

**London Borough of Croydon**

**‘Collective Corporate Blindness’**

**How did the Council get here?**

**Independent investigation into the Council’s corporate management actions, organisational systems and its operating environment, in response to the Report in the Public Interest**

**Report for the Interim Chief Executive**

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## Table of Contents

1	Background and Methodology .....	4
2	The situation at the London Borough of Croydon.....	6
3	My investigation.....	8
4	Governance.....	10
5	The Cabinet.....	20
6	The Executive Leadership Team .....	29
7	The roles of elected members and officers.....	45
8	Financial management.....	57
9	Scrutiny and Overview .....	85
10	Risk management/assurance.....	91
11	Performance management .....	102
12	Asset investment.....	104
13	The culture of the organisation.....	122
14	Conclusions and recommendations .....	129

## Appendices

Appendix 1 .....	133
Terms of reference.....	133
Appendix 2 .....	135
Relevant experience.....	135
Appendix 3 .....	136
Interviewees listed in alphabetical order: .....	136
Appendix 4 .....	141
List of documents provided .....	141
Appendix 5 .....	143
Glossary of abbreviations .....	143

## Background and Methodology

- 1.1 I was commissioned in November 2020 through the Local Government Association, of which I am a Senior Associate, to conduct an independent initial investigation of senior management and elected member actions in respect of the findings of the Report in the Public Interest by the external auditors to help the Council understand how it had reached this position.
- 1.2 I have been asked to explore what led to the Council being in such a perilous and precarious financial position. Did it derive from shortcomings and failings in systems and processes of governance and management, and/or what was the specific contribution of any individual shortcoming or the failure of political leadership and professional management?
- 1.3 I was required to produce a report on the investigation with my findings, conclusions and any relevant recommendations. I was asked to assess whether the findings of this initial investigation have given rise to any formal concerns about activity and or professional conduct that would need to be considered under other relevant processes. That assessment is provided in the ‘Conclusions and recommendations’ section of this report. The detailed terms of reference for the investigation were finalised and are set out at Appendix 1. Appendix 2 sets out my credentials and details of my qualifications and experience.
- 1.4 I was provided with a copy of the Report in the Public Interest (RIPI) by the Council’s external auditors, Grant Thornton. In the course of my investigation I received a number of other relevant documents that are listed at Appendix 4.
- 1.5 My investigation has included a review of the documents listed in Appendix 4 together with formal interviews with individuals both inside and outside the Council. Initially individuals were invited to take part. Following a number of suggestions from those initial interviewees about further potential interviewees, in the interests of transparency and openness, participation in the investigation was made available to all elected members and staff at the Council. The terms of reference were also published.
- 1.6 I interviewed 64 individuals including all current members of the Cabinet, a number of Council Committee Chairs and former Cabinet members, members of the Opposition Group, trade union representatives, the Interim Chief Executive, all members of the Executive Leadership Team, other senior Council employees, representatives of external partners, the former Chief Executive and the former Executive Director of Resources and S151 Officer. The purpose of these interviews was to gather information, professional and personal opinion, as well as reflections from these individuals. A record of each interview was provided as a draft to each interviewee for their agreement as a correct summary. I also received written submissions from a number of Council employees and from local residents.
- 1.7 It is helpful to explain the commitments given to those who came forward for interview in order to understand the interview reporting style used in this report. The Terms of Reference for the investigation stated that:  
  
*‘the report will not identify individuals either by name or job title in its commentary or recommendations’.*
- 1.8 When I use commentary from an interview this is attributed to an ‘Interviewee’ and an ‘Interviewee number’ is used. A group descriptor e.g. (‘member of Executive Leadership Team’) is also provided when appropriate to give some context about the interviewee’s perspective and involvement in matters. Other descriptors are also used to describe the (current) holder of a post

title, the (former) holder of that post title and the (previous) holder of that post title. At the beginning of each interview I read out a statement which explained that:

*‘the Council has confirmed that my report will be in the public domain so any relevant views or comments expressed by you may be included in my report and be attributable to you. If you would prefer any views or comments to be anonymous, I will endeavour to ensure that is the case but it may be impossible to effectively mask the course of any such views or comments’.*

- 1.9 Subject to the governance requirements of the Council, this report will be presented to a relevant Council body for full consideration in the near future and will subsequently be in the public domain.
- 1.10 The report brings together the views of a wide range of people about the context and culture, actions and inactions that led to the issues raised in the Report in the Public Interest that was published in October 2020. The report also draws on conclusions set out in a number of other relevant reports.
- 1.11 Some of the views from these individuals and reports present contrasting opinions of what has taken place and why. This is not unsurprising. Participants in complicated events rarely have identical perspectives on exactly what happened, and why things happened in the way they did. Hence, I present them all in this report to illustrate the different perspectives on activity at Croydon Council over the last few years. It will be evident to the reader that whilst there are some differences, there is also significant alignment of separate and independently given views around the causal factors.
- 1.12 In the ‘*Conclusions and recommendations*’ at Section 14 (page 148) I have set out my considered conclusions on the themes in this report, basing them on the clear triangulation of the views I have heard and the documents read during the course of this investigation. I have also recommended that consideration should be given by the Council to potential actions in respect of a number of senior officers and elected members.
- 1.13 I thank all those that I interviewed as part of this investigation for their willingness to share with me openly and comprehensively their experience and their personal and professional observations, opinions and conclusions about what led to Croydon Council’s ‘*collective corporate blindness*’ in the past, and what needs to change to ensure that there is no repetition in the future.

## The situation at the London Borough of Croydon

- 2.1 On 23 October 2020 the Council's external auditors (Grant Thornton) issued a Report in the Public Interest concerning the Council's financial position and related governance arrangements.
- 2.2 The Report was published as the external auditors were 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.
- 2.3 This is one of the most serious steps a local authority's external auditors can take, and the Report drew to the public's interest the Council's deteriorating financial resilience, its low levels of reserves, its poor governance practice and significant overspending of its approved budgets each year. The Report made 20 recommendations for improvement which were accepted by the Full Council at its meeting on 19 November 2020. The Council agreed to produce a detailed plan – the Croydon Renewal Improvement Plan - to respond to the recommendations in the Public Interest Report. In addition to the recommendations made by the external auditor, the Council agreed four additional local recommendations to support its own improvement work.
- 2.4 The Council also agreed to establish an independently chaired Croydon Renewal Improvement Plan Board. The Croydon Renewal Improvement Plan Board will have oversight of the delivery of the Croydon Renewal Improvement Plan. It will support and challenge the Council's improvement 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 to the people of the London Borough of Croydon. The Croydon Renewal Improvement Plan Board will submit a public report on its work to the Council every three months.
- 2.5 The Council is currently subject to its second S.114 notice and all expenditure is strictly controlled by the (current) S151 Officer/Director of Finance, Investment and Risk. The Council is forecasting a £66m overspend in this financial year 2020/21. After the first Section 114 Notice was issued in November 2020, the Council imposed a complete restriction on all new, non-essential spending. Essential spending that continues includes protecting vulnerable children and adults, keeping the Borough's streets clean and safe, and Croydon's ongoing response to the pandemic.
- 2.6 The Council also received at its Cabinet meeting on 25 November 2020 an independent report from PwC - the Strategic Review - that assessed the Council's external companies and other entities as part of the preparation for the submission to MHCLG for the capitalisation direction to enable borrowing. This Review raised serious concerns about the quality of the Council's governance of these entities and highlighted the level of risk and liabilities the Council bears in relation to its investments since 2017.
- 2.7 The Council has now received the report to the Secretary of State for Housing, Communities and Local Government from the non-statutory Rapid Review Team that was commissioned to assess the Council by the Ministry of Housing, Communities and Local Government (MHCLG). The Rapid Review Team, although non-statutory, operates within the powers given to the Secretary of State in the Local Government & Housing Act 1999 which established the duty of best value for all local authorities. This duty requires Councils to *'make arrangements to secure continuous improvement in the way its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.'* The Team's report provided advice to the Secretary of State for

Housing, Communities and Local Government on his response to the Council's formal request for a significant capitalisation direction (a loan) needed to balance the Council's budget for this year and for the next three financial years. On 15 December 2020 the Council requested a Capitalisation Directive for borrowing of up to £150million, £70million of this to cover the current financial year deficit, and an additional £80million to cover the period from April 2021 to March 2024. As part of its submission, the Croydon Renewal Improvement Plan sets out the actions the Council is committing to implement to ensure that it meets its best value duty and has a financially sustainable balanced budget by March 2024.

- 2.8 The Minister's response to the report of the Rapid Review Team has been that, having carefully considered the report, in view of the past failings of the Council, the size of the challenge it currently faces as a direct result and in the context of the very considerable financial support that it is seeking from MHCLG, the Council should be the '*subject of continued monitoring and Scrutiny*'. The Minister has appointed an Improvement and Assurance Panel, led by Tony McArdle who will be supported by members with specialist expertise in finance and commercial asset management. The first task for the Panel is to provide an independent view of the Council's Exceptional Financial Support request and its improvement plan.
- 2.9 The report of the Rapid Review Team will be presented to a future meeting of the Council and any recommendations for future action from that report will be incorporated into the overarching Croydon Renewal Improvement Plan
- 2.10 Over the last few months the Council has seen major changes in its political and managerial Leadership. In August 2020 the former Chief Executive left the authority and Katherine Kerswell was appointed as Interim Chief Executive in September 2020. In October 2020, Councillor Tony Newman, the then Leader of the Council, resigned and Councillor Hamida Ali was elected by the majority party as the new Leader of the Council and this was confirmed at Full Council on 22nd October 2020. Following that, Councillor Hamida Ali announced the composition of a new Cabinet. Finally, an Interim Assistant Chief Executive, Elaine Jackson, funded by the LGA, joined the Council in late October 2020 to support the Council's transformation agenda to help put the Council on a sustainable financial footing.

## My investigation

- 3.1 In order to respond to the issues raised in the Report in the Public Interest, I was required to investigate corporate management actions, organisational systems and the Council's prior operating environment. There is a great deal of detail about these issues in the various reports that have been commissioned recently including in particular the Report in the Public Interest
- 3.2 and the PwC Strategic Review.
- 3.3 The key question that my investigation is designed to answer is, '*how has LB Croydon got into the situation as described in Section 2 above*' and based on my findings, to offer some analysis and explanation to aid the necessary organisational learning and any additional Croydon Renewal Improvement Plan actions.
- 3.4 All of those interviewed and all of the written submissions that I received had relevant information, personal and professional observations, reflections and comments to make about the cause of what the external auditors described as '*collective corporate blindness*' in the Report in the Public Interest.
- 3.5 This report sets out not only what has already been said in official documents that are in the public domain such as the Report in the Public Interest, the PwC Strategic Review and the report of the Rapid Review Team, but also the genuinely held personal and professional views and opinions of individuals, mainly elected members and council officials, as well as individuals external to the Council who were directly involved in the events that have taken place over the last few years.
- 3.6 The views and opinions expressed in this report are not the formal views and opinions of the London Borough of Croydon.
- 3.7 Some of those whom I interviewed were very reluctant to have their personal and professional views and opinions directly attributed to them and I have attempted as far as is possible to protect their identities. The terms of reference committed to not using any individual's job title or name in the report in relation to expressing their opinions. Some individuals have further expressly requested not to be identified and this has also been honoured as far as is possible but that is difficult in some cases and the more senior a person is, the more likely it is that they could be identified.
- 3.8 In accordance with best practice with initial investigatory reports, those individuals who have had concerns raised about them during my investigation have been advised of the nature of those concerns in advance of publication to a relevant Council body. They were offered the opportunity of reviewing the report and sending me any proposed amendments of factual accuracy. Comments were received from or on behalf of four of the nine individuals offered this opportunity. Only one of those four individuals requested a factual accuracy revision. I have accepted that request in full and paragraph 6.42 on page 47 has been revised as requested. This revision was reported by me to the Appointments Committee as part of my feedback on the factual accuracy check. Should it be considered necessary to initiate any subsequent formal processes, any such individual will have a full opportunity to present their response to any such concerns raised as part of that consideration in accordance with any relevant contractual policies and before the decision upon whether to commence any formal process is taken.

3.9 I concluded that the most appropriate way to make best use of both the documentary material and the records of many interviews I have gathered is to deal with a number of discrete but interrelated themes. These themes are:

- Governance
- The Cabinet
- The Executive Leadership Team
- The roles of elected members and officers
- Financial management
- Scrutiny and Overview
- Risk assurance/management
- Performance management
- Asset investment
- Organisational culture

## Governance

### 4.1 Governance is defined as:

*'the way in which organisations are directed, controlled and led. It defines relationships and the distribution of rights and responsibilities among those who work with and in the organisation, determines the rules and procedures through which the organisation's objectives are set, and provides the means of attaining those objectives and monitoring performance. Importantly, it defines where accountability lies throughout the organisation. Good governance in local authorities ensures that decision-making is lawful, informed by objective advice, transparent, and consultative.'*

*(‘Local authority governance’ National Audit Office)*

### 4.2 Croydon’s current decision-making model:

A number of legislative changes have influenced the current governance arrangements for the Council. The Local Government Act 2000 (‘the 2000 Act’) introduced a separation of powers in local government for all but the smallest local authorities with the aim of making council decision-making efficient, transparent and accountable. The 2000 Act required most local authorities to change governance arrangements from the committee system to an Executive-scrutiny model. Croydon Council has established decision-making arrangements since 2001 that comply with the requirements of the Local Government Act 2000 as amended by the Local Government and Public Involvement in Health Act 2007 and the Localism Act 2011. They are known as the Executive Leader and Cabinet model. The Local Government and Public Involvement in Health Act 2007 restricted the governance options available to local authorities and required the Council to introduce one of two models: a directly elected mayor or a new style ‘strong ’council leader. Both models placed executive powers in the hands of an individual, who, in the normal course of events, would serve an uninterrupted four- year term. A directly elected mayor and the new style council leader both have the power to appoint and dismiss Cabinet members and decide what executive powers they would exercise (if any).

Croydon Council resolved to introduce the strong Leader and Cabinet model following the local elections in May 2010. However, in practice executive powers have rarely been exercised by the Leader in isolation. In Croydon, the vast majority of Executive decisions have been taken by the Cabinet collectively, to individual Cabinet Members or to officers to undertake the day to day running of council services. The Localism Act 2011 increased the governance options for local authorities to Executive arrangements (leader and cabinet or directly elected mayor and cabinet), a committee system and prescribed arrangements (where councils propose their own system of prescribed arrangements, requiring Secretary of State approval). The Council retained the strong Leader and Cabinet model. Theme 4 of this report - the roles of elected members and officers, further details the legislative background relating to governance options available to councils.

### 4.3 The Grant Thornton Report in the Public Interest was very clear in its assessment of the way the Council has been governed recently. It said:

*‘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.*

*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.'*

4.4 Interviewee 48 (external to the Council) told me that there are real concerns about the governance arrangements in Croydon. In particular, there are issues about record keeping by the Council. An example of this is that allegedly there were discussions about the proposed investments in the Croydon Park Hotel and yet there is no record that could be found of those discussions. Interviewee 48 had been told by the (former) Director of Finance that there was a record of the discussion that took place of the risk assessment of major investments by the Council but Interviewee 48 said that the (current) Director of Finance has not been able to find the formal record of any such discussion. In Interviewee 48's opinion that is simply not good enough when significant public money (circa £30 million) is being invested. Linked to this is that there are no formal records or details that anyone was 'keeping an eye 'on the £200 million of legal loan agreements to Brick By Brick, and ensuring that the returns (which were a fundamental part of the original business case for members 'decision to agree to take out that borrowing); actually materialised. There appears to Interviewee 48 to be no clarity about which officer was accountable for this activity, other than the need for such action residing with the Council's Statutory Officers.

4.5 The Council commissioned a Governance Review Panel in 2017 to independently review its governance arrangements. The final Report was presented to Full Council in March 2020.

4.5.1 The Introduction to the Report stated that:

*'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. Many Members believed they could not influence decisions and that their knowledge and experience of their local communities was not put to good use. The Panel does not believe that the answer lies in structural change to governance such as a return to the committee system, but rather lies in improving the current*

*culture around decision-making. All the evidence the Panel considered supports the primacy of culture over structure.'*

4.5.2 The Report went on to say that:

*'Croydon has operated a version of the Leader and Cabinet model since 2002. Initially, the Executive function of the Council was held by the Cabinet collectively, but following legislative changes in 2010 Croydon moved to the Strong Leader model, in which all Executive power is vested in the Council Leader in the first instance. Previous reforms had streamlined decision-making and reduced bureaucracy, but also potentially created a new set of issues that need to be considered. Governance was an issue covered by both political parties represented on the Council in their respective manifestos for the 2018 local elections.'*

The Croydon Labour Party Manifesto stated a commitment to:

*'undertaking a review of the Council's governance structure bringing together best practice across the country and beyond to develop a model tailored to the needs and aspirations of Croydon residents'*

The Conservative Party Manifesto said:

*'we will immediately reform the cabinet decision-making system and ensure that it becomes properly accountable and transparent... in the longer term we will review whether we should ditch the cabinet/scrutiny model which is responsible for much of the secrecy around the town hall'*

Having been successful in the 2018 local elections, the Labour administration embedded its manifesto commitment to undertake the review in the council's corporate plan and Council subsequently considered and agreed the establishment of the Governance Review Panel. Undertaking a comprehensive governance review was timely. Both regionally and nationally there have been a number of important issues that have affected how residents perceive decision making at the Council. National politics, including the EU referendum and Brexit alongside several general elections being held in a short space of time, has led to an increasingly divisive and polarised political debate. On a more local level, changes to the Local Plan in Croydon and an increase in housing development within the Borough have also been politically divisive and have become a key point of political contention. A decade of funding cuts and increasing demand for councils' services, especially social care, has meant that councils needed to find savings often resulting in withdrawal of funding from services such as housing, transport and culture. In Croydon there has been a 75% cumulative reduction in government funding of council services and this has impacted the availability and provision of services to Croydon residents. Local authorities also operate in an increasingly technologically advanced world. Local communities are increasingly connected and local news is now published and shared almost instantly. This means that both news on decisions, as well as commentary and political opinion on them, are shared significantly more quickly than previously. All these factors combined have also increased the scrutiny that the Council's decision making is placed under. At the same time, they have also raised expectations amongst residents in terms of both their ability to participate in and influence council decision making and the openness and transparency of Croydon's democratic processes.

The Panel does not believe that the answer lies in structural change to governance, such as a return to the committee system, but rather lies in improving the current culture around decision making. All the evidence the Panel considered supports the primacy of culture over structure.

But culture change cannot simply be mandated, it needs to be built and supported. We make recommendations with regard to getting started on culture change and also recommend some structural change which we think will exemplify, support and enable a new culture. The key conclusions of the Panel were that even though the Council has fit for purpose formal governance arrangements, there is dissatisfaction amongst Members and residents who found it hard to get timely information and to influence decisions. The Council can do better and become the kind of Council it aspires to be by:

- *making a step change in its communication and engagement with the residents of Croydon*
- *improving transparency by introducing a forward plan and clarifying how the Council makes its decisions*
- *improving the culture of the Council including officer and Member relationships*
- *providing better support to non-Executive Members to carry out their various roles*
- *revising the existing Leader and Cabinet model of governance towards more collective decision-making and establishing Cabinet Member Advisory Committees.*

Implementing these recommendations will enable the Council to pioneer a new way of working that better matches its aspirations to enhance councillor involvement, local democracy and community participation with a governance model tailored to the needs of Croydon's residents.'

- 4.6 Interviewee 47 (external to the Council) told me that the Labour Group members on the Governance Panel were concerned with involving back-benchers more in decision making, and the Conservative Group members believed that things were being hidden from them, and that they found out about what was happening much too late. Despite their pre-existing relationships, the political groups did work well together on the Review and the Report was welcomed and signed up to by both sides. Interviewee 47 said that they had been told that there was a '*winner takes all*' approach when there was a change of political control, that Croydon was a highly political place and that party politics permeated everything there. Interviewee 47 said that the Conservatives were keen on a return to the Committee model or an Elected Mayor to replace the current Strong Leader and Cabinet model. Neither the former Leader nor the Labour Group were keen on either of these options. The recommendation of the Panel was for a form of 'hybrid' system that would allow for more backbench and opposition participation and the former Leader and both Groups supported this, although there were concerns about the increase in workload for officers of additional meetings but some resources had been allocated to enable them to be addressed.
- 4.7 Interviewee 1 (a former and/or current member of the Cabinet or Committee Chair) told me that it is clear that a number of opportunities were missed in the period this person was in office. There was a commitment in the 2018 election manifesto to a fundamental review of governance at the Council. That review did take place with an independent Chair and with both parties represented on the Panel, but it was very slow in its work. The Labour Group would have preferred a hybrid Cabinet model to have been implemented - more like a collection of Select Committees - but in the end little really changed.
- 4.8 Interviewee 19 (a former and/or current member of the Cabinet or Committee Chair) told me that they felt that the thrust of the recommendations of the Governance Panel still holds true. Most councillors have not had timely access to information. This has led to poor transparency and poor

decision-making and made 'holding to account' very difficult either by the Opposition or by the Scrutiny and Overview Committee. Interviewee 19 said that the disappointing thing has been the slow speed of implementation of the recommendations.

4.9 The PwC Strategic Review also pointed to a number of serious failings in governance:

- between the Council as sole shareholder and Brick By Brick.

The Review concluded that:

- the interaction between the London Borough of Croydon (LBC) and Brick By Brick has historically been over reliant on relationships rather than formal structure, weakening the governance around decision making. The introduction of the Shareholder Board has improved the formality of relationship, but there remains a lack of clarity on how the Council should manage this wholly owned subsidiary.
  - the Council needs to address the lack of suitable Council representatives on the Brick By Brick Board. These individuals must be sufficiently skilled to manage the potential conflicts of being a Board member of a private company whilst also a paid employee of LBC.
  - the quality of financial reporting received by the Council from Brick By Brick needs to improve in order to allow LBC to take more informed decisions over its investment.
  - business plans should be supported by detailed financial models against which Brick By Brick's performance can be assessed.
- Brick By Brick

The key findings in the Review of the governance of Brick By Brick included:

- the Brick By Brick Board membership at present is highly specialised in its development but lacks broader financial experience and the level of financial information made available to the Board (and the Shareholder Board) is limited.
- there is very limited evidence of reporting of financial performance against its business plan for the year to date, nor is there a forecast outturn for the year. The business case (as presented to Cabinet) only provides aggregated financial forecasts without a recognisable profit and loss statement, balance sheet or cash flow. Supporting cash flow models have been provided however there have been difficulties reconciling these with the submitted plans
- governance at an operational level around design and construction progression seems reasonable with dashboards maintained for each site containing standing data, RAG assessed progression of Time, Development Cost and Quality with development and planning issues exception reported. A sale update paper is also presented at every board meeting.

- however, detailed financial and sales information is currently not reflected in these dashboards and overall forecast costs to complete a project are not easily ascertained.
- a separate sales paper is prepared for the meetings.
- The London Borough of Croydon

The key findings in the Review of the governance of Brick By Brick included:

- the Cabinet has approved the further purchase of 231 Brick By Brick 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 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.
- the Council 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 Brick By Brick development sites are being driven by longer than normal process time in the Council’s operational Teams.

Since the Council must avoid preferential treatment to Brick By Brick, 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 Brick By Brick.

- given no equity funding has been provided to date, before committing to any formally agreed revision to the funding structure of Brick By Brick it is recommended that LBC take external advice on the 75:25 debt equity model.
- the Council should regularly review the financing and operational arrangements of Brick By Brick for ongoing compliance with State Aid requirements, particularly in the context of:
  - maintaining a state aid compliant capital structure
  - pricing loans on a state aid compliant basis which reflect the risk associated with investing in Brick By Brick specifically.
- there are significant concerns around the adherence to governance procedures within LBC and its subsidiaries. The Council should consider commissioning a wider and thorough governance review of the organisation. 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.
- 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.

- given the level of risk associated with Brick By Brick, the Council should consider reviewing the Brick By Brick risk entry on the central risk register and reflect the risk outside of general governance matters.
- 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.
- 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.
- LBC is near to completing a further review of GZ funding and is now considering a reduction in funding to £3m in FY20/21.
- 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
- the Council may wish to consider increasing frequency until such time a revised GZ business plan is agreed including the underpinning assumptions over funding -i.e. business rate increases and the Council's ongoing ability to utilise these.
- 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.

4.10.1 Interviewee 3 (external to the Council) told me that the last but one Chief Executive had led the Croydon Challenge programme with the aim of making £100m savings over three years. Interviewee 3 had played a part in that process, and on subsequent appointment to a further post it became clear that there was a real issue with the agreed savings from this Challenge programme having not been achieved in some areas. It was Interviewee 3's opinion that in the areas where savings had been achieved, for example in Finance and Children's Services, that there had been a serious loss of capacity. There were also major issues relating to the culture of the organisation. Interviewee 3 said that the way in which the savings had been implemented under the Croydon Challenge programme resulted in a very 'command and control' culture, an inward looking organisation with very little work with partners, residents and external bodies; and with Directorates working in silos. Interviewee 3 was clear that cultural change was required in order to prepare for the significant challenges ahead. The administration was clear when the last but one Chief Executive left in 2016 that it wanted a new approach to the way the Council delivered and the organisation was run.

4.10.2 The May 2018 local elections resulted in a second term for the Administration which returned to its work, in Interviewee 3's opinion, with greater confidence. A Cabinet/ELT 'away day' was organised on the Monday after the election and at that event the Leader and Cabinet members

made it clear that from then onwards Croydon was going to be a '*politically led authority*'. Interviewee 3 believes that this was a response to the legacy of the Ofsted 'inadequate' judgement and the consequential loss of trust by members in officer advice. There had been a Governance Review throughout this period initiated by the (former) Leader that was designed to look at the Council's political governance. The challenging relationships between members and officers were clearly exposed in the final report of the Governance Review Panel which was presented to the Council in March 2020.

- 4.11.1 Interviewee 4 (a member of the Opposition Group) had been a councillor in Croydon for many years and had held office in the political group. The Cabinet system was already in place when Interviewee 4 had joined the Council so Interviewee 4 had never experienced the old Committee system that people talk about, in their view, with such 'fondness', except those who were in the Cabinet who were very content with the Leader and Cabinet model. In the view of Interviewee 4 the idea of the new model was that Cabinet members would be identifiable and could be held to account for the decisions they took, but it has not really worked that way and decisions are not transparent nor are Cabinet members accountable.
- 4.11.2 Interviewee 4 has seen a succession of Chief Executives at the Council and the first experience was of an old fashioned non-political Chief Executive who treated the Opposition Group in Interviewee 4's view as it should have been. The Council then moved to the 'Strong Leader' model and had a succession of Chief Executives who in Interviewee 4's view became ever more political to the extent that, until fairly recently, it has been difficult to tell officers and members apart. The Labour Administration in 2014 accelerated this pattern, and Interviewee 4 stated it has become even more the case since the last local elections in 2018.
- 4.11.3 I was told by Interviewee 4 that the current Administration decided to severely restrict the use of Part B (private reports to Cabinet) so delegation had been increasingly used to run the Council. So in Interviewee 4's opinion, what has now happened is that the documents that go to the Cabinet meetings and that are therefore in the public domain are very strategic in nature, and all the detailed implementation of policy is done through delegated powers so there is almost no scrutiny of the majority of the Council's decisions. The Council's scrutiny function in Interviewee 4's view has been pretty ineffective in any case, in their view dominated as it is by Administration members. It needs to be noted at this point that Scrutiny and Overview Committees are required to be proportionate to the political balance of the Council in terms of their membership. It was described to me by Interviewee 4 that the work of the Scrutiny and Overview Committee in Croydon is more open and transparent than that of the Cabinet but hardly of value because it is so ineffective and relies on agreement and consensus rather than challenge. As told by Interviewee 4, this is an approach that is favoured by the longstanding Chair of the Committee. Interviewee 4 told me that the days when much of the Council's decision making on contracts was through the Corporate Services Committee are very much missed. At that time, it is suggested, decisions would not have been made without any involvement by the Opposition such as the one to set up Brick By Brick. In Interviewee 4's view, no one really understood what they were doing when that was set up including the former Leader and the rest of his Cabinet, so in Interviewee 4's opinion, appalling decisions have been taken in ignorance with really dire consequences.
- 4.11.4 Interviewee 4 said that Croydon has always been a very political place and the adoption of the strong Leader model was a big mistake. Interviewee 4 had looked to change it in 2011 but there was no will amongst members for that change. It did become an issue in the 2018 election and in the aftermath the Administration did set up a cross-party working group to look at options. The then Leader's initial favoured model was a Select Committee model that had its drawbacks but, according to Interviewee 4, would have been a real improvement. However, the result was watered-down to Cabinet Member Advisory Committees that looked likely to be ineffectual and could easily be ignored by a determined Cabinet member.

- 4.12 Interviewee 5 (a former and/or current member of the Cabinet or Committee Chair) had never been happy with the strong Leader model and was very hopeful when the Council had the choice to go back to the Committee system in 2011, but Interviewee 5 was very unhappy when the decision was made to stay with the strong Leader model. Interviewee 5 had always felt that this model denies most councillors the opportunity to be involved in decision-making. There have been policy development meetings for the Labour Group members but these were poorly attended and sometimes Interviewee 5 was the only person to turn up at meetings.
- 4.13 Interviewee 6 (external to the Council) told me that the shock of the ‘inadequate’ Ofsted judgement in 2017 did affect members’ trust and confidence’ in officers’ advice as the political Leadership had been advised to expect a different judgement. When the new administration was formed following the 2018 local elections there was definitely a different attitude by leading members. They made it clear that in line with the strong Leader model Croydon was to be very much a member-led Council from that point on. The political Leadership’s focus was very much on providing the financial support to deliver the key priority of improving Children’s Services. In Interviewee 6’s opinion, funding was allocated too easily to areas without a clear timeline associated with it and Interviewee 6 said that those views had been made clear at the time.
- 4.14 Interviewee 7 (a member of the Executive Leadership Team) told me that some of the Council’s corporate systems do not work as they should, and that there seems to be a total lack of the basic checks and balances that are the norm elsewhere. Interviewee 7 was alert to the risk that when you start to work for a dysfunctional organisation like Croydon if you are not careful you become part of the dysfunctional picture very quickly. Interviewee 7 also commented that there was an absence of political curiosity in Croydon, an absence of compliance with the usual checks and balances and in Interviewee 7’s view an inappropriate level of political interference in operational matters.
- 4.15.1 Interviewee 8 (external to the Council) told me that their first impression of Croydon was that it had a very different way of working. Interviewee 8 had quickly identified the impact of over-involvement by elected members in operational matters which from that individual’s significant experience is the responsibility of officers to manage. This was exemplified in Interviewee 8’s opinion by what had happened with Brick By Brick where leading members were taking decisions without details of any reference to due process. Interviewee 8 also commented that there seemed to have been a reluctance by some senior officers to publicly or privately question, challenge or disagree with what the (former) Leader and the (former) Chief Executive wanted to happen. Interviewee 8 also expressed a personal opinion that it was clear to them that the (current) Brick By Brick Chief Executive had had direct access to the previous leading Cabinet members, who then through and probably with the agreement of the (former) Chief Executive, instructed others to make happen what they wanted. Interviewee 8 questioned whether that was with regard to due process.
- 4.15.2 Interviewee 8 also said that the Brick By Brick Chief Executive should have worked through the Croydon officer structure and proper governance and not used previous Cabinet members to seemingly get what he wanted, much of which may not have been in the Council’s tax-payers interest and which has subsequently been shown to have cost the Council dear. Based on the documents that Interviewee 8 had seen, until 2018 things did seem to happen in line with the loan agreements but then for the next two years Brick By Brick asked for more and more money and was given this it appears, without due reference to the loan agreements or any apparent formal governance that Interviewee 8 has been able to discover. Those senior officers, who by normal local government operating practices should have raised challenges, queries or even disagreement with this practice, without information to the contrary seem to have acted as silent bystanders or had been compliant with these abnormal practices. Interviewee 8 stated in their opinion that this does raise serious concerns in regard to the professional judgment and conduct of the Council’s Statutory Officers in relation to this practice.

- 4.15.3 Interviewee 8 expressed the view to me that maybe one of the causes of this situation is that both the (current) Monitoring Officer and the (current) S151 Officer were internal appointments and had become used to the Croydon way of working, which had developed over a long period of time so perhaps they knew no differently. As Statutory Officers, their legal duty and personal responsibilities required them to intervene to ensure proper safeguards on the expenditure of public money but from not having seen any details to the contrary, it appears they did not, and nor did the (former) Chief Executive. Interviewee 8 said that there were clear opportunities for council officers to have intervened, to have challenged and to have raised concerns about what was being agreed but from the information and documents Interviewee 8 has seen to date, it appears they had all failed to do so.
- 4.16 Interviewee 9 (external to the Council) summarised the governance issue bluntly but accurately when commenting to me that the professional officers and elected councillors really do have to explain how this situation has occurred. In Interviewee 9's long professional career, nothing like this has been seen before and the RIPI conclusion that there had been '*collective corporate blindness*' is absolutely correct.

## The Cabinet

- 5.1 The Local Government and Public Involvement in Health Act 2007 restricted the governance options available to local authorities and required the Council to introduce a choice of two models: a directly elected mayor or a new style ‘strong’ Leader. Both models placed executive powers in the hands of an individual who, in the normal course of events, would serve an uninterrupted four-year term. A directly Elected Mayor and the new style Council Leader both have the power to appoint and dismiss Cabinet members and decide what Executive powers they would exercise (if any). The Council resolved to introduce the ‘Strong Leader and Cabinet’ model following the local elections in May 2010. However, as noted previously, in practice executive powers have rarely been exercised by the Leader in isolation in Croydon. The vast majority of executive decisions have been delegated to either the Cabinet collectively, to individual Cabinet Members or to officers to undertake the day to day running of the Council’s services.
- 5.2 Section 3 of the Council’s Constitution sets out the arrangement for the Leader and Cabinet model adopted by Croydon Council. The Cabinet comprises up to 10 members including the Leader and Deputy Leader(s). Details of the responsibilities and functions allocated by the Leader to the Cabinet as a whole or to individual Cabinet members are set out fully in the Leader’s Scheme of Delegation. The Leader is responsible, in consultation with others, for shaping the plans and strategies that form the Council’s Policy Framework and recommending them to the Council; and for taking decisions on executive matters within that framework. The Leader provides overall policy direction to the Chief Executive and Executive Directors in relation to the way in which services are managed within the budgets allocated to them. The Leader may establish one or more Cabinet Committees to exercise specified Executive functions.
- 5.3 All meetings of the Cabinet are open to all members, the public and press to attend. In the event of there being confidential or exempt business to discuss, in accordance with the Council’s Access to Information Procedure Rules, that part of the meeting is held in private. Notice of meetings and availability of papers prior to a meeting are required to comply with the Council’s Access to Information Procedure Rules set out at Part 4 of the Constitution. ‘Key Decisions’ are published in accordance with the Council’s Access to Information Procedure Rules as set out in Part 4B of the Constitution. The practice to date of adhering to the publishing of reports on time is deficient.
- 5.4 Informal meetings of the Leader and Cabinet members occur from time to time. No Executive decision can be taken at an informal meeting of Cabinet members. These meetings are not subject to the Access to Information Procedure Rules. Cabinet members may publish Bulletins at regular intervals as an added means of informing non-Executive members, the public and press, of matters of significance but not requiring Cabinet consideration. The Bulletins that are issued are included in the Leader and Cabinet Questions agenda item at Ordinary Council and are therefore open to question.
- 5.5 Interviewee 10 (a former and/or current member of the Cabinet or Committee Chair) told me that the draft Report in the Public Interest was the first account that had set out the Council’s financial situation so plainly. Interviewee 10 had felt really angry about the whole situation, angry for not personally challenging the situation earlier and angry with those involved in creating the situation. Interviewee 10 felt they had been curious and inquisitive as a member of the Cabinet, but all of the questioning and challenging that had been done was done in private, and was not subject to being on the public record. Ahead of a really important budget meeting in January 2020 Interviewee 10 had asked for a briefing by the (current) S151 Officer so as to be properly prepared to debate the draft budget. But when the (former) Cabinet member for Finance and Resources found about this request for a briefing he expressed his anger to Interviewee 10 and had said to Interviewee 10 that this was an act of disloyalty and it appeared there was no trust in what Interviewee 10 was being told by him. As a member of the former Cabinet, Interviewee 10 had

always been conscious that at Cabinet meetings there was much less discussion on the major issues facing the Council compared to discussion of individual Cabinet portfolios. So, inevitably perhaps, Interviewee 10 had spent more energy and time considering the portfolio issues for which they were personally accountable. In Interviewee 10's opinion there clearly had not been enough information and discussion at Cabinet meetings previously about the Council's financial issues and the major areas of spending such as Children's Services.

5.6 Interviewee 11 (a former and/or current member of the Cabinet or Committee Chair) had become aware that two Cabinet members had met with the (current) S151 Officer in January 2020 to discuss the budget. Interviewee 11 said this was not known to them until some months later. In May 2020, two previous Cabinet members met with the (current) S151 Officer to discuss the Council's finances. Interviewee 11 said that the (current) S151 Officer informed Interviewee 11 that the meeting was taking place. Interviewee 11 was clear to me that the

5.7 description of anger in response to this news was incorrect, but instead feelings of being hurt and aggrieved they understood were more accurate. Interviewee 11 said to me that this action by the other Cabinet members had undermined the trust Cabinet members needed to have in each other. Interviewee 11 also said that there was a degree of discourtesy in the actions by these Cabinet members as they had not been discussed with the other Cabinet member first. Interviewee 11 provided me with a copy of the email that had been sent at the time to the Cabinet member involved. Interviewee 11 subsequently had a long phone call with this Cabinet member when they discussed it further. In Interviewee 11's view this was a perfectly courteous and reasonable discussion. Interviewee 11 stated that it had been emphasised that Interviewee 11 would never dreamt of stopping a Cabinet colleague from having such a meeting but would have appreciated this being discussed with Interviewee 11 first.

In considering this commentary alongside comments from other interviewees, this exchange is illustrative of the failure in the governance culture of the Council for free and unfettered access for Cabinet members to Directors and Executive Directors, and in particular in regard to essential information on finance matters being provided to all Cabinet members without any filter.

5.7.1 Interviewee 12 (a former and/or current member of the Cabinet or Committee Chair) told me that the former Cabinet had been dominated by a small group of Cabinet members who took decisions before and sometimes not even at Cabinet meetings. This was allowed to happen because the rest of the Cabinet did not question or challenge and failed to speak up even when they could see that things were not right, in the same way that officers should have challenged and given stronger professional advice. If there had been that robust challenge by both officers and members, the problems the Council is now dealing with would have been identified much earlier. So in Interviewee 12's opinion, these failings in governance allowed the developing financial problems to go unseen by members collectively, although they questioned that surely these would have been known to the (former and current) S151 Officer and (former) Chief Executive.

5.7.2 Interviewee 12 was of the opinion that most Cabinet members just focused on their own portfolios and rarely were there discussions at Cabinet about the Council's emerging financial problems. In Interviewee 12's opinion, Cabinet meetings were carefully choreographed by the (former) Leader and the small group of (former) Cabinet members. If Opposition members thought that they would be able to get answers or information from officers at Cabinet meetings outside of the documents on the table then in Interviewee 12's opinion they were being naïve. Cabinet papers are reports written by officers, but culturally they were seen very much as Cabinet member papers and officers rarely spoke about the papers or gave additional information. Interviewee 12 cited the example of General Purposes and Audit Committee, where the (former) Cabinet member for Finance and

Resources regularly spoke first and answered questions, and this prevented answers being given by officers.

- 5.7.3 Interviewee 12 was clearly of the opinion that the Council's Statutory Officers had not given the necessary information and professional advice that they should have done, for example about the level of the Council's reserves even though Interviewee 12 understood that this information was unlikely to have been well received by the (former) Leader or the (former) Cabinet member for Finance and Resources. Interviewee 12 also said that whilst some questioning by the opposition appears at times to be just for the sake of it, some of the opposition members did often raise relevant issues that were either ignored or the response was 'fudged'. The level of reserves did seem to be low compared to elsewhere and this should have been made clear in Cabinet meetings by the appropriate members, but equally the (former and current) S151 Officers were required to speak up and professionally advise Cabinet on matters like this. The budget reports were never sufficiently clear, in Interviewee 12's opinion, about the developing financial problems like the low level of reserves.
- 5.7.4 Interviewee 12 also told me that Labour Party members outside Croydon had commented that Croydon has had longstanding problems with its finances, maybe over the last 10 years, but this was never discussed at a Cabinet meeting. Interviewee 12 was clear that in their opinion the previous Cabinet had had a leadership culture that was neither open nor healthy. Only by May 2020, did Interviewee 12 and other Cabinet members start to exchange views about the way that Cabinet was being run. Interviewee 12 had really needed to know more about the financial situation so asked the (current) S151 Officer for a briefing. The (current) S151 Officer checked the request with the (former) Cabinet member for Finance and Resources who from Interviewee 12's memory was very angry and said it was disrespectful to him to make such a request and was, in effect, a breach of trust.
- 5.7.5 Interviewee 12 also stated that Cabinet as a whole was not really involved in decisions like the purchase of the Croydon Park Hotel. Cabinet was told about the idea and the potential of a £1m+p.a. income stream one week, and then shortly afterwards was told it had been purchased. The Cabinet did not discuss the proposal in detail, it was all dealt with in Interviewee 12's opinion by the (former) Cabinet member for Finance and Resources and the (former) S151 officer in late 2018. Interviewee 12 stated that due to this pattern of decision-making and lack of Cabinet involvement in such a big decision, it was not clear what level of risk assessment took place or whether any due diligence was actually done. In Interviewee 12's experience, Cabinet members who were not in the 'top group' always had to consider whether it was worth it to raise issues and risk a slap down, and too often decided that it was not worth it. Interviewee 12's own approach was to raise any concerns with the Leader in one to one meetings rather than in Group or Cabinet settings. In Interviewee 12's view the reality was that the operating environment of the Cabinet did not regard any challenge as a positive contribution – in fact, the exact opposite.
- 5.8.1 Interviewee 13 (a former and/or current member of the Cabinet or Committee Chair) told me that before the change of administration and the new Cabinet being appointed, it was clear that there had been a 'Cabinet within a Cabinet'. In Interviewee 13's opinion there had been neither collective responsibility nor accountability. There was no effective mechanism for other Cabinet members to challenge what was happening or being planned. Information was not shared and the 'cabal' in the Cabinet in Interviewee 13's description, (the (former) Leader of the Council, the (former) Cabinet member for Finance and Resources, the (former) Deputy Leader (statutory) and the (former) Cabinet member for Environment, Transport and Planning did not welcome challenge or discussion. Another problem in Interviewee 13's view was that the husband and wife combination in the Cabinet managing the Planning and Housing portfolios respectively had, in the opinion of Interviewee 13, an 'insatiable drive' to build houses and this working relationship may have led to poor governance behaviour. This has become clearer to Interviewee 13 since the

revelations in the PwC report, and also that the house building activity of Brick By Brick in their view, has been pursued without the appropriate levels of due diligence, risk management or financial management that would be expected in the safeguards and controls over the use of public money.

5.8.2 Interviewee 13 also expressed the view that the (former) Leader surely should have wanted to build a Cabinet of the most able people in the Labour Group, but Interviewee 13 had seen that too many members of the previous Cabinet would not, or could not, provide adequate challenge. This sometimes resulted in poor decision making; such as with the Compulsory Purchase Orders being issued to a local shopping mall, forcing owners out of their shops almost overnight in preparation for a Westfield development which years later has still not arrived. It was decisions like this in Interviewee 13's opinion that have brought the Council into disrepute.

5.9.1 Interviewee 14 (a former and/or current member of the Cabinet or Committee Chair) described working with the previous Cabinet and other experiences outside of Croydon Council that had provided Interviewee 14 with insights into the workings of the former Cabinet and how things are done in other councils and other parts of the public sector. Interviewee 14 told me that the experiences of the last few weeks/months had enabled a far clearer understanding of the issues the Council is facing than all of the time spent as a councillor previously. Interviewee 14 had been wracking their brain to understand how Croydon has landed up in the position it is in. How did these experienced and competent members and senior officers allow things to get to this point? In Interviewee 14's opinion it is simply inconceivable that this could have happened at other local authorities, given the way governance arrangements work there. So Interviewee 14 had been asking whether Croydon is unique or are there other Councils facing similar situations? The conclusion that Interviewee 14 had reached so far is that although other councils like Nottingham City Council have been dealing with difficult issues, the set of circumstances in Croydon does make it unique.

5.9.2 Interviewee 14 explained that this is based on views in regard to the way that key decisions have been made and scrutinised at Croydon. Interviewee 14's opinion is that members of the Council have been all too ready in the past to accept what they were being told without the necessary questioning and challenge. It seems that the right questions were not being asked, for example about Brick By Brick, and that members were accepting too readily the reassurances that they were being given by the (former) Leader and the (former) Cabinet member for Finance and Resources that everything was ok. Interviewee 14 described the personal shock felt at the purchase of the Croydon Park Hotel and the Colonnades, and that the Croydon Park Hotel purchase was not discussed by or with the Cabinet before it happened. Interviewee 14 had asked another member of the former Cabinet how this could have happened and had been told that if you questioned anything that the political Leadership was doing you were regarded as the 'enemy within'. Interviewee 14 does accept that central government was encouraging local authorities to look at other potential revenue streams and that Croydon actually was quite late in doing this. But in Interviewee 14's opinion a costed and affordable Asset Investment Strategy was required to make these decisions and manage these properties properly and Interviewee 14 had been stunned to find out that this Asset Investment Strategy had been formally agreed at Cabinet only after the Croydon Park Hotel purchase.

5.10.1 Interviewee 15 (a former and/or current member of the Cabinet or Committee Chair) told me that the operating style of the previous Cabinet had been very strange. In Interviewee 15's opinion, it became clear very quickly that the (former) Cabinet member for Finance and Resources was running things and that Cabinet members were expected to deal just with their portfolio and not be involved in decisions outside their portfolio. Interviewee 15 felt that the (former) Cabinet member for Finance and Resources had kept Interviewee 15 in the dark about the Council's finances even though he said he would brief Interviewee 15 thoroughly. But at the end they had

only chatted very generally. Interviewee 15 explained their concerns about the budget for their portfolio and the need for a detailed briefing arose from the fact there had been no handover from the previous portfolio holder. Interviewee 15 told me they had been told by the Executive Director for their portfolio that the service budget was £14m adrift and though the Executive Director was very reassuring, talking about the way savings that could be made to bridge the gap, Interviewee 15 was still very concerned and asked to meet with the (former) Leader to discuss this.

- 5.10.2 While Interviewee 15 was in the (former) Leader's office, the (former) Leader telephoned the (former) Cabinet member for Finance and Resources to tell him what Interviewee 15 had just said about the financial shortfall for that portfolio. Interviewee 15 said that it was possible to clearly hear the (former) Cabinet member for Finance and Resources on the other end of the phone shouting at the (former) Leader; 'I told Directors not to frighten their portfolio holder' and the (former) Leader then told Interviewee 15 that the (former) Cabinet member for Finance and Resources had confirmed that there was not a problem.
- 5.10.3 In Interviewee 15's opinion there was no reliable information about the Council's finances being shared honestly with Cabinet members. Interviewee 15 now regrets not pushing harder on this issue but personal matters and the day to day Cabinet responsibility of a huge portfolio was found to be all consuming. So the Directorate continued to do its best to control expenditure but then at one Cabinet meeting the (former) Leader suddenly said in an angry tone that the Council would not be taken over by Commissioners. This was the first time this had even been mentioned in Interviewee 15's presence. This was very puzzling, if everything was ok, why had there been the establishment of the Finance Review Panel and the appointment of the independent Finance Consultant? Interviewee 15 was aware that some very difficult questions were being asked by other Cabinet members and in Interviewee 15's opinion some very aggressive responses were being given to them, but there were no clear answers from the (former) Leader or from the (former) Cabinet member for Finance and Resources as to what was happening.
- 5.10.4 Interviewee 15 was of the opinion that if any member of the Labour Group tackled the (former) Leader and/or the (former) Cabinet member for Finance and Resources about the way the Council's finances were being managed they were very badly dealt with. Interviewee 15 believed that members of the Group including Cabinet members have paid the price for challenging them. Interviewee 15 said to me that there is a misconception that the (former) Cabinet member for Finance and Resources was running things. In Interviewee 15's opinion he very much did the (former) Leader's bidding and also in Interviewee 15's opinion the (former) Leader's style was always to get someone else to do his 'dirty work' so that he could show 'a clean pair of hands'.
- 5.11.1 Interviewee 16 (a former and/or current member of the Cabinet or Committee Chair) told me about the personal excitement that the initiatives the Council was considering had generated. However, the kind of investments that the Council has made recently in Interviewee 16's view has made it seem more like a commercial business than a local authority. It has also proved very hard in Interviewee 16's experience to question the Council's Leadership about these initiatives. Not all of the Cabinet was part of the decision-making process about these initiatives so a number of them were unclear about what they were for. Up until August 2020, Interviewee 16 had not been made aware of the serious financial difficulties facing the Council. When any member of the Cabinet asked questions about the Council's finances, the (former) Leader and the (former) Cabinet member for Finance and Resources always said that there was no problem and that everything was under control. It was only in August 2020 that Interviewee 16 really understood the scale of the problems. Interviewee 16 explained that Cabinet members knew that the Finance Review Panel had been set up earlier in the year but were told that was to help manage the impact of COVID on the Council's finances. Initiatives like Brick By Brick were progressed because certain Cabinet members were very committed to do this and determined they should happen. There was a lot of

opposition to much of this in the community and ward councillors were unhappy but when they asked questions of the political Leadership, they were just shut down.

- 5.11.2 In Interviewee 16's view the Council has not worked with the community in the way it should have done and it should not have pursued many of these investments and borrowed so much money to fund Brick By Brick in particular. The Council should have relied much more on the (former) Chief Executive and the (current) Executive Director for Place bringing external investment to the Borough, something in Interviewee 16's view they had been very successful in doing in the past, instead of setting up a development company entirely funded by the Council.
- 5.11.3 In Interviewee 16's view there has been a lot of opposition to what the Council has done from the business community in Croydon as well. They had needed financial support and had objected strongly to the Council spending £30m to purchase the Croydon Park Hotel, but the (former) Cabinet member for Finance and Resources, in Interviewee 16's opinion, had refused to talk with the businesses to explain what the Council was doing. Interviewee 16 believes that there were four Cabinet members who were very much the decision makers and the rest of the Cabinet were not really involved in many of these decisions. In Interviewee 16's personal view, it was the (former) Cabinet member for Finance and Resources who always seemed to be the one who fixed things and the (former) Leader seemed very happy for him to do this and clearly trusted him. There had been a move within the Labour Group to get the (former) Cabinet member for Finance and Resources and the (former) Leader to resign before they stepped down last autumn but they had kept saying that there was no problem with the Council's finances.
- 5.12.1 Interviewee 17 (a former and/or current member of the Cabinet or Committee Chair) - told me that Croydon has been coping with underfunding and the resulting overspend on certain budgets for many years. In Interviewee 17's view Croydon is an area with a lot of need and much of the overspending had resulted from the failure to control spending on demand-led services like Children's and Adult Social Care. During Interviewee 17's time on the Council, the Finance Team had given a number of presentations that showed clearly the challenges the Council has been facing with its underfunding and low reserves compared with neighbouring authorities like Lambeth. Interviewee 17 could remember the previous Conservative Administration had run a 'fair funding' campaign on this issue. Interviewee 17 also commented that the Report in the Public Interest had put the issue back to the Council that there had been insufficient challenge by elected members about the Council's financial situation including by Cabinet members. In Interviewee 17's opinion this had been accepted by the Cabinet and Labour Group. Interviewee 17's view is that there had been a tendency for most Cabinet members to focus on their own portfolios and concentrate on the financial issues within them. Presentations and reports to Cabinet members gave the impression that the financial issues facing the Council were under control. The (former) Cabinet member for Finance and Resources in Interviewee 17's opinion was well versed on the issues.
- 5.12.2 On the officer side, the (former) S151 Officer was a very competent Finance Director and in Interviewee 17's opinion, a font of knowledge who was a very strong presence along with the (former) Cabinet member for Finance and Resources. His knowledge was a great loss and it would seem that systems were not put in place to ensure that this knowledge was carried forward. Interviewee 17 told me that there was only one occasion that came to mind when the (former) Chief Executive had challenged the Labour Group's manifesto commitments and this was around bringing out-sourced care staff back and the cost relating to this. The Ofsted 'inadequate' judgement in 2017 had been a real shock and concerns were raised around the professional advice that officers had given. From Interviewee 17's perspective Croydon has always been a member-led Council when it comes to policies and the administration had a strong vision and an ambitious portfolio to deliver in its second term. The question that now has arisen in the RIPI and other reports is whether it could be afforded and why members had not asked for more information and

challenged more. Interviewee 17's answer to that is that maybe members could and should have challenged more but they were reliant on the information being put before them.

- 5.13.1 Interviewee 18 (a former and/or current member of the Cabinet or Committee Chair) confirmed that the Cabinet did have briefings about the Council's financial position, that there were papers to Cabinet about this and that there were Labour Group and Cabinet 'away days' at which the (former) Cabinet member for Finance and Resources and the (former and /or current) S151 Officer set out the situation with slide shows etc. The theme was always that things might be difficult, that the Council continued to be underfunded, that the Ofsted judgement had skewed expenditure and latterly that COVID had made things even more difficult – but always the conclusion was that things were under control and were being managed. As elected members they were inevitably reliant on officers to give the right and relevant information.
- 5.13.2 Interviewee 18 had been very disappointed to hear at a meeting of General Purposes and Audit Committee from the Finance Consultant that members had not, in his opinion been provided with the correct or adequate financial picture to make fully informed decisions. Hence, it was not always clear what questions needed to be asked because members had not been given the information that would have enabled them to ask those questions. Interviewee 18 told me that after the (former) Chief Executive had left, it became clear that she did not help the situation because in Interviewee 18's opinion she allegedly controlled the information that was provided to members and restricted what senior officers were allowed to tell or discuss with members. In Interviewee 18's view the Cabinet had relied on the (former) Cabinet member for Finance and Resources and needed to trust that it was being given the right information. Interviewee 18 expressed the view that it is possible that the (former) Cabinet member for Finance and Resources also only had a restricted view of the situation. In Interviewee 18's opinion there was no '*inner Cabinet*', no '*gang of four*', no '*inner cabal*' as has been alleged. It has been alleged that Interviewee 18 was a member of this '*gang*' and as such Interviewee 18 was able to confirm this description was incorrect. In Interviewee 18's opinion the (former) Cabinet member for Finance and Resources had been appointed by the (former) Leader as the Finance lead on the Cabinet, and was very competent in that role so was trusted by all the Cabinet to deal effectively with the Council's finances.
- 5.14 Interviewee 19 (a former and/or current member of the Cabinet or Committee Chair) said that Croydon's problems are deep seated and longstanding, deriving from the 'Strong Leader' model of governance that came into effect in 2010 under the Conservative Leader at that time. When Labour took control in 2014 they did not change this governance model and have continued with a Strong Leader model ever since. However, in Interviewee 19's view, the previous Leader did not like conflict so his way of working was to stifle debate in Cabinet, and to remove any opposition by dropping anyone from the Cabinet - often remotely - who openly challenged or questioned him, so inevitably those who wanted to stay on the Cabinet to deliver their portfolio kept quiet and kept their heads down. It is easy for elected members now to blame the (former) Chief Executive for things that have gone wrong. But the reality, for Interviewee 19, was that influential Cabinet members refused to face facts and take the necessary action to address the Council's deteriorating financial situation. Interviewee 19 was clear that it is too easy just to blame the (former) Chief Executive for everything.
- 5.15.1 Interviewee 20 (a member of the Opposition Group) told me that they had been given briefings about the financial situation but there was not enough information and not frequently enough. The RIPI said that there was insufficient scrutiny and challenge by the Opposition but that conclusion was based on reading the inaccurate minutes of meetings that did not properly reflect what had actually happened. In Interviewee 20's view the extent of the challenge by Opposition members about the sustainability of the Council's finances had been understated in the RIPI. Interviewee 20 said that every Cabinet meeting since February 2020 had seen Opposition members ask questions about the sustainability of the Council's finances, the levels of borrowing etc., and the response

from the (former) Leader of the Council had been to attack Interviewee 20 personally, claiming that these questions were scaremongering and so on.

- 5.15.2 In Interviewee 20's opinion, this was the traditional response that the Opposition got from members of the Administration, so officers were naturally wary about responding 'helpfully' when the Leadership had set the tone. Interviewee 20 said that it was interesting to observe that in the last six years of attending many Cabinet meetings no Cabinet member had questioned what was said by another Cabinet member. The only questioning of Cabinet members in Interviewee 20's experience was by Opposition councillors. Interviewee 20 did note however that there is now a very different tone at Cabinet meetings. In Interviewee 20's opinion, the (current) Leader is much more polite and courteous, more questions are being asked but Interviewee 20 did not think that it added up to serious scrutiny, and remains to be convinced that there has been any significant change in the governance and political leadership culture.
- 5.16 Interviewee 21 (a member of the Executive Leadership Team) told me that Executive Directors were not really expected to speak or to contribute at Cabinet meetings. In Interviewee 21's experience, the Croydon culture is to regard these very much as member meetings which officers attend and observe. It was Interviewee 21's opinion that this applied to the (former) Chief Executive as well as to current Executive Directors. Interviewee 21 also said that the (former) Cabinet member for Finance and Resources in particular did not regularly ask officers including the (current or former) S151 Officers to respond to questions about the Council's finances from Cabinet members or Opposition members.
- 5.17 Interviewee 9 (external to the Council) had observed the overwhelming control and influence that the (former) Cabinet Member for Finance and Resources had over the Council's financial matters. Interviewee 9 had witnessed the (former) Cabinet member for Finance and Resources telling his Cabinet colleagues that he would sort out any problems, so he effectively stopped them and officers from taking any responsibility for managing their budgets and related issues. Interviewee 9 gave an example in regard to the debts of one of the companies that the Council had set up. These debts were sold recently to a bank selected through a very unclear process, but then those debts came back into the Council's accounts as 'income'. In Interviewee 9's professional opinion this was highly dubious as an accounting practice and possibly double-counting, but as the (former) Cabinet member for Finance and Resources was in charge of the arrangements for this, no officer had challenged it.
- 5.18 Interviewee 47 (external to the Council) told me that it had been said that the Cabinet did not work well as a Team, with the (former) Leader leaving portfolio holders very much to do their own thing within their portfolio and not clarifying overall priorities. This left officers with far too many priorities to try to deliver.
- 5.19 Interviewee 22 (external to the Council) said that it was clear in the opinion of the Rapid Review Team and its report that the Council has been '*poorly led and poorly managed*' for some time, and that is why it is in this serious situation. Interviewee 22 told me that there are accounts of how decision-making about significant matters were 'corralled' to four Cabinet members, and that any proposal required the support of all these four Cabinet members. Interviewee 22 quoted as an example of the direct link to a Cabinet Member, that they had been told if any Council officers raised any issues or concerns about Brick By Brick, the Brick By Brick Chief Executive would take it up directly with the (former) Cabinet Member for Finance and Resources and the (former) Deputy Leader who then got on to the (former) Leader who then gave instructions to the officers to '*back off and he would sort it out*'.
- 5.20 The report of the Rapid Review Team concluded that:

*'LB Croydon is a Labour controlled Council and up until recently, had a long-standing Council leader who is a highly experienced local politician. The Council adopted a strong leader and Cabinet model for the Governance of the Council. It was said to us by a number of members from both parties and senior officers that the strong Leader and Cabinet model allowed the former Leader to create an inner circle of a small number of Cabinet members, who have been very controlling in their management of the Council and its finances and championed the cause of the Council's commercial activities including Brick by Brick. There was a clear desire to pursue an ambitious growth agenda for Croydon and when elements of this growth could not be realised, rather than increased caution, it seems there was a continued desire to accentuate the positive. We heard many accounts of officers being asked to re-word Cabinet reports to present the most favourable picture. It is evident that the tone of many financial reports to Cabinet do not accurately reflect the seriousness of the Council's financial position. Many Council officers and members from both sides of the Chamber have stated their shock at the revelations of the Grant Thornton Public Interest Report.*

*The Labour Group has a large majority over the Conservative opposition, but it appears to be a healthy opposition, keen to scrutinise and hold the majority group to account. We observed 2 full Council meetings and two Cabinet meetings, and the Labour Group has appeared respectful and inclusive in working with the opposition and allowing itself to be held to account. The Cabinet meeting was characterised by individual Cabinet members leading on introducing and answering questions on their reports and the Shadow Cabinet is present. Exchanges appeared robust, but respectful. All that said, we were also told that the tone of these meetings had changed in recent times.'*

## The Executive Leadership Team

6.1 Executive Directors at LB Croydon are required to perform a managerial leadership role. While they are responsible for the leadership of specific functional directors and their teams, they are also defined through their corporate contribution to the Council's senior management team (known as the Executive Leadership Team, or ELT). Local Councils are corporate entities and not just a bundle of separate functions or services. The most senior managers are required to ensure both the effective and efficient delivery of specific Council functions, as well as ensure the proper strategic coordination across the entire range of these functions. For at this level, managers are employed to be more than 'heads of profession', subject experts, or functional managers. At the core of their purpose is the provision of effective management leadership for the whole organisation. Indeed, this is centrally expressed in each of the respective job descriptions and role responsibilities of the Council's Executive Directors. The phrasing used in their core job role is:

*'to provide inspiring and effective leadership, and drive performance at corporate and departmental levels to deliver the Council's strategies and key outcomes.'*

Of course, each individual post will have a different mix of functional responsibilities and corporate management responsibilities. Some posts will hold statutory responsibilities to the body corporate. These include the Head of Paid Service, the Chief Financial Officer (or Section 151 Officer); and the Monitoring Officer. Other senior posts on ELT may not hold these formal responsibilities to the body corporate but nonetheless their responsibilities include ensuring the corporate effectiveness of the Council's functions and services. In particular, the ELT is expected to work corporately to ensure the Council's actions are lawful, that there is overall budget control and that actions are taken to limit the impact of resource reductions on front line services.

6.2 Interviewee 10 (a former and/or current member of the Cabinet or Committee Chair) said that since the change in the Leader of the Council has occurred, the information that has been revealed about what has been happening in the Executive Leadership Team has been very surprising.

6.3 Interviewee 10 told me that conversations had been held in the past with the (former) Chief Executive about the Executive Leadership Team and from Interviewee 10's memory the (former) Chief Executive always used to refer to the way they worked as 'one Team', in direct contrast to how the (former) Chief Executive had claimed to the way the Cabinet worked and that there was a sense of collaboration and shared leadership in ELT. Interviewee 10 told me that there are now very different descriptions about the way ELT actually worked in the past and that views had been expressed to Interviewee 10 that the (former) Chief Executive had assembled a Team of weak Directors who would 'toe the line'. This description of the former ELT was communicated to Interviewee 10 as a view held by the (former) Chief Executive. Interviewee 10 had previously challenged the performance of the (current) Executive Director for Resources and Monitoring Officer, but the (former) Chief Executive had not accepted the reservations Interviewee 10 had expressed and so Interviewee 10 had not pushed this issue any further.

6.4 Interviewee 10 also said that there are now accounts from junior staff through webinars about the (former) Chief Executive's inappropriate conduct, such as shouting and swearing. Interviewee 10 expressed a clear opinion that it is really important that the Council's staff have a relationship with the political Leadership, and to see and hear the political Leadership talking about the value it places on the Council's staff and how important it is that staff are well managed. Interviewee 10 described meeting with the (former) Chief Executive on a number of occasions and had personally found her very unpredictable. What was very clear to Interviewee 10 was that the (former) Chief Executive did not like challenge or questioning from anyone, and that she had become very frustrated with the regular interventions in management matters by the (former) Cabinet member

for Finance and Resources. Interviewee 10's view is that the (former) Chief Executive had a distinct 'command and control style of management' and was good in a crisis and had showed this in her early years with the Council. The (former) Chief Executive had often said to Interviewee 10 that she had noticed a distinct change in the way members saw their roles following the 2018 local elections and in Interviewee 10's opinion this was probably when things started to go wrong in the working relationship between the (former) Chief Executive and the (former) Leader.

- 6.5 Interviewee 12 (a former and/or current member of the Cabinet or Committee Chair) told me that there had been opposition in Cabinet to the (former) Leader's proposal to appoint the (current) Executive Director of Place as Interim Chief Executive when the (former) Chief Executive left in August 2020. Interviewee 12 expressed the personal view that there was already weak senior officer Leadership and that promoting someone who had no experience of acting as a Chief Executive was not the right course of action to follow. Interviewee 12 believed that the Council needed to bring in an Interim Chief Executive with experience of being a Chief Executive and it is good that that was what has finally happened.
- 6.6 Interviewee 23 (a former and/or current member of the Cabinet or Committee Chair) said that the Council's Executive Leadership Team should be able to demonstrate a willingness to challenge members and each other outside of their allocated Directorates. In Interviewee 23's view the Council needs skilled professionals who it can trust and who can engage with members in policy development discussions, planning for the future beyond the Medium Term Financial Strategy, scanning the horizon and shaping Croydon's future. Interviewee 23 went on to say that the Council needs officers who are corporate by instinct and who have broader experience of what works in other local authorities and that it is not what, in Interviewee 23's opinion, the current ELT looks like. The ELT should also be entirely focused in trying to fix things so that members can think about the long-term future of the Borough. Interviewee 23 said that there needs to be a permanent Chief Executive in place, and the Council has to stop looking back and should focus on the future.
- 6.7 Interviewee 16 (a former and/or current member of the Cabinet or Committee Chair) told me that in their opinion the (former) Chief Executive had been a strong Chief Executive and seemed a very different person from when she had been an Executive Director. It seemed to Interviewee 16 that the (former) Chief Executive had been running the Council without any involvement of the rest of ELT. In Interviewee 16's opinion, the (former) Chief Executive had promoted a culture in which officers were discouraged from sharing any information with councillors, and she seemed to have little or no respect for Cabinet members because meetings with Interviewee 16 that had been arranged were often cancelled at short notice. In all the time that Interviewee 16 had been a Cabinet member, only one 'one to one' meeting with the (former) Chief Executive had been held. In Interviewee 16's opinion, it was clear that the (former) Chief Executive had assembled a Team around her who would not challenge her and so she had full control of ELT. Interviewee 16's opinion was also that it seemed that the (former) Chief Executive was very resistant to challenge or questioning by anyone, even Cabinet members. Even when the (former) S151 Officer had been required to brief the Cabinet on the financial situation he seemed very reluctant to open up about the problems. [REDACTED]
- 6.8 Interviewee 24 (a former and/or current member of the Cabinet or Committee Chair) said in their opinion ELT did not act as a Team when the (former) Chief Executive was in post and sadly that is still the case. Interviewee 24 has seen no evidence of ELT supporting each other, individual members of ELT still do not speak up and there is no clarity about corporate or collaborative working, and that prevents it from being an effective Team. So in Interviewee 24's opinion, ELT is weak and lacking in influence and a number of its members are just not worth the huge salaries they are being paid. Interviewee 24 also said that although the Council is now trying desperately to address its financial problems in Interviewee 24's opinion there is no evidence that the ELT is

being of any real help in this process. Interviewee 24 also said that the wisdom of promoting the (current) S151 Officer to that post when the (former) S151 Officer left was questionable. Interviewee 24 expressed the personal view that the (current) S151 Officer was not experienced enough nor had possessed, in Interviewee 24's judgement, the necessary presence to deal with the influence exerted on the Council's finances by a very proactive and hands-on (former) Cabinet member for Finance and Resources.

- 6.9 Interviewee 1 (a former and/or current member of the Cabinet or Committee Chair) said that the relationship between the (former) Chief Executive and the rest of ELT seemed to break down completely by mid-2020, and it was the opinion of Interviewee 1 that the (former) Executive Director of Children Families and Education left as a very unhappy man. Other members of ELT had been talking to Interviewee 1 about the (former) Chief Executive's management style. Interviewee 1 had been made aware of the (former) Chief Executive's management style towards members of ELT that was described to me by Interviewee 1 as a 'strong and controlling style'. But until the (former) Executive Director had spoken to Interviewee 1 about this, nobody had been prepared to go on the record. With regards to more junior members of staff, again no formal reports were made to Interviewee 1, but informal reports of the (former) Chief Executive's apparent bullying attitude towards junior members of staff appeared to be growing, particularly over the last 12 months including allegedly shouting at the Council's external auditors. This behaviour, taken alongside the failure of ELT as led by the (former) Chief Executive to generate any significant in-year savings and leaving the (current) S151 Officer rightly in Interviewee 1's opinion, on the brink of issuing a S114 Notice, had made it clear to Interviewee 1 that a change of Chief Executive was urgently required.
- 6.10 Interviewee 11 (a former and/or current member of the Cabinet or Committee Chair) said that quite a lot of senior officers left the Council after 2018 following a period of relative stability since 2014, and it had seemed to the Cabinet that some of those were leaving because of the (former) Chief Executive. In Interviewee 11's view anyone who the (former) Chief Executive considered was being over-helpful to members or speaking out, raising issues or challenging her was not welcome. Interviewee 11 considered that the (former) Executive Director for Children, Families and Education had been excellent but in Interviewee 11's view he had challenged the (former) Chief Executive and was a case in point. Interviewee 11 said in their view that a number of people had been driven out by the (former) Chief Executive if they weren't compliant or if they spoke out. Interviewee 11 commented that it is interesting that neither the (current) S151 Officer nor the (current) Monitoring Officer had spoken out despite their statutory responsibilities and powers that they had. Interviewee 11 raised the question with me whether they '*had they been prevented from doing so?*'
- 6.11 Interviewee 11 said that the political Leadership did try to get the (former) Chief Executive to introduce programmes of support for new Executive Directors and Directors to help them take on a wider more corporate role but this does not seem to have happened. Interviewee 11 said that it must be acknowledged that on several occasions an internal candidate was promoted and, without the right support, this would make it difficult for them to carry out their task, particularly in the context of a very powerful Chief Executive. In the case of the (current) Section 151 Officer, in Interviewee 11's view, her line manager does not appear to have provided the right level of support and protection for her. It is clear to Interviewee 11 that the need for training, mentoring etc. was not recognised. For example, it would be assumed that anyone being appointed by the Council to sit on a company Board would be provided with appropriate training and support but it is now clear from recent events that this was not the case.
- 6.12 Interviewee 18 (a former and/or current member of the Cabinet or Committee Chair) said that in their view the (former) Chief Executive was an interesting character but did not seem to provide much positive Leadership to members of the Executive Leadership Team and had relied instead

on dominating them. Interviewee 18 said that it was not clear if the (former) Chief Executive had deliberately appointed a Team that would be compliant and that would not challenge her, but it has been suggested to Interviewee 18 that the ELT had become weakened after the Council lost some very good senior officers over recent years. Whilst members were involved in those appointment processes they would have relied on internal and external advice about who were the best candidates for these top jobs.

- 6.13 Interviewee 4 (a member of the Opposition Group) expressed the view that it was quite difficult to tell whether the (former) Chief Executive and the (former) Leader and Cabinet were in tune with each other. Interviewee 4 considered the (former) Chief Executive to be very 'political'. Interviewee 4 did not think that they shared a 'world view' and only once had Interviewee 4 felt they had had information and insights that were helpful and actually had felt at the time that that had been inadvertent and unintended. For the Opposition to play its role there has to be an acceptance that the officer corps has to work with the Opposition, but that was just not the case. Interviewee 4 knew that there was a lot going on that there should have been briefings about, but usually only learned about what was happening when the Council's Press Releases were circulated. Interviewee 4 felt there had been an irony in each Chief Executive in succession saying that all Croydon's problems and its culture were the fault of his or her predecessor and that they would take a very different course. That is what the (former) Chief Executive had said to Interviewee 4 about her predecessor Chief Executive even though she had worked as one of his Executive Directors.
- 6.14 Interviewee 4 feels that as each successive Chief Executive has been appointed the notion that they were obliged to work on behalf of the whole Council rather than just the administration has weakened each time. The (former) Leader had failed to bring in a Chief Executive with a wider view of the world based on experience at a senior level of other organisations, and this had exacerbated Croydon's problems. The (former) Leader was a 'big picture' person with neither grasp nor understanding of the detail and in Interviewee 4's view, his response to any challenge was to launch a personal attack on any questioner rather than addressing the issues in question. In Interviewee 4's view the (former) Leader was supported in that by the (former) Chief Executive who herself was a 'big picture' person with a very strong view about what she wanted the Council to do. Interviewee 4 believes that she and the (former) Leader between them created and fostered a culture whereby it was better to try to work round problems and hope for the best rather than tackling them head on, [REDACTED]. Interviewee 4 said that the current ELT that had been recruited by the (former) Leader and (former) Chief Executive in their personal opinion, was the worst ELT that Croydon has ever had, with a number of individuals in roles for which they did not have the background or experience which made it difficult for them to carry out the key roles to which they had been appointed.
- 6.15 Interviewee 20 (a member of the Opposition Group) said that there had been no actual observation of the (former) Chief Executive ever stopping the (current) S151 Officer or other (current) Executive Directors speaking up, but it was known to Interviewee 20 that there was some discontent amongst the ELT on this point. Interviewee 20 believes that the (former) S151 Officer left because he felt that he was not allowed to do the right things, and Interviewee 20 has a lot of sympathy for the (current) S151 Officer as in Interviewee 20's opinion she has been put into a very challenging situation without the necessary experience. In Interviewee 20's view there was definitely a pattern of the (former) Chief Executive promoting relatively junior staff to much more senior positions and it was clear that she did not want people at the top table who felt able to stand up and be counted. Interviewee 20's opinion was that previously the Council was being run by a powerful (former) Chief Executive with a compliant (current) Monitoring Officer and an inexperienced (current) S151 Officer supporting the political Leadership without challenge.

- 6.16 Interviewee 3 (external to the Council) said that the members of ELT had all been member appointments. In Interviewee 3's opinion they were not selected because they were compliant and would not challenge or question as has been inferred. As an example Interviewee 3 said that the (current) Executive Director for Place had been very credible at interview and had a good track record in other London boroughs. Another example was given by Interviewee 3 of the (current) Executive Director for Resources, who had been appointed not only as a competent lawyer and Monitoring Officer but because the most important issue the Council was dealing with at the time of that appointment was the relationship with members and the Governance Review process. Interviewee 3 also explained that these appointments were also part of a deliberate strategy to change the organisational culture at Croydon and an internal appointment like this sent a powerful message about nurturing talent in Croydon and opened up opportunities for other staff. Interviewee 3 said that the Council had invested heavily in Leadership development and culture change that had resulted in positive staff surveys. Interviewee 3 accepted that there were serious capacity issues in the Finance Team but that the (current) S151 Officer in Interviewee 3's opinion had done well under extremely challenging circumstances and has grown in the role since she was appointed. The additional support from the Chair of the Finance Review Panel and the independent Finance Consultant has proven to be constructive. Interviewee 3 rejected the view that the ELT was composed of compliant individuals appointed or promoted for the wrong reasons. Interviewee 3's personal opinion was that this was an insult to ELT members, their capabilities and to Interviewee 3.
- 6.17 Interviewee 21 (a member of the Executive Leadership Team) told me that inevitably, because of the (former) Chief Executive's passion for regeneration and growth, this had featured more at ELT meetings than other issues like Children's Services, but of course the adverse Ofsted report changed that somewhat. However, Interviewee 21 could not recall any detailed reports raising concerns about the Council's financial situation coming to ELT in the past, and it is only since the (current) S151 Officer was appointed that ELT had even been receiving and discussing some reports on the Council's finances. The (former) Chief Executive had commissioned Impower late in 2019 to help the Council to develop actions to address the financial issues that were by then emerging, and they produced some useful reports proposing a range of actions based on an overall strategy. However, as Interviewee 21 explained, it was left to the Directorates to implement these actions. In the early summer of 2020, ELT became more aware of and concerned about the Council's financial problems. Interviewee 21 had been aware of but did not see the Grant Thornton letter to the (former) Chief Executive in April 2020 but knew that the Council's external auditors had serious concerns.
- 6.18 The Council had still been dealing with the impact of austerity like all other Councils when COVID hit, and Croydon was one of the worst affected Boroughs. The working assumption of the (former) Chief Executive had been that the Government would cover all of the costs of dealing with COVID but that has not been the case, and that has made the Council's financial problems even worse. Because membership of the Executive Leadership Team has changed a lot over the four years, in Interviewee 21's view it never really had the opportunity to gel as a Team. The opinion of Interviewee 21 is that the (former) Chief Executive was a big personality and was always very much 'in the room' so inevitably dominated the meetings. It was clear to Interviewee 21 that the (former) Chief Executive had 'good days' and 'bad days', and it was not the best tactic to question or challenge her on one of her bad days. Interviewee 21 had never personally felt shut down or prevented from speaking at ELT meetings but is sure that some other people may feel that was the case for them. Interviewee 21 did have disagreements with the (former) Chief Executive but these were always dealt with outside ELT meetings. Interviewee 21 was aware that some people thought that the (former) Chief Executive's behaviour towards some people, including quite junior officers, amounted to bullying but this was never witnessed or experienced by Interviewee 21.

- 6.19 Interviewee 25 (a member of the Executive Leadership Team) told me that things began to come to light shortly after the (former) S151 Officer left and ELT began to take a real interest in the Council's financial situation. The first quarter financial report in spring 2019 was the first occasion Interviewee 25 could recall when ELT really discussed the situation as prior to that the (former) S151 Officer had kept things very close to his chest. Interviewee 25 said it was clear that the (former) Chief Executive could see that there was a growing emergency and that this needed to be dealt with at pace. Later that year each ELT member was given responsibility to lead on a specific piece of work including improving the weaknesses in the Council's corporate systems such as, social care overspends, payments, income and debt. That was when the (former) Chief Executive brought in Impower and others to help ELT tackle a range of issues about the budget. Members of the Corporate Leadership Team (CLT) were also given responsibility to bring their thoughts and ideas for dealing with the situation to ELT. There was loads of activity. They were called 'sprint' sessions. From then on reports came to ELT on a regular basis and issues such as Directorate overspending were being dealt with by ELT. There was a collaborative approach to the issues by ELT and there was freedom to express views. Interviewee 25 does not remember the (former) Chief Executive shutting people down or refusing to listen and in Interviewee 25's opinion, ELT members were able to challenge and question. Interviewee 25 said that the 15% staff reduction initiative was a direct result of an ELT discussion about the budget and there were similar actions that resulted from ELT discussions.
- 6.20 Interviewee 26 (a member of the Executive Leadership Team) said that ELT had known from the start that the Council had serious financial difficulties with low reserves, poor government funding etc. but ELT had not been directly involved in any discussions about initiatives like Brick By Brick, nor in buying a hotel. Interviewee 26 recalled that the (former) Cabinet member for Finance and Resources had wanted to buy an airport hangar which caused some amusement when ELT discussed this. Brick By Brick already existed when Interviewee 26 started in role but Interviewee 26 had limited knowledge of what it did and what was known by Interviewee 26 came mainly from questions at Cabinet or Council by Opposition members. In Interviewee 26's view, ELT was not really involved in these matters and Interviewee 26 had personally found out about the purchase of the Croydon Park Hotel by reading about it in the Metro. Interviewee 26 believes that many of the initiatives like Brick By Brick were set up with the best of intentions, such as to increase affordable housing in the Borough. Prior to the time of the (former) Chief Executive it seems that Croydon had what might be described as a more 'traditional' Chief Executive, and the (former) Chief Executive clearly wanted to change Croydon's approach and so initiatives like Brick By Brick were set up.
- 6.21 Interviewee 26 recounted an ELT away day when it had been discussed whether ELT was 'sighted' enough as a corporate Management Team on matters such as the papers going to Cabinet and whether they should have been considered in advance by ELT as there was a feeling by ELT members that the Council was 'going too far'. Interviewee 26 had worked for many Chief Executives and it seemed to Interviewee 26 that they fall into three categories – those with a finance background, those with a 'people' background and those with a regeneration background. It had always been easier for Interviewee 26 to engage with a Chief Executive with a 'people' background and Interviewee 26 had worked hard with the (former) Chief Executive who had a regeneration background to help her understand other Directorate's services and issues. There were also problems with the corporate systems that Interviewee 26 needed to get her to appreciate. Interviewee 26 described learning quickly that it was not the best thing to challenge or question the (former) Chief Executive in a setting like an ELT meeting and that it was more productive to do this on a one to one basis. In Interviewee 26's view it was correct that the (former) Chief Executive sometimes challenged and criticised people in meetings and it had always felt uncomfortable, although this was not unique to this Chief Executive, but there was clearly a reluctance for anyone to challenge her behaviour in an ELT setting. Interviewee 26 said that there

had been a strong relationship between the (former) Chief Executive and the (former) S151 Officer and other ELT members knew that they used to meet over a coffee before the start of the day. Interviewee 26 suspects that the financial problems facing the Council were discussed between the two of them on those occasions as there had been little discussion about things like the purchasing of hotels and shopping centres. In Interviewee 26's time on ELT and finances were only discussed in relation to departmental spending.

- 6.22 Interviewee 27 (a member of the Executive Leadership Team) described working previously in senior roles in a number of local authorities and had always been prepared to challenge and question constructively. Interviewee 27 described having a good understanding of what good governance looks like and understanding the roles that need to be played by a S151 Officer and Monitoring Officer in ensuring good governance. Interviewee 27 had worked previously for Chief Executives with finance backgrounds and policy backgrounds but the (former) Chief Executive was very different. She was very much a 'lightbulb' person with strong views about what she wanted to happen, so what she said at ELT meetings was definitive and not negotiable and ELT members were expected to accept her decisions and not challenge. But then she would move on to the next bright idea and was not interested in what was happening with the previous initiatives. Interviewee 27 described making an attempt to get some structure into what ELT should be managing and brought the administration's manifesto and the Council's Corporate Plan to ELT to discuss the extent to which there was compliance between the two. In Interviewee 27's view, the (former) Chief Executive was simply not interested and ignored the attempt to get a structured approach at ELT. Interviewee 27 had supported the Equalities Peer Review coming to ELT and the proposal that it be used to rethink Croydon's approach to Equalities. But in Interviewee 27's view, the (former) Chief Executive had not liked what the Review said and threw it out. It became clear to Interviewee 27 as time went on that the (former) Chief Executive did not like Interviewee 27's style or approach.
- 6.23 Interviewee 7 (a member of the Executive Leadership Team) said that the people that you need at the top table as Executive Directors in a difficult place like Croydon have to be particularly smart, tough and 'Machiavellian' in their approach. This applies particularly to the statutory roles of Monitoring Officer and S151 Officer and from what Interviewee 7 had seen in Croydon, the skills, experience and political acumen of the people at the top table were insufficient to the challenges they faced. With all that has happened with the Council's financial difficulties and the problems with big regeneration projects, the core business of the Council around services like Children's and Adult's Services had been seriously neglected. The Improvement Plan that the Council has agreed needs senior management of the highest calibre to ensure delivery, and Interviewee 7 believes that there need to be changes to ELT to ensure that is the case.
- 6.24 Interviewee 28 (a member of the Executive Leadership Team) said that it appears that most of the ELT members are lacking in confidence. In Interviewee 28's view they are extremely well- paid, but they do not appear to add much value to the change agenda currently, as quite understandably they are preoccupied at the moment with their personal futures. In Interviewee 28's opinion, it seems that this is a group of people who have not yet really found their voices that may be a legacy of the way the (former) Chief Executive managed them. At their level, and given how much they are paid, Interviewee 28 has been surprised at how much direction they appear to be asking for and Interviewee 28 has had to tell these very senior people for example what message to give to their own staff about the situation at the Council. Interviewee 28's personal conclusion from many years of working at senior corporate levels is that most ELT members at Croydon appear to be over-promoted and lacking in the necessary competence and experience to perform at the strategic level. Interviewee 28's view with regards to where the Council finds itself is that there is no excuse when you reach this level in an organisation to be neglectful of the need to apply the Nolan principles nor to claim a lack of understanding and commitment to what corporate and collaborative working as a Team means in practice. Interviewee 28 spoke about a number of

accounts of the way that the (former) Chief Executive appears to have bullied and intimidated people individually and collectively. It seems that ELT had been complicit in turning a blind eye to this conduct towards them and others. In Interviewee 28's opinion, ELT members should have had the courage in accepting individual and collective responsibility to do something about this management approach by the (former) Chief Executive but it appears on the face of the information Interviewee 28 has seen to date that most of them just accepted it and stayed silent. It also seems to Interviewee 28 that there has been some modelling of the (former) Chief Executive's style in other parts of the organisation and that is a serious cultural issue that will need to be addressed.

6.25 Interviewee 29 (a member of the Executive Leadership Team) told me about their personal observations based on attending ELT meetings. Interviewee 29's view is that the (former) Chief Executive was a big personality and dominated the proceedings. In Interviewee 29's previous authority there had been much more debate and every Committee report had been considered by the top Team. In Croydon, Interviewee 29 felt there was much less cohesion of management approach. Everyone tended to stay in their Directorate portfolios while the (former) Chief Executive did most of the talking. She was highly intelligent and full of bright ideas but not a completer/finisher and needed good people to ensure that things got delivered but that did not often happen. That should have been what ELT ensured happened. Interviewee 29 had also found that if you were in the (former) Chief Executive's gaze you knew what she wanted to happen, but when her gaze shifted – and it could quickly - you could feel that you were not being included and were not always clear what the (former) Chief Executive was asking to happen. It was really interesting that when COVID hit and the Council had been forced into essentially virtual meetings, as they had been in the office more together it became easier for Interviewee 29 to act as the (former) Chief Executive's 'critical friend' on a one to one basis.

6.26 Interviewee 30 (a member of staff) said that no one had been brave enough to do anything about the (former) Chief Executive's widely perceived bullying style. In Interviewee 30's view the (current) Monitoring Officer had been promoted to Executive Director of Resources by the (former) Chief Executive, and worked very closely with her and was never seen to have to challenge her. In Interviewee 30's view the (current) Executive Director of Resources may well be a very good lawyer and had been a very good Director of Law, but it was apparent to many that she could not or would not stand up to the (former) Chief Executive and was seen to be out of her depth as an Executive Director. Only the (current) Executive Director of Resources had lengthy service with the Council. The (current) S151 Officer had a few years at Croydon before joining ELT and the (former) Chief Executive had a couple of years at Croydon before her promotion. In Interviewee 30's view, the (former) Chief Executive appointed Executive Directors who appeared to be compliant and who would keep quiet about any concerns. Interviewee 30 considers that the (former) Chief Executive was really only interested in doing 'sexy' things to get herself and Croydon noticed, but she never did things properly and did not get initiatives embedded. Many of these initiatives were on the face of it laudable and sound in principle, but poorly executed. Interviewee 30 raised a further issue that had not helped in that the (current) S151 Officer, although a member of ELT, does not report direct to the (former or the current) Chief Executive but to the (current) Executive Director for Resources who has no financial background. An essential element of any senior management restructure in Interviewee 30's opinion will be for the S151 Officer to report direct to the Chief Executive.

6.27 Interviewee 31 (a member of staff) told me that the consensus view is of a dominant (former) Chief Executive and compliant Executive Directors who were reluctant to speak up and challenge even though that was the right thing to have done. In Interviewee 31's view the (former) Chief Executive was no doubt a strong and dominant individual in that role. Interviewee 31 said that the widely expressed view about ELT in their opinion was correct. Some of the Executive Directors, who could and should have spoken up and challenged members to guide their decision-making and

when appropriate to say no, failed to do so. In Interviewee 31's view it appears that nobody seemed able or willing to provide that challenge and the Council ended up as an organisation that did not say no to anything, no matter what the cost and whether or not it could be afforded. Although the (former) Chief Executive was certainly a forceful personality, Interviewee 31 did not recall witnessing any bullying behaviour by her nor was it experienced personally, but Interviewee 31 had been told about this by others. Interviewee 31 explained that the understanding amongst staff was that when the (former) Chief Executive was in a bad mood everyone would soon know about it by her behaviour in the office. Interviewee 31 does not understand why ELT members either individually or as a group did not apparently challenge her about her behaviour, particularly towards more junior staff. What has been said to Interviewee 31 is that ELT members always waited to see which way the wind was blowing and conformed to that direction. So, if the (former) Chief Executive was well disposed towards someone, the ELT members conformed to this and vice versa. In retrospect Interviewee 31 sees this as poor behaviour by all concerned and it was quite wrong that there had never been any apparent challenge.

- 6.28 Interviewee 8 (external to the Council) expressed the view that some of the senior officers in Croydon appear to just not be in the right job. In Interviewee 8's view they would probably be successful in authorities with a different culture to that of Croydon. What Croydon needs is a team of tough professionals to support the Leadership of the Council and to make sure that the members are advised well so they can take the best decision and do the right thing. In Interviewee 8's view there needs to be change at ELT.
- 6.29 Interviewee 32 (a member of staff) had witnessed the (former) Chief Executive bully a member of a team but did not raise this direct with her but instead raised it with another (current) Executive Director for Place a couple of times, but overall the behaviour did not change. Interviewee 32 was also aware that members of ELT also witnessed this bullying but did not step in to support Interviewee 32 or the staff member in the meeting. This led Interviewee 32 to the conclusion that there would not be any support if this was raised or if attempts were made to do something about it. Interviewee 32 also recalled that concerns about Brick By Brick had been raised at a Directorate DLT meeting and Interviewee 32 recalls the (current) Executive Director for Place responding by saying 'don't raise that with the Chief Executive'. Interviewee 32 feels that everyone was complicit and compliant in not raising issues and keeping quiet for fear of reprisal. So in Interviewee 32's opinion there certainly had been a bullying culture led by the (former) Chief Executive. Interviewee 32 is also convinced that those who could and should have intervened had the skills and/or the experience to understand what was going on and should have dealt with it.
- 6.30 In particular, in Interviewee 32's opinion, the Council's (current) two Statutory Officers should have used their powers in line with their statutory obligations and this is where Interviewee 32 has lost sympathy with those who will no doubt say that they were too frightened to act, too bullied by the (former) Chief Executive to do the right thing. Interviewee 32 described both (current) Statutory Officers at Croydon as internal appointments through promotion, and said it is not clear that the Council invested in developing them to ensure they had the necessary skills and knowledge to be able to act effectively in these roles. In Interviewee 32's personal opinion, the (current) Monitoring Officer appears not to have the essential qualities for that role particularly in an environment such as Croydon Council. Once Interviewee 32 had become aware of just how serious the financial issues were at Croydon, advice was sought by Interviewee 32 from the Labour Group at the LGA about how to raise concerns but no intervention resulted. The reality that Interviewee 32 witnessed was that the (current) ELT members did not demonstrate the skills, knowledge and capabilities necessary to solve the problems that Croydon had to deal with. In Interviewee 32's opinion, something drastic needs to change as ELT certainly failed to raise issues upwards but equally in Interviewee 32's experience, (current) Executive Directors are not willing to have difficult conversations with their subordinates either. Interviewee 32 was very clear on this point, and emphasised that it is not just a case of (current) ELT members needing to raise concerns with

a (former) Chief Executive who did not want to know. Interviewee 32 stated that two (current) members of ELT had statutory responsibility to do this and all of them could have raised their concerns externally with the relevant agencies. But it appears to Interviewee 32, that nobody did anything – they all kept their heads down and let it happen.

6.31 Interviewee 33 (a member of staff) told me that as part of the Renewal Plan there have been a number of focus groups that were facilitated as part of the Renewal Task Force work at which it became clear that two of those involved in the focus groups had witnessed or been told by one of their colleagues that bullying was occurring at meetings between the highest level senior Executives, that this was occurring regularly on the office floor in close proximity to where those individuals were located, and that it appeared to these members of staff as if this behaviour was being both trivialised and normalised. In the time that Interviewee 33 has been at Croydon, concerns about misconduct by managers on a few occasions had been mentioned at least a couple of times every year. Interviewee 33 would hear about bullying through people speaking up at group events, rather than through direct accusations, and further enquiry at the time indicated that these were localised occurrences, linked to a specific service area or individual, so when bullying was being referred to recently it became a cause for concern, and for the first time Interviewee 33 began hearing claims of bullying by those at the highest level. At these focus group events concerns about bullying were explicitly raised so Interviewee 33 has gathered more information about this. It is clear to Interviewee 33 that the bullying talked about was not a one-off but was a prevalent form of behaviour, particularly at ELT meetings. It is not clear why no one spoke up about either witnessing or experiencing this bullying behaviour at the time it happened.

6.32 Interviewee 33 was clear that this behaviour is in breach of the Council's Code of Conduct for staff and is against the Council's policies for Dignity in the Workplace. It seems to Interviewee 33 that no (current) member of ELT nor the (current) Director of Human Resources was apparently willing to deal with these concerns about the (former) Chief Executive's behaviour and elected members either were not aware of it or were not willing to deal with it either. In Interviewee 33's personal opinion, the (former) Chief Executive created an image of herself as a compassionate and caring individual which was in direct contradiction of the experiences that emerge from those who worked with her. This pattern of a dominant (former) Chief Executive who insisted that everything should go through her with no shared Leadership amongst Executive Directors is not new in Croydon as in Interviewee 33's opinion the (previous) Chief Executive also acted in this way. When the (former) Chief Executive was first appointed, and had been a Croydon Executive Director previously, the (former) Chief Executive seemed to want to break away from this pattern of behaviour and promote shared Leadership but it did not turn out that way. Interviewee 33 expressed the view that unless tackled, someone who has a powerful position like a Chief Executive can develop and maintain total dominance of a group of subordinates by isolating non-compliant individuals and by dividing and ruling. Interviewee 33 described the Council as working in silos based on the current Directorate structure, and although there may be highly competent people in managerial Leadership roles in those silos, they worked in isolation from the other silos. Interviewee 33's observation is that this isolation operates at the highest level in the Council and Interviewee 33 doubted that any (current) Executive Director has much knowledge or understanding of what their colleague Directors and their Directorates actually do. In Interviewee 33's opinion that is no basis for shared leadership and it allows a powerful (former) Chief Executive to dominate and control.

6.33 Interviewee 34 (a member of staff) had worked closely with the Council's senior political and managerial leadership and had worked with ELT for some time and told me that ELT has been very passive in the part it is playing in the Council's current recovery work, particularly the (current) Executive Director of Place and the (current) Executive Director of Resources. In fact, it is very much like it was when the (former) Chief Executive was in post when no member of ELT seemed able or willing to question or challenge her. Interviewee 34 personally believes that they

were appointed to their roles because the (former) Chief Executive knew that they would be compliant and not challenge her, and most of them had close personal relationships with her. The exception was the (former) Executive Director of Children, Families and Education and in the view of Interviewee 34 they just did not get on. Interviewee 34 believes in their opinion that the (former) Chief Executive seemed insecure and that is why Interviewee 34 believes she did not respond well to any challenge or disagreement. Interviewee 34 worked on the 7<sup>th</sup> Floor and told me there was always a lot of shouting by the (former) Chief Executive including shouting at Interviewee 34 about the Corporate Plan because she did not like what she was being told. Any Executive Director who disagreed with her did not last long although the (current) Executive Director of Adult Social Services had appeared to stand up to the (former) Chief Executive and had then chosen to move away from the rest of ELT and work from a different floor in BWH as part of his 'survival'. In Interviewee 34's view, he had done the right thing but had no support from the (current) Executive Director for Resources and Monitoring Officer or the others when the (former) Chief Executive did not agree with what he was doing. The problem has been that there was no safety net for bad decisions taken by ELT. In Interviewee 34's opinion, the (current) Executive Directors for Place and Resources seem to know that the writing is on the wall for them following the RIPI and the PwC review, as it seems to Interviewee 34 that they are just keeping their heads down and have nothing to say. In contrast a number of Directors are very competent and effective but they have been poorly led by their (current) Executive Directors. The (current) S151 Officer was put into a very difficult position when the (former) S151 officer left, and had to deal with the (former) Cabinet member for Finance and Resources trying to line manage her with no apparent protection from the (current) Executive Director for Resources and Monitoring Officer.

- 6.34 In the opinion of Interviewee 34 the three leading members of the (former) Cabinet had a very similar approach and style to that of the (former) Chief Executive. For example, the (former) Leader prescribed the choice to use The Campaign Company for community consultation work even though the chosen company was run by a (former) Cabinet member's ex-partner and employed her son. Whilst this was declared, the question was raised for Interviewee 34 as to whether this was acceptable conduct. From Interviewee 34's experience the (former) Chief Executive and the (former) Cabinet member for Finance and Resources were very similar and it was 'career suicide' to raise issues or challenge them. Interviewee 34 is of the view that this situation is fixable and that there are enough good people around in the organisation to fix it with effective political leadership and support from ELT.
- 6.35 Above all, Interviewee 34 was very clear that the Council should revert to the arrangement whereby officers advise and members decide instead of the mix-up in roles that there has been for years. The biggest risk to recovery in the opinion of Interviewee 34 is the current ELT and new Executive Directors need to be recruited for their skills, experience and competencies. In the opinion of Interviewee 34, the current ELT is not a Team at all and there is no trust apparent or shown between members of the Team. The Council's corporate systems do not work and this is reflected for Interviewee 34 in the way the ELT operates. Interviewee 34 explained that the corporate systems are very poor so, for example, there is no up to date organisation chart, so no control over establishment. There is no sense of the 'Croydon way' of doing things. Everyone does their own thing and the ELT has failed to get commitment in the organisation to collective and corporate working. That is the real challenge in the opinion of Interviewee 34 for the new (Interim) Chief Executive and the ELT if there is to be a real recovery for Croydon.
- 6.36 Interviewee 35 (a member of staff) told me that there has been a lack of challenge either to elected members or to the (former) Chief Executive. To illustrate how serious the lack of challenge to the (former) Chief Executive was in Interviewee 35's opinion, Interviewee 35 described what happened at the ELT meeting on 2 September 2020, just before the (former) Chief Executive left the authority. Interviewee 35 attended the ELT meeting along with the (current) Head of Internal

Audit, to present reports on the Annual Governance Statement and the Internal Audit Report respectively that would be on the General Purposes and Audit Committee agenda at its meeting on 7 October 2020. Interviewee 35 said that it was an awful occasion, the worst ever experienced. The (former) Chief Executive was angry and in particular said that this was the first time that she had been made aware of the issues raised in the (current) Head of Internal Audit's report and the failures of governance and internal control highlighted. In Interviewee 35's view this was factually not the case as the (former) Chief Executive would have been aware of the increasing number of 'limited' or 'no assurance' internal audit reports over a number of years from previous annual reviews of the Head of Internal Audit reports, as well as reports from the Council's external auditors. The (former) Chief Executive did not allow the (current) Head of Internal Audit to make a proper response to her claim that she had never been advised about any of this. In relation to the Annual Governance Statement she had asked '*where are the areas of risk that need to be prioritised?*' to which Interviewee 35 had responded that '*they are there for you in Tables 1 and 2 in the Statement*'. The rest of ELT made no challenge to the (former) Chief Executive's claims or to the way that she was talking to the staff presenting these reports – indeed, the rest of ELT appeared to be supporting her position. At the end of the item the (current) S151 Officer did say that as the responsible Director she would follow up on the points made in relation to the (current) Head of Internal Audit report.

- 6.37 Shortly after this meeting took place the (former) Chief Executive left the authority. For Interviewee 35 this meeting had brought into question why ELT members felt that they could not challenge the (former) Chief Executive or Cabinet members when it would be appropriate to do so. Despite the RIPI and the subsequent public commitment by the Council to prioritise risk management as part of its response Interviewee 35 is concerned that the Council still does not take the need for robust risk management as seriously as it needs to. Risk management is not currently particularly well resourced (and the current restructure proposals in Interviewee 35's view will reduce management capacity in this area) but equally important there needs to be a change in culture at the top of the organisation.
- 6.38 Interviewee 35 told me that when attending the ELT meeting on 9 November 2020, chaired (for that part of the meeting) by a (current) Executive Director in the absence of the (current) Interim Chief Executive, there had been a 'throw away' comment made at the start of the meeting by the Chair saying '*15 minutes on risk management is all that I can stand*'. Whether or not the comment was meant to be light-hearted, Interviewee 35 was very disappointed, particularly because no member of ELT questioned or challenged this remark by the Chair given the serious position the Authority is in. Given the significance attributed to Risk Management in the RIPI this does raise a question about whether there has yet been enough change to the culture, and whether the people around the top table are really committed to making the necessary changes and leading that change. Interviewee 35 believes that ELT members should support their officers who attend for presentations for areas for which they, as ELT members, are ultimately accountable and that without this it will not be possible for the organisation to move forward.
- 6.39 Interviewee 36 (a member of staff) told me that the Council's risk framework required an officer to carry out regular risk reviews at DMT/DLT and ELT level and in theory 25 of these are provided every 12 weeks. Some Directors have been engaged with this process, some are dismissive of it and some simply negate the whole process. It was not just the (former) Chief Executive who got the Council to where it is currently and the RIPI comment in Interviewee 36's view about 'collective corporate blindness' is correct, but also in Interviewee 36's view the (former) Chief Executive dominated the organisational culture and was very dictatorial. Interviewee 36 believed that she had an inner core of ELT/CLT and Head of Service supporters, and if an officer was in that 'gang' then they were supported and if they were not then they could be isolated and ignored. The membership of that inner core changed from time to time according to personalities and circumstances but the (current) Executive Director for Resources and Monitoring Officer, the

(current) Executive Director for Localities and Resident Pathways and the (current) Executive Director for Place were always members, in effect matching the so called 'inner circle' of the Cabinet.

- 6.40 Interviewee 37 (a member of staff) told me that there was one occasion whilst at ELT talking about a specific issue for which Interviewee 37 is the statutory lead for the Council and the (former) Chief Executive was ignoring Interviewee 37 and inappropriately asking ELT for their thoughts on what was being said by Interviewee 37 and whether they agreed with it. Interviewee 37's experience of ELT is that they were all very passive and compliant with the (former) Chief Executive and only the (current) Executive Director of Health, Wellbeing and Adults stood up for Interviewee 37 and tackled the (former) Chief Executive about her behaviour. On one occasion in the summer of 2020, via a Teams meeting, the treatment was so awful that Interviewee 37 had started looking at pension options and had fed this back to the Directorate DLT and the (current) Executive Director of Health, Wellbeing & Adults (who had not been in the Teams meeting). He had asked Interviewee 37 if a formal complaint was to be raised but Interviewee 37 was not sure that this was a good idea. It was clear to everyone that the (former) Chief Executive had her favourites and that in Interviewee 37's personal opinion, she was awful to others including Interviewee 37 - but not all the time. Interviewee 37 said that now there is a feeling of shame that the behaviour by the (former) Chief Executive was not 'called out' as it was bullying plain and simple. In Interviewee 37's opinion there should be no place for this in the workplace and when it happens at a very senior level it is difficult for others to manage and they can become complicit in the bad behaviour. Some members of ELT in Interviewee 37's view were more complicit in this bad behaviour than others.
- 6.41 Interviewee 38 (a member of staff) told me that having worked for Croydon for a long time it was only recently in a current acting-up role that there had been more awareness of what was happening from a broader perspective. Croydon had been good at promoting from within but with hindsight – and accepting that Interviewee 38 had been a beneficiary of this approach – maybe there should have been an equal focus on bringing external people in who would have wider experience and understanding of the roles they were appointed to. Interviewee 38 felt that this policy of internal promotions may have been a contributory factor to the situation the Council is now in where a lot of very senior roles appear to have recently been filled by people undertaking those roles for the first time in their career.
- 6.42 Interviewee 6 (external to the Council) said that the (former) Chief Executive was definitely a big personality and had clear expectations of the team but Interviewee 6 did not agree with the view that she had built a team of people who were compliant and would not challenge her. Interviewee 6 had seen the (former) Chief Executive accepting advice when she had thought it was sound, and one of her qualities was that she did not prevaricate but acted quickly. There had been space for challenge of her and Interviewee 6 had personally never found it a problem and knew that, equally, other members of ELT were not afraid to express their view and challenge when necessary.
- 6.43 Following a discussion at an early Resources Directorate Budget Development Meeting in the autumn of 2020, the LGA was commissioned to carry out an independent review of the Resources Directorate to help shape the submission to MHCLG. Although most of the resulting report is focused on that Directorate there are implications for the way Executive Directors are described as carrying out their corporate role as members of ELT:

*'Almost everyone I spoke to expressed concern about a strategic vacuum at the most senior level of the Directorate. There is respect for how hard the Executive Director works and recognition of the hugely challenging circumstances she inherited, but people are frustrated at the absence of a strategic vision for the Directorate moving forward and believe there is an urgent need for energetic, inspiring, empowering*

*and passionate Leadership from the top. I do not underestimate the enormity of the work that needs to be done or the level of scrutiny that the Team has been under, but if there is to be systemic change within the Directorate, it will need to be led with vision, inspiration and purpose from the top, bringing everyone on the journey.*

*The absence of strategic leadership within the Directorate is further illustrated by the fact that all the Directors I spoke to recognised that they do not operate as a team. Some were honest enough to admit that they have 'tuned out' of Directorate Leadership Team (DLT) meetings and all agreed that there is very little, if any, strategic planning or decision making at their meetings. All this then reinforces the silo-based working which seems to characterise the Directorate. One example of this was the recent attempt to identify a 15% reduction in costs across the Directorate; instead of the Executive Director and DLT considering this challenge strategically and collaboratively looking at the Directorate as a whole, the different teams simply looked at their own areas with some saying they were unable to offer up any savings. This review did not probe this in more detail and it may well be that some areas were able to offer up more than others; however the failure to address this through collaborative scrutiny and decision making at the top of the Directorate is indicative of six distinct teams working to their own priorities rather than a single corporate entity.*

*Some Resources' Directors acknowledged that they needed more strategic capacity within their teams but the current financial climate within the council has meant they've been unable to recruit people to provide it. The 'salami slicing' approach to the 15% reduction in costs exercise was a missed opportunity for the Directorate to consider carefully both what it should be doing and what skills it needs to do that well.*

*Unsurprisingly, the absence of strategic visioning and decision-making at the top of the Directorate means there is no clear Resources 'offer' to the rest of the organization. During my conversations it was clear that everyone I spoke to understood what the role of Resources should be, but developing it and articulating it to the council more widely has proved a challenge too far. For example, one interviewee said 'the corporate centre should create the pathways for the organisation to work together through rules and behaviours' which is a succinct and accurate way of describing what the Directorate should do. However, there is no evidence of meaningful consultation or conversations with colleagues across the council about what they want and don't want from the corporate centre, and hence no clear proposition about what Resources can/can't do or will/won't do. Even where strategic activity has occurred, such as the Workforce Strategy, colleagues outside of the Directorate were vague about what it said or required of them. People were quick to point out that the whole council has lacked strategic focus for the past three years but the significant challenges the Council and Directorate face cannot continue to be an excuse for strategic inertia. The chain should be broken.'*

- 6.44 Interviewee 9 (external to the Council) told me that the Chief Executive of Interviewee 9's local authority had worked closely with the (former) Chief Executive from the summer of 2019 in a mentoring role. Interviewee 9 was aware that as part of the mentoring discussions, the question had been asked whether the (former) Chief Executive knew how bad things really were, and had the reply that she did and she blamed the (former) Leader and other senior politicians for the mess. Interviewee 9 said that from observing the (former) Chief Executive and the (former) Leader working together, it was clear that the (former) Chief Executive simply did not have the mechanisms that many Chief Executives have developed to deal with demanding and difficult

politicians. In situations like Croydon in Interviewee 9's opinion what you need is a tough Chief Executive with a tough team of colleagues – particularly the Monitoring Officer – to support and reinforce the hard line that needs to be taken when members want to do things without effective governance in place and that could be dangerously risky or even ultra vires. The (current) Monitoring Officer was an internal appointment with limited external/other Council experience and again from personal observation, did not appear to be able to provide the support required or to challenge the politicians.

- 6.45 It seemed to Interviewee 9 that the (former) Chief Executive had surrounded herself with people who would not challenge or question her. In Interviewee 9's view it was alarming how quickly the (current) Executive Director of Place had adopted the same approach as the (former) Chief Executive when she took over as Interim Chief Executive when the (former) Chief Executive left in the summer of 2020. Interviewee 9 believes that the (former) Chief Executive had surrounded herself with a team of senior managers very much in her image, including a Director of Early Help and Children's Social Care who Interviewee 9 has no doubt was told to just keep on spending to get out of the Ofsted 'inadequate' rating and not to worry about overspends. Interviewee 9 also described how the (current) Executive Director of Place claimed that she had asked for financial information from Brick By Brick but then stated that she had not been provided with any. She was a non-Executive Director on the Board of Brick By Brick and in Interviewee 9's opinion it is just not good enough that she had apparently just accepted what she was told without further challenge. Finally, Interviewee 9 commented in their view, the (current) Executive Director of Health, Wellbeing and Adults seems to have just kept on spending even though he was made aware of his Directorate's serious overspending and the Council's dire financial position.
- 6.46 Interviewee 39 (external to the Council) said that in their view, the (former) Chief Executive had been appointed as Chief Executive because of her passion for regeneration which matched the (former) Leader's and the Labour Group's agenda for the Borough. It is clear to Interviewee 39 that the (former) Chief Executive then chose people as Executive Directors who would stand compliantly behind her and not necessarily challenge or raise any issues. Interviewee 39 told me how positive it was to see the (current) S151 Officer growing into her role but sadly believes that she may not have the skills nor experience to be an effective S151 Officer in a difficult place like Croydon, and may not have been the right person for the job at this time. Interviewee 39 noted that the (current) Executive Director for Resources and Monitoring Officer has now found her voice since the (former) Chief Executive left and has lately been giving the (current) S151 Officer useful support, but probably in Interviewee 39's view this is too little and too late.
- 6.47 In Interviewee 39's personal opinion the (current) S151 Officer is not the right person for this challenging role at Croydon. The (former) Chief Executive's focus on regeneration and high profile projects drove the organisation with not enough attention being given to how this agenda could be afforded or managed. It was certainly an exciting agenda on the face of it but without effective governance, insufficient financial management and advice. Interviewee 39 said in their view, that assembling an ELT whose members were compliant and silent appeared to be part of the (former) Chief Executive's strategy and she had picked a third tier Finance officer to be S151 Officer when the (former) S151 Officer had left [REDACTED]. The (current) S151 Officer in Interviewee 39's view has been pressured, bullied and leaned on by the (former) Chief Executive and by (former) Cabinet members to mask the facts and only now has she been able to do the right thing and issue a S114 notice that should have been issued months ago.
- 6.48 The (former) Chief Executive brought in the (former) Executive Director of Children, Families and Education following the Ofsted rating of 'inadequate', and had given him free rein to fix the systemic problems in the Directorate. In Interviewee 39's view when it all started to go wrong with the Council's finances he just disappeared. It seems to Interviewee 39 that the (former) Chief Executive had given no thought to who she really needed as Executive Directors to deal with the

serious issues facing the Council, what skill sets were required – she had just picked whoever was available and would be compliant. Interviewee 39 commented that the (former) Chief Executive’s approach to the financial crisis facing the Borough appeared to be to make it look as benign as possible publicly, then to deal with it behind closed doors in the hope that no one would find out how bad it really was. Unfortunately, things were much too serious to be managed like this. The only current member of the Croydon ELT that Interviewee 39 would, in their opinion, employ is the current S151 Officer – but not as the S151 Officer but as a reliable finance professional to support an effective S151 Officer. The (current) Executive Director of Place had followed the same approach as the (former) Chief Executive when she was given the opportunity when the (former) Chief Executive left, and had resolutely defended Croydon’s stance that it would ‘*all be all right*’ and in the opinion of Interviewee 39 had demonstrated no understanding of the seriousness of the situation.

- 6.49 In the view of Interviewee 22 none of the key senior officers involved - including the former Chief Executive, the S151 Officer and the Monitoring Officer – had been sufficiently assertive in resisting or correcting poor governance. They were all internal appointments and lacked experience at this level. They were used to the Croydon culture where members are in charge and officers do as they are told. The Statutory Officers all fell short of their responsibilities to question, to challenge and if necessary to stop decisions being made and actions being taken that were clearly wrong. Officers’ reports were very bland and any negatives were played down. It also is the case that Cabinet members instructed that sections of some important reports be rewritten to play down concerns about what was being proposed. Interviewee 22 had some sympathy for the current S151 Officer. She had to step into her predecessor’s place when he left at short notice and her post was not filled, so she was in a new role at a very challenging time with no effective back up.
- 6.50 Interviewee 22 considers that the current Executive Leadership Team needs to be strengthened as it is just not currently fit for purpose in a challenging authority like Croydon. It is clear that they have no confidence in each other, that the people who report to them have no confidence in them and elected members certainly do not have confidence in members of ELT.

## The roles of elected members and officers

7.1 The Croydon Protocol on Staff Councillor Relations (August 2019) at Part 5B of the Council's Constitution is very clear about the respective roles of elected members and Council officers.

Paragraph 1.8 of the Protocol states concisely that:

*'The role of staff is to give advice and information to Members and to implement the policies determined by the Council.'*

The Protocol also confirms at Paragraph 1.9 that certain employees - the Head of Paid Service, the Monitoring Officer, the Chief Financial Officer (Section 151 Officer) and the Statutory Chief Officers - have responsibilities in law over and above their obligations to the Authority and its members which they must be allowed to discharge.

The Protocol is more detailed about the responsibilities of elected members:

Paragraph 1.5:

*'Members have three main areas of responsibility: determining the policy of the Council and giving it political Leadership, representing the Authority externally, and acting as advocates on behalf of their constituents. It is not the role of Members to involve themselves in the day to day management of Authority services.'*

and Paragraph 1.6:

*'Members of the Executive, Chairs and Vice Chairs of Committees have additional responsibilities. Because of those responsibilities, their relationships with employees may be different from and more complex than those of Members without those responsibilities and this is recognised in the expectations they are entitled to have.'*

and Paragraph 1.7:

*'Opposition Members.*

*Members shall be given timely access to information that they require in their role as Members. As individual Members of the Council, all Members have the same rights and obligations in their relationship with employees and should be treated equally. This principle is particularly important in the context of scrutiny and overview. However, where a political group forms an administration, either alone or in partnership with another group or groups, it is recognised that the relationship between staff, particularly those at a senior level in the organisation, and the administration shall differ from that with opposition groups.'*

7.2 So in Croydon, as in all local authorities, the principle is that the paid officials will advise and that the elected members will decide. Of course, in reality it is always more complicated than that, but even so the expectation is that members will listen to and respect all the relevant advice from the professional officers given privately and in public and will have formal regard to that advice in the decisions that they make. Each principal Council is required to appoint three Statutory Officers – the Head of Paid Service, the Monitoring Officer and the S151 Officer – who have specific statutory duties and an important, independent role in promoting and enforcing good governance. The expectation is that these three Statutory Officers will ensure that any decision

taken by elected members is taken within vires, is prudent, affordable, is managerially feasible and is capable of being delivered.

7.3 The Report in the Public Interest is clear about what went wrong at Croydon:

*'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'*

7.4 Interviewee 1 (a former and/or current member of the Cabinet or Committee Chair) told me that after the local elections in May 2018, the (former) Chief Executive was in Interviewee 1's view conducting herself in a very different way. She had made it very clear to Interviewee 1 that she did not like the idea of the Council being 'member led'. In interviewee 1's opinion she became obsessed with being called Head of Paid Service, and also resented what she described as member interference. Interviewee 1 felt it was a constant battle with the (former) Chief Executive and that she had become very preoccupied with what she called a new organisational Operating Model. Over time, things in Interviewee 1's view continued to deteriorate although there were some 'wins' including a much improved Children's Service that has been recognised in the recent Ofsted report.

7.5 Interviewee 11 (a former and/or current member of the Cabinet or Committee Chair) told me that the culture of the organisation was a big issue, and Interviewee 11 had taken this up with the (former) Chief Executive following the local elections in May 2018. Interviewee 11 described how in a marginal council like Croydon for the six months leading up to the local elections in May 2018 members were focused significantly on the election as there was the possibility of change of control of the Council. So in Interviewee 11's view, members were at the lowest point of their authority during this period leading up to an all-out election. Interviewee 11 saw that the (former) Chief Executive had filled that space and the balance of power had changed. When Labour came back to form an administration in May 2018 with an increased majority and an ambitious manifesto to deliver, this inevitably led to difficulties between the (former) Chief Executive and the former Leadership. Interviewee 11 reported that the (former) Chief Executive started to say '*but I'm the Head of Paid Service*' during any difficult conversations with members. To Interviewee 11, this seemed to be a device by her to close down any debate and to impose her authority over members. It soon became clear to Interviewee 11 that the relationship with the (former) Chief Executive had changed significantly. She seemed to Interviewee 11 to be intent on pushing elected members to one side and to hamper or even prevent the flow of information to them. This had resulted in a series of rows between Interviewee 11 and the (former) Chief Executive. The (former) Chief Executive had complained to the (former) Leader but Interviewee 11 described being treated with disrespect by her, saying that Interviewee 11 had no right to be so inquiring and demanding to know things. The (former) Leader was supportive to Interviewee 11 but the relationship with the (former) Chief Executive was very much affected by this from then on. Interviewee 11 did consider making a formal complaint about her but in the end decided not to. What has become much clearer to Interviewee 11 recently is the extent to which members had been marginalised over the last couple of years. There were things in the RIPI that Interviewee 11 only found out about on reading the report, for example that one of the Council's companies had been struck off in 2019. In Interviewee 11's view this was a major issue that members should have been made aware of. The issues around Treasury Management flagged up in that Report were also a total shock to Interviewee 11.

7.6 In Interviewee 11's view there had been a lot of 'push back' from officers about a number of things and members were not really advised about what was happening with the Council's finances - such as the extent of the volatility around Placement costs. It is clear to Interviewee 11 now, that proper financial management processes were not in place and that the necessary restrictions were not being implemented. Interviewee 11 now believes that the (former) Chief Executive had instructed the Finance Department and other staff not to share key information with Interviewee 11 even though it was pertinent to the role held by Interviewee 11. Another feature of the culture that Interviewee 11 described as in place after the 2018 local elections was that many of the decisions that the Administration made both in private and public were not implemented. Interviewee 11 gave some examples:

- the Cabinet decision about potential loans to Brick By Brick was that any such loans should only be agreed in consultation with the (former) Cabinet member for Finance and Resources. The Cabinet member was never consulted about this and there were no checks and balances in place to ensure this happened.
- Interviewee 11 had many 1 to 1s with senior officers. Interviewee 11 recently came across an agenda for meetings with the (current) Executive Director for Resources and the (current) S151 Officer in April 2019 when it was agreed that because of the pressure on the (current) S151 Officer she should have a deputy to free her up to focus on her S151 responsibilities. As there was no budget for this, Interviewee 11 spoke with the (former) Leader and they agreed that it was a priority and the money needed to be found – but this did not happen until very recently.
- this was not just a problem with Finance staff. The (former) Cabinet Member for Clean & Green got a lot of flak over charging for replacement wheelie bins but officers had not implemented the policy as agreed by Cabinet and Full Council as part of the budget papers.
- there was a vacant Council-owned site ideal for supporting accommodation for vulnerable adults. It was agreed that should happen in 2017 but nothing happened apart from the building being demolished.
- there were many discussions as part of the 2019/20 budget discussions about the cost of temporary accommodation and it was decided to decommission some accommodation and not enter into new 'Croydlease' agreements but these agreed actions were not implemented.

7.7 In Interviewee 11's view there were many decisions taken by Cabinet or Cabinet Members that were simply disregarded and not implemented, and Interviewee 11 had only come to realise the full extent of this recently.

7.8 Interviewee 11 described how the Ofsted 'inadequate' judgement was a real shock to everyone, and not least to Cabinet members as they had been led to believe by officers that the judgement would be at the top end of 'requires improvement', so the judgement was a real bombshell. Interviewee 11 was of the view that during the Ofsted inspection some of the basic information provided by Council officers had been manipulated and the Inspectors had realised that this did not add up. This situation led to members being concerned about what they were being told by officers and whether any information or advice that they were given could be trusted.

7.9 When Interviewee 11 was asked in the course of the interview whether there had been too much intervention by Cabinet leads, the response was an acceptance that some (former) Cabinet members were very 'hands on' but that maybe Interviewee 11 personally had not intervened

enough. In response to the question whether the member, by answering questions at Scrutiny Committee or General Purposes and Audit Committee meetings ahead of officers had perhaps prevented responses being given instead by officers, Interviewee 11 said that the interventions at such meetings were answering the questions that were basically political in nature and that factual answers had been left to the relevant officer. Interviewee 11 added that at a Council like Croydon what is said in response to political challenges really matters, and that Interviewee 11 personally believed they were much better placed than any officer to deal with such questions. Interviewee 11 said that the officer advice was always followed and if on occasion the S151 Officer had disagreed, they would properly discuss the matter and reach a consensus.

- 7.10 Subsequent to our meeting Interviewee 11 submitted further examples of concerns about the advice given to members by Council officers and the way decisions were often not implemented in relation to: the accounting treatment of the Dedicated Schools Grant Deficit; the use of Capital Receipts; and the reasonableness of accounting estimates and reserves.
- 7.11 Interviewee 11 felt there were a number of occasions when decisions by the Cabinet or by a Cabinet member had not been complied with. As well as the Brick By Brick loan example mentioned in the interview, and the non-observing of the Treasury Management limits policy, there were also issues around the award of contracts with ex-post approval. A particular example that came to Interviewee 11's mind was the work that Impower carried out. Interviewee 11 was aware that the (former) Cabinet member for Finance and Resources had been asked to sign this off after the work had been done even though the required procurement process had not been followed. Interviewee 11 was told that that had reluctantly been done as much of the work had been carried out by that time. However, a proviso was inserted into an email from the Cabinet member to the (current) S151 Officer that any extension, of whatever size, would need to be approved by the Cabinet member in future (i.e. that normal officer delegations on extensions would not apply) and yet the work was then extended without this approval.
- 7.12 In Interviewee 11's opinion there had been considerable information withheld by officers of the Council, including:
- the scale of overspend in 2019/20
  - the state of the Finance Team (i.e. how weak it was)
  - the striking off of London Borough of Croydon Holdings LLP
  - the breach of treasury management limits
  - details of loans to Brick By Brick.
- 7.13 Interviewee 11 gave more examples of where decisions were not implemented:
- not extending contracts where London Living Wage was not required
  - moving to a much higher proportion of vulnerable adults being in supported living rather than nursing home/ residential homes
  - alternative use of Croydon Park Hotel post insolvency of the operator
  - proposed rent relief by the Council at the beginning of the pandemic

- overhaul of organisation and processes regarding placement costs
- increased parking enforcement

- 7.14 Interviewee 19 (a former and/or current member of the Cabinet or Committee Chair) told me of the firm belief that the ‘Strong Leader and Cabinet’ model introduced in 2010 had changed the culture of the Council and the way that officers related to members. Although Interviewee 19 had had concerns about how the Labour Leadership had operated before 2006, this was more about the personality of former Leaders than the governance model itself. In Interviewee 19’s opinion, when the (former) Leader took over the Labour Group in 2004 he had successfully led the Council up to 2006 and had helped put the Council in a stronger financial position. When Interviewee 19 returned to the Council in 2010 it was clear that the new model under the then Leader was less transparent and that a back-bench councillor had to work very hard to find out what was going on. For example, after the 2010 election the Council moved the weekly bin collection to a two-weekly cycle. When challenged about this decision, the response was that it was authorised by a budget line that said ‘waste re-organisation saving’, and that the Opposition should get better at asking the right questions.
- 7.15 Interviewee 19 believed that officers had aligned themselves to serving the ‘Strong Leader’, and as a result stopped supporting other councillors. In Interviewee 19’s opinion, report writing by officers became poorer, information became harder to come by, and the Scrutiny function and being held to account became an irritation to be suffered. Many officers in Interviewee 19’s view only offered information when it was asked for, and it was difficult to understand what new policies or strategies were being worked on. The Pickles reforms of 2010/11 that allowed councils not to produce a Forward Plan was a retrograde step which Interviewee 19 saw Croydon gleefully embracing. It is only now in 2020 that there is a proper Forward Plan that lists key decisions. An example of officers enabling this can be seen when the (former) Leader in 2014 was able to claim additional Leader’s Allowance without making a public announcement. In Interviewee 19’s view officers facilitated this, and this additional £11K claim only came to light following the 2014 local elections.
- 7.16 In Interviewee 19’s view there has been a lack of curiosity by members and that all members of the Council share a responsibility for the current crisis. Too often decisions were nodded through or not challenged. In Interviewee 19’s view, some of this is down to lack of information, and it is also down to some members seeing issues such as Planning more important than Finance. Interviewee 19 said that members lacked training in risk management and the Council’s finances and this had led to a large group of members who were willing to consider the information that was set in front of them, but not willing to ask for new or additional information on other topics. It may also explain for Interviewee 19 why many backbench councillors do not sign up for Scrutiny and Overview Committee where there is an expectation that members will challenge and to do some personal research and additional reading.
- 7.17 In Interviewee 19’s view there has also been a ‘withering’ of the corporate centre. Interviewee 19 had been aware that efficiencies/cuts had been made to the corporate centre, but this last 6 months has shown the detrimental impact of this. This does not just apply to the Finance Team which in Interviewee 19’s view did not have enough resources to keep accurate oversight of things, but to all aspects of the corporate centre including HR and policy making. For example, Interviewee 19 had been surprised to find out in 2019 that the Council was only then putting together a library of current policies and strategies. Finally, Interviewee 19 expressed concerns about the role of the (current) Monitoring Officer. Interviewee 19 has had a good working relationship with both the current and former Monitoring Officers, but does not believe that there has been sufficient independent advice provided on governance issues. Interviewee 19 also said that in their opinion the same applied to the (current) S151 Officer. Information was provided, but context and

independent professional advice was not. Interviewee 19 believes that, going forward, these Statutory Officers need to give confidential professional advice to all parts of the elected member body on any concerns they may have about the Council's actions.

- 7.18 Interviewee 40 (a member of the Opposition Group) told me that as someone new to the world of local government it is still very difficult after a few years as a councillor to understand the way Croydon works. Interviewee 40 still does not really understand the linkages between elected members and officers, nor why there are so many Boards, Panels and Committees. Interviewee 40 accepts that being a member of the Opposition makes things different but believes that having asked for something – a report, some information, some advice – it is rarely provided and in Interviewee 40's experience excuses such as '*I will have to get permission*', '*the person who knows is on leave*' are used. Interviewee 40 has raised and pointed out many failings by the Council, for example that there are poor job descriptions for Cabinet members or there is no clarity of responsibility and accountability for what it actually means for elected members to be Corporate Parents. In Interviewee 40's opinion, in Croydon nobody seems to be responsible for anything and no one seems very concerned about that.
- 7.19 Interviewee 40 accepts that maybe all local authorities are like Croydon but hopes that is not the case. In Interviewee 40's view, officers are there to advise and inform members but it is the elected members who are the decision-makers, and it is the unwillingness of key members of the administration to acknowledge the seriousness of the situation and to deal with it effectively that is responsible for the plight the Council finds itself in. So the fact is, in Interviewee 40's opinion, the (former) Chief Executive and leading members of the administration were all part of the problem and between them created the situation the Council is in.
- 7.20 Interviewee 41 (a former and/or current member of the Cabinet or Committee Chair) told me that when the (former) Chief Executive was promoted to the post of Chief Executive in 2016 she had been very energetic and keen to deliver the things that she wanted but this all changed after the Ofsted judgement. The (former) Chief Executive should have ensured that the Leader and Cabinet were given strong advice about the Council's financial difficulties – assuming that she had been aware – and it is interesting that when questions were asked about Brick By Brick and other initiatives at Cabinet or General Purposes and Audit Committee meetings it was members who usually answered and officers were generally silent. In Interviewee 41's view officer advice in situations like this should always predominate because members are not full-time professionals and should rely on and listen to the advice that officers are giving. Going forward, there should be training for officers and members to learn to work more effectively together and members should accept that they need to ask for and to listen to officer advice. Interviewee 41 is clear that, of course, all Cabinet members should fully understand their brief and know all about the services in their portfolio, but if an officer says that the Council should not do something or that it cannot be afforded then that officer advice should be respected and followed.
- 7.21 Interviewee 23 (a former and/or current member of the Cabinet or Committee Chair) had previous employment experience in the public sector. When elected as a councillor in Croydon, Interviewee 23 was immediately appointed as one of the Deputy Cabinet Members. The deputy role is not executive in nature and Interviewee 23 did not attend Cabinet meetings but was involved in many meetings and discussions, particularly around policy development for that portfolio. Based on Interviewee 23's experience it seems that a good Council relies on an effective balance between the roles of officers who advise on and implement decisions that are made by elected members who use that advice in making good decisions and then allow officers to implement. In Interviewee 23's opinion, what Croydon has had is a small number of very strong personalities in the Cabinet so the 'Strong Leader' model has been dominated by those people who effectively ran the organisation while other Cabinet members were to a large extent excluded and simply focused on

their own portfolio. So, in practice, the key decisions were made by the (former) Leader, the (former) Deputy Leader and the (former) Cabinet Member for Finance and Resources.

- 7.22 The 'Strong Leader' model presumes that all Cabinet members would be fully involved in debating and deciding on the key decisions taken by the Cabinet but it appears that this has not been the case all the time. It also appears to Interviewee 23 to be the case that officers in the past have not been sufficiently involved in giving the necessary advice to the Cabinet, for example about commercial initiatives like Brick By Brick and the purchase of a hotel, before the key decisions were decided on by the Cabinet. But that in turn raises for Interviewee 23 the question of whether the officers at Croydon had the right kind of experience and knowledge to allow them to give the kind of professional advice that was needed.
- 7.23 Interviewee 23 believes that in former times the Council was focused on delivery of its core services and there were limited decisions about how to best manage those services when there was a need to make cuts and to instigate redundancy programmes for example. Now there seems to be less focus on traditional core services and a new requirement for officers with commercial and business skills to ensure commercial investments like Brick By Brick are set up and working properly, but Interviewee 23 questioned whether there are people with those skills amongst the current Executive Leadership Team or the Directors employed by Croydon Council.
- 7.24 Interviewee 23 does not understand how some of the things that have gone seriously wrong have been allowed to happen. The Council does have a Risk Management Team and a Risk Register that Interviewee 23 assumes is monitored, so questioned what were they doing when things were going wrong and the Council ended up with a RIPI? Why did the (former and current) S151 Officer and the (current) Monitoring Officer not speak up and say this is wrong or we should not be doing that because it was too risky or it could not be afforded?
- 7.25 It has struck Interviewee 23, following an LGA session about Council commercial initiatives that Interviewee 23 attended, that Croydon has not been doing anything unusual in setting up Brick By Brick or purchasing a shopping mall. However, the many other local authorities that have been doing similar things to produce valuable income streams for their Councils have been doing it right, assessing the risks, getting the right governance arrangements in place. Lots of Councils are making it work really well, so Interviewee 23 wonders why Croydon got it so wrong. Why the risk of the commercial initiatives going wrong was not flagged up more clearly and why were the appropriate governance and monitoring arrangements not put in place? It seems clear to Interviewee 23 that officers were not giving the right advice to members, but now questions was this because they were incapable or because senior leaders/managers were telling them to keep quiet? Or were these senior officers and/or the (former) Chief Executive being told by the (former) Leader and the (former) Cabinet member for Finance and Resources not to ask questions or raise concerns?
- 7.26 Interviewee 24 (a former and/or current member of the Cabinet or Committee Chair) said that they did not have a close working relationship with the (former) Chief Executive, but did have a feeling over the last 18 months or so that there was a growing gap between the (former) Chief Executive, the Executive Leadership Team and the Cabinet. So, if there was an increasingly dysfunctional relationship between the political Leadership and the organisational Leadership, Interviewee 24 has to ask why this was not recognised and 'fixed'. The Council commissioned a governance review that has taken a long time and is still in progress, and there are some proposed changes in the way the Council works with more Committees and different working arrangements between members and officers. To suggest that what has gone wrong is simply a lack of trust of officers by members, a breakdown between the Leader and the Chief Executive and the desire to have a member-led Council after the 2018 local elections is in Interviewee 24's opinion too simplistic. Interviewee 24 confirmed that the Ofsted judgement in 2017 had been a shock to the Leadership

generally. The then Executive Director for children, families and education was replaced and then replaced again and a far-reaching recovery plan with significantly increased resources for Children's Services was put in place. Interviewee 24 also considers that the new Administration that was in place following the May 2018 local elections was more emboldened than previously and politicians do like to think they are running the show – but then so do the officers, so there is inevitably conflict.

- 7.27 When Interviewee 24 joined the Council it was clear that the Council was too much officer driven and the Labour Group wanted to see its values and its vision for the Borough better reflected in the work the Council did, and the (previous) Chief Executive with his financial background was too dominant and managerial in his approach. The (former) Chief Executive was appointed when he left as it was clear to Interviewee 24 that she had greater vision about what Croydon needed and how the Council should respond. Interviewee 24 really does not know whether it has been a failure by the political leadership or by the Executive management leadership that led to things going wrong, but is clear that action could and should have been taken much earlier to deal with the issues. However, in running a local authority it is essential to maintain the distinction between the role of officers and the role of members. It does seem to Interviewee 24 that in Croydon some members got this mixed up but this may have been because the weakness of the ELT and the lack of trust in officers led to this being a rational way of working for leading members.
- 7.28 Interviewee 42 (a former and/or current member of the Cabinet or Committee Chair) told me that the Director for Finance had taken on a big job as the Council's (current) S151 Officer when the previous S151 Officer left and that she was never given the proper support by her line manager, the (current) Executive Director for Resources and the (former) Chief Executive. Again, things might have been very different in Interviewee 42's opinion if the (former) Chief Executive and the (former) Cabinet member for Finance and Resources had let her do her job as S151 Officer properly. Interviewee 42 said that in their opinion the reality was that the (current) S151 Officer found herself very much in a difficult place between the (former) Chief Executive and the (former) Cabinet member for Finance and Resources. They did not get on well with each other and both wanted to be in charge.
- 7.29 Interviewee 25 (a member of the Executive Leadership Team) said that it was not their experience that officers at Croydon were discouraged or prevented from speaking at meetings. That was certainly not the case at ELT meetings but officers, including the (former) Chief Executive, were not generally expected to speak uninvited at Cabinet meetings which were seen essentially as political events. So the appropriate Cabinet members would speak to the item at Cabinet meetings and officers did not offer views or advice beyond what was already in the written papers.
- 7.30 Interviewee 43 (external to the Council) told me that the (current) S151 Officer's relationship with the (former) Cabinet Member for Finance and Resources had been problematic because in Interviewee 43's opinion the (former) Cabinet Member for Finance and Resources had behaved as if he was the S151 Officer. This included rewriting the S151 Officer's reports to Cabinet. In Interviewee 43's experience that was the approach of the (former) Cabinet member for Finance and Resources generally, and indeed he had wanted to see Interviewee 43's report on financial management at the Council before it went to the Finance Review Panel. Interviewee 43 had refused.
- 7.31 In Interviewee 43's opinion elected members in Croydon have had too much influence and control over what happened at a very granular level and officers seemed either unwilling or powerless to stop them from interfering. There are a number of Boards at Croydon that, unusually in Interviewee 43's experience, have elected members as well as Council officers as members. For example, the Investment Board has three elected members sitting on the Board. The Board has no decision-making powers but it sits between the ELT and the Cabinet so the members on the Board can

influence operational matters, and take decisions behind closed doors that are then rubber-stamped by the Cabinet without the necessary information and challenge to ensure good governance. That is how Croydon has been run in the past.

- 7.32 Interviewee 43 said that there are concerns about behind the scenes possible tampering by elected members with critical decisions, for example with Council Tax setting which is essentially a purely technical process that feeds into the budget-setting process and is crucial to the budget that is finally agreed by the Council. The (current) Interim Deputy Director of Finance had told Interviewee 43 that he had discovered that 5,000 additional properties seem to have been added to the Band D Council Tax base for Council Tax income calculation purposes with no clear explanation. Interviewee 43 said that, according to members of their team, the (former) Head of Corporate Finance was apparently instructed by the (former) Cabinet member for Finance and Resources to place an extra 5,000 properties into Band D as it would significantly increase the predicted income from Council Tax which would in turn assist with immediate budget balancing and setting decisions.
- 7.33 Interviewee 11 (former and/or current member of the Cabinet or Committee Chair) told me that this was a falsehood and that to their knowledge no-one had been instructed to inflate the estimate of new Band D properties in the Borough as part of the budget-setting process. Interviewee 11 said that first, there had not been the power for members to instruct officers in this way. Secondly, the (former and current) S151 Officer had to be satisfied about the reasonableness of all assumptions in the Budget. They often had discussions about those assumptions, but always came to an agreed position. There had been a discussion about the budget assumptions in respect of the Council Tax base. To put this in context, the Council had, year on year, taken a very cautious approach to Council Tax base growth and had ended up with a large Collection Fund surplus. When Interviewee 11 saw the draft budget assumption (very early on in the process), this had looked very modest given the year-on-year track record and the amount of construction activity going on in the Borough, so Interviewee 11 did say that this needed to be looked at again. The relevant Head of Service went away, spoke to their counterpart in the Planning Department, and the figure was revised upwards (Interviewee 11 cannot find documents to say by how many the assumption was increased). However, Interviewee 11 believed there was not a specific number given nor instruction that there should be an increase, and Interviewee 11 had not been made aware of any adverse variance in Council Tax Base as against the budget assumption.
- 7.34 Interviewee 44 (a member of staff) said that elected members in Croydon are very directive and very involved in operational matters. What had particularly struck Interviewee 44 was that there were so many meetings involving both members and senior officers, with members often dominating the meetings. Interviewee 44 said that it appeared that the usual checks and balances on political ambition were not working so that a very ambitious political agenda had dominated the work of the Council to the exclusion of proper governance.
- 7.35 Interviewee 45 (a member of staff) told me that it had been more difficult recently for Council officers to do what they have been used to doing previously as expert professionals giving advice to elected members. The (former) Chief Executive had discussed with senior managers how difficult this was becoming and how it was compromising the traditional officer/member relationship. Part of Interviewee 45's role had been to brief the (former) Cabinet member for Finance and Resources on matters around health and social care integration, a task that at times proved to be challenging. The difficulties around officer/member relationships were raised by the (former) Chief Executive and discussed at ELT and CLT meetings, but the recent pattern where it became harder to know who was making management decisions – an ELT member or a Cabinet member – became quite engrained, and people were increasingly unhappy about this. Interviewee 45 now has a new Cabinet member and is happy to say that this Cabinet member is very supportive,

wants to be briefed by officers and has asked the right questions. The relationship with the Cabinet member is now as it should be.

- 7.36 Interviewee 30 (a member of staff) said that the situation had not been helped by the (former) Cabinet member for Finance and Resources clearly thinking himself financially astute, but in Interviewee 30's professional opinion was not. In addition, he did not appear to understand or respect the difference between officers and members and in Interviewee 30's opinion tried to act as a quasi S151 Officer and interfered significantly. Interviewee 30 had attended meetings of General Purposes and Audit Committee and although this Cabinet member was not a member of that Committee – in fact he could not be – he regularly attended and answered questions on behalf of officers. He also attended pre-agenda meetings and influenced the work plan of the Committee. Part of the problem has been that General Purposes and Audit Committee has not had a regular Chair and it has changed every year although this time the Chair has been in place for a second year. Interviewee 30 believes that this has also contributed to some of the criticism about the level of challenge by the Committee following concerns raised by Interviewee 30 and the external auditors. Interviewee 30 believes that a significant programme of training is needed about the role of an Audit Committee and that there needs to be more stability in chairing and committee membership.
- 7.37 Interviewee 38 (a member of staff) told me that Croydon does not have a culture of involving officers with the relevant expertise when new initiatives are being considered by the Cabinet. It seems more like '*this is what we have decided to do, now make it work*'. Interviewee 38 said that there appears to be insufficient consideration of options, no real cost/benefit analysis and no seeking of advice about potential risks before a decision is made to launch an initiative, so the challenge for officers has been to make something work once it has been decided by members to do it.
- 7.38 Interviewee 38 said that it is not helped by an organisational culture that is very silo-based with no real attempt to get the right people around the table so discussions tend to be very transactional. If a private company was considering whether to invest £190m in a new project it would commission a coherent due diligence assessment to identify risk and what processes were required to ensure it worked. Interviewee 38 said in their view that this has not been the Croydon approach and that there has been no investment in building commercial expertise in the Council (or buying it in) so it was not possible to test the business case nor to commission any appraisal by officers before the Cabinet committed to a project. An additional problem has been that the Monitoring Officer has not always been at the top table as part of ELT, although in more recent years this has been the case. Interviewee 38's previous involvement as Head of Service as well as currently has been not so much to advise on a proposal but rather to transact and facilitate after the decision has been taken (through Interviewee 38's team and/or external support). Interviewee 38 considers that the Council really does need to invest a lot more in financial management training and monitoring for officers and members, and in more rigorous performance management generally.
- 7.39 Interviewee 3 (external to the Council) told me about the shock of the 'inadequate' rating by Ofsted in 2017. There had been advice from officers to the political leadership in preparation for the inspection that the Council could expect a 'requiring improvement' judgement from the Inspectors. The 'inadequate' judgement was the most significant thing that happened in Interviewee 3's time at the Council and had profoundly affected officer/member relationships ever since. When the (former) Leader was told about the Ofsted judgement he had been fair but very angry and it was clear that there had been a serious loss of trust in officer advice as a result. And then, from May 2018 it was a difficult and very challenging working environment for Interviewee 3 in particular because of a challenging relationship with the (former) Leader, and the (former) Cabinet Member for Finance and Resources had made it clear that he did not want Interviewee 3 getting involved

in the Council's finances – and that was solely his domain and that of the (former and current) S151 Officers.

- 7.40 Interviewee 6 (external to the Council) told me that in May 2018 the new administration had made it clear that it would be a member-led Council and some Cabinet members certainly became more hands-on and involved with operational matters. Interviewee 6 assumes that the (former) Chief Executive would have played the Head of Paid Service 'card' to stop what she regarded as members stepping over the line, particularly around staffing issues which she rightly saw as her business not theirs.
- 7.41 Interviewee 46 (external to the Council) told me that the (former) Cabinet member for Finance and Resources always wanted to get involved in detailed matters which he had no right to do as a Cabinet member. This did not just apply to finance issues but was across the board. In Interviewee 46's opinion, the (former) Cabinet Member for Finance and Resources would intervene at meetings of Scrutiny Committee and General Purposes and Audit Committee even though he was not a member of either, and would jump in before the officer responded to questions and that would compromise the officer being able to give a true answer. Interviewee 46 told me that the (former) Cabinet member for Finance and Resources had led for the Council on various unaffordable initiatives such as the insourcing of social care staff at a huge cost to the Council, but he did not ask for advice or information about whether this was affordable or in the taxpayers' interest. In Interviewee 46's opinion it was this Cabinet member who had made the decision to purchase the Croydon Park Hotel at a price that was greater than the professional valuation. To Interviewee 46's knowledge he overrode that professional advice. Interviewee 46's opinion was also that the (former) Cabinet Member for Finance and Resources had decided that the HRA should be charged £14m rather than the £12m that officers were recommending, and this was done without any challenge or scrutiny.
- 7.42 I asked Interviewee 46 whether the (former) Cabinet member for Finance and Resources had instructed that the estimate of new Band D properties in the Borough should be inflated as part of the budget-setting process, as had been claimed by another interviewee. Interviewee 46 confirmed that they had always tried to be helpful to the administration by being positive in the estimate of new properties, and it is a fact that despite austerity and the pandemic the number of new properties in Croydon had grown every year, increasing the Council tax base. Interviewee 46 has no doubt that the (former) Cabinet member for Finance and Resources would have liked even more positive projections and told me that at a meeting with Interviewee 46 and the (current) S151 Officer, the former Cabinet member for Finance and Resources had wanted to increase the estimate of 3,000 new properties but on that occasion he had been persuaded that they should stick with that estimate. However, Interviewee 46 said that there were other occasions when predictions were falsely inflated to mask underlying problems, for example there was in Interviewee 46's opinion pressure to falsely inflate the estimate of dividends from Brick By Brick to increase predicted income to the Council.
- 7.43 Interviewee 9 (external to the Council) had no doubt that the (current) S151 Officer and the (current) Monitoring Officer will claim that matters were beyond their control and that there had been bullying by key members that prevented them taking the necessary actions. It seems to Interviewee 9 that the Cabinet was totally dominated by the (former) Leader and the (former) Cabinet Member for Finance and Resources. In Interviewee 9's opinion the Council's Statutory Officers did not take the actions that they should have done because of the behaviour of the political Leadership but that is no excuse. Interviewee 9 said in their view that no one is going to come out of this investigation well and there will be confirmation of the collective corporate failure as described by the external auditor.

- 7.44 Interviewee 39 (external to the Council) told me to their knowledge that the (former) Cabinet member for Finance and Resources had attended all of the Finance Review Panel meetings and had promoted a consistent strategy to sort things out – ‘*just give the Borough more money as Croydon is underfunded by central government*’ – and had refused to look at internal issues about overspending and huge borrowing for risky ventures. Interviewee 39 was told that the (former) Cabinet member for Finance and Resources wanted the report to the General Purposes and Audit Committee on the (former) Chief Executive’s settlement package not to include the pension strain costs in order to reduce the headline number, even though that would not disclose the full amount actually paid. Interviewee 39 said in their opinion, that there were times when the (former) Cabinet member for Finance and Resources was acting as if he was the *de facto* S151 Officer rather than a Cabinet member.
- 7.45 Interviewee 47 (external to the Council) said that there appeared to be tensions between some members and officers, but this was not seen as the remit of the Governance Review Panel. The officer/member interface was not where the Panel wanted to focus although its importance was mentioned by most of the experts invited to speak to the Panel.
- 7.46 Interviewee 22 (external to the Council) told me that the conclusion of the Rapid Review Team was that none of the key senior officers involved - including the (former) Chief Executive, the (current) S151 Officer and the (current) Monitoring Officer - were sufficiently assertive in resisting or correcting poor governance. They were all internal appointments and lacked experience at this level. They were used to the Croydon culture where members are in charge and officers do as they are told. Interviewee 22 said that the Statutory Officers had all fallen short of their responsibilities to question, to challenge and if necessary to stop decisions being made and actions being taken that were clearly wrong. Officers’ reports were very bland and any negatives were played down. It appears also to be the case that Cabinet members had instructed that sections of some important reports were to be rewritten to play down concerns about what was being reported.

## Financial management

8.1.1 In a report published in June 2020 by the Institute for Fiscal Studies (the IFS) setting out the resilience of local authorities, the conclusion was that Croydon Council's growing debts and low reserves made it one of the country's least-prepared local authorities for dealing with an emergency such as coronavirus. While COVID 19 badly affected Croydon in terms of infection rates, the Borough ought not to have been as vulnerable as some other London Councils in terms of relative impact on local employment, revenue generation, vulnerable businesses, and the percentage of elderly population. The report's authors state that local authorities:

*'with higher levels of deprivation have residents who appear more vulnerable to the coronavirus crisis on a number of dimensions, potentially increasing service demands and challenges. Mental ill-health, homelessness and overcrowding, interventions from children's social services, and receipt of free school meals are higher in [local authorities] with high levels of more general deprivation. If, as evidence suggests, households already facing challenges and poverty are more vulnerable to the stresses and strains of lockdown and social distancing, the demand for support from [local authorities] and other public services could increase'*

8.1.2 The IFS devised a set of indicators grouped into different categories:

- assessed prevalence of COVID-19
- health-related risks
- housing and family-related risks
- revenue risks to: Council Tax; Business Rates; Sales, Fees and Charges; and commercial income
- financial resilience and commitments

8.1.3 The IFS report highlights some of the underlying financial issues that were facing Croydon before the pandemic crisis – a lack of reserves, £1.5billion debt, increased expenditure on social services – relative to other Councils. The report uses a 'dashboard' to look at the risk factors to compare Croydon with other London boroughs. The only area in which the IFS scored Croydon well was in the 'percentage change in level of reserves', where the Council budget for 2020/21 proposed increasing reserves by 22 per cent.

8.2.1 On 23 October 2020 the Council's external auditors (Grant Thornton) issued a Report in the Public Interest concerning the Council's financial position and related governance arrangements. This is one of the most serious steps a local authority's external auditors can take, and the Report drew to the public's interest the Council's deteriorating financial resilience, its low levels of reserves, its poor governance practice and significant overspending of its approved budgets each year.

8.2.2 The Report concluded that there had 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 included:

- the Council failing 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 unaccompanied asylum seeking children's service costs (UASC) 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 to 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 meeting drew attention to the significant in-year corporate adjustments. The challenge of the outturn figures was limited and contributed to the lack of urgency in addressing the financial position.
- the outturn report did include a statement from the then 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 Notice 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 that she was not confident that a Section 114 Notice 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 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.

8.2.3 The Report summarised the Council's financial management over recent years as follows:

*'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. The Council has experienced deteriorating financial resilience for a number of years with spending pressures within both Children's Services 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 continuing 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 to 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.'*

- 8.3 Subsequent to the issuing of the Report in the Public Interest the Council's (current) S151 Officer issued a Section 114 Notice on 11 November 2020. In the formal Notice, the S151 Officer said:

*'Since the 23 October 2020, mindful of my statutory duty under Section 114, I have kept the need to issue a S114 Notice under constant review. It is now my professional judgement as the [Chief finance officer] for Croydon Council that in the current financial year (2020- 2021), despite the ongoing conversations with [Ministry of Housing Communities and Local Government] and the presentation of amendments*

*to the General Fund budget at Cabinet on the 21 September 2020, that the forecast expenditure continues to significantly exceed resources, and plans to rectify this financial position are insufficient, leaving the council with a significant unfunded financial deficit this year. Therefore I have a duty to issue all members of the council with this S114 Notice.'*

Croydon is only the second local authority in England in 20 years to issue a S114 Notice. To date, and despite the demands of additional Council spending this year to deal with COVID-19, Croydon remains the only Council in England to have issued a S114 Notice. It prohibits all new expenditure by the Council with the exception of expenditure on statutory services.

- 8.4.1 Interviewee 48 (external to the Council) told me that there is always a need for clarity about where the roles and responsibilities of members and officers begin and end. Towards the end of June/beginning of July 2020, Interviewee 48 had attended all the meetings of the Financial Review Panel which were held in private and had been encouraged by the papers presented by officers and the discussion by members which seemed to show that there was an appreciation of the seriousness of the situation and the need for urgent action. Interviewee 48 had been disappointed to watch the webcast of the Cabinet meeting in July 2020 and to see a different picture being presented in public by those present. There was clarity at the private Finance Review Panel meetings that urgent action was needed to address the serious financial situation and that there would need to be a bid for government financial support but there was no acknowledgment of the need for government funding at that public Cabinet meeting. Interviewee 48 told me that this very much goes to the 'collective corporate blindness' comment in the RIPI. Interviewee 48 had debrief sessions with the (current) S151 Officer and sometimes the (former) Chief Executive after every Financial Review Panel meeting, and often asked whether difficult conversations with members were happening somewhere else as they were not happening at these and other meetings. The answer was 'yes', and there seemed to be an expectation by the officers that difficult matters that concerned them should not be raised in public and that everyone should be on their best behaviour at such meetings.
- 8.4.2 Interviewee 48 had seen the Report of the Financial Consultant to the General Purpose and Audit Committee and was impressed with his analysis of the Council's financial processes set against CIPFA standards. His report did very appropriately point to a number of aspects of the Council's financial process that fall short of the standards set by CIPFA. Budget monitoring arrangements at Croydon are a particular weakness, and Interviewee 48 said that these will need to be addressed through the implementation of the RIPI Action Plan agreed by Council.
- 8.5.1 Interviewee 49 (a member of the Executive Leadership Team) told me that there had been a very good working relationship with the (former) Executive Director Resources and S151 Officer and others in the Council, and there had been great surprise when he resigned in November 2018 and then left the Council in February 2019. Interviewee 49 described how the (former) Chief Executive had covered the S151 part of that Executive Director Resources role on an Interim basis with another officer who was the Deputy to the Executive Director, who had then been required to present the 2019/20 budget to Cabinet in February 2019 even though the (former) Executive Director Resources and S151 Officer had led on its preparation and was still employed [REDACTED] by the Council. Interviewee 49 told me that it was widely understood that the (former) Chief Executive and the (former) Executive Director for Resources and S151 Officer wanted to signal that another officer had taken over as the new S151 Officer. I was then told by Interviewee 49 that the S151 Officer role was covered on an Interim basis for a period of six months and in that time an Interim Executive Director for Resources was also appointed who was not the new S151 Officer.
- 8.5.2 A formal appointment was made to the S151 Officer post in October 2019. Interviewee 49 was aware that the Director of Finance was first appointed on an interim and then on a permanent basis

to the S151 Officer role and had asked the (former) Chief Executive for a deputy to be appointed to take on some of the work of the Deputy S151 Officer post which was vacant. It was understood that the (former) Chief Executive had been adamant that there could not be a deputy. Interviewee 49 told me a Deputy S151 Officer was only recently appointed on an Interim basis. Interviewee 49 said that for over a year the Director had been covering both the former role of Deputy S151 Officer and the new role as S151 Officer with Heads of Finance covering the S151 Officer role in time of absence. Interviewee 49 told me that the (former) Cabinet member for Finance and Resources and the (former) Chief Executive did not have a good relationship so when they met it was widely known that the S151 Officer was expected to be in the room as a 'third party' to act as a witness and a bridge between the two of them. Interviewee 49 also said it was known that if the S151 Officer told the (former) Cabinet member for Finance and Resources something he did not like or would not accept he would then involve the (former) Leader to overrule or change things. He had been described to Interviewee 49 as an incredibly hands-on Cabinet member and sometimes overstepped the mark. Interviewee 49 gave the example of the (former) Cabinet member for Finance and Resources regularly attending both Scrutiny and Overview Committee and General Purposes and Audit Committee meetings even though he was not a member of either and usually answered the questions put by members to officers, making it very difficult for officers to say anything different to what he had said, even if he had been inaccurate.

- 8.5.3 Interviewee 49 said that they were aware that the (former) Cabinet member for Finance and Resources had become very involved in procurement decisions (an example being the appointment of the Enforcement Agents Contract) that are normally left to officers and did not always listen to or follow officer advice. Another example Interviewee 49 shared with me was that Deloitte's had had to be brought in (at cost) to persuade the (former) Cabinet member for Finance and Resources that it was not a good idea to invest in an aircraft hangar at Biggin Hill as he would not accept the professional advice of Council officers.
- 8.5.4 Interviewee 49 confirmed that the (former) Cabinet Lead for Finance and Resources was not happy with the (current) S151 Officer briefing other Cabinet members about the Council's financial situation and that he always wanted presentations to Cabinet to be a 'double act' of the (current) S151 Officer and him. Interviewee 49 said they had been told that the (former) Cabinet Member for Finance and Resources always wanted to paint the rosiest picture possible and Interviewee 49 was aware that he had been heard to say things like - *'don't tell them how bad it really is or that it's getting worse'*.
- 8.5.5 Interviewee 49 told me that the (current) S151 Officer had told them that the (former) Cabinet member for Finance and Resources had given a direction to *'burn some slides'* that had references to a S114 Notice contained in them. Interviewee 49 said they were aware that the (former) Cabinet member for Finance and Resources always appeared very resistant to officer advice. It was known to Interviewee 49 that the (current) S151 Officer had great difficulty last year getting the (former) Cabinet member for Finance and Resources to accept that there should be a year-on-year contribution to General Fund Reserves. The (current) S151 Officer did manage to get the Cabinet to agree to make a provision in the 2020/21 accounts of a £5m increase to General Fund Reserves.
- 8.5.6 Interviewee 49 told me that it was well known that the (current) S151 Officer had been very upset in September 2020 on the second day of the (Interim) Chief Executive's time at the Council, when the (former) Cabinet member for Finance and Resources had implied that Grant Thornton's letter to the (former) Chief Executive in April had been sent because there was a lack of trust by them in the ability and competence of the (current) S151 Officer. Interviewee 49's opinion is that it was also very well known that both the (former) Cabinet member for Finance and Resources, and the (former) Chief Executive wanted only good news stories and both were very upset about *Inside Croydon's* negativity and criticism of the Council. In Interviewee 49's opinion, issuing a S114 Notice was regarded by both of them as totally unacceptable and the ultimate bad news, and they

did not support the (current) S151 Officer's conclusion that this was appropriate in the circumstances. Having said that, it was also the opinion of Interviewee 49 that the (former) Chief Executive had never really been involved in any discussions about the Council's finances and usually left all that to the former S151 Officer and had left the (former) Cabinet member for Finance and Resources to drive the agenda. Interviewee 49 was aware that the (current) S151 Officer had considered issuing a S114 Notice earlier but had described the reasons for not doing so because there were still ongoing discussions with MHCLG about the Council's finances and the help that might be available.

However, in Interviewee 49's opinion, it is clear that the (current) S151 Officer was pressured out of taking such action by the (former) Cabinet member for Finance and Resources and the (former) Leader. Interviewee 49 was of the view that even if the (current) S151 Officer had decided to issue a S114 Notice there would have been little or no support and may have been prevented from doing so.

- 8.5.7 At the start of the current financial year, Interviewee 49 was aware that the (current) S151 Officer had had conversations with both CIPFA and MHCLG about the conclusion that a S114 Notice needed to be issued, and then in August 2020 this was discussed with the Finance Review Panel when the (current) S151 Officer was encouraged by the Panel to do this. On the Friday before the August Bank Holiday (28 August 2020) Interviewee 49 was aware that the (current) S151 Officer had drafted a S114 Notice and on the 1st September 2020 the (current) S151 officer and the (former Interim) Chief Executive went to talk to the (former) Leader and (former) Deputy Leader to explain what was involved (the current Monitoring Officer was on holiday so did not attend). The discussions continued after this meeting with MHCLG, and the Finance Review Panel was urging the S114 Notice be issued. Interviewee 49 was aware that some further conversations about what the (current) S151 Officer was planning to do were held with the (current) Leader, ELT and the (current) Cabinet on the 28th October 2020.
- 8.5.8 Interviewee 49 said that in their opinion, the (current) Leader had been reluctant to agree to issuing the S114 Notice in conversation with the (current) S151 Officer and then, having agreed to it, she had reviewed her position the next day. Interviewee 49 told me that the (current) S151 Officer then spoke again with CIPFA on the 29 October 2020 who were also not supportive of issuing the S114 Notice at that time. Interviewee 49 said that it was known that CIPFA subsequently did become supportive just before the (current) S151 Officer issued the S114 Notice on 11 November 2020. Interviewee 49 told me that in their opinion that this was the right thing to do at that time. Also they told me that until COVID hit and the Council had to act decisively, there had not previously been any real commitment to effective financial management and the result was consistent overspending particularly by the big 'demand led' Directorates like Children's Services and Adult Care. Previously, in Interviewee 49's view, ELT had not really been interested or engaged in the Council's financial situation and the (former) Chief Executive had, to the knowledge of Interviewee 49, actively discouraged the (current) S151 Officer from opening up any discussion about the budget and the Council's finances.
- 8.5.9 As part of the S114 Notice a Spending Control Panel has been set up, chaired by the (current) S151 Officer or designated deputy to ensure that no unnecessary expenditure is authorised. Anything that comes to the Panel is required to have been scrutinised and authorised within the relevant Directorate before being sent to the Panel. The opinion of Interviewee 49 is that the behaviour of Directors and Executive Directors has been appalling and they have actively lobbied for exceptions. There have even been Purchase Orders set up for expenditure incurred in 2019 - or even earlier - for expenditure that had not been progressed. It is clear to Interviewee 49 that there is no commitment to financial accountability and no sense of corporate responsibility in the Council. The (former) Chief Executive used to stipulate that there should be no overspending but there always had been and no one had ever been held to account. Interviewee 49 is supporting

others to hold the line on the S114 Notice requirements but feels they have all become very unpopular and so have become totally focused on following the statutory requirements and supporting the (current) S151 Officer refusing to give in despite the enormous pressure so that the Council is now moving in the right direction.

- 8.5.10 This experience has exemplified to Interviewee 49 exactly what the external auditors meant by 'collective corporate blindness' whereby very senior Council officers, Directors and Executive Directors just do not see the 'big picture' and have failed to understand that lots of little things outside the rules have contributed to the serious problems that the Council is now facing. Interviewee 49 said that if you add this cultural behaviour to the problems resulting from the Ofsted judgement, Brexit and COVID it has been the 'perfect storm'.
- 8.5.11 Interviewee 49 was aware that the (former) Cabinet member for Finance and Resources had wanted to meet the external auditors on his own on 9 October 2020, but Grant Thornton was uncomfortable with meeting a councillor without officers present. Interviewee 49 was told that the (current) S151 Officer attended the meeting with the (current) Executive Director for Resources and Monitoring Officer and was also told that it was at this meeting that the (former) Cabinet member for Finance and Resources tried to persuade the external auditors that it was not necessary to issue the Report in The Public Interest. Interviewee 49 believes it was later that same night that the (former) Cabinet member for Finance and Resources resigned.
- 8.6.1 Interviewee 3 (external to the Council) told me that it was clear that Croydon had serious problems with its finances and that it had been historically underfunded by government. There was a challenging environment given the location of the Home Office in the Borough and the needs of the Borough's UASC population. Interviewee 3's time at the Council began when the Council's Reserves were at £10.4m and debt was at £1bn. It was clear to Interviewee 3 that there needed to be systemic and cultural change to deal with the financial problems facing the Council, and the last thing that was needed was the traditional 'salami slicing' of budgets. In Interviewee 3's opinion, members found it very difficult in the 2019/20 budget preparation to make decisions about cuts in spending and were reluctant - as Interviewee 3 saw it - to cut frontline services to put money into the bank (Reserves). According to Interviewee 3, up until this point the Council had maintained its reserves at 2016 levels and had been able to set an annual budget. Interviewee 3 said that their relationship with the (former) Cabinet member for Finance and Resources deteriorated over this period. Interviewee 3 had raised the issue of the way in which he was treating Interviewee 3 - excluding Interviewee 3 from discussions about the Council's finances or the work of the Asset Board which he chaired - along with the (former) Deputy Leader and the (former) Leader on a regular basis. Whilst the (former) Deputy Leader had been sympathetic, the (former) Leader had provided no support for Interviewee 3. Interviewee 3 and the (former) S151 Officer had found it difficult to hold their positions on budget management with ELT when the (former) Cabinet member for Finance and Resources would meet all Executive Directors and other Directors on a weekly basis and give directions including agreeing additional funding if a reasonable argument was put to him.
- 8.6.2 In August 2019 the (then Interim) S151 Officer told Interviewee 3 that the 2019/20 Q1 figures showed significant overspends in every Directorate - £13m in Children's Services and £10m in Adults and Place (which traditionally underspent). Interviewee 3 advised the (former) Leader about this and the (current) S151 Officer let the (former) Cabinet member for Finance and Resources know the situation. Interviewee 3 then was party to an emergency meeting of the ELT and CLT in September 2019, and the 'Sprint' sessions involving ELT and Directors to identify opportunities to reduce in-year expenditure. The key high spend areas were targeted - staffing, agency staff, EA/TA, Children's Services, procurement, placements, SEN, etc. Interviewee 3 described to me the introduction of recruitment controls and spending controls, and in October 2019 a new Programme Office was set up to manage the process and programme of work.

- 8.6.3 Interviewee 3 stated that they met the external auditors for the first time in October 2019 before the General Purposes and Audit Committee meeting on 9 October 2019. The key issue the auditors raised with Interviewee 3 was the ‘value for money’ conclusion in respect of the DSG and Children’s Services (as these were still ‘inadequate’). The minutes of the General Purposes and Audit Committee meeting also indicate that the external auditors raised the Council’s level of reserves and went into considerable detail about the impact of UASC (valued at around £20m). In Interviewee 3’s opinion the external auditors informed General Purposes and Audit Committee that they were content with the measures that the Council was taking to address the problems including cross-party lobbying of the Government about UASC funding. Interviewee 3 said that the external auditors had stated at the General Purposes and Audit Committee meeting that if the UASC issue was addressed it would fundamentally change the Council’s financial position.
- 8.6.4 The Council’s response to these concerns was to initiate a £40 million savings programme for 2020/21 which had included an additional £5m to be put into Reserves. Interviewee 3 said that there had been considerable challenge from members throughout the 2020/21 budget-setting process, as it was necessary to reduce spending in both Children’s and Adults Services and really drive the partnership and localities work with the NHS. In Interviewee 3’s opinion the required focus on reducing spend in Children’s Services adversely affected the (former) Chief Executive’s working relationship with the (former) Executive Director of Children, Families and Education. In Interviewee 3’s opinion he had done a great job as DCS with the Directorate’s culture and service improvement, but budget control was not his strong point. In February 2020 the (current) S151 Officer informed Interviewee 3 that Children’s Services had gone from a forecast of spending within budget for 2019/20 to a projected overspend of £15m in 2019/20. In March 2020 the Council went into COVID lockdown and Council Gold was set up which the (former) Chief Executive chaired.
- 8.6.5 On April 7 2020 the (current) S151 Officer had informed Interviewee 3 that in the course of the regular catch-up with Grant Thornton they had raised their concerns about the Council’s ability to deliver the 2020/21 budget as there was no guarantee that the government would underpin all COVID costs, together with the significant loss of income and the inability to deliver savings. The external auditors had informed the (current) S151 Officer that they were considering the issuing of an informal recommendation. On 8 April 2020 Interviewee 3 spoke with the (former) Leader and the (current) S151 Officer spoke with the (former) Cabinet member for Finance and Resources. Interviewee 3 said that it had been suggested to the (former) Leader that the Council needed to treat this financial crisis in the same way that it had responded to Children’s Services – accept the situation, be open and transparent, get the very best finance people in to support, set up an external panel of experts and develop an improvement plan.
- 8.6.6 Interviewee 3 is aware that the (current) S151 Officer was asked to set up an urgent meeting with Grant Thornton. The first time that Interviewee 3 was aware that the (current) S151 Officer had discussed the possibility of a S114 Notice was on 8 April 2020. On 9 April 2020 Interviewee 3 met for the second time with the external auditors at Grant Thornton’s offices. The outcome of that conversation was confirmed in writing on the same day and a copy was sent to the (former) Leader. The (current) S151 Officer also sent a copy to the (former) Cabinet member for Finance and Resources and also escalated the issue to the Chief Executive of LB Greenwich and the London Councils lead for Finance. On 1 May 2020, Interviewee 3 met with Grant Thornton to agree the approach to address the external auditor’s concerns – establishing a Finance Review Panel, independently chaired and commissioning a full ‘root and branch’ review of the Council’s financial systems, processes and governance. The Panel also included another Chief Executive, the Chief Executive of the Croydon NHS Trust (given the Council’s work on service integration), the (former) Cabinet member for Finance and Resources and the (former) Deputy Leader. Interviewee 3 said that there had been a lot of support from colleagues in other Boroughs and that the Panel

was an important step in getting back control of the budget from the (former) Cabinet member for Finance and Resources.

- 8.6.7 The (former) Leader had made it clear to Interviewee 3 that he wanted to handle all internal and external messaging about the situation. The Council had received the letter from Grant Thornton on 22 April 2020 but by that time it had already actioned the outcomes of the meeting with Grant Thornton and was putting in place the Council's response. The Finance Consultant was commissioned on 11 May 2020 to undertake the 'root and branch' review, and the Finance Review Panel had its first meeting on 21 May 2020 where immediate savings measures were presented. The local NHS Trust played its part in assisting the Council and assisted with funding for social care. The Council was also successful in its lobbying for UASC funding.
- 8.6.8 In April 2020, a budget deficit of £64m for 2020/21 was being forecast as a result of COVID impact and other factors. Interviewee 3 had informed the (former) Leader that the Council had to be looking at a 15% in year headcount reduction, coupled with immediate savings in other corporate areas as that was necessary to demonstrate to MHCLG that the Council was doing everything it possibly could to reduce the budget deficit.
- 8.6.9 Interviewee 3 said that they had also insisted that the Cabinet and ELT needed to meet together on a regular basis to monitor the situation and to input to the work of the Finance Review Panel. This did not happen in April 2020 but the (former) Leader did agree to this in May 2020. In April 2020 the (current) S151 Officer started discussions with MHCLG highlighting the issues and the possibility of a capitalisation direction. On 30 July 2020 Interviewee 3 met with a representative of MHCLG to discuss a 3-year strategy in this respect. Interviewee 3 said that it was an incredibly stressful time - dealing with the finance issues and with COVID in parallel. Interviewee 3 had pushed back on the headcount reduction exercise that resulted in staff feeling extremely upset. In June, the former DCS announced he was leaving. The (former) Leader was then under considerable pressure from the unions.
- 8.7.1 Interviewee 6 (external to the Council) said that the financial situation at Croydon had always been challenging since Interviewee 6 joined the Council a number of years previously. General Fund Balances then were £4.5m and earmarked Reserves were £8.5m. So when austerity started in 2010 the Council's financial reserves were still low and a cause for concern. Interviewee 6 said that the Council has since undertaken a range of transformation programmes to try to get to grips with its financial problems, and each of these programmes was designed with the dual purpose of making savings in the short term and making the Council more financially sustainable in the longer term. In February 2017 a 3 year budget was presented to Cabinet. This included significant growth in the People Directorate services in 2017 and, given that the grant settlement to 2020 was known, there was a clear picture of the financial challenges facing the Council. Growth in People Directorate services was then limited in the following two years by managing demand and being successful with the prevention strategy, but the whole strategy was derailed by the Ofsted 'inadequate' judgement in 2017.
- 8.7.2 Interviewee 6 said to me that there is no doubt that the Ofsted judgement was a real shock to everyone involved and getting to a 'good' judgement next time there was an inspection was a priority for the whole Council, and not just for Children's Services. The (former) Chief Executive had handled the fallout well and had provided Leadership for the improvement journey. This included significant additional funding being allocated to Children's Services. The clear focus for the (former) Executive Director of Children Families and Education (the previous Director had left) was to get to a 'good' Ofsted judgement and it was not clear that there was an exit strategy past the next Ofsted inspection in terms of cost reductions, so Children's Services costs continued to rise and that may still be the case. Interviewee 6 said to me that it was clear that that there had been a knock-on impact of the additional spending on Children's Services with other Cabinet

members looking for investment in their own portfolios. In 2018 a new Financial Strategy for 2018-22 was produced. Interviewee 6 explained that the introduction to the Strategy had clearly highlighted the reducing levels of the Council's Reserves and had set out a strategy to address that issue that included earmarking Collection Fund surpluses and any future dividends from Brick By Brick to Reserves. At that time Interviewee 6 made it clear that the Council was facing very serious financial challenges and the 'Graph of Doom' was presented to members to reinforce the point, but at that stage the Council was not close to a situation that required a S114 Notice to be served on the Council.

8.7.3 In Interviewee 6's view it would be fair to say that a more traditional approach to budget setting was adopted when the prior Chief Executive was in post. There were the usual away-days with the Labour Group, individual Directorate meetings with Cabinet Leads and the (former) Cabinet member for Finance and Resources etc. This continued when the (former) Chief Executive was appointed as Chief Executive, but the Ofsted judgement changed everything and it seemed to Interviewee 6 that the (former) Cabinet member for Finance and Resources was trying hard to manage the pain of his Cabinet colleagues about the Ofsted judgement by ensuring significant investment was made in Children's Services. In Interviewee 6's opinion the (former) Cabinet member for Finance and Resources could also have been trying to demonstrate how influential he could be. Interviewee 6 said that the 2018/9 budget actually had a considerable element of growth allocated to social care given pressures in the 2017/18 outturn, and there were serious attempts to control expenditure in other areas with the Impower work in Children's Services and an LGA Review of Adult Social Care costs, but despite this, in Interviewee 6's view the commitment of the officer leadership of the Children's Services and Adult Social Care Directorates to long-term sustainability was never secured. This was exacerbated in the view of Interviewee 6 by the Council agreeing to help out the Health sector in the Borough which was in serious financial difficulties at that time and needed financial help from the Council. Interviewee 6 believes that the Council probably did too much in that regard.

8.8.1 Interviewee 46 (external to the Council) had worked for a number of Chief Executives at Croydon Council over the years, including the previous Chief Executive who preceded the (former) Chief Executive. Interviewee 46 said that that individual had a finance background and was very much a process person, and they had worked hard to identify the underlying problems with the Council's budget but, having done so, no action was taken to deal with the problems. The Council, in Interviewee 46's opinion, has always preferred 'spin' over substance and has always refused to accept, never mind encourage, reasonable challenge. Interviewee 46 had thought a great deal about everything since leaving Croydon and is still not clear whether it was members not being told what was happening, or members not wanting to know or officers not doing the right thing and telling members how bad things were even if they did not want to hear it. It was probably a mixture of all of those. In Interviewee 46's view pre-COVID budgets did contain a lot of risk but there was always a window to take action, but COVID took that window away. Croydon's funding relative to the demands was way out of balance, and it had adopted a range of ways to manage that dynamic, some of them quite risky. But ultimately the budget proved to be undeliverable, and so it can be seen that the (current) S151 Officer's duty could not be complied with. Whichever it was, in Interviewee 46's view, the Finance function lost its impartiality and should have done more to reflect its statutory responsibilities and to speak up even if it was discouraged to do so. To illustrate how difficult it was, Interviewee 46 shared with me the experience of watching when the (former) Cabinet member for Finance and Resources was interrupted at meetings so that he could be put right or challenged, that he simply paused for a moment, then carried on regardless. Interviewee 46 explained that after a while people do stop trying – that may be wrong but it is what happened. The (former) Chief Executive was very different to her predecessor, and seemed content to leave financial matters to the (former) S151 Officer and then to the current one, to Interviewee 46's knowledge without ever challenging or questioning what they were telling her. The (former) Chief

Executive may have been charismatic in her way but she was not good at pulling everything together. She and Croydon seemed much more interested in ‘shiny things’ and good news stories in the media.

- 8.8.2 In Interviewee 46’s view, the (former) Chief Executive had ignored the fact that Croydon Council had lots of poor systems and that even the good systems were often bypassed or ignored. Interviewee 46 does not believe that the (former) Chief Executive really understood finance and did not make the effort to find out more and left it to the (former and current) S151 officers to sort out any issues. Interviewee 46 said they believed that the (former) S151 Officer was very clever and creative and was behind many of the initiatives that were launched by the Labour administration. He could make it all look sensible and was reassuring but, when he left, the (current) S151 Officer, in Interviewee 46’s opinion struggled in contrast to her day job as Director of Finance at which she was very good. In Interviewee 46’s view she did not have the experience and expertise to manage the S151 Officer role effectively. Interviewee 46 said that in their opinion she was not in the same position as her predecessor who had the support and the capacity to do things that the (current) S151 Officer did not have and she did not have a deputy who could have freed her from the mundane stuff so that she should focus on the S151 Officer role. She was also not well supported by the other Statutory Officers or by senior members. Even the best and most experienced S151 Officer, in Interviewee 46’s opinion, would have struggled in that situation.
- 8.8.3 Interviewee 46 said that it was the (former) Cabinet member for Finance and Resources and the (former) Leader who had put a number of new initiatives together without the necessary professional advice and without having them costed. There seemed to be no concern whether any of these initiatives were affordable so, for example, the introduction of the London Living Wage - a great thing to do in principle - was never costed and never assessed for its affordability.
- 8.8.4 Everyone accepted that the Council was underfunded and that its reserves were very low, so initiatives like a Development Company were launched with the expectation that the income stream and dividends that would result would compensate for the Council’s weak financial position, but the reality is that in Interviewee 46’s opinion officers were not clever enough to know what they were doing, and dissent or challenge was dismissed. Interviewee 46 also believed that the problem was that no one at the top, not the political leadership and not the (former) Chief Executive, wanted to hear any bad news and they buried their heads in the sand, bad news was stifled and people were instructed not to tell the other Cabinet members how bad it really was. The Finance Team was under-resourced and had been reduced as part of the savings to put resources into Children’s Services after the Ofsted judgement in 2017. The Finance Team’s ability to effectively challenge and play an impartial role in the management of a £1 billion annual budget was severely compromised. Interviewee 46’s reflection is that Croydon has always thought that it was much cleverer than it really is. There is a serious cultural problem as it is deeply embedded in the organisation that it is always some else’s problem - *‘not mine, or it is someone else’s responsibility to do something so I will keep my head down’* - and there is no commitment to corporate or collaborative working, with everyone having a silo mentality from the (former) Chief Executive and (current) Executive Directors down.
- 8.8.5 Interviewee 46 told me that a £60m budget ‘gap’ is simply unmanageable and the response of officers in their opinion had been to say that it really is not their problem which they cannot make a significant contribution to solving and that something else will have to happen – probably more borrowing. Interviewee 46 commented that if the ‘gap’ had been £2m or even £10m people could have seen and accepted that with everyone making their contribution it was solvable, that it could be done by everyone doing their bit by cutting back on postage, or less overtime or other acceptable measures. But £60m? It is just not feasible. Interviewee 46 said that the problem was well known but ignored, and any messages of ‘doom and gloom’ were filtered out increasingly by elected members and the (former) Chief Executive. Even many of those savings that were

proposed as a contribution to solving the problem were not real and many were no more than accounting adjustments.

- 8.9.1 Interviewee 1 (a former and/or current member of the Cabinet or Committee Chair) told me that in March 2020 the Council had the Ofsted report with a 'good' judgement which was excellent news, and separately had already commissioned an LGA Corporate Assessment with a particular focus on financial management but again COVID intervened and the review was postponed. Interviewee 1 said if that had that happened it could have been of great assistance in sorting out the Council's financial difficulties. So there were missed opportunities that were not entirely the fault of the Council. Interviewee 1 said that the administration did know about and had been concerned at the low level of reserves, and the (current) S151 Officer has confirmed that there was a strategy for building up reserves year on year. In preparing the 2020/21 budget a year ago the work of the Cabinet was the most intense ever, including two Cabinet/ELT away-day sessions in November 2019 and January 2020, to produce a budget that included £5m for Reserves and which was then voted for by all 70 councillors. With hindsight, it is clear that although there had been good briefings from the (current) S151 Officer about the cost of COVID, the Leadership and the Cabinet were not being kept informed just how serious the Council's worsening financial situation was, most importantly in respect of the growing risk of Brick By Brick being late with or missing its loan repayments.
- 8.9.2 Interviewee 1 said to me that they had only found out in August 2020 that there had been a report in November 2019 by Impower about the Council's budget that Interviewee 1 believes had been 'buried' by officers and was only given a copy of this report in August 2020 by a member of ELT who was very nervous about giving Interviewee 1 this report and was worried about possible repercussions. After the (former) Chief Executive had left, ELT members had told Interviewee 1 that they had not been allowed by her to speak out about a number of issues and that they wanted that on the record. Interviewee 1 said that it is astonishing that it is now known through the RIPI that the (former) Chief Executive did not respond to the Grant Thornton letter to her in April 2020. There was clearly a serious breakdown between the (former) Chief Executive and the Council's external auditors. It was a good move by her early in 2020 to set up the Finance Review Panel, but it was too little too late to really deal with the challenges with the Council's budget and the financial situation generally. Interviewee 1 said that the Cabinet was being kept closely informed about the worsening COVID financial pressures and emerging Directorate overspends but not about Brick By Brick and the full extent of the Directorate overspends, despite constant Cabinet member pressure to reduce the cost of, for example, placements. In March 2020 Croydon went into a Gold Command structure and the (former) Chief Executive, as Gold Commander, and the Council generally did very well in managing the crisis of COVID, but the (former) Chief Executive should have stood Gold Command down eventually as it had become the mechanism to micro-manage every budget decision [REDACTED], and she should have focused on more strategic issues including the Council's deteriorating financial situation.
- 8.10.1 Interviewee 11 (a former and/or current member of the Cabinet or a Committee Chair) said that there had been a lot of reflection about what has happened in Croydon and why the Council is in the current situation. Interviewee 11 said that, in reality, Croydon has had problems with its finances for probably the last thirty years. When Labour first took control of the Council 26 years ago there was already serious underfunding by central government and consequentially low reserves. That pattern has continued ever since and had got much worse when austerity really hit Croydon hard in 2010. Croydon has changed considerably over the years and although it continues to be seen as an outer London Borough the reality is that it has inner city problems much like its neighbour Lambeth which has twice the per capita funding that Croydon receives, and Croydon has the additional problems of a Home Office Asylum Centre and large numbers of UASCs. So the context is really important and the potential for flexibility in the approach to financial management has been severely hampered by that context. Interviewee 11 believes that elected

members are very dependent on the advice they are given by professional officers. However, Interviewee 11 does now question whether members were given the right information about the scale of the Directorate overspending in 2019/20 and the growth pressures when the 2020/21 budget was being developed. There was an iterative process of joint Cabinet/ELT ‘away days’ with a lot of scrutiny and questions, for example about officer assumptions about growth, but it does now question whether members were given the wrong or full advice about a number of things and in Interviewee 11’s mind whether this was accidental or deliberate. Obviously, there have been a lot of comments about the 2020/21 budget, not just because of the comments in the RIPI, but also given the scale of variances in 2020/21. Interviewee 11 thought it is important to put on record that this was an iterative collaborative approach. Interviewee 11 then provided the following documents:

- slides for November 2019 Political Cabinet/ ELT ‘away-day’
- email in preparation for 6 January 2020 Political Cabinet discussion
- email in preparation for 20 January 2020 Political Cabinet/ ELT ‘away-day’

8.10.2 Interviewee 11 told me that these documents illustrate that other Cabinet members were being kept apprised of the risks and issues facing the Council. Interviewee 11 said that it is also worth noting that the Council’s budget is an area where members are very dependent on the input and advice from officers. ELT had participated in the late January 2020 away-day and (current) Executive Directors had contributed about their own budgets. Interviewee 11 said in that context, it is worth quoting two parts of the (current) Section 151 Officer’s formal advice in the Budget report to Cabinet and Council:

*Budget and budget process*

*14.13 Despite budgets being calculated on most likely estimates, not the best estimates basis, the budget contains significant challenges in terms of efficiencies delivery as well as demand led pressures and income generation. The Council has set plans to deliver departmental efficiencies and additional income of £40m. Whilst the financial environment remains volatile I believe that the budget and plans in place to review and monitor spend throughout the year ahead take account of that environment and is therefore prudent for the 2020/21 financial period.*

*Reserves*

*14.9 The level of reserves and balances are principally the responsibility of the S151 officer and are key to ensure the financial sustainability of the Council. The Members of the Council are not automatically obliged to accept my advice in every particular, but must pay due regard to it and be satisfied that they have met their own public obligations if they are minded to depart from my advice.*

*14.10 In the context of the current financial climate and the financial risks which the Council faces my formal advice to all Member is that an appropriate level of General Fund Balances is between 3% and 5% for the medium term which in cash terms is between £8m and £13.8m. The current level of General Fund Balances is £10.4m. This budget makes provision to increase reserves by £5m.*

8.10.3 Interviewee 11 said that it is worth reflecting on another example of where politicians were sidelined and pushed out. Interviewee 11 had proposed that there should be meetings (monthly for the Children’s and Health, Wellbeing & Adults, bi-monthly for Place and Resources) co- chaired by

the (current) S151 Officer and Interviewee 11 and attended by the relevant Executive Director where they would review not just management accounts, but cost drivers/lead indicators and, critically in particular at the start of the year, actions to deliver budget initiatives. The idea was also that Interviewee 11 and the (current) S151 Officer would report back to political Cabinet (and the (current) S151 Officer to ELT) on what was emerging. However, this had been blocked by the (former) Chief Executive and no ELT accountability process in Interviewee 11's opinion was put in place by the (current) S151 Officer.

8.10.4 Interviewee 11 subsequently made a number of other observations to me about the financial management arrangements at Croydon:

- Budget accountability

Officers of the Council did not appear to consider it their responsibility to deliver their budgets, regarding this as a Finance issue. This was particularly true in the demand-led areas such as social care. It is telling that the first recommendation in the Report in the Public Interest references this. And where there were issues recognised, there was no sense of urgency or pace.

- Financial control environment

It is now clear to Interviewee 11 that there are very serious weaknesses in the financial control environment. The fact that these were allowed to occur and nothing done about them in their opinion is really concerning. The (current) S151 Officer did not flag those issues or make an issue of them when considering pressure to make budget savings in her area. This put the Council in peril.

The huge year-end variances in 19/20 (gross £17 million in March 2020 just in Children's, for example) shows how out of control the budgets were. Interviewee 11 had been making an issue of how placements were decided, monitored and paid, for a year or two, as it was clear that there was very poor practice which meant that the Council did not know its run-rate at any time and did not have accurate financial forecasts and even outturn. The fact that this was not seen as a priority by the (current) Section 151 Officer or other (current) senior officers of the Council is quite shocking.

- Interviewee 11 met with the external auditors in late 2019. The only issue raised by the auditors, in a long and detailed meeting, was the issue of the Council's level of reserves and, linked to that, the treatment of the Dedicated Schools Grant. None of the other issues raised in the Report in the Public Interest were raised in that meeting. The auditors did not take any opportunity to raise their other concerns with Interviewee 11 then or subsequently and, Interviewee 11 understands, they did not raise any issues of serious concern with the Chair of the General Purposes and Audit Committee when they met with her in early 2020. The information from officers was that the auditors had some concerns and had sent the (former) Chief Executive a letter, but that these issues were being addressed to the satisfaction of the auditors. This remained the information that was being given until September 2020 when members were suddenly informed that there was serious consideration being given by the external auditors to a Report in the Public Interest.

8.11 Interviewee 19 (a former and/or current member of the Cabinet or Committee Chair) told me that the budget-setting process that has been used for the 2020/21 budget was not satisfactory. In the past there would be discussions and budget papers produced in November/December so that the

Scrutiny Committee had time to play its part in the process, but this time the budget papers went to Cabinet in February 2020, just days before the Scrutiny Committee meeting which gave little time to prepare. Croydon had managed to live with low General Fund reserves for nearly three decades, which meant that the actual level of reserves was never really discussed, nor the risk associated with low reserves, in any Council meeting between 2010 and 2018. None of the three S151 Officers (current or previous) made any special issue of the level of General Fund reserves until 2019. There is now an (Interim) Chief Executive and a new Leader who both have very different styles from their predecessors. Interviewee 19 said that the (former) Leader discouraged and disliked any questioning of the major decisions that he and his Cabinet members were undertaking, and had disposed of a talented Cabinet member in 2016 because she had challenged him and had asked the right questions. Interviewee 19 said that there has been a weakness in the organisation for many years, probably since the early 2000s, where people have not been prepared to take difficult decisions and to say no to anything. Successive Chief Executives have come in pledging to change this culture but this has never happened – hence the extensive staff cynicism about whether anything will ever change. Interviewee 19 said that the (former) Chief Executive had some really good ideas about how to improve things and initially there was political support for the changes she wanted to introduce, but the financial problems overrode the willingness to change and then COVID broke the back of an organisation with no financial reserves. It is too easy for members to now blame officers for the situation that Croydon is in but the reality is that previous Cabinet members were not prepared to make the difficult decisions to cut spending which was what has really been required for many years.

- 8.12 Interviewee 14 (a former and/or member of the current Cabinet or Committee Chair) told me that there has been an organisational culture that was not committed to performance management and to financial accountability. So far as finance was concerned it was always left to the (former) Cabinet member for Finance and Resources as the person to sort out any financial problems and no question of affordability was ever raised. When questions were asked by external auditors these were always fended off. On reflection, Interviewee 14 really does not understand why the officers did not flag up the risk and the un-affordability of the things that elected members were intent on doing. Interviewee 14 now appreciates, having read the RIPI that members paid insufficient attention to managing resources and did not get the balance right in also lobbying government to give the Council more money. Interviewee 14 said that what they should have done was manage the budget much better over the years, build reserves and not do all the ‘shiny new things’ without making sure they were affordable. There was no corporate or coherent approach taken to manage the Council’s financial situation responsibly and members should have looked more critically at whether to take the hard decisions like discontinuing or reducing support for activities such as supporting UASC if the administration wanted to set up companies and buy hotels.
- 8.13 Interviewee 16 (a former and/or current member of the Cabinet or Committee Chair) told me that of course it was widely known that the Council had been ‘underfunded’ relative to its comparative needs by the government for many years and that it faced additional costs because of the asylum seekers in the Borough. But Labour councillors had been very reluctant to cut services like Children's Services and Adult Social Care or to reduce commitment to UASC. But in the end, everyone has to accept that they have to live within their means and other Labour Councils in London seem to have been able to manage this. Interviewee 14 sees now that the Council should have cut its costs much sooner so that it could live within its means.
- 8.14 Interviewee 24 (a former and/or current member of the Cabinet or Committee Chair) told me that part of the explanation of Croydon’s current difficulties has to be in the context of continued underfunding by government, the impact of austerity, the impact of COVID and specific issues such as UASC. Interviewee 24 said that this was compounded by the political marginality of Croydon that makes it so difficult for members to take bold political decisions that impact detrimentally on Croydon residents. The Council has had reducing and limited resources when

there has been a huge and growing demand for social care. Interviewee 24 said that the approach had not been to ‘cut its cloth’ but to try to ‘stretch the cloth without cutting it. This had worked for quite a long time, but then the impact of COVID in Croydon that was badly hit this year had tipped the Council’s finances over the edge. Had it not been for COVID the Council may have been able to survive for another year but now there is no choice but to face the music.

- 8.15.1 Interviewee 41 (a former and/or current member of the Cabinet or Committee Chair) had been aware for nearly 30 years as a member of the Council that Croydon had never been free of financial problems thanks to the continuous underfunding by which it is treated as an outer London Borough so that Lambeth for example, its neighbour, as an inner London authority gets twice the per capita funding that Croydon does, when Croydon faces many of the same challenges of deprivation and poverty. Consequently, the Council has needed to continually make cuts in spending which is always a challenge in an authority which changes control from time to time. Interviewee 41 said that in 2010, when austerity was imposed which affected all local authorities, Croydon had further particular localised problems. Croydon also has the Home Office Asylum Centre in Croydon so it has been host to more asylum seekers than any other London Borough. Interviewee 41 had found it frustrating that other Directorates consistently overspent as Interviewee 41’s portfolio had always balanced its budget, and had given back significant savings - £3m per year - to help the corporate overspend. So whatever happened, whatever national government was in place, the Council always had financial challenges.
- 8.15.2 The pandemic in 2020, plus the underfunding of UASC, tipped Croydon over the edge. Interviewee 41 had not been directly involved in the investment initiatives and understands the current problems with these but is confident that at some point the Council will see its loans repaid and the investments producing income streams. Interviewee 41 said that it is disquieting on reflection that these initiatives were in their opinion, not really properly discussed at Leadership Team meetings that the (former) Chief Executive and the (current) Finance Director attended or at political Cabinet, where there was no ongoing discussion or agenda items about Brick By Brick or the Croydon Park Hotel. Having said that, whenever questions were asked, including at Scrutiny Committee and General Purposes and Audit Committee, feasible answers had been given. These initiatives were very much led by the (former) Cabinet Member for Finance and Resources, the (former) Deputy Leader (re housing initiatives) and the (former) Leader. Interviewee 41 supposed that under ‘old school’ governance arrangements the (current) Director of Finance and the (current) Monitoring Officer would have had a stronger role to play in advising on these investments. Interviewee 41 feels those Statutory Officers should have spoken up if they had doubts, although no one knew there was going to be a global pandemic. The Grant Thornton letter to the (former) Chief Executive in April 2020 was sprung on Interviewee 41 who did not know about it until much later. Interviewee 41 believes that the (former) Leader and the (former) Cabinet member for Finance and Resources were not told straight away about the letter but were aware of it later. It was never discussed at those Leadership Team meetings with the (former) Chief Executive and it should have been. Interviewee 41 is very disappointed that there had to be a Public Interest Report and everything else that the Council is now facing, but is not entirely surprised. It has been known for many years that the Council faced serious financial problems with consistent overspending and low reserves, and in 2014 the (former) S151 Officer presented members with the LGA ‘Graph of Doom’ that showed that by 2026 all local authorities would be unable to balance their books but in Croydon’s case it would be 2022. So the Council is now a bit in advance of what the (former) S151 Officer was telling members then.
- 8.15.3 The election manifesto in 2014 was very ambitious despite the ‘Graph of Doom’ forecast and the new administration had been pleased that officers were committed to delivering as many of the manifesto commitments as possible. Interviewee 41 commented that with hindsight the manifesto was maybe too ambitious and maybe officers should have done more to caution members then about the feasibility of delivery and should have proposed prioritisation of initiatives that were

affordable. Officers should be encouraged and required to say no when that is the right thing to do and there is statutory protection to cover them if they do.

- 8.16.1 Interviewee 18 (a former and/or current member of the Cabinet or Committee Chair) told me that although there are particular difficulties with the Council's finances at the moment this has been a problem for many years and all the time since Interviewee 18 has been on the Council. Reserves have always been low and there never has been the right opportunity to build them up to an acceptable level. It has also been very difficult to meet the level of demand for demand-led services like Children's Services and Adult Social Care so those Directorates have been overspending for many years, and this was exacerbated by the need to improve services following the adverse Ofsted judgement in 2017. The Council is funded as an outer London Borough but the reality is that it is not typical of those Boroughs and there are severe inner city problems in parts of the Borough. More than half of Croydon is typical inner city with more and more people being forced out of London because of the cost of housing and ending up here bringing with them their housing and other problems. This has accelerated housing need in Croydon and this has been a big issue for Interviewee 18 and other members of the Labour Group who were very ambitious that the Council should provide many more affordable homes and were keen to find a mechanism to do this when Labour took control in 2014.
- 8.16.2 Interviewee 18 said that having a wholly-owned but 'arms length' Development Company like Brick By Brick was seen to be the right mechanism to deliver lots of affordable homes. The (former) Cabinet member for Finance and Resources was always regarded as a very competent and knowledgeable Finance Lead - he was an accountant - and he had worked closely with the (former and current) S151 Officers in managing the Council's finances. The Cabinet was continually being assured that the known financial problems were manageable and the other Cabinet members felt it was ok to focus on delivery of their own portfolios. Interviewee 18 was very disappointed when it became clear that the Council had such serious financial problems that it would require a S114 Notice following the publication of the RIPI, and Interviewee 18 certainly had not understood just how serious the problems were. There is no doubt that the pandemic pushed the Council over the edge because in February 2020, before the pandemic really took hold, the Council was finalising a budget for 2020/21 that was said to be addressing the overspending as well as building back reserves. This was the first time that Interviewee 18 had heard that the appropriate level of reserves was £50m, and although Interviewee 18 had known for many years that the Council's reserves were low it seemed to be an unachievable task to build them up to that level over a reasonable timescale and whilst maintaining an appropriate level of services. Interviewee 18 does not recall officers or the external auditors previously advising that this was the level of reserves the Council ought to maintain. Interviewee 18 said that a significant problem that has come to light is the Council's lack of robust internal financial management. The Council's capacity in this critically important area appears to have been fatally undermined through the cuts to 'back of house' services over the last decade or so that were necessary to protect frontline services from the very significant austerity cuts to Council funding made by central government.
- 8.17.1 Interviewee 20 (a member of the Opposition Group) said that the Council had been reluctant to take the necessary action to sort out its finances for a number of reasons but mainly because any reductions in what it did would be unpopular in the community. So, overspending was not being effectively dealt with but attempts were made to compensate for the overspending by cutting corporate items, so there were short term fixes rather than structural solutions. Commercial initiatives designed to increase income were undertaken rather than dealing with the inherent problems with the budget.
- 8.17.2 The (Interim) Chief Executive is now having to deal with this very late in the day and the £110 million 'growth' in next year's budget is not really growth at all but is just getting the revenue budget where it should be. Interviewee 20 said that the use that has been made of capital receipts

for 'transformation' funding to cover up departmental overspending follows the precedent at Northamptonshire County Council and Interviewee 20 has serious doubts that this was in line with government guidance on the use of capital receipts. So the strategy of using capital receipts and potential income from commercial ventures instead of dealing with inherent overspending by Directorates has, in Interviewee 20's opinion, been a massive failure and has exacerbated the current situation. One particular circumstance that Interviewee 20 wanted to draw attention to is the change in the Council's financial position between Q2 and Q3 for 2019/20. This was something Interviewee 20 had raised at the February 2020 Cabinet meeting and had asked questions about. The in-year overspend position was very bad at Q2 and improved significantly by Q3. This appeared to be because large amounts of money in the affected departments were now showing as 'transformation'. These were not there at Q2. Transformation spending that is introduced in year should not affect budget performance, it should be an additional cost that produces future savings. Interviewee 20 felt at the time - and still feels - that pressure may have been applied to officers to 'move' costs into 'transformation' to improve the performance versus budget position that would clearly have been wrong. Interviewee 20 believes that this pressure would have come from the political/officer leadership, and is firmly of the belief that this use of transformation funding would breach government guidelines.

- 8.18 Interviewee 4 (a member of the Opposition Group) said that poor control of budgets has been at the root of Croydon's problems over many years, exemplified by the regular overspending in Children's Services even allowing for the fact that it and Adult Services are both demand-led. Interviewee 4 had been upset at the statement in the RIPI that both political parties are responsible for the situation as the Opposition at Croydon does not have any real influence on decision-making. It is correct that the Opposition has supported the current Administration's budgets as there was not really anything wrong with the budgets that have been agreed as they have arguably been the best available disposition of the resources available. Interviewee 4 said that the problem has been with the delivery and control of those budgets by Directorates and their Cabinet leads.
- 8.19 Interviewee 21 (a member of the Executive Leadership Team) said that when starting with the Council it was thought that the Council had no financial problems and that there was a lot of money for investment and so on. It was only after the (former) S151 Officer left that the problems with Croydon's finances became known about more generally, and in recent times the focus for the Council has been on budgets and the need to sort out the serious financial issues.
- 8.20 Interviewee 29 (a member of the Executive Leadership Team) said that the budget-setting process at Interviewee 29's previous authority had been really important, stretched over maybe six months or more starting in the late autumn each year. In Croydon the process has seemed to be more of a short term 'tick box' exercise and not a joined-up process subject to corporate discussion. Interviewee 29 recalled working with the (current) S151 Officer and the Director of Policy and Partnerships on a presentation about the financial challenges for a CLT meeting in June 2019. The (former) Chief Executive had not been happy with aspects of the presentation and had changed some slides so that the presentation was more positive. The (former) Chief Executive did highlight the issues but always liked to go out on a high, so she had ended with a positive message that they could fix things. At the end of the financial year she said - *'we've done it'* - but Interviewee 29 said of course they had not and it was all still to do. When COVID hit earlier this year the (former) Chief Executive did react and focus on the Council's financial problems and set up the Finance Review Panel and appointed a Finance Consultant. It seems to Interviewee 29 that Croydon has always focused on the 'shiny' things and not on basic stuff like financial management. Interviewee 29 said that there is no standard approach to financial accounting at Croydon and Directorate accountants each have a different approach to budget setting and control. Some managers in Croydon tend to leave financial matters to their accountants and there has been no training or consistent approach to managers being responsible for budget control in Interviewee 29's opinion, so it is not surprising that there is unclear financial accountability. Not all managers have the

necessary skills or understanding to monitor their budgets on a monthly basis, and the consequences of some proposals do not seem to be assessed before they are introduced and implemented. Interviewee 29 gave the example of the (former) Cabinet member for Finance and Resources wanting to ‘insource’ everything, a defensible policy in principle and also a manifesto commitment in 2018. The headcount went up by 900 in the last three years and it had cost the Council more to run the same services with no compensatory savings, adding to the Council’s budget problems. Interviewee 29 said in their view that there seems to be an absence of risk assessment and necessary checks and balances to ensure that good ideas are affordable.

8.21 Interviewee 25 (a member of the Executive Leadership Team) was aware that Grant Thornton had sent a letter dated 22 April 2020 to the (former) Chief Executive because Interviewee 25 had been at the meeting with Grant Thornton when it had been discussed. Interviewee 25 had been copied in with the letter by the (former) Chief Executive in an email request to the (current) S151 Officer, asking Interviewee 25 to support the management of the response. ELT were sent the letter by the (current) S151 Officer in May 2020 and the (former) Leader and the (former) Cabinet member for Finance and Resources were both aware of it at the time. The (former) Chief Executive was working on a planned response to the letter and the concerns expressed in it, such as working with CIPFA on a sector response to COVID expenses and external support to Croydon through the establishment of the Finance Review Panel, attended by Grant Thornton. The letter and the concerns in it were also discussed at every Finance Review Panel meeting, starting on 21 May 2020. The need for a response also formed part of the Panel’s Terms of Reference. Interviewee 25 told me that consideration had been given to whether a S5 Report was required but Interviewee 25’s conclusion had been that any issues were around the Council’s finances and not about lawfulness. The Annual Financial Reports were all properly signed off by the (current) S151 Officer and there was no unlawfulness that was indicated so the conclusion of Interviewee 25 had been that no formal intervention by the (current) Monitoring Officer was necessary. Interviewee 25 said that the (current) S151 Officer had consulted about the decision to issue a S114 Notice and Interviewee 25’s personal opinion was that it was the right thing to do. Interviewee 25 is of the view that there had been no unlawfulness in respect of the way the Council set up the various companies. External legal advice had been sought about setting them up including the LLPs and it had been established that the Council had the vires to set them up.

8.22 Interviewee 31 (a member of staff) told me that there had been overspending on the ‘Communities’ budget, and some solutions to the overspending had been proposed by Interviewee 31 to manage and take personal responsibility for those budgets including a cutback in voluntary sector funding. Understandably, this was not a popular option and the then Cabinet member responsible was very uncomfortable with it. That Cabinet member had complained to the (former) Cabinet member for Finance and Resources who said that it need not be done, and the (former) Cabinet member for Finance and Resources then spoke to the (current) S151 Officer to say it was not a problem, and it then got ‘fixed’ by being charged to the Collection Fund instead. Interviewee 31 told me that colleagues had told Interviewee 31 that this was a typical example of the way the (former) Cabinet member for Finance and Resources operated.

8.23.1 Interviewee 37 (a member of staff) on starting at Croydon in February 2016 had requested a budget line for a budget for which they were responsible. Two people in the Finance Department had been dealing with the request but they really could not give any sound information. At that time Interviewee 37 had been in the prior Chief Executive’s Department and given previous experience in many organisations at local, regional and national level it had seemed to Interviewee 37 that Croydon’s finances were in total chaos with the usual local authority arrangements and the checks and balances that had been a matter of course elsewhere were simply not in place. What became clear when Interviewee 37 probed a bit was that the so- called budget they were meant to be in control of was being used to fill ‘holes’ in other parts of the Council’s budget, and Interviewee 37 was soon struck by how little some Executive Directors and other Directors understood the details

of their budgets and how to manage and control expenditure. There was no consistency of approach, no transparency and the budget was being used for other purposes. Interviewee 37 had asked for someone from Finance to help with understanding where the various budget elements were but no one could. Indeed, one of the people who was meant to be managing the budget clearly did not have a full grip of budgetary or financial issues, and Interviewee 37 said to the (former) Executive Director of Resources and S151 Officer that, if there was not a different Finance lead provided, Interviewee 37 would identify this on the Corporate Risk Register. Interviewee 37 was then allocated someone in Finance who was, and still is, excellent, and has been a key part of Interviewee 37 being able to fully identify where the budget was. This took about 18 months and in the meantime Interviewee 37 developed a 3-year budget which was good practice. However the monies for the budget that Interviewee 37 had identified were then used to offset the Adult Social Care overspend. Even now £1m of the budget is in the One Croydon fund and £300,000 per year goes to a general commitment for 3 years made before Interviewee 37 arrived at Croydon.

- 8.23.2 At one point Interviewee 37 was funding pretty much the whole of the Environmental Health Department through a budget which is explicitly not to be used for mandated services. Interviewee 37 had been distressed that for the first time in a nearly 40 year local government and NHS career Interviewee 37 could not say where the budget was so it could not be managed or controlled. No one seemed particularly perturbed about this as it appeared to be the normal Croydon way of doing things.
- 8.23.3 Interviewee 37 had raised this with the (former) S151 Officer who was sympathetic and said that he would sort it out but nothing changed. It got to the point that at one time Interviewee 37 was funding 45 posts across the Council. Interviewee 37's personal opinion is that there is a lack of professional budgetary competence in Croydon which is exaggerated by the silos Directorates work in. There seems to be little sense of or commitment to corporate working, and although the narrative is there sadly the practice rarely is. It seems to be in Croydon's DNA that there is no need for budget management or control. The first week that Interviewee 37 started at Croydon the (former) Cabinet member for Finance and Resources had asked to meet and had then quizzed Interviewee 37 about budgets, and from then on he was consistently interfering with budgets using them to fund his pet projects. This was happening on the (previous) S151 Officer's watch and the (former) Chief Executive was aware of the behaviour of the (former) Cabinet member for Finance and which was being used with other budgets but no one said anything. Interviewee 37 said in their opinion that it seems that not just him but that other members as well do not understand or respect sufficiently the boundaries between the roles of officers and those of members. It is no wonder in Interviewee 37's view that officers in Croydon do not seem to have a basic understanding or commitment to basic budget management and control that is the norm elsewhere because why bother? Interviewee 37 said that it is no wonder that Croydon has always had a reputation of being poor in financial management, and it seems that the Council has for long been known for overspending and for its low reserves.
- 8.24.1 Interviewee 43 (external to the Council) said that in their opinion there has been for a long time a big question about the adequacy and quality of leadership in the Council's financial management. Whilst Interviewee 43 does have a great deal of respect for the (current) S151 Officer, her financial expertise and her resilience, they are of the opinion that she does not have the necessary experience or expertise to be able to do what is required in this extreme situation. Indeed, many much more experienced Finance Directors would struggle to deal with it. She has no previous experience of being a S151 Officer and she has worked for Croydon for most of her career. Interviewee 43 questioned why it was thought appropriate to appoint someone with that sort of experience and expertise to be the S151 Officer given the emerging understanding at that time of the seriousness of the financial plight the Council was in. Interviewee 43 asked whether it had been considered 'convenient' to appoint someone who could possibly be manipulated into not raising issues and concerns that the Council's political leadership did not want raised. Whatever the reasons were,

the result in Interviewee 43's view is a serious deficit in the Council's financial management, and challenging or saying no to the Council's political leadership just has not happened to the degree required.

- 8.24.2 Interviewee 43 believes that the (current) S151 Officer may have been 'leaned on' by the (former) Chief Executive and the political Leadership not to issue a S114 Notice earlier this year. Interviewee 43 understood that the (current) S151 Officer had decided this was necessary but over the weekend, it is understood by Interviewee 43 that she was 'worked on' by the (former) Chief Executive and (former) Cabinet Members and then decided not to issue the Notice. The problem in Interviewee 43's opinion was exacerbated by the reporting arrangements as the (current) S151 Officer reports to the (current) Executive Director of Resources and Monitoring Officer who is not a qualified accountant. Interviewee 43 will be recommending to the (Interim) Chief Executive that the S151 Officer post should report direct to the Chief Executive and should sit at the top table along with Executive Directors.
- 8.25 Interviewee 50 (a member of staff) said that there had been a huge loss of trust amongst trade union members as a result of the disastrous financial situation and its consequences for both staff and the wider community. What is now needed above all is openness and transparency about how the Council got here. Interviewee 50 said that there is also a need for more accountability for the situation for both senior officers and elected members. Elected members do not seem to have understood sufficiently the direction they were taking with some of their decisions about the Council's finances, and they need more and better training to ensure that they understand what they are doing. The Council's Finance Directorate needs to be reviewed and there needs to be more checks and balances in place to ensure that there is never any repetition of what has happened. There is a lack of robust financial control in place, and things are not properly checked or challenged. The cut in Finance staff has contributed to the poor control of expenditure.
- 8.26.1 Interviewee 51 (external to the Council) told me that it was clear on arrival in Croydon that there were financial problems facing the Council, with claims that it was significantly underfunded and that reserves were consequentially low. The (former) Chief Executive had always been very open with Interviewee 51 about this and about just how difficult the situation was becoming particularly when COVID seriously exacerbated the situation. But her approach was always that we know there are difficulties but we will be able to find a way to get through this and manage the situation.
- 8.26.2 Interviewee 51's view is that essentially the Council had not accepted the scale of the financial problems that were mounting up, and that there has long been a problem with ownership and honest acceptance of the situation the Council was facing. There may even have been an element of not fully and clearly setting out the scale of the issue both to the outside world and to them. As part of that, the underfunding and impact of COVID were signalled as the key drivers to the financial problems and the COVID issues would be the case for every London Borough, although no other Boroughs are in anything like the serious situation at Croydon. There is no doubt that COVID exacerbated the Council's financial problems but it clearly goes much deeper than that and the problems have much longer roots.
- 8.26.3 It seems to Interviewee 51 that there is some rewriting of history taking place, with members saying that officers did not tell them how bad things were and officers saying that members would not let them do what had to be done. There seems to still be a question of how honest some people in Croydon have been prepared to be about the causes of its current problems. It does appear that the most senior managers at the Council are being blamed for what has happened but Interviewee 51 is clear that others had a part to play. One of the problems with Croydon is that it is never 100% clear who is responsible for what, and there is quite a complicated management structure. It also seems to Interviewee 51 to have been a false move not to replace an experienced S151 Officer who left with an equally experienced S151 Officer. This was rather unfair on the (current) S151 Officer

as she has been pitched into a situation that she did not have the necessary experience to deal with – but then she did accept the role. Interviewee 51 is of the view that until the Council’s Executive Leadership Team really gets its act together to support the (new) Leader and the (Interim) Chief Executive, the Council will struggle to deliver the Improvement Plan.

- 8.27.1 Interviewee 52 (external to the Council) - said that on arrival at Croydon, the public sector organisation that they worked for in Croydon had been in deficit and it continued to be in deficit for the first five years of Interviewee 52’s time, with the last two years being in balance. So it seems to Interviewee 52 that being in deficit in the public sector has been very much the pattern in Croydon and that has been the financial situation that they have all had to manage. Although it was not highly visible as an issue, Interviewee 52 was aware that the Council’s reserves were already low and that they continued to reduce year on year. Interviewee 52 was not directly involved in the Council’s budgeting process but since being at Croydon Interviewee 52 has always been concerned about the way the Council planned its budget for the following year. Interviewee 52 has read the reports to Cabinet and Council and it seemed that what was being presented to members always seemed to ignore or paint over the financial risks for the current year so that this did not impact on the strategy for the next year. So the focus was always on the next year and the reality of the current year was ignored. It has never seemed to Interviewee 52 that Adult Social Care has been a priority for the Council, focused as it has been on improving Children’s Services and on its investment in assets. The social care budget has been stable at around £100m for each of the last three years and this has ignored the developing situation with the increased need for and mounting costs of adult social care.
- 8.27.2 Interviewee 52 was surprised to read the Report in the Public Interest as Interviewee 52 had not realised just how serious the Council’s financial situation was and how defective the governance arrangements were. It seems that the finance function has a much greater role and influence in their public sector organisation than it does in local government, in Croydon at least. It appears to Interviewee 52 that the Finance Team at the Council were essentially ‘bean counters’, and with all responsibility being held by budget holders. At least Croydon now has to confront and deal with reality. Before the RIPI the Council tended to blame external factors for its financial problems - UASC, the Home Office, austerity, COVID, NHS etc. The action plan recently approved by the Council should address the real issues but it will take a lot of time and a huge organisational effort. Interviewee 52 had been surprised when the (former) S151 Officer left the Council, not least because the replacement arrangements were not appropriate with in Interviewee 52’s opinion an inexperienced S151 Officer being appointed who was not even an Executive Director.
- 8.27.3 Interviewee 52 does have specific concerns about the way the Council manages its budget setting process. In the current year’s budget the ‘Older Adult Social Care’ growth was funded by assuming a £6m contribution from the NHS. This was an assumption by the Council rather than a negotiated position, and Interviewee 52 has learned that it had not even been discussed with the NHS before it was shown in the budget papers. It led Interviewee 52 to look back over the provision for Adult Social Care in the budget papers for the previous three years, and it became clear that this pattern of setting very optimistic budgets based on similar assumptions was endemic. It also highlighted that whilst there had been funding for social care it was diverted away from Adult Social Care. So there is a serious problem with the way things have been presented by the Council, and transparency and reality have been a problem over recent years. Interviewee 52 has always found it very difficult to know precisely what joint funding has been allocated to the Council (e.g. BCF, social care grant) and how it was being deployed. A common narrative was that funding was provided and then taken away as ‘efficiency’. Presentation of numbers has tended to be optimistic, for example, even in the 2020/21 financial recovery plan, the Council estimated £20m - £25m savings, which included £12m of NHS cost reimbursement. This was straightforward inflation of savings numbers, with the true Council savings figure being nearer £10m. Interviewee 52 has been

encouraged recently that the (Interim) Chief Executive has changed the way such things are being reported.

- 8.28.1 Interviewee 9 (external to the Council) - has been involved with Croydon and its current financial situation for some time. London Borough have a programme of regular reviews of the work of Directors of Finance whereby they visit other authorities and feedback an assessment by way of a formal letter. Interviewee 9 did this in Croydon five years ago and was asked to repeat the exercise in 2019. What Interviewee 9 saw immediately in 2019 was a significant deterioration in the way Croydon's finances were being managed compared to five years previously. It is true that Croydon has always operated on the edge with its big ambitions and limited resources, but what Interviewee 9 found was much more serious than this.
- 8.28.2 The whole financial situation was riddled with risk, particularly around the companies that the Council had created like Brick By Brick, there were issues around capitalisation and unrealistic expectations about the extent of external funding. Combine all that with significant overspending by Children's Services and Adult Services and in Interviewee 9's opinion the Council was clearly in deep trouble. The 2019/20 budget had a forecast overspend of £20 million at that time and this was building on the significant overspends in previous years. So by the end of the summer of 2019 the situation was serious and deteriorating rapidly. Interviewee 9 was so concerned about what had been found through the review that Interviewee 9 had declined to sign off the traditional London Councils letter and had raised concerns with a senior London body – ELFAC.
- 8.28.3 Interviewee 9 paid a further visit to the (current) S151 Officer at Croydon to discuss the serious concerns and the (current) S151 Officer had been very clear in her recognition of all these issues and provided a confidential note setting out all the actions that she considered were necessary to address the situation. From memory, Interviewee 9 recalls that she was specific that the (former) Chief Executive was not financially 'literate' and that effectively the (former) Leader and the (former) Cabinet member for Finance and Resources had total control of the situation in which the (former) Chief Executive was essentially a compliant player delivering their instructions.
- 8.28.4 The (current) S151 Officer was new in her post and had been promoted internally with no real experience of other councils outside Croydon when her predecessor left very suddenly leaving a successor to sort out the mess. Not only was the (current) S151 Officer inexperienced and solely used to the unusual Croydon way of doing business where members are very much in charge, but unusually she also reported to the (current) Monitoring Officer which compromised her freedom to carry out her statutory responsibilities. The (current) Monitoring Officer herself was also understood by Interviewee 9 to be an internal appointment who was familiar only with Croydon's way of doing things so the potential for challenge based on knowledge and experience of best practice was very limited.
- 8.28.5 Interviewee 9 commented that it has been said that the (former) Chief Executive liked to appoint people to her team who would not challenge and get in her way so this inevitably meant that the (former) Chief Executive did not have a strong team of senior officers to support any challenge she might need to make about members' ambitions or actions. The outcome was that the (former) Chief Executive was compliant in her relationship with a group of ambitious politicians who did not have the financial resources to deliver their agenda without cutting corners, taking significant risks and borrowing recklessly – that is why the Council finds itself in the position as set out in the RIPI. The Council seemed to have not appropriately reacted in Interviewee 9's opinion to the concerns being raised by external audit about the Council's finances. The (former) Chief Executive was persuaded that setting up a Finance Review Panel would be the answer and the Review Panel had been sold to external audit as the only way forward in sorting out the Council's financial situation and the Panel was given more or less a blank sheet to do whatever seemed necessary. The Panel has specific Terms of Reference and has made some good progress in raising awareness of

the issues and developing solutions that are now incorporated in the Action Plan approved by the Council last week. The problem is that the Panel was given no real resource to carry out its work.

- 8.28.6 Interviewee 9 said that it became clear to the Panel from the outset of the Panel's work that the Council's financial resources were totally 'shot' and that there was likely to be an adverse outturn report for 2019/20 with limited processes in place for budget development and budget setting going forward. In Interviewee 9's opinion the Financial Consultant has proved to be a tremendous support to the (current) S151 Officer including producing a report that assessed the Council's financial arrangements against CIPFA standards and which resulted in 75 recommendations for improvement. And he has only just started his work. The (former) Chief Executive's line was always that it was all going to be ok and she and the (former) Leader appeared to be working together in the same way. The (former) Cabinet Member for Finance and Resources was becoming more and more influential. Interviewee 9 was aware that there was talk of the need for the Council to speak to MHCLG about a possible 'bail out' and the prospect of a S114 Notice became apparent. However, in Interviewee 9's opinion, the political Leadership pushed back on the proposal to issue a S114 Notice and pressured the (current) S115 Officer not to issue it. Then both the (former) Leader and the (former) Cabinet Member for Finance and Resources were replaced, the (former) Chief Executive departed and the current leadership arrangements were put in place with an Interim Chief Executive. The RIPI was published, the first S114 Notice was issued and the Council's action plan in response to the RIPI has been approved. The Finance Review Panel is still seen as a crucial element in delivering the Council's recovery in the longer term for as long as is required. It may be that the Interim Chief Executive decides that the work of the Panel should be subsumed in the proposed Improvement Board which in the opinion of Interviewee 9 would make sense.
- 8.29 Interviewee 39 (external to the Council) said that when COVID struck in March this year the London Chief Executives got together to agree regional roles and the lead finance role was given to Interviewee 39. This was a particular issue for Croydon. It had a large savings target and it was clear that COVID would only exacerbate the financial problems for Croydon. The (former) Chief Executive was worried about the situation and would contact Interviewee 39 regularly to ask what Interviewee 39 thought and how bad it really was, and Interviewee 39 had always been clear with the (former) Chief Executive that the situation was very bad and that Interviewee 39 was very worried about the situation. However, the (former) Chief Executive was convinced that she could 'drive' Croydon out of the problem and was very committed to doing so as she clearly did not want to be seen as the Chief Executive who had left a mess. She then set up the Finance Review Panel and asked Interviewee 39 to be a member. At that time Croydon was preparing its 2019/20 outturn report and the (former) Chief Executive said to Interviewee 39 that it was all ok, that everything had been sorted out despite previous high overspends being forecast. Interviewee 39 and the Chair of the Finance Review Panel tried to get to the bottom of how this had been achieved because it did not seem feasible from what they knew. It turned out that the numbers had been significantly dampened down and netted off, masking the seriousness of the situation, and the (current) S151 Officer's report to Cabinet on the outturn was revised to be acceptable and in Interviewee 39's opinion it did not tell the real story. Interviewee 39 said the fact is that in their opinion the (former) Chief Executive was not competent to deal with what was facing her, and neither was her ELT or the (former) Cabinet members. Despite the fact that the (former) Chief Executive had set up the Finance Review Panel, in practice it was clear to Interviewee 39 she had not liked the Panel's challenges, particularly when she was not aware of this prior to the meeting of the Panel and she would sometimes get agitated as a result.
- 8.30 The Rapid Review Team Report summarised its findings about financial management in Croydon as follows:

*'The financial pressures and problems encountered by LB Croydon are well documented and have now been acknowledged and owned by the Council. It is not uncommon for local authorities to feel the financial pressure of demand on Children and Adult Social Care budgets, but in Croydon these pressures appear to have been poorly managed. Additionally, many local authorities have felt the added burden on services brought about by the COVID 19 health crisis, but few have crumbled financially in the way that Croydon has. Grant Thornton reported in the Public Interest Report that Croydon's "fragile financial position – (was not caused but) – exposed by the impact of COVID-19".*

*Croydon adheres to the CIPFA Financial Management Code in seeking to strategically manage its finances through a Medium-Term Financial strategy. In setting annual budgets it has sought to manage and respond to pressures, by budgeting for growth and seeking to make efficiencies where possible. Many officers and Council members told us that the Council's track record in managing to budget or achieving savings is very poor. This is evidenced by recurrent and substantial overspends, particularly with social care budgets.*

*Like other Councils, Croydon has turned to more commercial income generation to assist in bridging the gap between expenditure and income. Some of these investments (e.g. The Colonnades shopping centre) have been positive and generated a steady return. But others, like the Croydon Park Hotel and its flagship Housing Company, Brick by Brick have not delivered to expectations. That said, it is our view that the Council has managed some of these initiatives (most particularly Brick by Brick) extremely poorly. All Councils encounter unforeseen spending pressures and in anticipation of this, they will prudently accumulate reserves. Croydon has historically maintained a very low level of reserves and so has had little to help it resist the financial crisis it is currently experiencing.*

*In its medium term financial planning Croydon Council appears to have laid great store on its Incremental Financing Scheme through the Croydon growth zone, which anticipated a substantial growth in Business Rates income, the centrepiece of which was to have been a new Westfield Shopping Centre. Changes in economic circumstances have meant that much of the new development is stalled, including the Westfield development. It is clear that in recent history Croydon Council has failed to manage its finances adequately in many of these areas. It is a Council that is said to be unfamiliar with taking and implementing difficult financial decisions and as a consequence it has engendered a culture of poor budget management and poor financial control.*

*There seems to be a unanimity of view that these failings are attributable to the poor Leadership and poor management of the Council over a number of years. It is said that the strong Leader and Cabinet model allowed the former Leader to create an inner circle of a small number of Cabinet members, who have been very controlling in their management of the Council and its finances. There was a clear desire to pursue an ambitious growth agenda for Croydon and when elements of this growth could not be realised, rather than increased caution, it seems there was a continued desire to accentuate the positive. We heard many accounts of officers being asked to re-word Cabinet reports to present the most favourable picture. It is evident that the tone of many financial reports to Cabinet do not accurately reflect the seriousness of the Council's financial position. Many Council officers and members from both sides of the Chamber have stated their shock at the revelations of the Grant Thornton Public Interest Report.*

*There are a number of checks and balances in the management of Councils to guard against serious breaches in Governance and/or good financial management. Executive Officers carry statutory responsibilities; the Council has a Scrutiny function as part of its Governance; it has a General Purpose and Audit Committee; and external auditors form a key part of the financial assurance framework. These checks and balances appear not to have worked. The statutory officers did not assert their powers. It is only in the last few weeks that the Council's Finance Director issued a section 114 notice on the Council, freezing all new expenditure as the gap in this year's budget continues to widen. Arguably this notice should have arrived earlier. The Scrutiny Committee, whilst calling decisions in were not forceful in their challenge and did not refer key decisions back for the consideration of full Council. The Audit Committee appears to have been similarly unchallenging. Finally, the external auditors whilst raising concerns over a number of years arguably could have been more forceful in escalating their concerns. That said, Grant Thornton's Report in the Public Interest has finally brought matters to a head.'*

## Scrutiny and Overview

- 9.1 Croydon Council is required by law to have arrangements for scrutiny and overview as part of its Executive arrangements. In theory, and as described in the Council's Constitution the arrangements are robust and important. Those elected members and officers interviewed however paint a rather different picture.
- 9.2 The Council has one overarching Scrutiny and Overview Committee encompassing all the scrutiny functions required by Statute. Seats are allocated according to the rules of proportionality, which provide for the allocation of seats on committees so that they continue to reflect the overall political composition of the Council.
- 9.3 The purpose of Scrutiny and Overview is described in the Constitution as follows:

*'The Scrutiny and Overview Committee ensures the efficient and effective conduct of its responsibilities through the work of a number of Sub-Committees, and 'task and finish' groups.*

*The Scrutiny and Overview Committee and its Sub-Committees hold the Executive to account, monitor the performance of Council services and investigate matters affecting the wellbeing of Croydon. In addition the Scrutiny and Overview function has a statutory duty to scrutinise Health Services, Community Safety issues and education matters. They carry out these roles in a number of ways including:*

- *Reviews of services which often cut across organisational boundaries and roles*
- *The scrutiny of Action Plans and Implementation*
- *In certain circumstances and in accordance with the Scrutiny and Overview Procedure Rules at Part 4 of the Constitution, Members may request the review of an Executive key decision taken by the Cabinet or a Cabinet Member but not yet implemented*
- *Any Councillor except a Cabinet Member is eligible to be appointed to the Scrutiny and Overview Committee or any of its Sub-Committees. The Scrutiny and Overview Committee reports annually to the Council.*

*During the year the Committee and its Sub-Committees may make recommendations to the Leader and Cabinet and exceptionally direct to the Council.*

*Members, the Chief Executive and Executive Directors or other senior staff are under a duty to attend the Scrutiny and Overview Committee or Sub-Committee to answer questions. There is a power to co-opt non-Council members onto the Committee or any Sub-Committee.*

*All meetings of the Scrutiny and Overview Committee and its Sub-Committees are open to the public and press, except where confidential or exempt information is considered.*

*Confidential or exempt business is discussed in private in accordance with the Council's Access to Information Procedure Rules.'*

9.4 There has not been a detailed study of the agendas, reports and minutes of the Scrutiny and Overview Committee or any of its Sub Committees as part of this investigation and the views and reflections of those who have been involved with scrutiny activity in recent times are relied upon to be an accurate and faithful record.

9.5 The Report in the Public Interest had a number of critical observations about the involvement of the Council's Overview and Scrutiny Committee in recent years:

- *'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.*
- *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 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 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.'*

9.6 The Report in the Public Interest made recommendations about the Council's use of scrutiny:

*'Recommendation 2*

*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.*

*Recommendation 9*

*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'*

9.7 Interviewee 48 (external to the Council) told me that there was very little action or progress by the Council in July and August 2020 to address its problems and that a Report in the Public Interest was being considered at that stage. Interviewee 48 observed a Scrutiny Panel meeting in August at which Panel members were frustrated by the lack of papers. The right questions were being asked but the right answers were not being given which led to members having to make freedom of information requests to get proper answers. The matter should have been referred to full Council at this point and the concern was that although Scrutiny Panel members were asking the right questions, when they were not given the information that they were asking for they just did not press the issue and challenge what they were being told as excuses. So, by early September 2020, it was decided by the Council's external auditors that it would be necessary to issue the Report in the Public Interest at the same time as the S114 Notice was being drafted.

9.8.1 Interviewee 19 (a former and/or current member of the Cabinet or Committee Chair) said that when the Conservatives were in control until 2014 they had paid lip service to the scrutiny function but that they did not really believe in it. Interviewee 19 emphasised the importance of scrutiny being cross-party, and said that it was unclear why the Opposition does not give the scrutiny work to experienced members who are committed to the scrutiny process. Scrutiny Chairs had accepted the RIPI and its conclusions without question as that was clearly the right thing to do given the seriousness of the situation. However, Interviewee 19 believes that the RIPI underplayed the impact on Croydon Council of the COVID pandemic. Interviewee 19's main concern in March 2020 was not the state of the Council's finances but COVID. Croydon was really badly affected with more than 500 deaths early on. The (former) Leader had told Interviewee 19 that in his opinion the (former) Chief Executive was obsessed with her role as Gold Command in the summer of 2020 to the exclusion of all else, so it was hard to get any commitment to get the scrutiny function up and running again after the lockdown. Interviewee 19 said that they had first been alerted to the Council's financial problems at a Labour Group meeting in May 2020. There was a Cabinet meeting a week later which seriously underplayed the problems compared to what had been said at the Labour Group meeting. Interviewee 19 then wrote to the (current) S151 officer asking for a briefing for Scrutiny Committee but that did not happen until the July 2020 Scrutiny meeting. Due to the reduction of meetings due to COVID there had not been a pre-decision Scrutiny meeting on the July 2020 financial decisions so Interviewee 19 had to wait to see what the Cabinet would have to say at its July 2020 meeting. At the 22 July 2020 Scrutiny and Overview Committee meeting the July Cabinet papers were reviewed. The (current) Section 151 Officer and the (former) Cabinet

member for Finance and Resources had attended the meeting and answered questions. As the Committee was very sceptical about the soundness of the Council's finances as set out in the Cabinet papers for that meeting they had decided to call in the two finance papers. The Committee's conclusions and recommendations are on the record. In the run up to the 25 August 2020 Scrutiny call-in meeting there were rumours about the (former) Chief Executive resigning – or not – and there was a lot of confusion and uncertainty around. The (current) Executive Director for Place had agreed to attend the Scrutiny Committee call-in meeting in August but then did not attend so there was no advice for members available from the relevant officers.

- 9.8.2 Interviewee 19 commented that the RIPI says that the Scrutiny Committee should have sent the matter to full Council but because there were changes from the July Cabinet papers, which were set out in the cover paper presented to the August call-in meeting and things were moving on including a warning of a potential S114 notice and talk of further action at the September Cabinet meeting, the Scrutiny Committee decided not to send the matter to Full Council but instead to send its comments to the Cabinet. Had Interviewee 19 been asked for views on progress after the Scrutiny Committee in August 2020 the response would have been to be quite pleased with what Scrutiny Committee had achieved in getting the Council to acknowledge the true scale of its financial problems, so Interviewee 19 had felt aggrieved to read what the RIPI had to say about the role of scrutiny at the Council.
- 9.9.1 Interviewee 40 (a member of the Opposition Group) told me that the organisational culture that the (former) Chief Executive had been a part of and did not act to change, was all about the prevention of information being made available to elected members that might point to poor performance by the Council. Interviewee 40's requests for information/documents had always been met by passive/aggressive behaviour – *'you don't need it, you are not entitled to it etc'*. Interviewee 40 said that (former and current) Cabinet members and (current) Executive Directors have long been party to a culture that prevents elected members and others getting the information they need. In particular, the Council's (current) Monitoring Officer and the (current) S151 Officer have statutory responsibilities to ensure that the Council acts properly but in Interviewee 40's opinion they have both failed to meet their statutory responsibilities. It appears to Interviewee 40, that they were both appointed not for their competencies but because they would be complicit and compliant with the way the Council was being run. Interviewee 40 does not accept the views heard expressed that they were bullied by the (former) Chief Executive or the (former) Cabinet member for Finance and Resources into not doing their jobs properly - they should have acted properly despite what they were being instructed to do.
- 9.9.2 The (former) Cabinet member for Finance and Resources was not a member of General Purposes and Audit Committee or the Scrutiny Committee but Interviewee 40 had observed that he always turned up at meetings and intervened before the (current) S151 Officer or other officers could answer questions, blocking off professional information being provided. That was totally inappropriate, but not enough action was taken to stop it. The Scrutiny and Overview Committee must also accept some blame here for not referring some decisions back to full Council. For a long time Interviewee 40 had just accepted that this was the way things were at Croydon, but then Interviewee 40 had raised concerns with the (current) Monitoring Officer who had been polite but nothing changed, and the obstruction to being provided with the information that Interviewee 40 needed and was entitled to continue.
- 9.9.3 It had been clear to Interviewee 40 that Brick By Brick was an attempt by the Council to provide affordable housing avoiding 'right to buy' and for the Council to have a source of funds to deploy avoiding scrutiny. Interviewee 40 had been sceptical about any real prospect of any dividend for the Council, but Interviewee 40's attempts to get information about Brick By Brick through freedom of information requests were blocked by being told that it was a private company so Interviewee 40 was not entitled to the information – even though the Council was funding the

whole thing and providing the land it was building on. Interviewee 40 told me that a request had been made recently for the Council's Document Retention Policy but it had not yet been received. The (current) Monitoring Officer told Interviewee 40 two weeks after the request that the (Interim) Chief Executive was dealing with the request, then Interviewee 40 was sent the wrong document so decided to ask the Data Protection Officer direct for the right document. It seems that the Council has a large group of 'gatekeepers' that determine whether a request for information by a member is successful or not. Interviewee 40 had asked the Monitoring Officer whether the requests were reasonable but instead of giving a direct answer she had said that there is a new process being put in place. Interviewee 40 had been really frustrated because the job of officers is to help councillors get what they need and not to put obstacles in their way.

- 9.9.4 Nothing has changed much yet - the S151 Officer at the recent Special Council meeting in Interviewee 40's opinion was still not being straightforward about the level of the Council's reserves. Interviewee 40 expressed regret at not seconding the proposal for the purchase of the Croydon Park Hotel to be sent back to Council when it was called in by the Opposition and a member proposed it should go back to Council. It was clear that the (former) Cabinet member for Finance and Resources was using these initiatives and the promise of future income streams to 'paper over the cracks'. These projected income streams have not materialised sufficient to cover the endemic overspending. Things did seem to change between the Cabinet meeting in June 2020 and when the Council Plan was called in for scrutiny. That seemed to be the point that officers realised that the game was up. Interviewee 40 said that the excuse for the Council's financial mess had changed over the last year from 'austerity' to 'Brexit' to 'COVID' but by the time of the August 2020 Cabinet there was no place to hide. The (Interim) Chief Executive had made a huge impact in the short time she had been with the Council but the challenges facing her and the Council are enormous and Interviewee 40 expressed serious concern that the (Interim) Chief Executive does not have the right people in the right place to support her.
- 9.10 Interviewee 4 (a member of the Opposition Group) told me that the scrutiny function had never been taken seriously in Croydon, and whichever party has been in control it has always been a struggle to find good members who wanted to be involved in something that is not taken seriously. So scrutiny has always been the poor relation at Croydon and most elected members have little interest in it. Interviewee 4 said that the current Chair of the Scrutiny and Overview Committee seems to be really committed to it but his approach sees the scrutiny function as a helpful resource for the Cabinet rather than a mechanism for 'check and balance' based on real challenge. So any recommendations by the Committee are inherently weak.
- 9.11 Interviewee 6 (external to the Council) commented that there has been quite a bit of coverage of the 2017/18 VFM Report. The fact is that there had been lengthy discussions with the external auditors before the Annual Audit Report went to General Purposes and Audit Committee, and although the Report was not signed off, Grant Thornton did consider that the arrangements that had been put in place were appropriate. As part of the discussions with Grant Thornton Interviewee 6 had contrasted the position of Croydon with another Grant Thornton client outside London. The external auditors had accepted that it was not possible to compare that authority with a place like Croydon which at that time had major investment potential and that things were not as clear-cut as they were being portrayed. The recommendations in the Audit Findings Report had been responded to and it was proposed to earmark the anticipated dividends from Brick By Brick into the Council's reserves as well as Collection Fund surpluses. In Interviewee 6's view, it was not the case that this would be the first year that money would be put into reserves. There had been many years where there were budgeted contributions to reserves but in the end it had never proved possible as the budget was never delivered as planned.

## **Risk management/assurance**

10.1 The Council appears to have a robust Risk Management Policy Statement and Strategy that was last reviewed by members at the General Purposes and Audit Committee in October 2019:

*‘Croydon Council is aware that risks will always arise from its various duties, functions and responsibilities. Some risks will always exist and will never be eliminated.*

*However, the Policy Statement recognises that the Council has a responsibility to manage its significant business risks and supports a structured and focused approach to managing risk by approval and support of the Council's risk management strategy.*

*The Council's risk management strategy's objectives are to:*

- *identify corporate and operational risks*
- *assess the risks for likelihood and impact*
- *identify mitigating controls*
- *allocate responsibility for the mitigating controls*

*The Council maintains and reviews a register of its corporate business risks linking them to strategic business objectives and assigning ownership of each risk.*

*The Executive Director of Resources & Monitoring officer and the Cabinet Member for Finance & Resources, jointly champion and take overall responsibility for embedding risk management throughout the Council.*

*The Council will embed risk management in its corporate business processes including:*

- *Strategic planning*
- *Financial planning*
- *Policy making and review*
- *Performance management*
- *Partnership working*
- *Project management*

*Reports to support strategic policy decisions and project initiation documents will include a risk assessment.*

*Croydon will also consider positive risks (opportunities) as well as negative risks (threats) in relation to its business planning.*

*Members*

*Members of committees with responsibility for risk management reviews, will receive quarterly risk management reports including all corporate 'red' risks. Members of committees will therefore instruct the accountable officer to initiate appropriate action to ensure that corporate business risks are being actively managed by the risk owners (and associated accountable officers). This includes ensuring that detailed reporting from officers on key risks is provided.*

#### *Officers*

*All staff will be given appropriate training and guidance (led by their line manager) to enable them to take responsibility for managing risk within their own working environment. All named risk owners are required to update and maintain their risk entries on the corporate risk register.*

*The risk management strategy will allow for a formalised route for the escalation of risk with risks rated as 'high amber' (rated 16) escalated from departments to the departmental Leadership Team on a quarterly basis and all risks with an 'Impact' score of 5 (extreme) escalated to Executive Leadership Team on a quarterly basis. All 'red' risks (score of 20 and above) are reported onwards to members in the form of Leadership and the General Purposes & Audit Committee.'*

- 10.2 Croydon Council's General Purposes and Audit Committee has a wide ranging brief that underpins the Council's governance processes by providing independent challenge and assurance of the adequacy of risk management, internal control including audit, anti-fraud and the financial reporting frameworks. It also deals with a limited number of matters not reserved to the Council or delegated to another Committee and related to a non-Executive function. The Committee was formed in 2014, replacing the former Corporate Services Committee and the Audit Advisory Committee.
- 10.3 A pivotal role of the Committee is its work in developing the Council's internal control and assurance processes culminating in the Annual Governance Statement (AGS). The Accounts and Audit Regulations 2015 require the Council to review the effectiveness of its systems of internal control and publish the AGS each year alongside the financial statements. In its Annual Report for 2019/20 General Purposes and Audit Committee made impressive statements about the way the information for the AGS is generated through the Council's Assurance framework including:

#### *'Risk management*

*The Council has an excellently performing, award winning risk management framework. This includes a quarterly reporting process for the Department Leadership Teams (DLT) and to the Council's Governance Board, where the Council's key strategic risks are identified and reviewed ensuring integration between the risk management framework and the strategic, financial and performance management frameworks using the reporting framework. The reporting process to Department Leadership Teams and to the Council's Governance Board is complemented by the Committee reviewing the Council's key risks. At all Committee meetings members review the current risks being reported to DLTs. There is in-depth review and challenge in relation to the risks presented and crucially the risk management framework underpinning it. The Committee has monitored the continued development of the council-wide, risk register system including a training programme for all risk owners. The content of the registers maintained on the system is refreshed quarterly by a facilitated risk review and challenge session with each Director and their management team. The Council's*

*approach to risk management is also used to manage the challenges associated with the delivery of significant projects. Internal Audit has view-only access to the risk registers to assist its risk-based audit approach, ensuring it is dealing with the most up to date information. Following audit reviews, the resultant report is mapped against the identified risk on the risk register. This gives a complete picture of how the Council is managing the challenges it faces in delivering its objectives'*

#### *'Internal Audit*

*The work of the Council's internal audit service is delivered in partnership with Mazars Public Sector Internal Audit Limited. The current contract began on 1st April 2018 and will end on 31st March 2024 with the possibility of extending for a further two years. The alignment of the audit programme to the Council's risk management framework has focused internal audit on the key challenges the Council faces and therefore, the issues that if not managed, could lead to strategic objectives not being achieved. The enhanced focus on these key challenges has continued to improve the value added by the service and is demonstrated in the increased strategic engagement of Directors and departmental Leadership Teams in the audit programme. 50% of finalised audits have full or satisfactory assurance compared to 64% for the same period last year. Council wide, the performance in audits has declined against the previous year and the head of Internal Audit has indicated that a Limited overall assurance level may be given by the time of his annual report. To help improve internal audit results and internal control more generally the Council's Governance Team continues to organise and lead, with support from other colleagues, a series of workshops under the banner of 'Doing the Right Thing' to raised awareness of key corporate policies and procedures. Over the last few years over 1000 managers and staff have attended these workshops. Immediate feedback shows that these have been very well received. An e-learning module has also been produced in the hope that this will enable more staff to benefit from this more flexible delivery. A key measure of the Internal Audit service's effectiveness is the implementation of agreed actions to address the issues identified in audits. The target for implementation of actions is 80% for priority 2 and 3 actions and 90% for priority 1 actions. The stringent approach to the follow up process has continued with tight timescales for follow up work linked to the level of assurance.'*

- 10.4 To support its understanding of issues relating to internal control and to emphasise its commitment to a robust internal control environment, the Committee invites officers to attend its meetings to give briefings in relation to strategic risks and what is being done to mitigate them. It also invites officers to give explanations where significant issues are identified through internal audits.
- 10.5 In theory, and as described in the General Purposes and Audit Committee Annual Report for 2019/20, the policies and process arrangements are robust and impressive. However, as with the scrutiny function, the Report in the Public Interest and feedback from those elected members and officers interviewed all paint a rather different picture. Major risks within the Council's revenue budgets and in its investment portfolio appear to have been downplayed with unbridled optimism and with an almost reckless disregard to the potential adverse consequences of these risks.
- 10.6 The Report in the Public Interest had the following observations about the Council's approach and performance respect of risk assurance and management:

*'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.*

*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.*

*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 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.'*

10.7 Interviewee 42 (a former and/or current member of the Cabinet or Committee Chair) told me that in June 2019 there had been a catch-up meeting with the officers involved with General Purposes and Audit Committee (GPAC) because of concerns that important items had been removed from the agenda for the GPAC meetings. [REDACTED]

[REDACTED] Interviewee 42 was very unhappy about this as it seemed that GPAC had been reduced to little more than a Sub Committee, and it felt that something was very wrong here. When Interviewee 42 met with the officers they had told Interviewee 42 that it had been decided that the Risk Register was not part of GPAC's responsibility that Interviewee 42 knew was totally wrong. In late autumn of 2019 Interviewee 42 met with the (former) Leader to tell him that it was wrong that the (former) Cabinet member for Finance and Resources was attending GPAC meetings and was answering all the questions that were being put to officers at the meeting. He was not a member of GPAC but in any case GPAC members wanted to ask officers questions and get answers about financial issues without a councillor answering them. Interviewee 42 told me that GPAC is not a scrutiny committee but still needed to call officers and members to meetings to get honest answers to questions about the Council's financial situation. Then Xmas/New Year intervened so after the break Interviewee 42 met with the (former) Leader and the (current) Monitoring Officer to agree a plan for how GPAC should operate in the future and that senior officers and Cabinet members could be called to GPAC meetings and required to explain what was happening with the Council's budget.

10.8 Interviewee 42 also stopped the (former) Cabinet member for Finance and Resources from attending GPAC meetings. Then COVID happened and the Committee was meeting virtually. When the (former) Cabinet member for Finance and Resources was not attending meetings the (current) S151 Officer became more confident and did speak out and explain what was happening with the Council's finances. The previous Chairs of GPAC - both Labour and Conservative - had been ineffective and Interviewee 42 could see the new Chair was determined to be different and that GPAC would do its job properly. In six years GPAC had six different Chairs so there had been no consistency or continuity of approach. In February 2020 GPAC received the Annual Audit Statement and Interviewee 42 had seen no reason to panic at that stage. The external auditors were not really sounding any alarm bells by talking about serious problems with the Council's finances. However, the Grant Thornton letter of April 2020 to the (former) Chief Executive was not shared with GPAC. Had it been shared and had GPAC had the information to see what was really happening things may well have turned out very differently.

10.9 Interviewee 42 commented that the (current) Director for Finance had taken on a big job as the Council's S151 Officer when the (former) S151 Officer left and that in Interviewee 42's opinion she was never given the proper support by her line manager, the (current) Executive Director for Resources and the (former) Chief Executive. Again, things might have been very different if the (former) Chief Executive and the (former) Cabinet member for Finance and Resources had let her

do her job as S151 Officer properly. The reality in Interviewee 42's opinion was that the (current) S151 Officer had found herself very much in a difficult place between the (former) Chief Executive and the (former) Cabinet member for Finance and Resources. They did not get on well with each other and both wanted to be in charge.

- 10.10 Interviewee 1 (a former and/or current member of the Cabinet or Committee Chair) told me in their opinion that the General Purposes and Audit Committee (GPAC) was weak and Interviewee 1 had met with the GPAC Chair and the (current) Monitoring Officer at the end of 2019 to discuss how the Committee could be made more effective. It was agreed that it should be 'beefed up', meeting more regularly and with more power for the Chair, but like lots of things this got lost when COVID struck.
- 10.11 Interviewee 40 (a member of the Opposition Group) said that General Purposes and Audit Committee (GPAC) meetings have traditionally not been 'political' but until recently the (former) Cabinet member for Finance and Resources had attended meetings although he was not a member of the Committee, and he was always the first person to answer questions from members or the external auditor so officers found it very difficult to give a different response and just kept quiet. Interviewee 40 said that in their view this effectively shut down any debate or open discussion of important issues. More recently as the (former) Cabinet member was no longer attending GPAC meetings, there is a very different atmosphere as the scene is not set by political responses and officers in Interviewee 40's opinion now have more freedom to answer questions truthfully.
- 10.12 Interviewee 25 (a member of the Executive Leadership Team) said that the Annual Governance Statement 19/20 (the AGS) that was discussed at General Purposes and Audit Committee (GPAC) in October 2020 this year was put together by the (current) head of Insurance and Risk and was cleared by (current) Executive Directors and Directors before it was signed off by the (Interim) Chief Executive and the (current) Leader before it was considered by GPAC. At the beginning of this year Interviewee 25 had discussions with the Chair of GPAC and the (former) Leader and more recently discussions, including with the GPAC Chair, about how to strengthen the work of the Committee. In relation to the AGS, a number of actions have been put in place to address issues raised in internal audit findings, for example, it was agreed that Executive Directors will be engaged sooner in exercises like signing off action plans, internal audit now attend management Team meetings to discuss issues reported to GPAC and there will be a stronger link between the (current) Head of Internal Audit and ELT and the (Interim) Chief Executive. The Governance Review that commenced in 2018 was an attempt to get backbenchers more involved in a Cabinet system. Interviewee 25 said that it is a pity that the Review's proposals were not more far-reaching at that time, but now is an opportunity to revisit those recommendations.
- 10.13 Interviewee 30 (a member of staff) said that during 2019/20 there were serious concerns at the decline in levels of assurance for audit work. At the end of the year Interviewee 30 produced a chart for the General Purposes and Audit Committee (GPAC) Annual Report showing that decline over the last five years and that it had reached a point where more than 50% of the output had either limited or no assurance. Interviewee 30 had warned GPAC in January 2020 that Interviewee 30 was minded to issue a 'Limited Assurance' opinion on the Council's systems of internal control in the Annual Report as there was an obligation to do. Interviewee 30 wrote to the (former) Chief Executive in February 2020 advising her of the intention to publish the Report setting out all the information. Because of the pandemic, the GPAC meeting was delayed and rescheduled for October 2020 so Interviewee 30 presented the Report to an ELT meeting in August 2020. Interviewee 30 said that it had been one of the most unpleasant meetings in a 40+ year career. Interviewee 30 felt abused at the meeting by the (former) Chief Executive who claimed that what Interviewee 30 was saying in the Report was totally new to her and she instructed Interviewee 30 to change the Report. Interviewee 30's line manager, the (current) Director of Finance who was present at the meeting, told ELT that Interviewee 30 could not be instructed to change the Report

and it was subsequently published and discussed at the GPAC meeting in October 2020. No member of ELT other than the (current) Director of Finance gave Interviewee 30 any support at the earlier ELT meeting

- 10.14 Interviewee 35 (a member of staff) explained there is an officer system responsible for promoting and supporting the Council's risk management framework with the senior Leadership Team and elected members. At a senior (ELT level) there is an Officer Risk Management Champion (the (current) Executive Director for Resources and Monitoring Officer) and also (until his resignation) a Member Risk Management Champion, the (former) Cabinet member for Finance and Resources. In Interviewee 35's time with the Council there has been a significant deterioration in the Council's internal control environment, of which risk management is one important part. This deterioration started a number of years ago in part due to the reduction in staff resources for Risk Management (also potentially due to the reduction in the number of internal audit days) but this deterioration has accelerated in the last few years. Interviewee 35 told me that, as an example, there had been regular work with risk owners to present in depth risk presentations in relation to key risks so that members of General Purposes and Audit Committee (GPAC) could gain greater assurance on the way the risk management framework was working, but this was suddenly dropped off GPAC's agenda a couple of years ago.
- 10.15 Interviewee 35 had asked the (current) Director of Finance, Investment and Risk, why this had happened and was told that the (former) Leader had decided that these items would not be included on the General Purposes and Audit Committee (GPAC) agenda in future, but there had been no further explanation. In Interviewee 35's opinion this significantly weakened GPAC's ability to gain assurance (or otherwise) in relation to the application of the risk management framework. Interviewee 35 believes that there has been a lack of challenge either to some elected members or to the (former) Chief Executive. To illustrate how serious the lack of challenge to the (former) Chief Executive was, Interviewee 35 described what had happened at the ELT meeting on 2 September 2020, just before the (former) Chief Executive left the authority. Interviewee 35 had attended the ELT meeting with the (current) Head of Internal Audit to support the presenting of reports on the Annual Governance Statement and the Internal Audit Report respectively both of which would be on the GPAC agenda at its meeting on 7 October 2020. It was an awful occasion, the worst Interviewee 35 had ever experienced. In Interviewee 35's opinion, the (former) Chief Executive was very angry and said that this was the first time that she had been made aware of the issues raised in the (current) Head of Internal Audit's Report and the failures of governance and internal control that it highlighted. Interviewee 35 could not see how this could be the case as the (former) Chief Executive would have been aware of the increasing number of limited or no assurance internal audit reports over a number of years from previous annual reviews in the Head of Internal Audit's Reports or reports from the Council's external auditors. The (former) Chief Executive did not allow the Head of Internal Audit the opportunity to make a proper response to her claim that she had never been advised about any of this. In relation to the Annual Governance Statement Interviewee 35 was asked '*where are the areas of risk to prioritise?*' to which an explanation was given that '*they are there for you, in Tables 1 & 2 of the Statement*'. The rest of ELT made no challenge to the (former) Chief Executive's claims or the way that she was talking to Interviewee 35, and appeared to Interviewee 35 by not speaking out to be supporting her stance. Right at the end of the item the (current) Director of Finance did say that as the responsible Director she would follow up with the Head of Internal Audit on the points made in relation to his report. Interviewee 35 stated in the interview that this meeting had made it clear why (current) ELT members felt they could not challenge the (former) Chief Executive (or indeed former Cabinet Members) when it would be appropriate to do so.
- 10.16 On 25 September 2020, Interviewee 35 met with the (current) Executive Director of Resources and Monitoring Officer to discuss further changes that she was requesting to the draft Annual Governance Statement (that had previously been considered at the ELT meeting on 2 September

2020). They were asked by her to redraft the Statement to ‘accentuate the positive’, and she had also asked for changes to be made to the Head of Internal Audit’s covering report to make that more positive. They explained to her that the Internal Audit Report was an independent report by the Head of Internal Audit so it could not be altered, and any changes would need to be approved by him or, in his absence, the (current) Director of Finance as the responsible Director. It was also explained that as the Annual Governance Statement was in the name of the Leader and the Chief Executive, care should be taken to give a realistic picture. The (current) Executive Director for Resources and Monitoring Officer said that the request had come from the (former) Leader so Interviewee 35 reluctantly agreed to update the Annual Governance Statement to make it more positive than Interviewee 35 believed was justified (as evidenced by the RIPI). The draft Annual Governance Statement of the (former) Chief Executive and (former) Leader that went to GPAC on 7 October 2020 gave a more positive picture than Interviewee 35 believed was justified, again evidenced by the subsequent RIPI. At the GPAC meeting some members wanted changes made to the draft to better reflect the reality of the Council’s situation. It was agreed by the (current) Director of Finance, Investment & Risk and S151 Officer that the draft would be reviewed as suggested by GPAC members, and then it became the responsibility of the new Leader and the (Interim) Chief Executive to review their statement and agree the changes which were to be made.

- 10.17 Despite the RIPI and the subsequent public commitment by the Council to prioritise risk management as part of its response Interviewee 35 is concerned that the Council still does not take the need for robust risk management as seriously as it needs to. Risk management is not currently well resourced (and Interviewee 35 considers that the current restructure proposals will reduce capacity in this area) but equally important there needs to be a change in culture at the top of the organisation. Interviewee 35 had attended the ELT meeting on 9 November 2020, chaired by the (Interim) Executive Director for Children’s Services in the absence of the (Interim) Chief Executive. Interviewee 35 recalled a ‘throw away’ comment made at the start of this item by the Chair saying ‘*15 minutes on risk management, that is all I can stand*’. Whether or not the comment was meant to be light-hearted Interviewee 35 had been very disappointed, particularly because no member of ELT had questioned or challenged this remark despite the serious position the Authority is in. Given the significance attributed to Risk Management in the RIPI this has raised a question for Interviewee 35 as to whether there has yet been enough change to the culture, and whether the people around the top table are really committed to making the necessary changes and leading that change. Interviewee 35 also believes that ELT members should support their officers who attend for presentations for areas for which they, as ELT members, are ultimately accountable and that without this, it will not be possible for the organisation to move forward.
- 10.18 Interviewee 36 (a member of staff) told me that there had been a strong and positive relationship with the Head of Internal Audit and that they collaborate on the production of the Annual Governance Statement (AGS). Interviewee 36 is responsible for ensuring that the delivery of the AGS is completed in an appropriate timescale and is compliant with all relevant approaches. The Leader and the Chief Executive are required to sign off the AGS which has historically been a formality. However, when the draft Statement was presented to ELT (along with the Head of Internal Audit’s Annual Report) on 29 July 2020, the (former) Chief Executive became very frustrated when she saw the ‘limited assurance’ applied by the Head of Internal Audit. She requested that he change his reported assurance level and he said that he could not do this as it is related to financial year 2019/20 and it was based on the results of the internal Audit Programme. It would be a breach of his statutory duty if he amended the Report. For the next 20 minutes the (former) Chief Executive in Interviewee 36’s opinion just ‘ranted and raved’ while the rest of the current ELT said nothing and just sat there, one (current) ELT member even endorsing the (former) Chief Executive’s request.
- 10.19 The only ELT member who did try to intervene was the (current) Director of Finance who suggested that the (former) Chief Executive should talk to her outside the meeting but this

suggestion was dismissed and the (former) Chief Executive continued to demonstrate her frustration at the Report. Interviewee 36 was not really surprised at this behaviour as Interviewee 36 had personally observed this kind of conduct at a number of meetings. Interviewee 36 had been located close to the (former) Chief Executive and the rest of ELT on the 7th Floor for two years and had witnessed this kind of behaviour towards individuals on many occasions. The events at the ELT meeting also gave Interviewee 36 an insight into the way ELT operates - very silent and compliant, often with little challenge to the (former) Chief Executive.

10.20 In 2016 the organisation had decided that risk and assurance (governance and compliance) was not a priority for the Council and had begun to reduce the resources allocated to these functions. The previous Chief Executive to the (former) Chief Executive had created a Governance Directorate (headed by the Head of Internal Audit) but within 18 months the Directorate had been decommissioned. The reasoning for this was to some extent because of the need to re-allocate financial resources to rectify the outcome of the 2017 Ofsted judgement of 'inadequate'. The (former) S151 Officer at the time was a great supporter of strong risk, governance and compliance functions and was very frustrated as his advice about the need to strengthen the corporate culture and approach to governance, risk and compliance was not accepted [REDACTED]. Many members of CLT and their direct reports then began to model themselves on the (former) Chief Executive's style and approach by seeming to ignore good governance and risk management.

10.21 Interviewee 36 said that the culture of the organisation became one that rewarded those people who did not adhere to the principles of effective risk management and to demean those who did. Increasingly during the (former) Chief Executive's time at Croydon the organisation failed to understand or to respect the importance of good governance and effective risk management and compliance with the Council's policies and procedures. Some did understand it and just refused to comply while others simply did not understand it. This was at all levels within the organisation. Interviewee 36 told me that the risk management function still has a very low organisational profile but that the risk management function is needed now more than ever to help the recovery process. The RIPI focused heavily on the absence of effective risk management in the Council and this absence is highlighted by the residual consequences of this failure. The public emphasis by the Council is now about effective risk management, good governance, performance management and financial accountability – 'bread and butter' stuff for well-run Councils. Effective risk management has a key role to play in this new approach.

10.22 The Rapid Review Team concluded that:

*'The Council's Assurance process is said to rest on a number of different activities under the umbrella of a Governance Framework. The recent history of Croydon Council would suggest the assurance process has been found to be unfit for purpose as it has failed to identify, alert and escalate risk in order that the scale of problems faced by Croydon Council can be anticipated and managed in order to avoid a crisis. In fact, as is noted elsewhere, often the language and tone of reports on finance matters sat at odds with the seriousness of the situation. Whilst accepting that it is people that make these processes work, it does seem that given the failure of these processes, the arrangements for Assurance need to be reviewed and re-mapped in a single Assurance Framework document. As part of this review the Council should give consideration to appointing a Chair from outside of the majority group to its General Purpose and Audit Committee. We also recommend that the Council strengthens its relationship with its external auditor and is an early adopter of the recommendations in the recently published Redmond Review, taking the Annual Audit Report to full Council and formalising a regular meeting between*

*the Council's CEO; Monitoring Officer and Section 151 Officer with the Key Audit Partner'.*

## Performance management

- 11.1 The Report in the Public Interest makes it clear that the Council's approach to project and performance management has been ineffective and needs significant improvement. A number of those interviewed in this investigation pointed to high levels of tolerance for poor organisational performance. There simply is no evidence of the organisation holding people to account for what they do and how they do it, and there is an absence of constructive challenge. That does not necessarily mean that the Council has many poor performers amongst its staff and senior management but rather that it lacks the cultural context and organisational systems and processes to give it confidence that things are done well and to hold people to account when they are not. Overall it is the responsibility of the Executive Leadership Team and the Chief Executive to create and maintain an appropriate cultural context, and in particular it is the responsibility of the Resources Directorate to ensure that the organisation has the right policies, systems and processes it needs to ensure that there is meaningful performance management and accountability. This does not seem to have been the case in the past, or rather there does not appear to have been universal commitment to effective performance management by either elected members or ELT and Directors despite the efforts of the staff in the Programme Office in the Resources Directorate
- 11.2 The LGA Review of the Resources Directorate pointed to the collection and use of the 'right' data as a recurrent theme of those who were consulted and is an issue that others have spoken of during interview. The Data Team has been relocated into the Policy and Performance Office which seems a logical home, but there is significant work to do to identify and agree what data is needed, what will it be used for, who will collect it, who will input it to systems, and who will monitor and update it. Senior managers are concerned about the absence of or accuracy of workforce data, financial data and performance data all of which compromises effective decision-making or results in the wrong decisions being made.
- 11.3 Interviewee 31 (a member of staff) told me that that some of the senior officers who could and should have spoken up and challenged members to guide their decision-making and, when appropriate to say no, in their opinion failed to do so. Interviewee 31 said that in their view nobody seemed able or willing to provide that challenge to members and the Council ended up as an organisation that did not say no to anything, no matter what the cost and whether or not it could be afforded.
- 11.4 Interviewee 31 gave an example related to the Corporate Plan which was adopted at a Cabinet meeting. The Plan was written with strong direction from both the (former) Leader and the (former) Chief Executive, but then a separate team worked with the ELT to produce a set of Key Performance Indicators (KPIs) that bore no relationship to the Corporate Plan that had been adopted. Nine months later a progress report on implementation of the Plan was prepared for the Cabinet but the (former) Leader and (former) Cabinet Members were very unhappy that any KPI should be shown as 'red' (i.e. not implemented) in the rating system used. The (former) Chief Executive got directly involved with the issue and she was also unhappy about any negativity about achievements or the lack of them in the progress report that had been prepared for the Cabinet meeting. Interviewee 31 had worked with another Director to try and resolve the issues, but eventually was told to leave it alone because apparently when Interviewee 31 got involved it became too 'political'. It is not clear to Interviewee 31 either whether the (former) Chief Executive/ELT had a full understanding of just how bad things were. Interviewee 31 suspects not, and does not think that there was any corporate conversation about performance. So performance was only addressed within service silos, and the lack of a performance culture meant this was not given the necessary priority.
- 11.5 Interviewee 34 (a member of staff) told me that to their knowledge the (former) Cabinet member for Finance and Resources had changed the definition of 'amber' in the RAG ratings in the

Performance Report that was presented to Cabinet in September 2019 and that another (former) Cabinet member had changed one Housing rating from 'red' to 'amber'. Interviewee 34 had raised this with the line manager who had then raised it with their line manager, the (current) Executive Director for Resources and Monitoring Officer, but that nothing had resulted from this. There had been no debate at the Cabinet meeting about the Performance Report, and there was no comment or challenge from Opposition members who attended the Cabinet meeting except for some complimentary comments about Children's Services.

- 11.6 Interviewee 11 (a former and/or current member of the Cabinet or Committee Chair) responded to this when raised in interview by saying that the definition of 'amber' had somewhat perverse outcomes. For example, on the HRA budget, because the budget was zero, any variance (even by one pound) was treated as 'amber'. This was even in the case where the HRA was forecasting a surplus, and this had seemed to be nonsense to Interviewee 11. The other thing that Interviewee 11 recalled was the discussion on almost every performance report was about whether to class items on a summary grid as 'red', 'amber' or 'green'. Because there were a whole series of performance indicators making up each item on the summary grid, there needed to be a discussion about those. Officers had typically counted together the 'reds', 'ambers' and 'greens' and had then suggested a colour accordingly. However, in Interviewee 11's view, not all performance indicators necessarily deserved the same weight.
- 11.7 Given the apparent lack of organisational commitment to performance management in the past it is encouraging that the senior management restructure proposals that have been produced by the (Interim) Chief Executive have taken account of the need for the Council's management arrangements to be more effective, and that there is a requirement for the Council to function as a corporate whole and to have shared processes, language and approaches. At present, it is possible for separate IT systems to be commissioned and run in different Directorates, financial record keeping is done on separate systems and spreadsheets, expenditure on legal advice appears can be commissioned separately and there are individual performance and improvement functions not connected into a corporate system. This restructure is not proposing to centralise everything but to explore ways of getting greater co-ordination and shared intelligence from activity plus removing any unnecessary business overheads. Roles will be designed to be professional leads who draw together shared processes and systems.
- 11.8 There has been much criticism in the recent reports about the culture and practice of governance in the Council and a programme of development for members and officers will be invested in and a review of internal governing bodies will be undertaken to ensure clarity on roles and responsibilities. The new Assistant Chief Executive's Directorate will provide the supporting infrastructure for the Croydon Renewal Improvement Plan, to lead the co-creation of the Council's organisational development and learning plans, to enhance the impact of the equality resources in the Council, to provide intelligence on and the opportunity to learn from resident feedback and demand patterns and to transform the work of the Council to fully maximise the access benefits and efficiencies of a digital delivery platform for council services. This is an entirely new Directorate and brings together a number of relevant functions in respect of performance that are currently situated in different parts of the Council. The Directorate will provide the engine room for the delivery of the Croydon Renewal Improvement Plan and has the new Programme Management Office. The Council's existing Performance Management Team is also situated in this Directorate and will support the work of the PMO. The Human Resources function including Organisational Development and the Learning and Development functions are also located in the new Directorate along with the Communication and Equalities resources to maximise synergies between them and to jointly drive the delivery of the Croydon Renewal Improvement Plan.

## Asset investment

- 12.1 The Report in the Public Interest identified further areas of concern which have impacted on the Council's financial sustainability.

The Council's 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.'*

- 12.2 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.
- 12.3 During 2018/19, two purchases were made using the Asset Investment Strategy: The Colonnades (a retail park) 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 the (former) Leader's 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 later in October 2018.
- 12.4 The minutes of the Scrutiny and Overview Committee noted that the paper explaining the Council's proposed decision-making matrices was produced after the first bid had been lodged and without this paper it would not have been possible to judge the soundness of the acquisition. The RIPI pointed out that whilst investment opportunities can arise at short notice, good governance would require the investment strategy to be approved prior to the first purchase.

12.5 The COVID-19 pandemic suppression measures reduced the income from these investments as The Colonnades 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 perspective of autumn 2020, 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 appeared to be to invest its way out of financial challenge rather than pay attention to controlling expenditure on core services. This was inherently flawed.

#### Treasury management

12.6 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 sets out requirements for local authorities including the need to prepare a Treasury Management Strategy. Croydon Council's Treasury Management Strategies shows that the amount of borrowing increased in recent years with further borrowing planned for future years. The large increase in borrowings was for four purposes:

- the Revolving Investment Fund;
- the Growth Zone;
- the Asset Investment Strategy;
- and the General Capital Programme.

#### The Revolving Investment Fund

12.7 The Revolving Investment Fund (RIF) was established 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 has lent money to developments and the RIF is funded by Council borrowing. The RIF lending between 2020/21 to 2022/23 was £223.2million (estimate). 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, the RIPI stated that 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, but there is no evidence of any challenge on whether previous borrowing to the scheme has delivered the intended benefits or whether the third parties' financial position remains sound before further borrowing has been agreed. A Fund of the value of the RIF should have a risk assessment that is updated regularly to reflect changes in market conditions. No such risk assessment has been undertaken. In the view of the external auditors this is another example of a lack of financial rigour being exercised by members, and they recommend that 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 yet made any interest payments to the Council with £5 million owing at 31 March 2019.

The **Growth Zone** borrowing was estimated to be £121 million by the end of 2020/21 and the Council will need to revisit the underlying assumptions and actions following the impact of the pandemic.

#### Affordability

12.8 The Treasury Management Strategy was presented at Cabinet prior to being approved at Full Council. The strategy included Prudential Indicators that enabled 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 RIPI concluded that lack of challenge from members indicates 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.

12.9 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 new policy indicates that loan repayments from third parties and income from investment properties leads to no MRP being set aside. The RIPI 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 it was also noted that the Croydon Park Hotel had entered administration resulting in a significant reduction in investment income and increased costs.

The RIPI concluded that taken together it is difficult to see how the Council's new approach of no MRP for loans to third parties and for investment properties has been prudent.

The RIPI made a number of recommendations in respect of asset investment:

*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.*

## 12.10 **Subsidiary companies**

In recent years the local government sector has seen many Councils establish a number of subsidiary companies to perform quasi-commercial functions. Croydon Council has established a number of such 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 that are held by the subsidiary and ensure that the Council is not exposed to adverse risks and liabilities.

The RIPI pointed to the Council having established a complex group structure with 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 very limited level of challenge and equally limited level of detail. It would be normal to 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. It would also be expected to see 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.
- the Council agrees individual loan agreements for each scheme with Brick By Brick which include loan covenants. Based on the loan agreements, a number of loans have been reviewed where covenants have not been met. The Council should be monitoring compliance with loan covenants and reporting breaches to Members. For example on 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 a review of the loan agreements, £110 million of those loans were due for repayment and monies had not been received by the Council. Repayment dates can be varied by written consent however no confirmation has been found 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. There is 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 meeting 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 RIPI conclude that the 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 firm and the Council’s holding is held by London Borough of 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 there is as yet no information 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.

12.11 The RIPI made a number of recommendations in respect of the Council’s approach to subsidiary 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.*

- 12.12 The RIPI also acknowledged that the Council had engaged with the matters raised in the Report and has taken a number of actions including;
- engaging external consultants (PwC) to undertake a Strategic Review of the Council's group of companies and entities
  - commissioning 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
- 12.13 Interviewee 48 (external to the Council) told me that concerns about all this had been raised on many occasions and raised formally in the Audit Plan that was produced in February/March 2020. A request had also been made for a review of these groups in the Financial Review Panel Terms of Reference – but it seemed that it was the only voice showing any concern about this. The PwC review of companies is very helpful in understanding exactly what has taken place here, with huge investment in failing companies by a Council that did not have the resources to do this. Interviewee 48 told me that there are real issues about record keeping by the Council. A key example of this is that allegedly there were discussions about the proposed investments in the Croydon Park Hotel and yet there is no record that can be found to pass to Interviewee 48 of those discussions. Interviewee 48 was told by the (former) S151 Officer that there was a record of the discussion that took place of the risk assessment of major investments by the Council but the (current) S151 Officer had told Interviewee 48 that she could not find the record of any such discussion. In Interviewee 48's opinion this is simply not good enough when significant public money is being invested. Linked to this is that there is no detail that anyone was keeping an eye on the loans to Brick By Brick and whether the promised returns would materialise – nobody seems to have been responsible at the Council for monitoring things like this.
- 12.14 Interviewee 53 (external to the Council) said that work has always been focused on regeneration and development and the associated delivery of housing in town centre sites. Interviewee 53's appointment at Croydon coincided with a change of administration so the Labour Group was in its first term in 2014. Interviewee 53 told me that the new administration had seemed genuinely committed to improving the supply of affordable housing in the Borough and there were a lot of potential sites for affordable housing that had not been progressed so the key task was just that – to progress the development of these sites. Various options for delivery of an ambitious programme of developing these sites were considered and the Brick By Brick model was the eventual choice. Croydon at that time was in the middle of a lot of new development with a fast developing local economy and property market that could assist the provision of affordable housing in the Borough. A lot of the background work was done in 2015 and then Brick By Brick started to trade as a company, with the Council as single shareholder, in 2016.
- 12.15 Interviewee 53 told me that Brick By Brick was deliberately set up to operate independently of the Council, despite it being the only shareholder, and was designed to be commercially '*fleet of foot*' as a developer and able to identify and progress opportunities quickly and not be subject to the kinds of time constraints under which local authorities understandably have to operate. The company initially promoted around 30 planning proposals involving the provision of 700 new homes. Many of these sites were contentious so there was quite a lot of opposition to the plans from the community, and indeed from a number of ward councillors.

- 12.16 In Interviewee 53's opinion, the new administration really did want a transformative change in housing supply to work so there was a lot of senior level political support for Brick By Brick, particularly from the (former) Deputy Leader who also had the Cabinet portfolio for Housing. However, notwithstanding this political support, in practice the programme turned out to be a real challenge for the Council as an organisation, and it became clear that it was finding it difficult to cope with the pace of Brick By Brick work - such as processing 30 complicated planning applications simultaneously - and there was a lot of conflict between Brick By Brick and various departments within the Council as a result. As the company grew and began to get more and more independent of the Council, this created a challenge regarding the appropriate governance arrangements that needed to be put in place to protect the interests of the Council as the single shareholder. The then Executive Director of Resources and the (former) S151 Officer had been very involved with Interviewee 53 since inception of the company and continued to be the main point of contact with the Council and fully understood the financial and delivery complexities of Brick By Brick.
- 12.17 The Board at that time comprised the Brick By Brick Chief Executive and Managing Director, two independent Board members and the Council's (current) Finance Director appointed as a non-Executive Director by the Council. The Board was pretty independent and stable at that time. More and more it became an independent development company and, although wholly owned by the Council, it developed a distinctly different ethos and operational culture to a typical Council service department. When the (former) S151 Officer left the Council in 2019 in Interviewee 53's opinion this presented a real problem for the company because he had been the champion within the Council and held a great deal of intellectual capital which was never replaced. Because the (current) S151 Officer was conflicted as a non-Executive Director on the Board she was replaced by the (current) Executive Director for Place.
- 12.18 Interviewee 53 said it was clear that from this point onwards the Council's practical engagement in the Board reduced noticeably. At the same time Brick By Brick became an employing entity, and any Council development staff who had been working on Brick By Brick TUPE'd into the business. Interviewee 53 said that increasingly it had felt that what was sorely missing from the Council's approach was the significant contribution that the (former) S151 Officer had made as the '*grease in the wheels*' between the company and the Council and this was never replaced. In his absence it was exceptionally difficult to build a functional collaborative working relationship between the two organisations.
- 12.19 Brick By Brick continued to grow with an expanded development programme on 40 more sites with a further 800 homes to be constructed. The refurbishment of Fairfield Halls was ongoing and planning applications were made for the land around it. Despite the expansion of the business there was an increasing erosion of support by the Council for Brick By Brick. By now the company had more than 40 employees all of whom were working on a portfolio of projects that required input from the Council to be successful. By contrast, the Council had not taken on a single extra person to service this workload, nor replaced the expertise that had left the organisation to work for Brick By Brick.
- 12.20 Interviewee 53 said that there was an increasing loss of senior Executive support for the company and the company ended up relying increasingly on political support from the then leading Cabinet members. A lot of issues were escalated to the Council through the (current) Executive Director for Place in her role as non-Executive Director on the Board, but to Interviewee 53's knowledge nothing really happened as a result. The end result was a lot of delay with the programme for which Brick By Brick has received all the criticism. The company was being publicly criticised for delays and for the perceived failures in the delivery of the planned programme etc. For some reason it seemed to Interviewee 53 that the Council as an organisation was unable or unwilling to provide support to the company it had set up. Despite what is now being claimed, all decisions about Brick

By Brick in Interviewee 53's view were formally secured through the established governance arrangements, and Interviewee 53 was of the opinion that they had been careful to ensure that this was the case. The problem was that though the decisions were properly made, the Council was under resourced to deal with the company's need for support, but maybe there was more to this than simple under-capacity. What was really needed was a dedicated resource at the Council to deal with the company's development programme. Interviewee 53 had raised this frequently at Board meetings and subsequently at the Shareholder Investment Board meetings, but there was never sufficient action taken by the Council.

- 12.21 By way of example, Interviewee 53 said that this resulted in a S106 agreement sitting on someone's desk at the Council for 11 months just waiting to be signed off, which ended up costing the company, and therefore the Council, more than £800k. These types of issues were escalated repeatedly and also it seemed by members attending the Shareholder Investment Board, but still in Interviewee 53's view no remedial action was taken. Interviewee 53 felt there has not been the consistent necessary collective support from the executive side of the Council for the company, and this was particularly the case when the (former) S151 Officer left the Council. In theory, it was the Council's non-Executive Director on the Board who was supposed to be that official conduit, but it seems to Interviewee 53 that there was never the level of engagement and support, or perhaps the level of expertise or understanding about the way that development companies work, from the Council appointed Directors to make this happen. At least that is how it appeared to Interviewee 53 – it may be that there were issues or contributory factors to this that Interviewee 53 was not aware of.
- 12.22 Attempts were made to 'beef up' the governance arrangements - for example the Shareholder Investment Board was set up – but Interviewee 53 said that there was still an absence of the necessary executive engagement, support and understanding about the company. The concerns raised in the RIPI and the PwC reports that the Council did not get the necessary information about the company and its performance are in Interviewee 53's view simply not correct. But Interviewee 53 suspects that there was a lack of understanding at the Council about the way companies like Brick By Brick work and a lack of expertise to interpret the information provided. The Council is looking at options following the PwC report and Interviewee 53's best guess is that it wants the company wound up and a subtle process to achieve that seems to be underway. In Interviewee 53's personal view it is a successful development company that has delivered a lot of new housing in the Borough, including a great deal of affordable housing.
- 12.23 Despite this, Interviewee 53 feels that Brick By Brick is being 'hung out to dry' as the scapegoat for the failings of others and for the Council's financial problems.
- 12.24 Interviewee 1 (a former and/or current member of the Cabinet or Committee Chair) said in their opinion that it is now clear that members were not given the necessary level of detail about what was happening and going wrong with Brick By Brick. The (current) S151 Officer confirmed at the recent Council meeting dealing with the S114 notice that as late as July 2020 she believed that there would be repayment of loans and interest repayments by Brick By Brick in the current financial year so no wonder members did not know what was happening. The Council has had two non-Executive Directors on the Board of Brick By Brick, first the (current) Director of Finance who then was replaced by the (current) Executive Director for Place. That had reassured Interviewee 1 at the time, but Interviewee 1 now knows that there was no reliable feedback coming to the Council about the serious financial issues with the company. Interviewee 1 stated that no one was telling the Cabinet that Brick By Brick was heading for serious trouble.
- 12.25 Interviewee 11 (a former and/or current member of the Cabinet or Committee Chair) asked whether members were given the right information about what was going on with Brick By Brick. Having senior officers of the Council as non-Executive Directors of Brick By Brick was meant to be a

vital element of governance. The (current) Director of Finance served as a Director until January 2019 and was replaced by the (current) Executive Director of Place. However, no concerns about the financial management of the company or anything about Brick By Brick's problems were being relayed back to Interviewee 11 or to the Cabinet by the Council's appointees to the Board. Both the (current) Finance Director and the (current) Executive Director of Place should have made Interviewee 11 and the Cabinet aware of any problems or issues but nothing was ever said.

12.26 The RIPI is critical of the decision to purchase the Croydon Park Hotel and asserts that the Council did not know what it was doing. Interviewee 11 stated that they were fully aware that the hotel was a small operator and not part of a large chain and the pre-purchase external advice was clear that there were risks involved, but that if the hotel was not successful for whatever reasons there would be financially viable options for the site. Overall, the asset investment portfolio has been in Interviewee 11's view profitable and Interviewee 11 is still confident that the Council's asset investment portfolio will make money and said that it is producing significant income for the Council this financial year despite the pandemic. At the Extraordinary Council meeting in autumn 2020, an Opposition councillor raised the issue of an overall facilities agreement with Brick By Brick signed in 2016. The (current) S151 Officer said that she was unaware which politician had seen it and, indeed, it was not clear whether she knew its existence or all its terms. This was even though, to Interviewee 11's knowledge, she had been the Deputy S151 Officer at the time and on the Board of Brick By Brick. However, it appears that it had requirements that would have been helpful in managing the Council's relationship with Brick By Brick (e.g. provision of monthly management accounts) and it was clear from the current Section 151 Officer's responses these provisions were not complied with and financial information had had to be chased regularly. At the Council meeting Interviewee 11 had responded by stating that this overall facilities agreement and the breaches were not known about, nor indeed was it known what the management financial information that was being supplied was showing.

12.27 Interviewee 19 (a former and/or current member of the Cabinet or Committee Chair) told me that in May 2018 everyone had expected the Finance Team and the (former) Cabinet member for Finance and Resources to propose deep cuts (as there had been a number of years where either Children's Services or Adult Social Care had overspent) to address the financial problems, so Interviewee 19 had been surprised to find out that the strategy was to set up commercial enterprises to produce income streams to compensate for the loss of other income. Some of these initiatives, for example the purchase of the Croydon Park Hotel, were never discussed fully with Labour Group members, they just happened. The Croydon Park Hotel purchase was called-in in August 2018, and when Interviewee 19 reviewed the papers as part of the preparation for the meeting it was clear that there were no strategy or policy papers to explain or justify the purchases. It was agreed that the (former) Executive Director for Resources and S151 Officer would bring an updated draft Asset Strategy Paper to the call-in Scrutiny Committee meeting as this would allow the Committee to judge whether the policy used to justify the purchase was robust. Interviewee 19 said that is why the September 2018 Scrutiny Committee spent more time looking at the Assets Strategy rather than the actual purchase. It would obviously have been better had the Scrutiny Committee spent more time discussing the costs and benefits of spending £27m on a hotel but it seemed to be in line with the draft strategy and there were a number of part-B papers that explained the valuation for the purchase. But there was cross-party support for the purchase, a fact that is being played down now.

12.28 Interview 19 commented that the general idea of buying back assets in Croydon Town Centre to take back control of the Centre and to produce income streams was fine in principle and if it had worked well the strategy was appropriate and would have been beneficial which is why Interviewee 19 had supported it. But this strategy clearly went wrong because of the secrecy and the poor management of Brick By Brick and the other companies. No one had flagged up any concerns about the Brick By Brick set-up at the time to Scrutiny Committee, but with hindsight it

is clear to Interviewee 19 that there was no one in the Cabinet or on ELT who had the skills or experience in successful commercial development to ensure the Cabinet would appoint a non-Executive Director to the Board who would be able to influence the company's direction and bring back to the Council any concerns about what was going wrong.

- 12.29 Interviewee 13 (a former and/or current member of the Cabinet or Committee Chair) said that the biggest shock and the biggest impact had been the Council's relationship with Brick By Brick. Interviewee 13 had found the whole thing unbelievable and this, above all, raised issues of who is accountable for this situation. Two current Council Directors, the S151 Officer/Director of Finance and the Executive Director for Place had both been non-Executive Directors on the Brick By Brick Board. The Board had not demonstrated good financial management or effective governance. For Interviewee 13, this raised questions. What did these two Council officers do about this? What concerns did they raise? For Interviewee 13 this was a whole system failure. The Council simply did not have the necessary expertise and experience of setting up commercial enterprises like this. In Interviewee 13's opinion, the whole thing is unforgivable, council officers should have done much better and the (former) Chief Executive and any other relevant officers should be held to account for this massive failure in governance.
- 12.30 Interviewee 14 (a former and/or current member of the Cabinet or Committee Chair) had been very supportive of the Administration's manifesto commitment to build much more affordable housing in the Borough. There are families in Croydon, including in Interviewee 14's own Ward, that are facing a real housing crisis of temporary accommodation, overcrowding and homelessness, so when Brick By Brick was proposed it made sense to Interviewee 14. Interviewee 14 is aware that other Councils had set up mechanisms for building social housing using funding from the Public Works Loan Board so why not use the same approach in Croydon? Interviewee 14 had not questioned any of this at the time as it had made sense, but maybe Interviewee 14 had not scrutinised the detail of the proposals closely enough and trusted too much the people who were leading on it. Interviewee 14 can see now that the Council was not closely enough involved with this initiative and it should have been more closely monitored and scrutinised. Interviewee 14 can see that Brick By Brick's model of many small projects on multiple sites across the Borough was inherently risky, but Interviewee 14 could not recall anyone raising this. Interviewee 14 did recall that when any questions were raised about Brick By Brick and its performance, members were too quick to defend it because of the political commitment behind it, and there was insufficient discussion and scrutiny when there were further requests for funding and other support.
- 12.31 Interviewee 14 commented that apparently the Council still cannot get the information that it needs from the company and the company seems to be simply dismissive of the Council and its concerns. As the Council previously had a Chief Executive who had a considerable regeneration background Interviewee 14 assumed that she would know better than others whether the company was delivering and whether there were any problems, and the Council had senior Directors sitting on the Board. The reality is that Interviewee 14 did not feel empowered enough to be more inquisitive or challenging at the time. Interviewee 14 now recognises that as politicians they have been too accepting of what they had been told, but in Interviewee 14's opinion, the Council does have highly paid officers who apparently were not being sufficiently challenging and did not do enough scrutiny of Brick By Brick's development programme and its performance as a company. All of these failures of insufficient challenge and scrutiny by both officers and councillors have contributed to the Council being where it is.
- 12.32 Interviewee 24 (a former and/or current member of the Cabinet or Committee Chair) told me that some Cabinet colleagues have felt badly let down by the quality of the legal advice given about the Council's commercial initiatives, and there is serious disquiet about Brick By Brick and its failure to deliver the income stream that was promised. The Council had a current Executive

Director sitting on the Board as a non-Executive Director so why were Brick By Brick's problems not known about much earlier through her involvement with the company?

- 12.33 Interviewee 18 (a former and/or current member of the Cabinet or Committee Chair) told me that the lack of the expected payments of dividends from Brick By Brick this financial year were another reason for the Council's financial difficulties. When Brick By Brick was being set up the agreed approach was that members would not have direct control over the management of the company, and that the Council would instead rely on the senior officers involved to ensure that everything was being properly managed. It now appears that there were serious issues with aspects of the way that Brick By Brick was being run. Interviewee 18 had been particularly concerned to learn that there was no Finance Director employed by the company and that the financial systems appeared to be inadequate. It now appears that the Council did not have the capacity or the expertise in its own financial and other support services to properly oversee or support the development company that the Council had set up. Interviewee 18 finds it particularly disappointing that the Council had non-Executive Directors on the Brick By Brick Board, first the (current) Director of Finance then the (current) Executive Director of Place, who apparently did not see the problems with the company and even if they did, they failed to flag those up to the Council.
- 12.34 Interviewee 40 (a member of the Opposition Group) told me that it had been clear that Brick By Brick was an attempt to provide affordable housing avoiding 'right to buy' and for the Council to have a source of funds to deploy avoiding scrutiny. Interviewee 40 had been sceptical about any real prospect of any dividend to the Council, but Interviewee 40's attempts to get information about Brick By Brick through freedom of information requests were blocked by being told that it was a private company so Interviewee 40 was not entitled to the information – even though the Council was funding the whole thing and providing the land it was building on. Interviewee 40 told me of the regret at not seconding the proposal for the purchase of the Croydon Park Hotel to be sent back to Council when it was called in by the Opposition and a member proposed it should go back to Council. It was clear to Interviewee 40 that the (former) Cabinet member for Finance and Resources was using these initiatives and the promise of future income streams to paper over the cracks. These projected income streams have not materialised sufficient to cover the endemic overspending.
- 12.35 Interviewee 49 (a member of the Executive Leadership Team) said that both Labour administrations since 2014 have had ambitious agendas about investments in assets. A Growth Board was set up to consider the Capital Spending Programme and investment proposals, and the former Cabinet member for Finance and Resources then set up the Asset Board which he chaired and controlled to focus on investments. Interviewee 49 was aware that there has been consistent advice given to both the (former) Executive Director for Resources and S151 Officer and the (current) Executive Director for Place that the Council did not have the resources needed for the level of investment that was being considered, and that the Assets Board needed to be closed down, but neither Executive Director actioned this. The Asset Board initially had an Asset Investment budget of £100m based on borrowing but neither the Croydon Park Hotel nor the Colonnades purchases went through the Asset Board process, (as it was set up after these purchases were made) which has only been used for the purchase of 2 small industrial units. The (former) Cabinet member for Finance and Resources wanted to increase the original Asset Investment Fund by £100m to £200m and this was agreed in the September 2019 Cabinet report, but this additional investment did not happen and the borrowing did not occur. He also wanted to buy properties from Brick By Brick to make its performance look better but again this did not happen. Interviewee 49 has been told that he was very demanding and used to phone and email the (current) S151 Officer all that time including at weekends and evenings. Interviewee 49 personally found both the (former) Cabinet member for Finance and Resources and the (former) Leader intimidating in their conduct. Interviewee 49 had raised concerns about this with both the (former) Chief Executive and

the (current) Executive Director for Resources and Monitoring Officer but to Interviewee 49's knowledge they did not deal with this.

- 12.36 Interviewee 6 (external to the Council) said that the Council's asset acquisition strategy had not been seen as being the saviour to offset the additional resources going into Children's Services and Adult's Services, but more as a way to get some additional income for the Council. It was basically a well-trodden path in the local government sector and Croydon Council was actually quite late in joining the party. The decision-making process for asset acquisition was essentially mirroring the way this was dealt with in other authorities although it has been criticised in the RIPI which suggested there were chaotic governance arrangements. Interviewee 6 said that the purchase of the Croydon Park Hotel was seen as a sound investment at the time as the site had intrinsic development value – and still does - even if the hotel business failed. The investment portfolio is no doubt now struggling to deliver what was promised but that will be the case for every local authority with an investment portfolio given the COVID situation.
- 12.37 Interviewee 21 (a member of the Executive Leadership Team) said that the (former) Chief Executive decided to transfer responsibility for property including oversight of Brick By Brick in respect of its property and land transfers to the (current) Executive Director for Place. Until then all of the arrangements for creating these companies and arranging the loan agreements etc. were dealt with by the (former) Executive Director for Resources and S151 Officer. None of this as far as Interviewee 21 can recall was ever discussed at ELT and it was the Cabinet that had made all the necessary decisions. Interviewee 21 was aware that the (current) Executive Director for Place had been appointed as a non-Executive Director on the Board of Brick By Brick in April 2019 taking over from the (current) Finance Director as there were conflicts of interest given the Finance Director's role as S151 Officer. Interviewee 21 was aware that the (current) Executive Director for Place then tried to sort out the governance arrangements in the relationship between the Council and the company. This led to the creation of the Shareholder Board. External expertise on the commercial aspects of development companies was also sought by the (current) Executive Director for Place and every month before the Board meeting, external advice was provided to the (current) Executive Director for Place to help prepare for the Board meetings so that she could make a full contribution. However, in Interviewee 21's opinion, it soon became clear to the (current) Executive Director for Place that something was not right and she began to be quite concerned as things did not ring true. Interviewee 21 said that concerns were raised with the (former) Chief Executive in July 2020 when it first became clear that the projected income stream from the company would not materialise. A meeting was also held with the (former) Leader and the (former) Deputy Leader to share these concerns and it was agreed that the Council should get legal advice about possible options from Browne Jacobson. Interviewee 21 is aware that the clear advice received was that the Council could not just close down Brick By Brick but there had to be a properly managed exit strategy. When PwC was commissioned to review the Council's companies, Interviewee 21 was aware that the (current) Executive Director for Place had been involved in drafting the initial brief and ensured that the advice that the Council had received previously from Browne Jacobson was built into that brief.
- 12.38 Interviewee 54 (a member of staff) had been involved in the acquisition by the Council of investment assets such as the Croydon Park Hotel. All acquisitions had been in line with the Asset Investment Strategy that was agreed by the Cabinet as part of the Medium Term Finance Strategy, except for the Croydon Park Hotel which was acquired before the Strategy was approved by Cabinet and the Scrutiny and Overview Committee although it was in line with the emerging Strategy. The Investment Strategy was produced based on advice provided by Interviewee 54, CBRE and others. Interviewee 54 said that it is not unusual for local authorities to have a programme of such acquisitions as a significant contribution to the Council's finances and to compensate for the loss of other income. If anything, Croydon has taken this step later than most local authorities. The Cabinet had agreed the Investment Strategy and the level of potential

investment and as part of the recommendations it was agreed that the approval of any purchases under the scheme would be delegated to the (former) Leader and the (former) Cabinet member for Finance and Resources and Cabinet.

- 12.39 These delegated powers were agreed by the Cabinet on the basis that the Council needed to be 'fleet of foot' 'when opportunities occurred and it would be too cumbersome and may well involve significant aborted costs if there had to be any decision-making process other than using delegated powers. So in practice it has been the (former) Leader and the (former) Cabinet member for Finance and Resources who had authorised acquisitions in line with the Investment Strategy, using the £100m budget that was agreed for such purposes based on the recommendations put before them.
- 12.40 Interviewee 54 was always asked for and always provided advice about potential purchases, although occasionally this advice had been overruled. If there was any occasion when Interviewee 54 considered that a proposal to acquire an investment was not in line with the professional assessment then Interviewee 54 would say so and would put that on the record. At the time of the initial acquisitions Interviewee 54 reported directly to the (former) S151 Officer and therefore was fully involved in the discussions and aware of any risks about an acquisition, and the (former) S151 Officer would be made fully aware of Interviewee 54's professional views. On occasion the (former) S151 Officer may have been aware of the bigger corporate picture and that would be discussed and included within the advice to the decision makers.
- 12.41 So far as the Croydon Park Hotel specifically was concerned Interviewee 54 had made it quite clear at the time that the covenant strength was not strong, but that was reflected in the yield and the asset was still value for money as supported by the independent valuation as it had considerable value as a site even if the hotel business failed. Interviewee 54 had generally not had any concerns that professional advice was not respected or was ignored by members, but at the end of the day it is members who take the decision to purchase using their delegated powers based on the information and the advice provided. Once an asset had been acquired, the Cabinet would be informed of any purchase for information and not for decision or endorsement. When the Investment Strategy approved by Cabinet went to Scrutiny and Overview Committee it required any delegated decision to be advised to the Shadow Opposition Member for comment, and that always happened prior to purchase and there was never any objection as far as he is aware. As a further check and balance on acquisition proposals the Asset Board was set up, chaired by the (former) Cabinet member for Finance and Resources with two other Cabinet members and representatives of ELT as members of the Board. Under this arrangement any proposal for investment acquisitions were reported to the Asset Board but the (former) Chief Executive and the (current) Executive Director for Place had to agree to any investment proposal before it was considered by the Asset Board. So, both the (former) Chief Executive and the (current) Executive Director of Place were fully aware of all proposals to acquire but Interviewee 54 is not aware that any acquisition proposals were discussed or considered by the full ELT.
- 12.42 Interviewee 54 is not aware that the (former) Chief Executive ever stopped or obstructed officers giving necessary advice to members about investment acquisitions. Most of these acquisitions were the subject of very tight timelines and opportunities would have been missed and abortive costs would have been involved if the decision making process was not based on the use of delegated powers. Interviewee 54 is still confident that the purchase of the Colonnades was a good investment decision for the Council as, despite what is being said, it is making money for the Council - £1.9m in the last two years. The Croydon Park Hotel purchase was value for money at the time because of the intrinsic value of a city centre site next to a major rail station. Although Croydon adopted an investment strategy later than many authorities, Interviewee 54's personal view is that the Investment Strategy was a bit overambitious and the original proposal made 5-6 years earlier by Interviewee 54 was for a £20m fund.

- 12.43 So far, the Council has committed around £90m in investments, but many potential assets have been looked at and rejected. The approach has always been to acquire assets that are adjacent to other Croydon-owned land or have redevelopment potential as is the case with the Croydon Park Hotel and Colonnades. Interviewee 54 did have some involvement in the Brick By Brick initiative although as this is more housing oriented the involvement had largely been in the valuation of sites, and in their purchase or disposal. More recently Interviewee 54 had become involved in a wider consideration of the development projects and governance. Interviewee 54's own view of Brick By Brick is that it was a sound idea in principle with significant potential community benefits but that it was overambitious. It would have been beneficial to have someone representing the Council to sit on the Brick By Brick Board as a non-Executive Director who had significant residential development experience and expertise, but at the time there was no one in the Council with those qualities. Interviewee 54 also considers that given the scale of the project the Council did not appropriately resource this project internally to ensure that there was good governance.
- 12.44 Interviewee 43 (external to the Council) said that the (former) Cabinet member for Finance and Resources had been very much behind the ambitious plans by the administration to invest in properties and businesses. This resulted in a massive over-reliance on projected commercial income, with the associated risks, but the situation was further exacerbated by decisions to buy a hotel and other property such as a shopping mall that were affected significantly by the pandemic, which resulted in a significant increase in risk and financial losses. Interviewee 43 said that the necessary capacity to manage the risks had not been created. In Interviewee 43's opinion, questions have to be asked about the competence both of senior members of the administration and those officers who advised them. In Interviewee 43's opinion the Council has seriously mismanaged its relationship with Brick By Brick and there was no real governance which was only realised when the Brick By Brick Chief Executive asked for a pay rise and there was no process to deal with this. This was a company created by the Council that was given £200 million public money which has delivered no income for the Council and which ran out of money a couple of years later. In Interviewee 43's view this situation is totally inexcusable. The (current) Executive Director of Place, the (current) S151 Officer and the (current) Monitoring Officer all had responsibility to ensure that Brick By Brick was properly constituted, governed and managed, but it seems in Interviewee 43's opinion that this was a combination of individuals who failed to see and understand the serious issues at the time. Council officers who had little or no experience in managing commercial risk on a large scale were thrown in at the deep end at Croydon, and were expected to deal with issues that in the view of Interviewee 43 were beyond their competency.
- 12.45 Interviewee 44 (a member of staff) had quickly realised that the governance arrangements for Brick By Brick were inadequate. It had an independent Chair with a couple of Croydon officers on the Board and not much more. It appeared to Interviewee 44 that there had been no scrutiny, no budget monitoring and no risk assessment being done. What was of particular concern was that Brick By Brick senior managers seemed to have direct access to former leading Council members without the need to go through the Croydon officer structure – this is totally inappropriate and simply wrong. It is poor governance and undermines the line management structures.
- 12.46 Interviewee 44 had been excited to be asked to work for Croydon given its declared ambitious agenda for social housing but Interviewee 44 soon discovered that in reality what had been set up as Brick By Brick was a company focused on delivering private housing for sale and for rent. There were regular demands from the company for more and more money and former senior elected members were backing these demands. The company had serious financial problems and it seemed to Interviewee 44 that it believed that the way out of it was just to borrow more and more - this is totally the wrong thing to do either at a personal or a company level. Brick By Brick was perceived very negatively across many parts of the Council and by some sections of the community. On wider commercial activities, during late spring 2020, Interviewee 44 had been

concerned about the apparent desire to continue to seek to purchase more investments, despite the fact that the financial problems were intensifying and the pandemic was worsening.

- 12.47 In simple terms there was a complete lack of commercial understanding on the part of some former leading elected members. A good example of this, based on observations, was the decision to buy a hotel during 2018. During the pandemic, the hotel fell into administration and as a result the Council lost its commercial rental income from it that was in excess of £1 million per year. In hindsight, it seems to Interviewee 44 to have been a questionable investment because the Council may have paid too much for the hotel. Whilst the hotel has obvious development potential, the Council has limited means to exploit that potential and in reality the hotel has caused further strain on the Council's finances. In Interviewee 44's view, the intention of an investment-led approach was a good and noble ambition. However, in Interviewee 44's professional opinion, the Council's lack of skills, competencies and commercial acumen led to its failure to deliver its strategy successfully. The lack of commercial appraisals, detailed market evaluations and overall treasury management and financial controls have led to the wider financial crisis it now faces. Some might suggest that these investments have turned sour because of bad luck, the pandemic or the economic cycle and of course in the view of Interviewee 44, these may well have been contributory factors. Had the Council had a more robust approach to its commercial activities to Brick By Brick and to the wider growth strategy then maybe it would have been more financially resilient than has proven to be the case.
- 12.48 Interviewee 44's conclusion is that governance arrangements need to be strengthened across the Boards of the group companies and within the Council, so that there is a much stricter control environment within agreed parameters and a culture of openness and transparency. Interviewee 44's view is that the Council needs to divest itself of some of the assets it has acquired and all disposals should be assessed through a robust asset management plan. Interviewee 44 believes that the Council in future should focus on affordable housing being provided through the HRA.
- 12.49 The focus of Interviewee 38 (a member of staff) had been on the commercial initiatives by the Council. Brick By Brick and other commercial ventures have clearly not been the success they were hoped to be. Interviewee 38 said that there has been a pattern of the Council launching new initiatives then not properly bedding them in before moving on to the next new initiative. Interviewee 38 considers that the Council never seems to put the right structures and processes around these initiatives to ensure their success, and has not invested in building capacity and expertise in commercial matters to ensure these commercial ventures work properly.
- 12.50 Interviewee 46 (external to the Council) said that to their knowledge any challenges or questions about Brick By Brick had been rebuffed by the (former) Chief Executive and the (former) Cabinet member for Finance and Resources. There was no transparency or accountability in the way the company was being run even though the Council had first the (current) Director of Finance then the (current) Executive Director of Place as non-Executive Directors on the Board. This is why the (current) Director of Finance needed a Deputy so that she could step away from the day to day stuff and look at the bigger picture including the way Brick By Brick was performing. This was further exacerbated as her line manager did not have a finance background so could not support the (current) Director of Finance effectively even if she had wanted to.
- 12.51 The Rapid Review Team concluded that:

*'Brick by Brick was set up as a wholly owned company of the Council. Its objective is to bring about housing growth in the Borough. The Council has funded the company through its Revolving Investment Fund which borrows money at low rates and lends on to Brick by Brick (and others) at commercial rates. The Council expected to generate surpluses from these transactions and to receive dividends.'*

*Although to date it appears that Brick by Brick has made little progress despite loans of over £200m from the Council, since neither loan repayments nor dividends have yet been received. It is believed that a considerable number of units could now either be ready for sale or close to being ready. The values of these assets need to be determined as they are currently unclear. Were Brick by Brick not to receive further funding, this would exacerbate the Company's losses, although the CEO of Brick by Brick believes that they can obtain outside funding.*

*Under one proposed scheme, the Croydon Park Hotel will need further funding of approximately £1m to be re-purposed as a provider of Emergency Temporary Accommodation. This is still being examined to ensure it is safe and viable. The Colonnades development does not appear to need further funding.*

*The Council's assessment of the performance of Brick by Brick has changed dramatically over the last few months, with a realisation that forecast interest payments and dividends would not be realised. The PWC review of strategic options is currently being considered by the Council. It is clear that the Council cannot simply close or walk away from Brick by Brick. It is our view that the Council has mismanaged Brick by Brick but that does not invalidate the business concept.'*

and

*'It is still early days; however, the Council appears to understand the severity of the situation it has got itself into as reflected by the issuance of the Section 114 notice. The Council officers are taking a more direct role in overseeing the various investments and are putting together business cases for review. The Council now understands that it needs to put Directors onto the Board (2 Directors were appointed at Cabinet on 25th November) and a Finance Director into Brick by Brick to take financial control of the company and it has stopped automatically funding the loans on demand as was the case previously. More information is needed on the financial situation of Brick by Brick before an opinion on the likely success of the investment is given.'*

and

*'The Council appears to have taken on board the need to de-risk the Council's commercial and investment strategy. This is particularly evident in its response to the Croydon Park Hotel and the Colonnades, with a business case having been put together for the former and which is currently under review. The response to Brick by Brick is evolving as the level of financial information from the company is currently inadequate and the future plan depends on a clearer view of the current position.*

*It is likely given the findings of the PIR report and the PWC review of companies that the Council will be encouraged to rationalise its investments to avoid further losses. However, we would recommend against premature divestment before additional information is gathered as to the value of the assets that are both held for sale and currently in development with Brick by Brick. The Council is unanimous in its view that the oversight and management of the commercial and investment risk in the past was inadequate.*

*The on-going supervision which did take place of Brick by Brick focused on development and planning issues and did not appear to involve much or any*

*financial discussion, exacerbated by the fact that the Company did not prepare financial cash flows for the meetings and did not replace its Finance Director when he left. This needs to be remedied urgently.*

*In the case of the Croydon Park Hotel a business case has been put forward for temporary accommodation use, which may neutralise the cash flow drain.*

*The Colonnades Development appears to have so far withstood the challenges of a C-19 lockdown and seems to be performing adequately given the circumstances.*

*In the past there was no one within the Council tasked with overseeing the contractual loan documents made with investment companies and this needs to change. It is clear from recent actions that the Council has now recognised that it had contributed to some of the delays in Brick by Brick's business plan and it needs to allocate appropriate responsibility internally and improve the oversight as well as the communication with the Company.'*

## The culture of the organisation

- 13.1 The LGA Review of the Resources Directorate was focused on the culture of that part of the Council but many of the Review's findings can be applied across the Council. Many interviewees pointed out that staff are tired and worn down by recent events and daunted by how much effort will be needed to put things right. Some said the atmosphere under the (former) Chief Executive was very difficult and it is perhaps understandable that people have retreated into their own Teams, doing what they have always done and have avoided substantial change for fear of the effort it will take, or the scrutiny it will bring. Some people talked about a 'them and us' culture rather than a culture of 'One Organisation'. There was no sense that colleagues from other parts of the Council were customers; indeed, some managers from other parts of the Council said they felt strongly that the Resources Directorate behaves as if it is doing them a favour rather than treating them as customers.
- 13.2 Some interviewees talked about the Council being inwardly focused and not looking outwards enough for ideas, networking, etc. The Directorate is also impacted by a wider cultural issue which affects the whole council. It is perhaps best described to me as: *'Shiny new ideas which sink without trace'*. There is a strong sense of initiatives being developed without reference to strategic priorities, without full analysis of the impact in terms of cost and people and, crucially, without an honest conversation about what might need to stop being done to ensure the new initiative had the best prospect of success. This was not explored in detail but was said by enough interviewees to suggest it has more than a kernel of truth to it. The innovative and creative thinking that generates these new ideas is a strength that should be nurtured but there are important questions about what cultural and operational context the Council needs, to give those ideas the best possible chance of success. A treadmill of failed initiatives is demoralising and distracts valuable resources from existing, important work. The conversations elicited an overwhelming sense of the Resources Directorate running to stand still, firefighting on many fronts and unable to take time to pause, reflect, re-energise and move forward. Someone said that *'Croydon is like a garden that has become overgrown. It now resembles a jungle that can feel too big and daunting to begin to tackle'*. It was interesting to hear from staff who had come from other Councils and who had been taken aback at the lack of clear processes, a rigorous performance culture and accountability, with one person suggesting it had felt a bit like *'the Wild West'*. Indeed, the messages about the lack of a performance culture, an industry of bureaucracy, the absence of accurate and relevant data and systems and processes that are clunky, non-intuitive and unaligned was consistent in all the conversations. It is recognised that efforts have been made to address some of the issues (e.g. the accessibility of the 'My Manager' system, the need to raise Purchase Orders, etc.) but these felt like pin-pricks in trying to deal with the huge cultural and logistical challenge of fundamentally changing how the Council carries out its corporate activities. The Review concluded that the Council should define what it means to be a 'good manager' in Croydon. This would then need to be supported by a management development programme for managers with a particular focus on people management, performance management and project management skills.
- 13.3 Interviewee 55 (a member of staff) told me that Croydon Council is strongly dominated by elected members, and members interfere with operational matters even, most probably apocryphally, at the level of who does or does not get a parking ticket. To this officer, it seems that everyone knows that this is the way Croydon Council works and that you have to be a 'yes' person if you want to progress, and that is the way to work your way up the officer structure.
- 13.4 Interviewee 25 (a member of the Executive Leadership Team) said that there are a number of complex issues in the past that have incrementally developed over the last few years. The adverse Ofsted report was a very significant event and resulted in a huge response by the Council to try to fix Children's Services and this really exacerbated the Council's financial problems. Interviewee 25 said that members clearly felt that officers had not fully shared the extent of the Children's

Services problems and that is when mistrust began to show itself. There were other things going on at the same time around the implementation of the administration's ambitious agenda so Brick By Brick and other companies were set up to create housing and fresh income streams to compensate for the loss of other income. Over the years, in Interviewee 25's opinion, resources were taken out of the Finance Department which meant that there were less Finance staff to assist and advise Directorates. The Council's reserves were running low over many years and then COVID hit and resulted in further loss of income and increased expenditure. All of these contributed to Grant Thornton's view in Interviewee 25's opinion that there had been 'collective corporate blindness'.

13.5 Interviewee 27 (a member of the Executive Leadership Team) had been asked by the (former) S151 Officer to look at the governance arrangements for Brick By Brick as they were aware that Interviewee 27 had sorted out the governance arrangements for a large housing project at a previous authority. When the (former) Chief Executive found out about this she was not at all happy and had told Interviewee 27 to stick to doing their day job. Interviewee 27 said that the (former) Chief Executive was not at all committed to cross-Directorate working or even collaboration between Directors and Directorates, and when Interviewee 27 had raised new ideas at ELT and the (former) Chief Executive had thrown them out or dismissed them some ELT members were supportive but most stayed silent. Interviewee 27 had never before been shouted at by a Chief Executive, but the (former) Chief Executive had shouted at Interviewee 27 in the open plan office. Interviewee 27 said that the (former) Chief Executive was a big personality and could be very impressive and motivating for staff and partners.

Interviewee 27 had told the (former) Chief Executive that the culture of the organisation needed to change and that as Chief Executive she needed to lead this change, but the (former) Chief Executive was not at all impressed with what Interviewee 27 had said.

13.6 Interviewee 28 (a member of the Executive Leadership Team) believes that Croydon Council forgot that it was a local authority with the core business of delivering services in a Borough that has a lot of need. It relished a role as a developer focused on regeneration and lots of shiny new things in the town centre - although many of these initiatives are actually only half finished. The Council seemed to regard essential core services as peripheral to its core task of acting as a developer. There has been no systematic financial, risk management or performance management across the organisation, although there are some excellent systems and some very competent and committed staff in those functions. Interviewee 28 said that it seems that in the past Executive Directors and Directors were given the choice whether or not to use these systems and only parts of Children's Services and the Resources Directorate chose to do so and others just carried on without any risk management or performance management. This appears to also be the case with financial management where every Directorate takes a different approach. Interviewee 28 is clear that as a key part of its recovery Croydon needs to get back to being a local authority focused on the effective delivery of its core services, and to stop acting like a FTSE 100 city company. The Council's lavish corporate headquarters in the town centre is a clear example of how it forgot what it was really there for. The organisation has lost its way and it will take an enormous effort to get it back on track and change the culture, but with a new political leadership and with the right Chief Executive and Executive Leadership Team it is achievable.

13.7 Interviewee 32 (a member of staff) said that Croydon Council has for a long time been preoccupied with demonstrating that Croydon is best at everything and that seems to predate the (former) Chief Executive. Based on Interviewee 28's experience as a Director with Croydon Council there seems to be no professional curiosity amongst staff, no interest in best practice elsewhere or willingness to learn from the experience of other authorities. This means they have no benchmarks to judge whether they are in fact the best at what they do. Interviewee 28 has found this lack of sector

interest and curiosity very odd. Some staff seem to be convinced that they are the best performing in London with no real evidence to support this view but just will not accept that they may not be the best.

- 13.8 Interviewee 44 (a member of staff) said that what the Council needs is:
- a fundamental change and improvement in all aspects of its leadership and culture
  - a restructuring of the current senior management structure. It is over elaborate and very expensive, it should be flatter and the various housing functions should be consolidated under a single Housing Directorate
  - to appoint a commercial Director to play a major role in ensuring all commercial activities are properly managed within the limits of the emerging strategy and Croydon Renewal Plan; and
  - re-building reserves in both the General Fund and the HRA.
- 13.9 Interviewee 36 (a member of staff) said that the political leadership of the Council, the (former) Cabinet, the (former) Chief Executive and the (current) ELT, appeared to be predominantly focused and only interested in three key areas. First, politics (*'we only want good news stories'*); secondly, initiatives in the external environment such as Brick By Brick; and thirdly, the drive to get the next Ofsted judgement to 'good'. Everything else the Council did was seen as peripheral and did not fit the narrative, including good governance and effective risk management. Interviewee 36 considers that the Council does have good frameworks for risk management but the culture did not involve the active use of those frameworks. In practice, the culture that is established at the top of the organisation works its way down into the depths of the organisation so what is being witnessed now is officers at quite junior levels modelling themselves still on the behaviour of the previous Council political and managerial leadership.
- 13.10 So, many officers are trying to circumvent the S114 Notice and trying to get round the Financial Control Panel that has been set up as part of that Notice. They seem just not to understand or accept that it is their problem rather than someone else's. Because they have observed that very senior officers and members have not been held to account for their behaviour they believe that they can find a way to get round the rules and not face any consequences. This is a very flawed culture for any organisation but particularly for a local authority, and it will take a lot of effort and time to change the culture that was established and has become deeply embedded under the (former) Chief Executive's leadership, supported by senior members. Interviewee 36's conclusion is that there has been a perfect storm at Croydon based largely on the arrogance of the Council's previous leadership (the (former) Chief Executive and certain (former) Cabinet members) combined with their need/desire to leave a personal legacy providing the basis to enhance their future political or managerial careers. This was based on the successful delivery of major projects such as an impressive investment portfolio, lots of new affordable housing and a 'shiny' new town centre.
- 13.11 For Interviewee 36 the reality was and still is that the Council has never had the necessary resources to deliver its ambitious agenda and the likelihood of financial collapse increased rapidly without recognition of and management of the risk. When those involved in the delivery of the risk management process tried to explain that this was going to go seriously wrong, their advice/concern was ignored. The Head of Internal Audit Report and the Annual Governance Statement are documents that tried to encapsulate all of the dangers that the Council was facing but upon presentation to ELT the blue touch paper was lit and the fireworks started. Interviewee 36 personally believes that the (current) ELT has really failed the organisation by not challenging the (former) Chief Executive and providing the necessary checks and balances for an over

ambitious Leadership that was never going to be able to deliver the legacy it wanted. It is the case that the (former) Chief Executive was a challenging character to work for but it must also be recognised that the ELT did have the mechanisms and the critical mass to challenge, stand their ground and they simply failed at this and must also be held responsible.

- 13.12 Interviewee 30 (a member of staff) said that Croydon Council faces massive challenges and the Improvement Plan that has been agreed by the Council will be very difficult to implement in a short timescale particularly given the situation with COVID. Croydon needs new and better political and officer leadership as a prerequisite for the Improvement Plan and for Croydon's recovery to succeed.
- 13.13 Interviewee 10 (a former and/or current member of the Cabinet or Committee Chair) said that the first realisation about the external auditors' adverse VFM finding was when a former councillor asked Interviewee 10 about the report that was submitted to General Purposes and Audit Committee in October 2019. When Interviewee 10 reflected on this question, Interviewee 10 realised that this had been reported back to Cabinet by the (former) Cabinet member for Finance and Resources although the way it had been handled at the time played down the seriousness of this. The external auditors have since attended political Cabinet and said that they could not understand why members had been so passive given the seriousness of the situation with few such findings ever issued – and that normally elected members in other Councils are 'jumping up and down' to stop an adverse VFM finding but that Croydon members had been very passive. Interviewee 10 now feels very frustrated that the curiosity and the need to know was not satisfactorily dealt with at the time, and is disappointed that they should have pushed harder but did not. The fact is that everyone does want to do their best and there is now a sense of shame and embarrassment about what happened and what was allowed to happen. Interviewee 10 did try to know what the situation really was at the time but accepts that it would have been right to try even harder.
- 13.14 Interviewee 12 (a former and/or current member of the Cabinet or Committee Chair) said that there is nothing in any of the reports - the RIPI or the PWC Report - that is untrue or that misses a point and that the situation that the Council is in cannot be simply explained away. Interviewee 12 told me that how the Council got to this situation is a mixture of the failures by both elected members and senior officers, individually and collectively, to do the right things and to take the correct actions and this has resulted in the errors and mistakes that have placed the Council in the current situation.
- 13.15 Interviewee 14 (a former and/or current member of the Cabinet or Committee Chair) said that when Croydon's serious financial problems became more and more obvious Interviewee 14 had asked a senior colleague at the GLA for advice about what should be done. The response was that Croydon had always been well-known for 'chasing unicorns' and that it was known that the (former) Chief Executive was very much seen as part of that culture in her previous role in Croydon and as the (former) Chief Executive. So Interviewee 14 now believes that she was the wrong choice as Chief Executive and the Council should have appointed a 'nuts and bolts' Chief Executive who would have focused on managing things well and stopping inappropriate and unaffordable expenditure. Interviewee 14 is reassured that the (Interim) Chief Executive appears very different to her predecessor, who it seems appointed people to senior positions who would not question or challenge her but who did not necessarily appear to have the experience and expertise to effectively carry out their roles.
- 13.16 Interviewee 14 did not have much direct contact with the (former) Chief Executive. However, a personal illustration of her resistance to challenge was at a meeting Interviewee 14 had attended which was discussing the 15% cost reduction programme. Interviewee 14 had recounted their own experience of similar exercises and the lessons learned, particularly about the need to be aware of

the potential equalities impact. Interviewee 14 was trying to be helpful, not provocative or over assertive and was astonished a few days later that the (former) Chief Executive sent a note to the Cabinet member complaining about Interviewee 14's comments and the degree of challenge Interviewee 14 had given. Interviewee 14 had been really surprised at this not least given the other, more pressing challenges facing the Council, but was then even more surprised when the ELT member who had been at the meeting said they felt the same way. Interviewee 14's strong suspicion is that the (former) Chief Executive may have pressured that ELT member into supporting her and the way she had escalated it to the Cabinet member.

- 13.17 Interviewee 56 (a former and/or current member of the Cabinet or Committee Chair) said that it is now possible to see how the Council has been performing over a long period. Interviewee 56 believes that everything that has happened relates back to the culture of the organisation and now that Interviewee 56 is inside the organisation the view is even clearer. The former Cabinet had been in place for too long and was dominated by a few strong colleagues. Those former Cabinet members who were not part of the Leader's team kept their heads down and focused on their own portfolios. Interviewee 56 does not believe that people like Interviewee 56 would have had a voice in that Cabinet and Interviewee 56 would never have survived in that culture because people like Interviewee 56 would not have kept their head down and would not have kept quiet. Some of the councillors outside of the Cabinet had asked questions about what was happening and had raised concerns within the Labour Group but did not get a useful response to those questions and their concerns were ignored. Interviewee 56 is surprised now how little was understood about what was going on and it is really only because Interviewee 56 now has a mentor, a councillor from another local authority, that things can be seen more clearly. It is clear to Interviewee 56 that there has not been an effective working relationship between members and officers for some time and that there is now a demoralised workforce facing more redundancies and cuts to services. The Council's relationships with the wider Croydon community are very poor and the Council's communication and explanations to the community about what has happened are negligible so *Inside Croydon* has filled the communication vacuum.
- 13.18 Interviewee 23 (a former and/or current member of the Cabinet or Committee Chair) said that Croydon is now in desperate need of rebranding. The past obsession by the Council with town centre development has to be challenged and replaced with a vision for what Croydon can successfully be in the future. The only way that Croydon Council will successfully emerge from its current desperate situation is to have the right political and managerial leadership with the right governance and the right corporate support systems in place.
- 13.19 Interviewee 41 (a former and/or current member of the Cabinet or Committee Chair) told me that part of the problem in recent years has been the sense of paranoia resulting from social media and sites like *Inside Croydon*. These have contributed to the deteriorating officer/member relationships and members have been pushed into an over-defensive position. This has been particularly the case in respect of the Westfield development that was a big flagship project that has suffered greatly as a result of huge changes in shopping habits, Brexit and the pandemic. Interviewee 56 said that there has been a lot of blame around about this – it is all said to be the fault of the Council, of the (former) Chief Executive and so on – and this contributed significantly to the atmosphere of blame and mistrust. Interviewee 56 hopes that the Council is now at a watershed and that the Council can now move forward and sort out its many problems in a timely way.
- 13.20 Interviewee 56 (a former and/or current member of the Cabinet or Committee Chair) said that the (former) Leader had been elected as Leader by the Group as a unifying Leader, as the previous Leader had acted in a high-handed and sometime intimidating manner. He then appointed a Chief Executive who had a particular commitment to extensive outsourcing as a way to tackle what were already serious financial problems at Croydon Council – but this did not work. When he left and the (former) Chief Executive was promoted from her Executive Director of Place role in

Interviewee 56's view she had followed the same approach of accepting things that the (former) Leader wanted to happen, but had also tried to change the organisation in a number of ways that Interviewee 56 had personally supported - such as promoting a 'localities' dimension to the Council's work and trying to reduce silo working - but it is Interviewee 56's view that the culture did not really change. So in the view of Interviewee 56 the problem with Croydon has been that a succession of strong political leaders have got away with things and compliant senior officers have allowed this to happen. For example, when Croydon decided to sell off an important part of its heritage in 2013 - a valuable ceramics collection - Interviewee 56 had been appalled and had tried to get it 'called in'. Interviewee 56 had discussed this with the then Monitoring Officer who had told Interviewee 56 that because the proposal was about selling something rather than buying something it could not be called in. That had been the wrong advice, but as this was the advice of the Monitoring Officer there was nothing Interviewee 56 could do about it so the sale went ahead. Interviewee 56 said that this is an example of the cultural problem of politicians being allowed to get away with, a problem that goes back at least 10 years.

- 13.21 Interviewee 40 (a member of the Opposition Group) said that the narrative has quickly developed that the Council's current dire situation is all the (former) Chief Executive's fault, that she has gone so everything is all right now - but clearly that is not the case. Interviewee 40 had observed was that the (former) Chief Executive certainly did not like being challenged and questioned, but Interviewee 40 did not want to paint her as the sole culprit. Interviewee 40 said that the organisational culture that the (former) Chief Executive was a part of and did not act to change, was all about the prevention of information being made available that might point to poor performance by the Council. Interviewee 40's requests for information/documents have always been met by passive/aggressive behaviour – *'you don't need it, you are not entitled to it, etc'*.
- 13.22 Interviewee 40 said that Cabinet members and Executive Directors have long been party to a culture that prevents elected members and others getting the information they need, and in particular the Council's (current) Monitoring Officer and the (current) S151 Officer have statutory responsibilities to ensure that the Council acts properly but in Interviewee 40's opinion they have failed to meet their statutory responsibilities. In the view of Interviewee 40 it appears that they were both appointed not for their competencies but because they would be complicit and compliant with the way the Council was being run.
- 13.23 Interviewee 40 does accept the explanation that they may have been bullied by the (former) Chief Executive or the (former) Cabinet member for Finance and Resources into not doing their jobs properly - but they should have acted properly despite what they were being told to do. The (former) Cabinet member for Finance and Resources was not even a member of General Purposes and Audit Committee or the Scrutiny and Overview Committee yet he always turned up at meetings and intervened before the (current) S151 Officer or other officers could answer questions, blocking off professional advice and information being provided. That was totally inappropriate, but not enough action was taken to stop it. The Scrutiny and Overview Committee should take some of the blame here for not referring some decisions back to full Council. Interviewee 40 had been really frustrated because Interviewee 40 had assumed that the job of officers was to help councillors get what they need and not to put obstacles in their way.
- 13.24 Interviewee 57 (a member of the Executive Leadership Team) told me that there is a need to rebuild trust both inside and outside the Council and there must be no perception or reality that there is any cover-up. The scale of the challenge is indeed enormous and there needs to be a wholesale cultural change where all those who are involved in policy development and decision-making – officers and members - accept their responsibility and properly risk assess, act within the law and to ensure that everything they do is in line with the Council's policies, Regulations and based on best practice. This challenge will be made even more difficult by the continuing COVID situation and the consequential inability to bring people together literally to embed the necessary cultural

change. Interviewee 57 drew to my attention that the Interim Chief Executive has recently proposed a new senior management structure which includes an emphasis on the organisational development resource of the Council to support the delivery of the Croydon Renewal Improvement Plan. This should help to reinforce the importance of changing the culture of the Council as much as its systems and processes and will help to address the deeply held views of a number of staff about discriminatory practice and a bullying culture.

13.25 Interviewee 50 (a member of staff) said that there is a lot of nepotism at the Council and a lot of people being well rewarded for their failure. It is clear to Interviewee 50 that there has been a lot of financial mismanagement but no action has been taken. It seems to Interviewee 50 that some people are appointed to the most senior positions and then they are told to stay silent and not raise any issues or concerns. There has been a bullying culture at the Council that is denied if people raise any concerns. Few grievances are ever upheld and things like that are just swept under the carpet. People are often set up to fail and then not supported when things go wrong with their jobs.

13.26 Interviewee 50 told me that trade union members want to see the people responsible for the Council's situation properly held to account for their failings and subject to exactly the same procedures as applies to ordinary employees of the Council. It is the case that 'heads must roll' and must be seen to roll in order to give Council staff the trust and confidence that things are going to improve for the future. People in the community also want to see that action is being taken against those responsible as they are the ones that are going to suffer as a result of the inevitable cuts in services. Interviewee 50 had a very clear message for the (Interim) Chief Executive: continue to be honest and transparent, and change the organisational culture making sure that the systems are appropriate and fit for purpose as well as properly used. COVID allowing, walk the floor when you can, and be visible to the staff who are feeling really bruised and badly served by your predecessor. The (Interim) Chief Executive and the new Leader of the Council need to reach out to the community which is feeling really let down. Interviewee 50 is proud of Croydon and wants above all for the Council and the Borough to be successful.

13.27 Interviewee 48 (external to the Council) is reasonably confident that things are now moving in the right direction with an acknowledgement from the new Leader and the (Interim) Chief Executive that drastic action is required. However, there is still real concern about how deeply and broadly embedded that understanding is, and it is clear that there needs to be a comprehensive organisation-wide change of culture to deliver and embed the many changes set out in the action plan. The organisational challenge for the (Interim) Chief Executive is huge and there are other issues that need to be addressed alongside those detailed in the action plan. There is real concern about the organisation's capacity to do all that is required at pace.

13.28 The Rapid Review Report commented that:

*'With regard to the culture of the organisation, the officers and members we met were happy to work and serve the borough, but we heard recurrent references to "a controlling culture" in the past which it was claimed emanated from the Council's former Leadership'.*

## Conclusions and recommendations

- 14.1 This report is a faithful record of a wide range of views about ‘*how the Council came to this point*’ from the perspective of a number of the Council’s elected members (from both political parties), many of its senior managers and staff, as well as some external partners.
- 14.2 A total of 64 individuals gave their professional views, their personal observations, beliefs and comments to me during my investigation. I found these views, observations, beliefs and comments to be genuinely held and sincerely expressed. And when drawn together they describe an overall and compelling outline portrait of how Croydon arrived at its current position. I accept that not all comments will be, in and of themselves, wholly correct. Moreover, I accept that there may well be other perspectives that could help make the portrait more complete. And it needs to be made clear again that this report does not reflect the formal views of the London Borough of Croydon as to what took place. It is not a statement of fact but the separate narratives of 64 individuals about what they saw taking place that led the Council to be in the situation in which it now finds itself.
- 14.3 Of course, individual perspectives will always be subjectively based, and by definition they can only offer partial pictures of some deeper and wider truths. But when these comments are shorn of any rhetorical excesses, when they are triangulated and then synthesised, a picture of organisational dysfunction at the most senior level in the Council emerges. This dysfunction seems to stem from poor governance by the former political leadership of the Council and by correspondingly poor managerial leadership from the Council’s most senior officers. It would appear that those with the biggest responsibilities and with statutory duties let the organisation down.
- 14.4 The Council is a multi-functional and multi-purpose organisation. It is a vehicle for community self-governance and a local platform for delivering an array of public functions and services in partnership with other public agencies, and with a large variety of supply partners. A healthily functioning Council is critical for the quality of life and life-chances of so many of Croydon’s residents. As a public service organisation the Council needs to be robust, agile and financially sustainable. This is especially required given the breadth and critical importance of its functional responsibilities to Croydon’s residents and communities. But by narrowing its focus and attention to a small number of commercial, regeneration and other goals the Council appears to have effectively ‘blinkered’ itself to its wider responsibilities. And by seeming to encourage overly positive news while appearing to avoid unwelcome and inconvenient feedback, including feedback that was grounded in the reality of service outcomes and staff experience, it appears that the Council’s political and managerial leadership failed to focus on the real budgetary crisis that was enveloping them. ‘*Collective corporate blindness*’ was the term used by the Council’s external auditors, and the majority of people that I interviewed agreed with that description.
- 14.5 Whilst the Council’s governance looks fit for purpose from a distance, these interviews revealed a highly dysfunctional organisation characterised by a culture of poor decision-making and conduct of some of the Council’s most senior managers. This is evidenced, among other things, in the belief that needing to be ‘fleet of foot’ meant that public money could be spent without due regard to public decision-making and internal managerial and financial controls. This included, again among other things, seemingly no formal officer governance controls being in place in respect of loan agreements in excess of £200m; the apparent toleration of non-compliance and Directorate overspending; and the apparent failure formally to advise members and share information appropriately.
- 14.6 Like all other local authorities, Croydon has found its budget and its organisation bent out of shape by the COVID-19 pandemic and the range of ensuing suppression measures. However, its overall budget and investment profile was not as soundly based as other authorities prior to the COVID-

19 crisis. This has meant that, despite the heroic efforts of so many staff to sustain key services and deliver new services, the Council was not financially robust enough to weather the challenges of the past year.

- 14.7 All local authorities have agreed structures for accountability and responsibility set out specifically within their Constitutions. These codify information flows, accountabilities (both ‘to’ and ‘for’), responsibilities, and especially the relations between members and officers. But the majority of people within the Council, and across the wider community, rarely examine these Codes. Instead everyone experiences (or hears indirectly of) the behaviour and conduct of those who are elected to lead the Council, and those professional managers appointed to advise those leaders and implement their decisions.
- 14.8 Taken together, these 64 interviews indicate a significant level of confusion over member and officer roles. What happened in Croydon seems to have been an assertion of power by certain elected members to control the operational domain of the Council, and an apparent acquiescence to that on the part of the Council’s most senior officers. This resulted in an apparent failure to ensure effective governance of decisions over public money and the apparent failure to set in place appropriate accountability mechanisms for delivery.
- 14.9 There is a fine line between organisational success and failure - whether in the corporate or in the public sector. Failure usually results from system failings or the shortcomings of individuals in performing their roles - or more usually from a mix of the two. In local government, failure can stem from mismanagement, political hubris or a blend of the two. Organisational controls can be too loose on those things where they should be tighter, or conversely too tight on the very things where they should be looser. For example, being overly relaxed about financial and legal controls while being simultaneously overly controlling on internal staff messages about where things are not going as planned is a recipe for widespread dysfunction.
- 14.10 When implementing policies in local government, failure can stem from less than best advice, less than best decision-making, less than best implementation or a mixture of all three. In many cases, local authorities begin to fail when some of the following traits become obvious in their political and managerial leadership: first, leaders may fail to attend sufficiently to important core priorities; second, they may avoid accountability and fail to confront difficult issues; third, the internal fabric of accountability within their organisations may become opaque and lack clarity; and fourth, leaders may fail to achieve an organisational commitment to act and implement decisions as relationships are corroded by mistrust.
- 14.11 As described in the General Purposes and Audit Committee Annual Report for 2019/20, the Council’s policies and process arrangements are robust and impressive. And the Council’s policy approach to risk management and assurance is good. However, from the Report in the Public Interest, the Strategic Review and PwC report, the Rapid Review report and feedback from those 64 people who were interviewed for this report; a very different picture is presented. Major risks within the Council’s revenue budgets, and in its investment portfolio, appear to have been downplayed in the face of what seemed to have been unbridled optimism and seemingly an almost reckless disregard of the potential adverse consequences of these risks to the achievement of the Council’s core purposes.
- 14.12 The appointment of an Interim Chief Executive and the continuing support from the Local Government Association has provided an impetus for change that has begun to remedy the organisational and management deficiencies described above. But a wholesale redesign of the Council’s management arrangements (and its internal assurance frameworks - including the rigorous adherence to corporate controls on budget management, risks, and service performance - needs to be implemented alongside a reinvigoration of a positive organisational and staff culture

that is based on accountability, openness, inclusiveness, curiosity and learning how to deliver better for Croydon's residents.

- 14.13 The decision of the Majority Party to change the Council's political leadership offers the basis for rectifying previous political governance failings. The Council must now focus on building healthy and effective governance across the Executive and Scrutiny divide as well as across the Council's two political parties. It needs to focus on modelling good behaviour and conduct by members, as well as proper role clarity and respect between officers and members. These actions will help rebuild the trust and confidence in the Council's political and managerial leadership. The Council will also need to start considering how to rebuild its relationship with the people of Croydon.
- 14.14 The Council will only be able to reshape its resource base in a timely and sustainable manner if it can, at pace, establish new and effective management arrangements, promote a positive organisational culture, embed clarity of direction, and foster an open and healthy governance across the political divide where challenge is accepted and encouraged.
- 14.15 The Council needs to turn its policies about being a safe and supportive place in which employees can work into reality. Psychological safety at work is crucial for both shared learning and continuous service improvement. It is not simply a case of being free from bullying, harassment and victimisation but of experiencing positive signs of support for professional learning, as well as care for personal growth.
- 14.16 In addition to seeking an understanding of how the Council has arrived in this situation, I was also tasked with assessing whether the information gathered through this initial investigation raised concerns about individuals that needed to be more formally considered through other processes. In paragraph 6.1 above (in the section on the Executive Leadership Team) the core purpose and roles of the Council's most senior managers was outlined. These management roles are not simply focused on functional nor on professional responsibilities; they also carry responsibilities for the overall corporate management of the Council, ensuring its overall effectiveness in both service delivery and staff leadership.
- 14.17 Those senior officers that are members of the Executive Leadership Team have a different mix of functional management responsibilities and corporate management responsibilities. Three post holders also have statutory responsibilities to the Council: the Head of Paid Service, the Chief Financial Officer (or Section 151 Officer); and the Monitoring Officer. Other post holders on the Executive Leadership Team may have direct management responsibility for functional or service leadership, but nonetheless they are also managerially responsible for ensuring the corporate effectiveness of the Council's overall functions, services and budgets. All members of the Executive Leadership Team are expected to work corporately, with shared responsibilities to ensure the Council's actions are lawful, that there is overall budget control, that actions are taken to limit the impact of resource reductions on front line services, and that the leadership of the Council's staff is conducted within a positive, inclusive and supportive culture.
- 14.18 It is clear from the triangulated strength and weight of opinion that concerns can be raised over the actions, the inactions and the conduct of a number of individuals. These three sets of concerns include: (1) management misjudgements and actions which led to an absence of adequate budgetary controls and mechanisms for evaluating and agreeing asset investments, and so on; (2) failures to advise members properly on the breadth and the escalation of risk which placed the Council's core purposes in jeopardy, alongside systemic management failures of corporate management internal controls; and (3) failure to stop a corrosive top-down culture of, what is commonly described by Interviewees as, over-controlling and bullying. In this final regard the Council's most senior managers are depicted, by Interviewees, as bystanders to the bullying of managers and junior staff by former leading members and the former Chief Executive. I recognise

that this can be a vexed and difficult issue to handle when it involves the leading political and managerial figures in the organisation. But if the Council's most senior management team, itself charged with fostering a diverse and inclusive organisational culture, is seen to stand by rather than to stand up, the whole organisation is adversely affected by what many interviewers described as controlling and often bullying behaviour.

- 14.19 It is therefore recommended that, when this report is presented to the relevant Council body, formal consideration is given to whether the concerns raised in this report warrant further formal proceedings to be commenced in line with the JNC disciplinary procedures. The officers involved will have the opportunity to make representations to members of that Committee as part of its formal consideration whether or not to proceed with any further formal action. The three officers involved are:
- the (current) Executive Director of Resources and Monitoring Officer,
  - the (current) Executive Director for Place, and
  - the (current) Director of Finance, Investment and Risk and S151 Officer.
- 14.20 The investigation has raised concerns about the behaviour of the Executive Leadership Team as a group and its behaviour in response to possible breaches of the Officer Code of Conduct in regard to bullying behaviour. Members are asked to consider what, if any, further action is warranted in regard to these concerns.
- 14.21 It is also recommended that when this report is presented to the relevant Council body, formal consideration is given as to whether there have been any breaches of the Member Code of Conduct and the Protocol on Staff - Councillor Relations, and whether formal action is appropriate in regard to any potential breaches. The members involved are:
- the former Leader of the Council, and
  - the former Cabinet Member for Finance & Resources.
- 14.22 The investigation has raised concerns about the actions and inactions of the former Executive Director of Resources and S151 Officer. This individual is no longer employed by the Council. It is recommended that members consider whether the concerns raised in this initial investigation report warrant a referral to the Conduct and Ethics Committee of the Chartered Institute of Public Finance and Accountability.
- 14.23 The investigation has raised concerns about the actions and inactions of the former Chief Executive who is no longer employed by the Council. It is recommended that members consider a review of the settlement agreement that was signed by the Council with the former Chief Executive and whether the concerns raised in this initial investigation constitute a repudiatory breach of her contract and thus a breach of the terms of the settlement.
- 14.24 Members are also requested to consider referring this initial investigatory report to the Metropolitan Police for assessment of any further action being warranted in regard to the handling of public money and conduct in public office.

## **Appendix 1**

### **Terms of reference for an initial and independent investigation into corporate management actions, organisational systems and environment in response to the Report in the Public Interest:**

*'The Extraordinary Council Meeting of 19<sup>th</sup> November 2020 noted that the Local Government Association (LGA) had been asked to support the Council by facilitating an initial and independent investigation of corporate management actions, organisational systems and environment in response to the Report in the Public Interest. This initial investigation was commissioned by the*

*Interim Chief Executive and will report to her in the first instance.*

1. *The investigation will be conducted by Richard Penn, a Senior Associate with the LGA and a very experienced ex-local authority Chief Executive and investigator. Richard's details are attached at the end of these terms of reference.*
2. *The costs of the investigation will be met from funding provided to the Council by the LGA.*
3. *A number of independent critical reports into the London Borough of Croydon, have recently been published: a Report in the Public Interest, the Strategic review of council companies and other entities and a section 114 notice. These describe what has occurred over the past three years and provide context and detail about the situation the Council is facing and the serious financial position it faces.*
4. *The Council is producing the Croydon Renewal Improvement Plan to tackle this. It is incorporating the recommendations from these reports and others into that Plan. The Council will be held to account for the delivery of the Improvement Plan by both elected Croydon councillors and an independently chaired Improvement Board reporting to MHCLG. The Improvement Plan will also guide the efficient and effective use of the capitalisation loan sought from MHCLG. In order for this Improvement Plan to be successfully implemented, much more needs to be understood as to how and why the council has arrived in this situation and not simply what has happened.*
5. *This investigation and its report will result in two important outcomes. The first will be to form the understanding of how and why the Council has arrived in this situation, and the second is to demonstrate the seriousness of the Council's intent to establish a new organisational culture that has learning and accountability at its heart.*
6. *This initial investigation will comprise a desk top review of relevant council documents and a series of interviews.*
7. *The investigator will interview elected members, Chief officers, trade union representatives and other staff across the Council as well as relevant external partners. Previous Chief officers will also be invited to be interviewed. All council staff and councillors will be offered an opportunity through a secure email address direct to Richard Penn to offer any relevant information. Further additional interviews will be offered at the investigator's discretion. The investigation meetings will be held via Teams.*

8. *The notes of the meeting will be produced by Richard Penn who will provide a draft copy to the interviewee who can amend and clarify comments as recorded. These will then be assimilated by Richard Penn who will present a new copy for signature as the formal and final record of that meeting.*
9. *The report will not identify individuals either by name or job title in its commentary or recommendations.*
10. *The initial independent investigation commenced on the 23rd November 2020 and aims to conclude by the end of December 2020.*
11. *The report will be presented to the Council.*
12. *If relevant, the Interim Chief Executive will consider if any other formal proceedings are required to be commenced following receipt of the report.'*

## **Appendix 2**

### **Richard Penn**

#### **Relevant experience**

I have more than forty years' experience of strategic and high level management in the public sector in County Councils and Metropolitan District Councils. I have nineteen years' experience in total as a local authority Chief Executive including 9 years as Chief Executive of the Metropolitan Borough of Knowsley and 10 years as Chief Executive of Bradford City Council (the fourth largest metropolitan authority in England).

I was the Commissioner for Standards for the National Assembly for Wales from 2000 to 2010 and in January 2008 I was appointed by the Minister for Local Government as the Chair of the Independent Remuneration Panel for Wales, a post I held until the end of 2015. In 2002 I completed a five-year term as a Commissioner with the Equal Opportunities Commission and I also was a Commissioner with the Legal Services Commission from 2000 to 2003. From 2001 to 2007 I was Chair of the South Wales Probation Board. I currently undertake consultancy assignments for public sector organisations on my own account, for the Local Government Association, Regional Employer organisations and for SOLACE Enterprises.

Since leaving Bradford City Council at the end of 1999 I have undertaken a wide range of high- profile assignments including a large number (150 plus) of disciplinary investigations in various public sector organisations (including acting as a Designated Independent Person (DIP) on a number of occasions) and as Commissioner for Standards for the National Assembly for Wales from 2000 to 2010. Most of my investigatory work in local government has been conducted wearing an LGA or Regional Employers 'hat' and has been almost exclusively related to disciplinary matters involving Statutory Officers (HOPS, MOs and S151 officer s), Directors and heads of service.

I have also been the independent investigator in a number of elected member conduct standards cases, most recently for the London Borough of Brent last year and the London Borough of Merton and Douglas (IOM) Council last year. I have also carried out a number of major investigations in respect of public sector organisations including recently a review of the failings of the Crematorium Service at Aberdeen City Council and a review of the LB Sutton ALMO. I have been supporting a number of local authorities including Midlothian Council, South Ribble BC, LB Lewisham and LB Islington over recent months with disciplinary matters in respect of their statutory officers.

I have also been involved in a wide range of job evaluation work including acting as a 'party expert' in a number of Equal Value Employment Tribunal cases in both the public and private sectors.

**Appendix 3**

**Interviewees listed in alphabetical order:**

Name of Interviewee	Role
[REDACTED]	[REDACTED]

Name of Interviewee	Role
[REDACTED]	[REDACTED]

Name of Interviewee	Role
[REDACTED]	[REDACTED]

Name of Interviewee	Role
[REDACTED]	[REDACTED]

Name of Interviewee	Role
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

## **Appendix 4**

### **List of documents provided**

- 1) Report in the Public Interest (Grant Thornton) October 2020
- 2) Croydon Renewal Improvement Plan Cabinet report November 2020
- 3) Strategic Review of Companies – PwC Cabinet Report November 2020
- 4) Report of the non-statutory Rapid Review - MHCLG February 2021
- 5) Council Constitution - June 2020
- 6) Protocol for Decision Making
- 7) Protocol on Staff/Councillor Relations
- 8) MTFS Strategic Support – IMPOWER Paper
- 9) MTFS Validation Report – IMPOWER paper
- 10) In year Savings Report – IMPOWER paper
- 11) Annual Governance Statement 2017-2018
- 12) Annual Governance Statement 2018-2019
- 13) Annual Governance Statement 2019-2020
- 14) Annual Audit Letter 2018/19
- 15) Risk Management Policy Statement
- 16) Budget Book 2020/21
- 17) Council Tax Report to Cabinet 24/02/20
- 18) General Fund & HRA Budget 2020/21 Cabinet report
- 19) Croydon MTFS Final version December 2019
- 20) MTFS July 2020 Finance Review - Cabinet report
- 21) Quarter 1 Outturn report 2020
- 22) Quarter 2 Outturn report 2020
- 23) Growth Board Terms of Reference
- 24) Asset Strategy Board Terms of Reference and membership
- 25) Finance Review Panel Terms of Reference

- 26) Finance Review Panel agendas from 21/05/20 to 5/11/20
- 27) Executive Leadership Team Job descriptions
- 28) The Croydon Promise '2014
- 29) Croydon Corporate Plan 2018-2022
- 30) Croydon's Community Strategy 2016 – 2021
- 31) Responding to the Local Government Financial Challenge
- 32) Report of the Governance Review Panel March 2020
- 33) Workforce Strategy
- 34) LGA Review of Resources Directorate February 2021
- 35) Ofsted Inspection September 2017
- 36) Ofsted Inspection February 2020
- 37) Brick By Brick Scrutiny Report June 2020
- 38) Brick By Brick Articles of Association
- 39) Brick By Brick Business plans for 2018/19, 2019/20, 2020/21
- 40) Shared Ownership Report Ashfords

## **Appendix 5**

### **Glossary of abbreviations**

CLT	-	Corporate Leadership Team
ELT	-	Executive Leadership Team
GLA	-	Greater London Assembly
GPAC	-	General Purposes and Audit Committee
GZ	-	Growth Zone
LBC	-	London Borough of Croydon
LGA	-	Local Government Association
RIF	-	Revolving Investment Fund
RIPI	-	Report in the Public Interest
UASC	-	Unaccompanied Asylum Seeking Children