

COUNCILLORS BRIEFING NOTE

RESIDENTS' MEETING

10TH MARCH 2021

You may have heard that the Council is 'bankrupt'. It means the Council has less income than its planned expenditure and cannot fulfil its legal obligation to have a balanced budget. This is why the Council had to **issue [S114 Notices](#) (on 11th November and 2nd December 2020)**. To help balance the books, alongside savings, Councils can request permission from the Government to **borrow to cover the unfunded planned expenditure (Capitalisation Directive)**.

The crisis is in part due to **chronic underfunding of local services** as well as austerity cuts by Central Government since 2010. In real terms, **Croydon Council has had 70% of local services' funding cut**. In addition, as **Croydon is classed as an outer-London Borough**, it does not have the same funding level as neighbouring Inner London Boroughs, despite facing typical inner-city issues. Our nearest neighbour Lambeth, just the other side of Norbury Railway Bridge, gets about £35m more per annum. The crisis is also largely due to Croydon Council's inability to robustly assess and deliver planned savings over many years as well as poor financial discipline. Cuts to services should have started a lot sooner, incl. under previous administrations.

The recovery plan includes a request to the Ministry for Housing and Communities and Local Government (MHCLG) for a **Capitalisation Directive of £150m over 3 years**. This request was submitted by Croydon Council on 15th December along with its proposed Improvement Plan ("Croydon Renewal Plan"). A meeting is taking place on Thursday 4 March at which it is hoped permission will be given (only 4 days away from 8th March Full Council Meeting at which the budget will be voted on).

Following the publication of the Report In the Public Interest (RIPI), the council developed the Croydon Renewal Plan which is a 3 year recovery and change management plan. The Croydon Renewal Plan was approved at Cabinet and papers can be accessed [here](#). The plan was informed by a series of reviews:

- The Council auditor's Report in the Public Interest
- The Government's Rapid Review
- The consulting firm PWSC (Price Waterhouse Coopers) two stage review of the Council's housing building company Brick by Brick and other investment companies the Council set up
- A review into individuals' actions that may have contributed to the council's situation (known as the "Richard Penn's report")
- Review by Local Government Association (LGA) and Centre for Governance and Scrutiny (CFGs)

A. Investigations

1. Report in the Public Interest

[The report in the Public Interest \(RIPI\)](#) published in October last year uncovered serious governance, financial and operational challenges at Croydon Council. Resolving this crisis requires one of the most significant change programmes seen in local government as it addresses the need for **better financial leadership management, new financial monitoring and performance systems and better governance** of the way big decisions are made.

2. The Government's Rapid Review

The government's own ["rapid review"](#) has led to the recommendation of setting-up of its own **Assurance and Improvement Panel**, appointed by the Government. It is chaired by Tony McArdle. This panel will work alongside Croydon Council's own Improvement Panel. The council must stay on track with the Improvement plan to avoid the Government sending in

Commissioners. This would mean that the Council would be run by the Government instead of local elected representatives.

3. PWC Review of Brick by Brick (BxB)

A strategic review into the Council's Companies, incl. BxB was commissioned by the Council and undertaken by the Consulting firm Price Waterhouse Coopers. The first stage of the review led to a series of recommendations to inform the 2nd stage of BxB review, an options appraisal to deal with the BxB situation. Here is the [full report](#) for further information.

4. The Richard Penn Report

A review into individuals' actions that may have contributed to the council's situation was commissioned by the Interim Council Chief Executive and undertaken by an independent Local Government Association (LGA) Advisor, Richard Penn.

This investigation was championed by many councillors, including Shafi and Leila. This has led to the suspension of senior members of the executive management team pending formal Human Resources investigation. Two of them have given in their notice and 3 of them are still under investigation. Two councillors have also been suspended by the national Labour Party pending investigation – Cllr S Hall (who was the Finance Cabinet Member) and Cllr T Newman (former council leader). As councillors, we are calling for the report to be made publicly available as a matter of transparency.

5. Joint LGA and CFGS review of Scrutiny and governance

A review of Scrutiny and Governance at the council by the Centre for Governance and Scrutiny was originally initiated by the Council's cross-party scrutiny chairs of its Overview and Scrutiny Committee and sub-committees in August 2019 based on concerns over governance and upcoming changes linked to the implementation of the [council governance review's recommendations](#) adopted by full Council in March 2020, incl. the introduction of 4 new advisory committees.

6. Summary of key issues

The main issues raised in the various reviews include:

- 1) **Governance** – the need to improve decision making processes particularly on asset investment and on Brick by Brick (the company the council set up as housing delivery vehicle)
- 2) **General Fund overspend** - the 2 main departments that were identified as outliers were Adult Social Care and Children and Social Care and the inability to meet planned savings targets included in previous cumulative budgets over the years.
- 3) The need to improve **Corporate Financial Management processes, financial discipline** at all tiers of the organisation and the need for a **greater culture of robust challenge**.
- 4) Approach to **borrowing in regard to levels of reserves and risk appetite**.
- 5) The need to increase levels of **general reserves and earmarked reserves**.

B. Annual Budget setting process

The council has moved from an annual to a **3-year budget setting process** or “**Medium Term Financial Strategy**” (MTFS). This follows local government good practice. **The 21/22 annual budget and 2021-2024 MTSF will be voted on at full council on 8th March.**

Despite being a couple of weeks away from the legal deadline for local councils to set and approve their annual budget, the **council is still awaiting a response from the Ministry of Housing Communities and Local Government (MHCLG)** to the written submission sent on 15 December for the capitalisation direction (i.e. permission to borrow up to £150m over the period 2020/21–2023/24).

MHCLG's own Improvement Panel was tasked to review the submission by the end of January to advise the Secretary of State Robert Jenrick. The council expected a decision at the end of January. We are now advised that a meeting will take place on 4th March where a decision will be made.

The Cabinet Budget meeting planned on 1st March was not be able to approve its budget paper and this has now been postponed to Monday 8th March at 2pm with full council further voting on the budget that same day in the evening. **You can access the budget report papers here and will be able to watch the Cabinet and Full Council Meetings live online on 8th March [here](#).**

1. Identifying Savings and estimating growth items

The **savings proposals affect both non statutory and statutory services**. They have been informed by **benchmarking** exercises and **staff consultation** feedback. They went through the Scrutiny Committee process and were shared as part of a public consultation which further informed their development. Specific consultation exercises are required on any proposed savings affecting statutory services, including libraries (consultation is still running until 16th March). Any figures provided in the budgets for years 2 and 3 of the MTSF are therefore not “set in stone” and will be reviewed on a regular basis.

The **estimation of “Growth budget items”** (potential spending increases relating to demographic growth and external factors like Covid impact/recession), income regeneration levels and the savings proposals developed by the council and cabinet, have all been independently reviewed by external advisors from PWC, Cipfa (Chartered Institute of Public Finance and Accountancy) and LGA experts.

Departmental savings were reviewed in detail by individual Scrutiny Sub-Committees in January and February. The overall budget and financial strategy were reviewed by the council’s main Scrutiny & Overview Committee as well as the council’s audit committee.

2. The Proposed Budget

This year, the budget-setting process has been a lot more robust. The draft budget includes:

- Savings
- “growth budget items”
- Setting level of council tax
- Capital investment programme and Housing Revenue Account
- Debt repayment

The proposed MTFS and annual budget is based on the following key principles:

- Protect frontline services to the most vulnerable
- Focus on reducing spending calls on the 2 big spending departments (Adult Social Care and Children Social Care), incl. Unaccompanied Asylum Seeking Children (the council gets funding for about 60 but looks after about 250)
- Focus on reducing the borrowing level through assets disposal, BxB managed wind-down and limit on any future investments

The proposed 2021/2022 draft budget at a glance:

- **Service Growth of £84m** to meet demographic and cost pressures
- “right-sizing” budgets to tackle the root causes of budget/cost increases particularly in Adult and Children Social Care departments
- £45m of service efficiency & savings proposals
- Additional Corporate Funding Pressures offset by growth in Business Rate, Revenue Support Grant and Council Tax receipts
- Council Tax increase at 4.99% (3.00% Social Care precept and 1.99% General) – this corresponds to about £2 increase per week for households in a Band D
- Budget Balance is predicated on the £50m Capitalisation Direction approval
- Rebuilding of General Reserves (2021/22 budget includes a £10m contribution)

There is still a gap in future years of £78m which would not be fully offset by the capitalisation direction submitted to government. That means further savings will need to be identified in future years. Options available to the Council are therefore extremely limited.

3. Debt and borrowing

The borrowing debt stands at £1.5bn. This did not happen overnight or in the past couple of years.

Half of it, about £750m was inherited from the previous administration.

The £750m borrowing incurred by this administration the past few years relates mostly to:

- loans made to BxB on the premise of expected returns that did not materialise as planned,
- refurbishment of the Fairfield Halls – these costs were planned to be met from the capital receipts of the nearby College Green site housebuilding project,
- investment in commercial property (Croydon Park Hotel, Colonnades etc.).

On the last point, why did Croydon Council make such investments? In the face of local government funding cuts, many councils ventured in building investment portfolios with the view of returns subsidising impact of cuts to frontline services. Leila asked at the last full Council Meeting whether these investments in Croydon were delivering returns. They all did, including Croydon Park Hotel, until the pandemic struck. The real issue with the Council's investments was the governance of decision-making process and not having appropriate regard to the low level of reserves, which meant if one investment was failing there was not enough reserves to cover the shortfalls.

4. Brick by Brick and Interim Asset Disposal Strategy

BxB was set up by Croydon Council as a **house building company** to **overcome the borrowing cap** imposed at the time by Government on Local Authorities. The cap was lifted at the end of 2018 and in hindsight, the Council should have reviewed its house building policy accordingly. PWC undertook a two stage review.

The first stage of the review into BxB identified the following key issues and the full report can be accessed [here](#):

- **poor governance** of the company and in the way decisions were made at the council about BxB,
- **poor financial management** competence by BxB
- **inability to deliver loan repayments and returns** from private sales to the Council.

They also highlighted the difficulties relating to the business model of BxB which was focused on small sites to meet national housing targets. Too many sites were being developed at one time and many of the sites presented many challenges, which impeded construction delivery and consequently the ability to produce capital receipts.

PWC progressed their work and undertook an options appraisal of BxB and put forward the recommendation to **complete construction sites and stop any further works on any other sites**. These will be subject to individual assessments and business cases. No sites are in Norbury Pollards Hill ward. Covington Way site in Norbury Park ward will not go ahead as a BXB scheme and further appraisal will be explored at a later stage. You can access the February Cabinet reports on the BXB options appraisal [here](#).

As part of its responsibility to balance its budget, the Council developed a [draft interim Asset Disposal Strategy](#) presented at Cabinet at their February meeting. It highlights **the need to review all council assets and initiate some specific asset disposals to reduce the council's borrowing requirement** and allow focus to be on core business. The strategy was approved by Cabinet and included approvals for the disposals of commercial investment sites such as Croydon Park Hotel, and surplus operational sites to reduce the property portfolio. These sites are in the appendix A of the report and can be accessed [here](#). Identification of possible future sites will be assessed individually and brought to Cabinet later in the year.

On **Croydon Park Hotel**, a number of **options were considered**, including Emergency Accommodation/Temporary Accommodation. A business case assessment for such use showed that it was not affordable as too many works would be required to bring it to standard. Consequently, cabinet agreed to appoint a tier one a leading commercial agent to prepare a marketing strategy and then, subject to approval, manage a sale process with a view to coming back to cabinet in September 2021.