

# LONDON BOROUGH OF CROYDON

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| <b>REPORT:</b>                        | <b>Cabinet</b>  |        |
| <b>DATE OF DECISION</b>               | <b>25<sup>th</sup> October 2023</b>                                   |        |
| <b>REPORT TITLE:</b>                  | <b>Improvement and Assurance Panel Exit Strategy</b>                  |        |
| <b>CORPORATE DIRECTOR / DIRECTOR:</b> | <b>Katherine Kerswell, Chief Executive</b>                            |        |
| <b>LEAD OFFICER:</b>                  | <b>David Courcoux, Director of Policy, Programmes and Performance</b> |        |
| <b>LEAD MEMBER:</b>                   | <b>Executive Mayor Jason Perry</b>                                    |        |
| <b>KEY DECISION?</b>                  | <b>No</b>   | N/A    |
| <b>CONTAINS EXEMPT INFORMATION?</b>   | <b>No</b>   | Public |
| <b>WARDS AFFECTED:</b>                | All   |        |

## 1. SUMMARY OF REPORT

- 1.1. The Improvement and Assurance Panel's Exit Strategy sets out the activity the Improvement and Assurance Panel expects the Council to undertake in order to provide evidence to the Secretary of State that the London Borough of Croydon is now able to meet its duty of Best Value and deliver sustainable and continuous improvement into the future.
- 1.2. Though owned by the Panel, the Strategy has been developed in close partnership with the local authority and is testament to the strong working relationships in place. The Strategy is fully accepted by the Executive Mayor and Council and builds on actions and outcomes set out in the Executive [Mayor's Business Plan](#). The Exit Strategy notes the scale of improvement the authority has achieved to date, whilst reflecting on the shared and continued commitment of the Executive Mayor and the Panel to resolve the Council's outstanding challenges.
- 1.3. Delivery of the Exit Strategy will provide confidence that the authority is able to drive its own continuous improvement and demonstrate Best Value without a need for external intervention. This will provide the conditions for the Secretary of State to consider ending the government's statutory intervention in July 2025, or sooner should he decide to do so. It must be noted that long-term financial sustainability is, however, subject to the resolution of the Council's request to government for assistance in reducing the Council's extraordinary level of accumulated debt. A long-term solution is necessary to enable the Council to deliver balanced budgets without ongoing exceptional financial support.

## **2. RECOMMENDATIONS**

- 2.1. For the reasons set out in the report and its appendices, the Executive Mayor in Cabinet, is recommended:

to note the Improvement and Assurance Panel London Borough of Croydon Intervention Exit Strategy at Appendix A.

## **3. REASONS FOR RECOMMENDATION**

- 3.1. Implementation of the Improvement and Assurance Panel Exit Strategy is a condition of the Government's exceptional financial support. It will enable the Improvement and Assurance Panel to give the necessary confidence to the Secretary of State that the Council is complying with its Best Value Duty and will maintain a sustainable course of continuous improvement into the future. The Secretary of State must be satisfied of this if the statutory intervention is to end by 20 July 2025, as planned.

## **4. BACKGROUND AND DETAILS**

- 4.1. In Autumn 2020 Croydon Council was subject to a Report in the Public Interest identifying wide-ranging and significant failures in leadership, governance and financial management. The report brought to light significant financial concerns, including serious weaknesses in the authority's strategy around commercial investment and residential development.
- 4.2. In November 2020, the Council issued its first S114 notice, indicating that it was in a position whereby it could not continue to deliver a balanced budget without exceptional financial support. Consequently, in December 2020, the authority requested support of over £150m over four years from 2020/21 from Government and were provided with an immediate Capitalisation Direction of £70m for 2020/21, with further Capitalisation Directions of £50m for 2021/22, £25m (in-principle) for 2022/23 and £5m (in principle) for 2023/24.
- 4.3. In February 2021, in response to the findings of the Report in the Public Interest and an External Assurance Review commissioned by the Department for Levelling Up, Housing and Communities, the then Secretary of State appointed a non-statutory Improvement and Assurance Panel to oversee Croydon's recovery efforts.
- 4.4. The Panel was appointed to advise and support the Council and to report to the Secretary of State at regular intervals on the progress of the 'Croydon Renewal Plan' developed by the authority. The Council has worked closely with the Panel since its inception and it is noted that significant progress to deliver against the Renewal Plan has been made, including the delivery of £90m savings in 2021/22 and 2022/23 and a further £36m is planned for 2023/24. This has meant tough political and organisational choices.
- 4.5. In 2022, following the election of Croydon's first directly elected Executive Mayor, Jason Perry, and at his direction, the authority embarked on an 'Opening the Books'

exercise. This, alongside external audit reviews of past expenditure, identified a range of additional challenges, including the need to rectify legacy budget errors totalling £160m in one off costs and nearly £50m in ongoing annual shortfalls. The Council subsequently issued a second 114 notice in November 2022 as a result of the additional historic finance issues brought to light through the Opening the Books review. It was also forced to request a further Capitalisation Direction from the government for £224.6m to balance these new historic costs.

- 4.6. The historic financial issues uncovered through the Opening the Books review left the Council with a £60m a year recurring budget gap, a significant amount of which related to the exceptional costs of servicing the Council's debt. In response, the Executive Mayor took the difficult decision to reduce this by £22m a year by proposing an above the cap increase council tax of 14.99%. This was the highest council tax rise in the country in 2023/24 and reduced the £60m structural deficit and the ask of Government to £38m.
- 4.7. Croydon Council has a £1.6bn debt (including £300m Housing Revenue Account debt). Though a range of measures including asset disposal and transformation in service delivery will reduce this, the scale of the debt burden means the authority is unable to deliver a balanced budget without exceptional financial support and a longer-term solution from Government. To date, Capitalisation Directions totalling £369.6m have been approved in principle by Government, and the Council remains in discussion with the Government about its long term financial sustainability.
- 4.8. Following the significant increase in Capitalisation support, and in line with a wider approach to financially distressed local authorities, on 20 July 2023 the Secretary of State for the Department of Levelling Up, Housing and Communities announced the issuing of Directions to strengthen the remit of the existing Improvement and Assurance Panel in Croydon. The Directions moved the Improvement and Assurance Panel to a statutory footing and remain in force until 20 July 2025, unless the Secretary of State considers it appropriate to amend or revoke them at an earlier date than that which is set out in the Directions.
- 4.9. In his [Written Ministerial Statement](#) on 20 July 2023, the Secretary of State welcomed that Croydon Council "has made good progress in laying the foundations for its recovery" and noted that as a result "the Council will continue to lead their recovery" under the new arrangements.
- 4.10. Unlike other financially distressed local authorities, the Secretary of State has not chosen to remove any powers from the Council or to install Commissioners. As a result, the Executive Mayor and Council remain in control of all functions. Whilst the Improvement and Assurance Panel has been given the power to direct the authority should it feel that Croydon is not making sufficient progress in delivering its recovery efforts or is likely to breach its Best Value Duty, in practice it has not felt the need to do so.

- 4.11. In his Written Ministerial Statement announcing the change, the Secretary of State stated that “decisions will continue to be made by the Council; the intention being that the Panel will only use their powers of instruction as a last resort if they are dissatisfied with the Council’s improvement processes.” This interpretation was confirmed by the Chair of the Improvement and Assurance Panel Tony McArdle at the Scrutiny and Overview Committee on 25 July 2023.
- 4.12. It should be noted that since its appointment in 2021, the Improvement and Assurance Panel has had the ability to issue Advice Notes to the Council setting out areas of significant concern. Six such notes have been issued over that period, with the last one issued in 2021.
- 4.13. The authority has worked closely with the Panel, as well as external partners such as the Local Government Association, to develop the Exit Strategy, whilst continuing the day-to-day work of driving its improvement efforts. The organisation is committed to continue working with the Panel to deliver the Strategy.

## **5. THE EXIT STRATEGY**

- 5.1. The Exit Strategy sets objectives, actions and outcomes under five themes, mirroring those the External Assurance Review in November 2020 originally identified for improvement. In the remit given by the government in July 2023 in moving the Panel to a statutory role, Finance, Housing and Transformation were identified as priority areas and so these are given specific focus within the Strategy. The majority of activity in the Exit Strategy reflects priorities set out in the Executive Mayor’s Business Plan and draws upon work which is already planned or underway.
- 5.2. The Strategy details actions that will be required against the following areas:

### **1. Governance:**

The Council will need to be operating effective and mature governance arrangements which enable robust and transparent decision-making, which is supported by external validation.

### **2. Culture and Leadership**

Culture across the organisation is improved and is driven by continuous monitoring, including through staff and resident engagement, and there is evidence of increasing public trust.

### **3. Financial stability**

The authority’s finances remain on a sustainable footing and are backed up by robust finance governance procedures. This will also be supported by some key measures, including asset sales, closing down Brick by Brick and developing a business plan for Fairfield Halls.

#### **4. Service performance**

Each service area will be subject to a range of measures, centred around the ability to meet statutory requirements whilst delivering good outcomes for residents and contributing to Croydon's ongoing financial stability. This will be backed up by external validation from appropriate regulatory bodies.

#### **5. Capacity and Capability to improve.**

The authority will need to demonstrate continuous ability to improve, with the Transformation Programme serving as a key part of this. This encompasses a range of work underway to create a council fit for the future.

- 5.3. The Strategy breaks progress milestones down into intervals set for March 2024, September 2024 and March 2025, which coincide with the Panel's bi-annual progress reports by letter to the Secretary of State. These reports and the Ministerial responses received will continue to be published by the [Department for Levelling Up, Housing and Communities](#).
- 5.4. The Council remains committed to working closely with the Panel to ensure that each milestone is met in line with the timelines set out in the Strategy, and earlier where possible.
- 5.5. The authority is transparent about the fact that successful delivery of the Exit Strategy does not mean that there will not be further improvements required of it, and that sustaining the progress made to date will not be challenging; instead, it signifies that the Council no longer requires external intervention to give confidence to Government that it can do this.
- 5.6. This is referenced in Tony McArdle's (as Chair of Croydon's Improvement and Assurance Panel) comments to Croydon's Scrutiny and Overview Committee on 25 July 2023: *"This is not about being perfect. With exception of the inability at the moment for the Council to operate under its own means, the Council is, as most other authorities are, meeting the duty of best value without necessarily being perfect. So, this is about trajectory, it's about direction of travel, and it's about being able to assure the Secretary of State in couple of years' time that this journey is sustainable and unlikely to fail."*

#### **6. ALTERNATIVE OPTIONS CONSIDERED**

- 6.1. None. The Council must demonstrate that it continues to take the necessary steps towards recovery and improvement, with assurance of this from the Improvement and Assurance Panel, as a condition of the Government's exceptional financial support. The Secretary of State must be satisfied that the authority has the capacity and capability to sustain its own continuous improvement if the statutory intervention is to end on 20 July 2025, in line with the Directions. Delivery of the Exit Strategy will help to provide evidence of this and the Council's positive trajectory of improvement.

## **7. CONTRIBUTION TO COUNCIL PRIORITIES**

- 7.1. The Improvement and Assurance Panel Exit Strategy is focussed on ensuring that the authority meets its Best Value Duty, maximising efficiency and effectiveness and strengthening governance. In doing so, it supports the achievement of Outcome 1, 'The Council balances its books, listens to residents and delivers good sustainable services,' in particular Priority 1: Get a grip on the finances and make the Council financially sustainable,' and Priority 4 'Ensure good governance is embedded and adopt best practice.'

## **8. IMPLICATIONS**

### **8.1. FINANCIAL IMPLICATIONS**

- 8.1.1. The Exit Strategy includes objectives to put the Council's finances on a sustainable footing, with robust finance governance procedures in place and delivered by a capable Financial Service division. It supports delivery of the Medium Term Financial Strategy, with the balanced budget achieved for 2024/25 (with exceptional financial government support) and a balanced budget for 2025/26 (with either further exceptional financial support or via resolution of the discussions taking place with the government over the methods by which financial sustainability may be restored).
- 8.1.2. The Council bears the cost of the Improvement and Assurance Panel's work. Whilst the exact amount varies it represents a significant additional cost to the authority's revenue budget. Once the statutory intervention ends in July 2025 or sooner and the Panel's work is concluded, there will be a commensurate annual saving to the revenue budget.
- 8.1.3. As noted in 1.3 above, the long-term financial sustainability of the Council remains dependent on a resolution of the authority's request to government for assistance in reducing its extraordinary level of accumulated debt. A long-term solution will be necessary to enable it to deliver balanced budgets without ongoing exceptional financial support.

*Comments approved by Jane West, Corporate Director of Resources (Section 151 Officer) (Date 15/10/2023).*

### **8.2. LEGAL IMPLICATIONS**

- 8.2.1. Following the 'minded to letter' on 16th March 2023 and the Council's response on 31st March 2023, on 20th July 2023 the Secretary of State for Levelling Up, Housing and Communities ("the SoS") issued Directions to the Council on the actions to be taken to comply with its Best Value Duty under the Local Government Act 1999. The SoS Directions require the Council to, amongst other matters, continue to address the culture of poor financial management; improve the capacity and capability of the housing service; restore public trust and confidence by transforming the Council's activities, practices, and omissions to ensure that they are compatible with the best

value duty; and secure that functions are exercised in conformity with the Best Value Duty, thereby delivering improvements in services and outcomes for the people of Croydon. The Directions are expected to remain in force until 20th July 2025, but they could be amended or revoked at an earlier date by the SoS if appropriate.

8.2.2. The Council is still responsible for all decision making relating to its powers, functions and responsibilities and continues to lead on its recovery and improvements. The SoS-appointed Improvement & Assurance Panel has the power of last resort to instruct the Council to act if failing to comply with the Best Value Duty. The Panel also provides external advice, expertise and challenge to the Council and assurance to the Secretary of State on the Council's progress with the actions required to meet the Best Value Duty. The draft statutory guidance Best Value Standards and Intervention (July 2023), which was recently the subject of public consultation, provides for a strategy and road map that identifies the route or action the authority should take to exit intervention. The draft guidance provides as follows:

**“Exiting intervention.**

50. No local authority is perfect and in determining whether and when an intervention should end, it is important to ensure that reasonable standards are applied that clearly relate to the nature of failure identified in that particular local authority. Local authorities are not expected to be perfect before an intervention ends. The aim of all interventions is to resolve incidents of failure to the point where the authority can demonstrate that it now has the capacity and capability to sustain its own journey of continuous improvement without the need for further external involvement. Commissioners or, where appropriate, chairs of statutory improvement and assurance boards are responsible for assessing the levels of risk and confidence that the Secretary of State can rely on when determining whether or not to end an intervention.

51. It is essential that commissioners/board chairs and the authority work together from the outset to develop a clear road map which identifies what the intervention intends to achieve and the route the authority should take to exit intervention, noting that this may change over time. This will enable the authority to focus its efforts on improvement, to share a sense of achievement and confidence, and to maintain momentum with progress. The details of that exit strategy will be unique to each authority experiencing intervention; it will depend on the nature of local failings and be sufficiently flexible to reflect the journey that the local authority is making. It will identify measurable criteria – “proxies for success” – in relation to individual functions and service areas which are specific and capable of being evidenced.....

52. When sufficient improvement has been made and the authority can demonstrate it is able to sustain its own journey of continuous improvement, the Secretary of State will consider evidence from the commissioners/board chairs and any other relevant sources such as peer challenges ..... “

8.2.3. The Council must now deliver on the actions and outcomes contained in the Exit Strategy to evidence improvements required to meet its Best Value Duty and to end the statutory intervention.

*Comments approved by Stephen Lawrence- Orumwense, Director of Legal Services and Monitoring Officer (Date 16/10/2023).*

### **8.3. EQUALITIES IMPLICATIONS**

- 8.3.1. Detailed Equality Impact Analyses (EQIAs) have been undertaken for all key strategies and decisions undertaken by the Council relating to its recovery and improvement activity to date, to ensure that the authority fulfils its requirements under the Public Sector Equality Duty.
- 8.3.2. Such analysis will continue to be provided for any key activity arising from the Exit Strategy.

*Comments approved by Helen Reeves, Head of Strategy and Policy. (Date 12/10/2023)*

### **8.4. HUMAN RESOURCES IMPLICATIONS**

- 8.4.1. An essential element of the Council's Exit Strategy and associated transformation pivots upon a significant range of strategic workforce objectives, including culture change and delivering better services for residents. The Council has developed and approved through Cabinet a four-year People and Cultural Transformation Strategy and action plan. The strategy was approved by the Executive Mayor in January 2023, and the associated action plan in September 2023.
- 8.4.2. The development of the strategy and action plan has taken a co-creation approach where c.250 employees have contributed to the development of the seven strategic delivery pillars and associated actions. Co-creation has included working with trade unions, staff networks, the guardians' programme, front line employees and managers. The process of co-creation in itself has been a culture change embracing as many employees as possible and demonstration of the Council listening to employees.

*Approved by: Dean Shoesmith, Chief People Officer (Date 13/10/2023).*

## **9. APPENDICES**

- 9.1. Appendix A: Improvement and Assurance Panel London Borough of Croydon Intervention Exit Strategy