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Dear Katherine and Jane

London Borough of Croydon 2023/24 budget setting – Full Council 8 March 2023

I am writing to you following our recent discussions with Jane regarding the Council's budget considerations for 2023/24. In this letter I set out my concerns around the position the Council currently faces following the Council meeting on 1 March 2023.

Background

As you are aware, as the appointed auditor for the Council Grant Thornton's responsibilities include to:

- give an opinion on the financial statements and
- assess the arrangements for Value for Money (VFM) - securing economy, efficiency and effectiveness in the Council's use of resources.

We also have additional powers and duties under the Local Audit and Accountability Act 2014 ('The Act'). These include powers to issue a public interest report, make statutory recommendations and to apply to the Court for a declaration that an item of account is contrary to law (advisory notice).

In October 2020 we issued a public interest report in respect of the following:

- Overall financial management and financial accounting arrangements
- Significant weaknesses in budgetary control during the year
- Levels of usable reserves
- Financial governance, monitoring and controls relating to Group entities

The Council has changed considerably since this report with a change in both political model (moving to an elected Mayor arrangement in 2022) and political control. All the senior officers overseeing the matters reported in October 2020 have been replaced. The Council now has an independent Improvement and Assurance Panel led by Tony McArdle.

In January 2022, we issued a further public interest report in respect of Fairfield Halls due to significant failings in financial governance and control and a failure to comply with procurement law in the period 2016-2019.

We would also note that during the 2020/21 financial year, the Council's former section 151 officer issued two section 114 notices (S114) in respect of the Council's ability to comply with the law requiring it to set a balanced budget.

2023/24 budget setting to date

In November 2022 we note you issued another s114 report in respect of the 2023/24 budget.

The combination of the ongoing budget requirements of these legacy budget adjustments and fundamental structural issues within the Council's finances such as the toxic debt burden of negative equity from historic uncontrolled borrowing and the national and global issues the local government sector is currently facing has undermined the progress being made on the financial recovery. As a result you concluded that a S114(3) Notice needed to be issued.

Your S114 report (November 2022) highlighted a number of issues which reflect the ongoing legacy of the financial management standards which had previously fallen well below the standard which should be expected of a taxpayer funded body. Your report reflects the following key weaknesses:

- The Council has a legacy of toxic debt which cannot be matched by the value by disposing of related assets.
- The Council has significant financial risks associated with Croydon Affordable Homes which has the potential to impact General Fund Reserves by up to £70 million.
- The Council appears to have overcharged the Housing Revenue Account for support costs for a number of years and this will need to be reversed
- The Council's "Opening the Books" exercise has identified legacy budgeting issues that have worsened the financial landscape
- The Council is having to deal with a landscape with revenue inflation of nearly 10% [capital inflation in the economy as a whole is running close to 20%] when the 2022/23 funding settlement was at circa 3% and unlikely to increase in the medium term.

In your November 2022 S114 report you also noted:

"The more significant problem for the Council is that the work which has been done in preparation for the 2023/24 Council Tax Setting in February or March 2023 has identified that expenditure the authority is projected to incur in each year of the period 2023/24-2026/27 will exceed resources (including sums borrowed) available to the Council to meet that expenditure. The combination of the ongoing budget requirements of these legacy budget adjustments, fundamental structural issues within the Council's finances such as the toxic debt burden of negative equity from historic uncontrolled borrowing and the national and global issues the local government sector is currently facing has undermined the progress being made on the financial recovery. The S151 Officer has concluded that this necessitates a S114(3) Notice to be issued."

In response you applied to the Secretary of State for permission to increase the Council Tax for 2023/24 above 5% and you were given permission to raise Council Tax for 2023/24 by up to 15%.

At the Full Budget Council meeting on 1 March 2023, Members voted to reject the proposed budget and a further Council meeting has been set for 8 March 2023. We understand that the Council will consider one amendment to the proposed budget plan and that no further amendments can be made at this time. Members have to either support the Mayor's budget with or without the one proposed amendment which has been certified as viable by the Section 151 officer.

The choice facing members and the consequences of not passing the budget.

The Council's Monitoring Officer wrote to members on 27 February 2023 setting out their clear duties in respect of the budget and the consequences if Members choose to not to approve the budget at the Full Council meeting on March 8th 2023

As our previous public interest reports have set out, better use of taxpayers money in the past may have obviated the need for such significant Council tax increases at this time . Members must take full account of, and responsibility for, previous poor decisions as a context for future decisions. As set out in the Monitoring Officer's letter- failing to pass the budget , will not only be unlawful, if would make a bad financial position worse and damage the Council's reputation even further.

Meeting on 8 March 2023

Members are meeting on 8 March to re-consider the 2023/24 budget. If Members are unable to reach an agreement at that meeting then the Council will not be in a position to meet its statutory requirement to set a lawful budget. If that situation arises, you as senior statutory officers will need to consider an appropriate response in relation to your specific statutory duties.

As your auditor we will then give consideration to the applicability of our additional powers and duties, set out above. The most likely outcome being the use of an advisory notice – used for example by the auditor of the former Northamptonshire County Council.

Wider statutory powers

Given the very significant matters set out in this letter, I would now ask that this letter is shared with the Mayor and relevant members and would welcome further assurances from yourselves that this letter is given proper consideration by the Council.

Yours sincerely

A rectangular box containing a handwritten signature in blue ink that reads "Paul Dossett".

Paul Dossett

Partner