its decision-making processes, governance, and compliance. This will be delivered to all new staff joining the Council, supplemented by department-specific elements. A presentation of the new induction site and contents will be provided to Corporate Management Team in the New Year for oversight and approval.

#### Working in partnership

69. A number of the Council's services are delivered in partnership with commercial organisations and, increasingly, with other local public sector organisations, and the voluntary, community and faith sector. Internal Audit has identified some areas for improvement in relation to contracting with the NHS which continue to be addressed through the contracts improvement plan.
70. The One Croydon Alliance is a partnership between the local NHS, the Council and voluntary sector, seeking to offer more coordinated support for people's physical and mental health and wellbeing.
71. In 2021/22, the Local Strategic Partnership (LSP) supported partners to coordinate priorities and actions across Croydon – with a particular focus on the Covid pandemic response and recovery. The LSP is led by a board made up of the Leader / Executive Mayor, relevant Cabinet Members, and relevant Chief Executives or equivalent from a wide range of key partners and stakeholders.
72. The LSP has a number of sub-groups coordinating activity along particular themes:
  - Safer Croydon Partnership
  - Health & Wellbeing Board
  - Sustainable Croydon Economic Renewal Board
73. These thematic partnerships undertake a range of partnership activities and consultation exercises to enable all residents and customers to contribute to and shape the strategic themed plans such as the Health and Wellbeing Strategy and the Safer Croydon Partnership Community Safety Strategy. In addition, the Council undertakes surveys with residents who provide the Council with reliable feedback on important issues that help improve services as part of establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.
74. As set out above, the focus for the LSP in 2021/22 remained the Covid pandemic response and recovery coordination. The LSP is considered to have functioned very effectively during the 2021/22 year, although frequency reduced from the height of the meetings during phase 1 of the pandemic the previous year. The LSP supported partnership work in Croydon in sharing the latest information, issues, and priorities in responding to the pandemic and working within the Mayor of London's framework and priorities for recovery.
75. In May 2022, residents elected the first Executive Mayor of Croydon. An executive Mayor model of governance provides opportunity for wider place leadership, and the Mayor has set out key priorities for partnership working and resident engagement within the Mayor's Business Plan. Going forward, partnership structures will be reviewed to align to these new priorities, and those of our partners.

## Internal audit

76. The Council maintains an Internal Audit service delivered by Mazars as part of 'The Apex Framework' providing local authorities including Croydon with internal audit resources in a tried and tested framework that operates in accordance with the Public Sector Internal Audit Standards. The Council's assurance arrangements conform to the governance requirements of the *CIPFA Statement on the Role of the Head of Internal Audit (2019)*. The Council's contract with Mazars is cliented by the Corporate Director of Resources.
77. Internal audit is responsible for monitoring the quality and effectiveness of the Council's governance, risk management and controls. An internal audit plan is compiled annually for the work to be undertaken, which is submitted to GPAC (now the Audit and Governance Committee) for review and approval. The plan is informed by the results of the previous year's audit and follow-up work by Internal Audit, the Council's risk registers and discussions with senior managers, directors and members of the Council's CMT. The Head of Internal Audit is a standing member of the CMT and can attend at any time and ask for items on the agenda. The post reports to the Corporate Director of Resources but also has access to the Chief Executive at any time.
78. The outcome of the internal audit risk-based work is reported to all relevant Corporate Directors and Directors and regularly to GPAC (now the Audit and Governance Committee). Implementation of recommendations is monitored and progress reported to GPAC (now the Audit and Governance Committee) at each meeting.
79. In addition to the quality assurance processes in place, the Internal Audit function is reviewed annually by the external auditors and every five years by an external body to assess compliance with the Public Sector Internal Audit Standards (this is next due for Croydon in 2023).
80. As required by the Accounts and Audit (England) Regulations, the Corporate Director: Resources reviewed the effectiveness of the Internal Audit service during the year and reported this to the GPAC, which concluded that the Internal Audit service was satisfactory and fit for purpose. This undertaking is part of the core functions of the Audit and Governance Committee, as set out in CIPFA's *Audit Committees: Practical Guidance for Local Authorities* and applied in the Council.
81. The Annual Report of the Head of Internal Audit for the year ending 31 March 2021/22 provided only 'Limited Assurance' that the system of internal control accorded with proper practice. 54% of the overall audits undertaken had 'Limited' or 'No' assurance, with 64% of internal audits of systems falling into these categories. The following internal audits from the Annual Report had limited or no assurance:
- Payments to Schools (Including licensed deficit process) (Limited)
  - Parking Enforcement: Pay and Display (Limited)
  - Continuous Auditing (Quarters 1 to 4) (Limited)
  - Service Based Budget Monitoring: Across the Organisation (Limited)
  - Standard Operating Procedures: DLTs, DMTs and Departmental Communications (Limited)
  - Savings Plans: Formulation and Monitoring (Limited)
  - Fees and Charges (Limited)
  - Staff Expenses: Compliance Checks (Limited)
  - Food Safety (Limited)
  - Fire Safety (No)
  - PMO: Structures and Processes (Limited)
  - Community Fund: Contracts (limited)
  - MyResources: HR Modules (Limited)
  - Information Management (Limited)
  - Capital Budgeting and Treasury (No)
  - HRA: Accounting (Limited)
  - Purley Nursery School (Limited)
  - Adult Social Care Payment Process (Limited)
  - Children's Social Care Payment Process (Limited)
  - Out of Borough Adult Social Care Placements (Limited)

- Placement Deposits (Limited)
- Croydon Affordable Homes: Contract Management (Limited)
- Emissions Based Parking Charges (Limited)
- SLWP: Payments and Recharging Processes (Limited)
- Contract Management: Health and Work Programme (Limited)

During the year, Internal Audit identified:

- Internal audit continues to identify general compliance issues in basic areas of governance and control.
- Internal audit work during the year again identified a number of issues with contract letting, monitoring and management across the organisation.
- Internal audit continues to identify a number of instances where privacy notices relating to the collection of personal data were missing or were no longer fit for purpose.
- Internal audits have identified issues over the setting and monitoring of savings plans and over the process of service budget monitoring.
- Internal audits have identified issues in the area of temporary accommodation, including arrangements for repairs and maintenance.

82. The Council has action plans to address these issues and Internal Audit will continue to be involved in further audits of these areas. During 2021/22 CMT on a monthly basis reviewed the management actions arising from internal audits, helping ensure that historic and current actions were being implemented and improvements to systems and controls were made as appropriate.

#### External audit

83. As stated above, the Council's external auditors Grant Thornton during 2020/21 issued a RIPI in relation to the Council's financial situation, its financial decision-making and governance and made 20 recommendations. During 2021/22 they issued a RIPI in relation to the refurbishment of Fairfield Halls and related governance arrangements. The recommendations and planned action will be the subject of the 2022/23 AGS action plan which is attached as Appendix 2 and a standalone action plan and progress report in Appendix 3.

84. The external audits of the Council's accounts for 2019/20 and 2020/21 are ongoing.

85. The external auditor has raised concerns relating to the settlement agreement reached with the former chief executive of the Council and requested that the Council assures itself that the settlement is lawful. There are still ongoing due diligence enquires and the Council's position will be the subject of a published report to Full Council in 2022/23.

86. The annual audit letter is compiled in accordance with the National Audit Office (NAO)'s Code of Audit Practice which reflects the requirements of the Local Audit and Accountability Act 2014. Grant Thornton complies with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

#### COVID-19 Pandemic Response

87. In addition to the other issues raised in this Statement, 2021/22 saw a relaxation of the restrictions introduced in response to the COVID-19 pandemic. This did not mean that Council resources were not required to support continued response and recovery activities – as in the previous year resources were deployed to support the response and recovery. The year 2021/22 has seen a gradual return to normal systems of governance, for example return to physical meetings dealing with council business, in line with the Government's roadmap to recovery.

#### Conclusion

88. The Council has been the subject of significant governance failings that has attracted considerable public interest. During 2021/22, the Council has worked to continue to deliver the necessary and significant improvements in its governance arrangement. These are outlined in the paragraphs above and are referred to in some detail in the 2020/21 AGS Action Plan attached as Appendix 1. The Council is satisfied that there are appropriate governance arrangements to deal with the many challenges arising from the fundamental

failings in governance, in particular, those identified in RIPI 1 and 2. These and other challenges will continue to be monitored in the coming year. Further, an Action Plan has been developed for 2022/23 to address the gaps in governance identified in this Statement. The key themes for action are in areas such as finance awareness and training; service-based budget monitoring and financial management; complaints and information governance; capital projects and boards, budgeting, and financial reporting; contracts execution, management and records keeping; and housing repairs and temporary accommodation. The Action Plan is attached as Appendix 2 and includes all ongoing and outstanding activities arising from all governance findings to date and carried over to 2022/23. The delivery of these actions will be monitored through the ICBs, CMT and regular updates to the Audit and Governance Committee.