Appendix 2

Value for Money Findings Report for 2019/20

London Borough of Croydon

30 November 2023

Contents

Your key Grant Thornton team members are:

Sarah Ironmonger
Engagement Lead
T: 0161 953 6499
E: sarah.l.ironmonger@uk.gt.com

Matt Dean
Senior Manager
T: 020 7728 3181
E: matt.dean@uk.gt.com

Summary of findings

Overview

The NAO issued its guidance for auditors on Value for Money Work in November 2017, which covered the financial years up to 2019/20 inclusive. The guidance (Auditor Guidance Note 3 (AGN 03) stated that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This report sets out the findings from our work in respect of our Value for Money Conclusion for the London Borough of Croydon for the 2019/20 Financial Year, in line with the guidance issued by the NAO as mentioned above.

Timeline

The 2018/19 value for money conclusion was adverse due to the significance of the matters we identified with the ongoing financial management and the matters relating to Children's Services raised by OFSTED.

In March 2020, we presented our initial 2019/20 External Audit Plan, covering both the Council's Financial Statements Audit and the Value for Money Conclusion for same year. Within this Plan, we identified the following significant risks in respect of our Value for Money Conclusion:

- **The ongoing Financial Sustainability of the Council**
- **The Council's response to OFSTED's Inspection of Children's Services**
- **Governance of the Council's Alternative Delivery Models**

The full detail behind each of these risks is shown later in the Report.

As part of our planning processes, we had undertaken early work on the budget setting processes for 2020/21 where we identified significant concerns regarding the Council's overall financial position. The concerns were raised with management in late March 2020 (as the COVID-19 pandemic lockdown was implemented) and our resulting work ultimately led to October 2020 Report in the Public Interest. The Council subsequently issued its initial Section 114 Notice in November 2020.

We revisited our planning and issued an Audit Plan Addendum, in November 2020, identifying a further risk:

- Governance and Financing of the Council's Group Structures

Discussions with management in January 2021 raised concerns about the Council's refurbishment of Fairfield Halls which re-opened in September 2019. An initial value for money risk was identified however the initial work led to significant concerns and further work was undertaken which led to a second Public Interest Report being issued in January 2022 on this area.

Further discussions with management identified two further risks.

- Refurbishment of Fairfield Halls

The 2019/20 audit continued into 2022 when issues relating to the conditions of the Council's Housing Stock emerged, in particular in relation to the condition of properties in Regina Road, which featured as part of a news investigation into the conditions in which residents were living. Given the historic and current nature of the issues we considered that the underlying arrangements in 2019/20 were impacted by the findings and a further Significant Risk was identified as:

- **The condition of the Council's Housing Stock**

This report will look to summarise all of these issues insofar as they relate to 2019-20. The most recent Section 114 Notice, issued in November 2022, relates to the financial challenges of the Council from 2023-24 onwards, and hence will be covered within our subsequent Value for Money Reports covering financial years 2020-21, which we will also being looking to issue shortly.

Conclusion

Under AGN 03, we are required to focus our work on the Significant Risks identified, mentioned above, and determine whether the Council has sufficient arrangements in place to support effective Value for Money. Following the completion of our work in respect of the Risks mentioned above, we are proposing to issue the following Conclusion in respect of the Council:

On the basis of the significance of the matters we identified with your levels of reserves, the governance of the Council's Alternative Delivery Models, the financing of the Council's Group Structures, the issues within the refurbishment of Fairfield Halls and the condition of the Council's Housing Stock, 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.

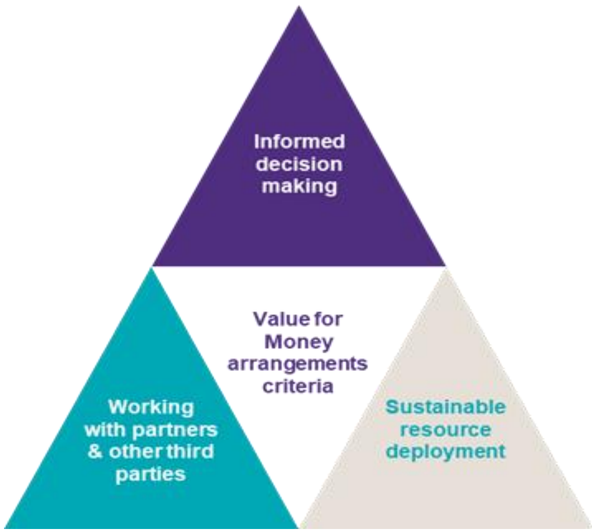
Our Approach to VfM Risks

Overview of VfM methodology and risk assessment

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether the Authority had, in all significant respects, proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

This is supported by three sub-criteria for auditors to consider, as set out in the following diagram:



As part of planning, auditors are required to consider the risk of reaching an incorrect conclusion in relation to the overall criterion. The risk assessment enables the auditor to determine the nature and extent of further work that may be required. This means that if the auditor does not identify any significant risks there is no requirement to carry out further work.

The risk assessment draws on relevant information including, but not limited to:

- cumulative knowledge brought forward from previous audits;
- relevant findings from work undertaken in support of the opinion on financial statements;
- reports from the audited body including internal audit;
- information disclosed or available to support the annual governance statement and annual report (where applicable);
- information available from the audited body's own risk registers and supporting arrangements; and
- reports from regulators or inspectorates in relation to services provided by the audited body.

Where the auditor has identified 'significant risks' or is unable to conclude whether a significant risks exists without undertaking significant additional work, the auditor should document the additional work they plan to do in response and report these risks to those charged with governance. Any additional work undertaken should be proportionate to the severity and nature of the significant risk(s) identified.

VfM Significant Risks for 2019-20

Overview

As mentioned in the Summary, we identified five significant risks in respect of the Council's Value for Money Conclusion for 2019-20, which were as follows:

- **The ongoing Financial Sustainability of the Council**
- **The Council's response to OFSTED's Inspection of Children's Services**
- **Governance of the Council's Alternative Delivery Models**
- **Governance and Financing of the Council's Group Structures**
- **Refurbishment of Fairfield Halls**
- **The condition of the Council's Housing Stock**

The detail behind each of these risks is documented on the following three pages of the Report.

Ongoing Financial Sustainability

Risk

The Authority is continuing to face pressure on delivering its services within the agreed budget with particular pressures with Adult Social Care and Unaccompanied Asylum Seeker Children as well as increased demand for temporary accommodation and the impact of nil resource to public funds.

are putting the Authority's finances under considerable strain. Therefore the Authority needs to manage its resources carefully to ensure a sustainable future for the Borough ahead of the 2020 Funding Settlement. Brexit will also potentially add another unknown to these challenges and the Authority will need to monitor developments close as the end of March approaches.

Planned Response

To gain assurance over this risk we are planning to:

- review the action taken to respond to our 2018/19 recommendations
- review the 2019/20 Outturn, including details of performance against both the Revenue and Capital Budgets
- review progress against the 2020-21 financial plan up to the completion of our audit; and
- obtain an update on the Authority's Medium Term Financial Strategy, including progress on identifying the savings required in coming years, including discussions with Management on progress to date.

We will also consider the financial impact of any financial issues arising from Brexit. These may include changes in property values, adverse changes to investment and borrowing rates, changes to business rate income, and the impact on the Authority's workforce.

VfM Significant Risks for 2019-20

OFSTED Inspection of Children's Services

Risk

Following the OFSTED Report in September 2017 in respect of the Authority's Children Services, which rated the service as 'Inadequate', the Authority is continuing to implement its action plan to deal with the issues raised by OFSTED.

We are aware that you were subject to reinspection by OFSTED in January 2020 and that you await the outcome of this inspection to validate the improvements that have been made by the Council since 2017. We will consider the outcome of this reinspection, and any further recommendations raised as part of our assessment of this risk.

Planned Response

To gain assurance over this risk we are planning to:

- review the progress made against the action plan, including resolving any challenges identified during the implementation of the action plan.
- consider the results of the follow up inspection undertaken by OFSTED in January 2020.
- consider the Authority's performance against its objectives and targets set internally to monitor the overall progress made in this area.

The Governance of the Authority's Alternative Delivery Models

Risk

The Authority's Alternative Delivery Vehicle, Brick by Brick Croydon Ltd, is moving into the phase where dividends are expected to be received by the Authority. As the Alternative Delivery Vehicle develops, the Authority needs to ensure the governance processes in place remain appropriate.

Planned Response

To gain assurance over this risk we are planning to:

- review the arrangements in place around Brick by Brick Croydon Ltd and the other existing Vehicles in which the Authority has an interest
- consider the governance arrangements in place for the Authority to gain the intended benefits from its subsidiary

VfM Significant Risks for 2019-20

Governance and Financing of the Council's Group Structures

Risk

During our work on the Public Interest Report, we identified several key governance failings in the areas mentioned, which included:

- The Council (including Cabinet and the General Purposes and Audit Committee) need to show a greater level of challenge when considering the Annual Budget and other finance papers prior to approval. This includes ensuring the assumptions underlying areas such as the Budget are reasonable and achievable based on the Council's previous track record.
- Cabinet and Council need to make sure the Treasury Management Strategy is given sufficient focus during the course of the year, including considering the ongoing affordability of the items included within the Strategy.
- Cabinet and Council need to review the ongoing financial rationale for the Council's investment in Brick by Brick to ensure that appropriate challenge and scrutiny is given in this area.
- Linked to the above, Cabinet and Council should also review its arrangements to govern its interest in subsidiaries, how the subsidiaries are linked, the long-term impact on the subsidiaries on the Council's financial position and how the Council's and taxpayers interest is safeguarded.

Planned Response

To gain assurance over this risk we are planning to:

- Review the progress made in respect of the areas made since the issuance of our Public Interest Report, including considering changes implemented since the issuance of our Report.
- Consider the findings of the various Reports issued to the Council covering these areas which may help shape things moving forward.
- Determine whether any further recommendations need to be made in respect of these areas

The refurbishment of Fairfield Halls

Risk

In December 2020 management raised concerns over the refurbishment of Fairfield Halls which reopened in September 2019. The refurbishment was undertaken by the Council's wholly owned company, Brick by Brick. Concerns were raised relating to the award of the contract, how the Council oversaw the development and whether the final expenditure was correctly accounted for.

Planned Response

To review:

- The timeline of key decisions from contract award to completion
- The legal basis and decision-making process for the award of the work to Brick by Brick via a licence
- The Council's governance arrangements during the delivery phase
- The final level expenditure on the project

The condition of the Council's Housing Stock

Risk

In March 2021, a news investigation identified issues with the condition of some of the Council's Social Housing, which in cases were found not to be habitable by humans due to the level of mould, leaks and other issues present. In a number of cases, it was alleged that residents had been complaining to the Council since 2019 for repairs to be made but had received no tangible response in the 18 months to the date of the ITV News Report.

On the back of this Report, an independent review into the conditions in the Regina Road Tower Block was commissioned by the Council, which was undertaken by Ark Consultancy.

Planned Response

To gain assurance over this risk we are planning to:

- Review the detailed report received from Ark Consultancy, along with consideration of the issues identified within the Report.
- Consider the Council's response to the Report and issues identified, along with any action plan
- Determine whether any broader issues need to be considered as part of the overall review.

Detailed Findings

Public Interest Reports

Before discussing our findings in respect of each of the significant risks identified on the previous pages, we will summarise the findings of the two Public Interest Reports issued which relate to the 2019-20 financial year as these will provide a considerable level of context to the other issues identified.

Public Interest Report 1

Our first Public Interest Report was issued in October 2020, and was in respect of a range of failings which impacted the overall financial management of the Council. This report was followed by the Council issuing a Section 114 Notice in November 2020 as there was a £66 million gap in the Council's future Financial Plans which it recognised it was going to be unable to resolve without additional financial support.

This report produced 20 recommendations for the Council, eight of which were deemed to be high priority. These eight recommendations related to the following areas:

- Understanding the causes of Social Care overspends
- Challenging the Council's Reserves Assessment before approving the annual budget
- Ensuring that Transformation Funding has delivered its planned outcomes
- Members needing to provide robust challenge to the assumptions underlying the annual budget before it is approved
- The Section 151 Officer needing to undertake a detailed review of the Revolving Investment Fund, including whether the Council should continue with this arrangement
- Members need to reconsider the Treasury Management Strategy to ensure it remains affordable for the Council
- Members need to review the current arrangements in place around the investment in Brick by Brick.
- Members need to review its arrangements to govern the Council's interests in subsidiaries and their impact on the Council's financial position.

All recommendations were accepted by Full Council at the meeting held shortly after the issuance of the Report. The Council set up a working group to monitor the Council's responses to the recommendations, and regular update reports are provided to the Audit and Governance Committee (formerly the General Purposes and Audit Committee (GPAC)).

Public Interest Report 2

Our second Public Interest Report was issued in January 2022, and was in respect of a range of failings over the Council's management of the refurbishment of Fairfield Halls, which was redeveloped by the Council between June 2016 and September 2019. This report issued a further 12 recommendations, 7 of which were Statutory Recommendations which covered the following areas:

- Ensuring the Cabinet papers supporting the approval of major projects clearly set out the legal powers to enter into the arrangement, and how the Council can secure the 3 E's during the delivery of the project.
- The Monitoring Officer should ensure that appropriate documentation is in place before commencing a project and that this documentation is appropriately stored.
- The Monitoring Officer should also consider the need to share updated Legal Advice with Cabinet where this changes during the project
- The Section 151 Officer should ensure appropriate agreements are in place before making payments to 3rd parties.
- The Chief Executive should ensure that adequate records are kept so that the information supporting key decisions are maintained, and tolerances are established for reporting changes back to Cabinet.
- There is a need to ensure a clear distinction between the role and responsibilities of Officers and Members when dealing with subsidiaries, such as Brick by Brick.
- The Section 151 Officer should ensure the reporting on Capital Schemes is enhanced to enable sufficient and appropriate monitoring during the life of the scheme.

Again, all recommendations were accepted by Full Council shortly after the issuance of the Report and these again are being regularly monitored by the Audit and Governance Committee so performance against them can be readily monitored.

Detailed Findings

Significant Value for Money Risks

1. The Ongoing Financial Sustainability of the Council

As mentioned earlier in the Report, our first Public Interest Report was issued in October 2020, and was in respect of a broad range of failings which impacted the overall financial management of the Council. This report was followed by the Council issuing a Section 114 Notice in November 2020 as there was a £66 million gap in the Council's future Financial Plans which it recognised it was going to be unable to resolve without additional financial support.

2019/20 Outturn

In 2019/20, the Council delivered a small overspend of **£0.186 million** against its General Fund Budget, albeit this included additional costs of **£8.749 million** for unfunded Unaccompanied Asylum Seeker Children (UASC) costs, which has been a challenge for the Council for a number of years and is likely to remain the case moving forward. This in-year position meant that the Council maintained its General Fund Position at **£10.395 million**, which was a very low position given the Council's Gross Expenditure for the year was **£1.226 billion** and meant there was very little ability for the Council to manage even a small amount of unexpected cost pressures or slippage in savings delivery or income plans. The Council's need to issue its first Section 114 Notice in November 2020 demonstrate the weakness in arrangements.

Aside from the UASC Costs mentioned above, there were a range of other significant overspends in year, which were covered either via the use of Transformation Funding or underspends in other parts of the Council. The main areas of overspend were largely related to Childrens and Adults Social Care, which included:

- Increased costs of External Children Placements - **£7.355 million**
- Increased costs of Social Care - **£3.414 million**
- Increased support packages for 25 to 65 Year Olds - **£2.848 million**
- Increased costs of SEN and Family Support - **£3.696 million**

These overspends were offset from several sources, which included the use of **£6.779 million** of flexible capital receipts in the form of transformation spend, an area subject to significant audit challenge. Other areas where underspends were delivered included:

- Additional Pay and Display and PCN Income - **£3.819 million**
- Improved Better Care Funding - **£2.0 million**

Despite the underspends and the use of transformation funding mentioned above, the Council's Departments overspent by nearly **£7 million**, and therefore further savings were required from the corporate centre to ensure a balanced position at year end. This balance came from three main sources, which were:

- Additional Section 31 Funding and London Pool Gains - **£3.531 million**
- Gains from the Revolving Investment Fund - **£1.873 million**
- Use of Contingency Funding - **£2.0 million**

Contingency funding is not a sustainable way for the Council to manage its finances, albeit the 2019/20 use of contingency funding was considerably lower than in the previous year. Contingency funding was required during 2019/20 due to shortfalls in the planned level of savings/additional income of which the key items were:

- **£2.2 million** was expected as a dividend from Brick by Brick Croydon Ltd
- A further **£2.5 million** of additional income was expected from the Council's Investment Properties
- Thirdly, the Council was expecting to save **£3.5 million** from reduced Pension Contributions after transferring some of the Council's Assets to the Pension Fund.

Our 2018/29 value for money conclusion was adverse and at that time we flagged the need for the Council to identify potential replacement schemes should planned savings or additional income schemes slip from the plan. In particular, the dividend from Brick by Brick has been included in the Council's draft Budget in each of the previous two years, despite this not being received due to the slow pace at which Brick by Brick had been able to complete developments. The Council should have been able to track the projected rate of Brick by Brick developments and identify for itself the likely slippage in delivering the budgeted dividend. The reduced pensions contributions were dependent on the Council transferring assets to the Pension Fund by the start of the financial year and again the Council was in a position to know that this had not been done and that the resulting savings would not be achieved. Key dependencies for the delivery of savings were known to the Council sufficiently early for alternative savings plans to be developed and we did not identify evidence of the Council doing this.

During 2019/20 we continued to review the Council's Financial Position where we identified concerns over the significantly improved financial position between Quarters 2 and 3, which was very out of line with the overall direction of travel at that point in time. The following table shows the movement in the projected overspend during the course of the year:

Detailed Findings

2019/20 Outturn Position	Q1 Forecast	Q2 Forecast	Q3 Forecast	Full Year Outturn
Level of Overspend	**-£9.4m**	**-£10.41m**	**-£2.4m**	**-£182k**

The headline explanations for the movement between Quarters 2 and 3 related to additional use of Transformation Funding which as a one-off measure was not sustainable over the longer term. Examples included:

- Highways costs recharged to Capital – moved from **£566k** to **£3.21 million** between Q2 and Q3
- Facilities Management and Support Services – an additional **£900k** was identified between Q2 and Q3 which could be capitalised
- A further **£1.751 million** was recharged to Croydon Digital Services during this period which again was effectively this being capitalised
- The Council also now accounting for **£4.1 million** of net interest from its financing, which had increased from **£1.724 million** at the end of Q2.

Despite challenging the basis of the improved forecast between January and March 2020 we were only provided with headline support rather than the detailed transaction listings we had requested. Later in the audit it became clear that the underlying transactions were not put into the general ledger until August 2020. It is important that the budget reports provided to Members are based on transactions within the ledger unless explicitly stated so that Members can be clear what has actually happened and what is planned action.

Our detailed work on the elements originally charged to expenditure that were recharged as transformation, found significant elements did not meet the definition of transformation expenditure and the Council was unable to justify their inclusion and we identified £9 million of errors within the transformation spend.

Whilst the Audit Findings Report comments on the required adjustments, there is a weakness in the arrangements the Council had in place to manage its financial position by utilising inappropriately options such as flexible use of capital receipts for transformation.

The full year outturn for 2019/20 reported to Members was an **£186k** overspend however the Audit Findings Report shows audit adjustments in excess of £140 million to correct errors in draft financial statements.

In addition to the ongoing challenges around the Council's financial position, the level of overspend in respect of the Dedicated Schools Grant (DSG) is of concern as this was **£14.5 million** at the end of 2019/20. The treatment of DSG overspends impacts other London Boroughs and a statutory override has been implemented from 2020/21 however for 2019/20 the overspend needs to be reported within the Council's balance sheet further worsening the overall position. The Council has agreed a recovery plan for the DSG deficit over a seven-year period which will need careful monitoring to deliver.

2020/21 Budget

The 2020/21 budget was set at the Cabinet Meeting in February 2020, and planned to deliver the Council a small surplus of around £200k, including the contribution of **£5.0 million** to Reserves, which effectively means the plan is to deliver a **£5.2 million** surplus before the transfer to Reserves takes place. A summary of the budget by Department can be seen in the table below:

Department	Income and Savings	Cost Growth	Net Position
Children's, Families and Education	(£8.207m)	£10.112m	**£1.985m**
Health, Wellbeing and Adults	(£16.194m)	£21.237m	**£4.728m**
Place	(£9.946m)	£6.799m	**(£2.573m)**
Resources	(£6.082m)	(£7.205m)	**£0.964m**
Corporate	(£24.875m)	£19.771m	**£1.985m**
Totals	**(£65.304m)**	**£65.124m**	**(£0.180m)**

Detailed Findings

As part of our initial review of these plans, we identified concerns over optimistic assumptions that included savings targets significantly greater than previously achieved, and unrealistic income assumptions including an increase in the Brick by Brick dividend of **£3.0 million** despite no previous dividend having been received and income growth of **£4.0 million** from Investment Properties, which we considered optimistic prior to the covid-19 pandemic.

As 2020/21 progressed, even allowing for the impact of the covid-19 pandemic, a number of the savings plans remained undelivered with the underlying arrangements being the key cause. One example was the increase in income from car parking included within the budget which was predicated on the Council increasing the charges payable. This was agreed in November 2019 however by March 2020, the fees had not been changed at any car park and therefore the action to implement a planned and agreed savings plan was undelivered. This is a weakness in the underlying arrangements prior to the covid-19 pandemic.

Our review in February and March 2020 found that the detail to support the planned savings and income growth was inadequate in that there was very little detail as to how these savings or additional items of income were to be identified. In our view this impacted the deliverability of the financial plan. The savings proposed for the 2020/21 budget were almost double the savings delivered in previous years and there was very little evidence that a savings plan of this size and scale was deliverable by the Council.

We expressed our concerns to management in late March 2020 and wrote to then Chief Executive in April 2020 who implemented revised arrangements to address the financial position. Ultimately the pace of change was not sufficient and we issued our Public Interest Report in October 2020 raising a number of concerns including relating to financial sustainability with the Council issuing its first section 114 notice in November 2020.

Our value for money conclusion is qualified in respect of the financial sustainability.

Detailed Findings

2. OFSTED Inspection of Children's Services

As trailed in the introduction to the Report, the Council's Children Services were rated as 'Inadequate' by OFSTED in September 2017. Since that date, the Council had been working through the Action Plan that was agreed in the aftermath of the review in order to improve the level of services from that position. However, all parties accepted that formal validation of the progress made could only be seen via a formal reinspection by OFSTED, which took place in January 2020.

Following the subsequent re-review of Children's Services by OFSTED in January 2020, they moved the rating of the Council's Services to 'Good' overall, which was a significant improvement from the previous position. The OFSTED summary of the reinspection visit was as follows:

'Children's services in Croydon have improved dramatically since the last inspection in 2017, when they were judged to be inadequate. Services for children and their families have been transformed as a result of strong corporate and political support, substantial investment, and the appointment of highly experienced senior managers. The current executive director for children, families and education and the director of early help and children's social care were appointed towards the end of 2018. Building on the changes that had already been made, they quickly grasped the full extent of the improvements that were required, and they have systematically and effectively tackled the weaknesses.

Services for children in need of help and protection are now good, and services for children in care and care leavers are improving well. Senior managers have ensured that they are well informed about the quality of services through performance management information and directly engaging with frontline staff. They are fully aware of the areas that still require improvement and demonstrate a relentless determination to deliver high-quality services to all children in Croydon. They have created an environment in which staff feel valued and enjoy working in the borough.'

Despite this positive output, OFSTED did highlight a few areas which the Council needs to work on further, which include:

- The quality of written plans for children in need, children in care and care leavers.
- Services provided to homeless 16- and 17-year-olds.
- Services for care leavers, particularly the range of suitable accommodation, responses to emotional health needs and preparation for independence.
- Placement sufficiency for children in care, and accommodation for care leavers.

Despite these findings, it is clear that the Council had made improvements in this area and we have not qualified our value for money conclusion in respect of Children's Services in 2019/20.

Detailed Findings

3 and 4. The Governance of the Authority's Alternative Delivery Models and Governance and Financing of the Council's Group Structures

As mentioned in the first Public Interest Report, we expressed concerns over the arrangements in place around the Governance of Brick by Brick (BBB) Croydon Ltd, as the delay in delivering planned dividends by BBB was impacting the Council's financial position. Our initial enquiries raised further areas of concern.

Firstly, from an accounting perspective, we identified the accounting treatment for new and innovative schemes was not considered sufficiently when the arrangements were entered into. This had been reported in previous years and meant that the finance team were developing the accounting treatment as part of preparing the draft financial statements and found it challenging to be able to respond to our audit queries. Linked to this, we identified that when the Council set up Croydon Affordable Homes LLP and Croydon Affordable Tenures LLP, the accounting treatment was predicated on the Council not controlling the entities however all transactions remained on the Council's General Ledger, which has made it difficult for the Council to get a full picture of its own financial position or of the financial position of these entities. The Council also continued to hold cash balances on behalf of its subsidiaries, some of which have been held within the Council's own cash. This raised concerns over whether the Council in reality controlled the entities where the proposed accounting treatment was predicated on the independence of the entities. Ultimately our challenge of the accounting treatment of two key elements, Croydon Affordable Homes and Croydon Affordable Tenures, delayed the audit and resulted in material adjustments.

Secondly, we identified during the audit that the Council had failed to monitor the filing requirements with Companies House and one of its wholly owned companies, the London Borough of Croydon Holdings LLP, was struck off at Companies House in December 2019. This meant that all of the assets owned by the LLP at the time, reverted to the Crown in absentia. The Council was able to apply for the LLP to be reinstated, which was not completed until February 2021 and this enabled the assets to be returned to the LLP. There have been other instances of filing dates being missed and reflects a lack of rigour and control over this area. We have also identified occasions where subsidiaries have been set up but key members of staff within the Council are not aware of them, which again shows a lack of rigour around setting these types of bodies up and the ongoing monitoring of them.

Thirdly, as evidenced by some of the challenges referred to within our Public Interest Report, there has been a lack of challenge and consideration of reports relating to the Council's subsidiary holdings when presented to Members. This is particularly concerning given these Committees are tasked with the oversight of these bodies, and we would expect to see a greater level of rigour and discussion when these reports are shared. We have observed instances of this during the course of 2019/20, when papers relating to BBB, such as its Annual Report and Accounts, have been effectively approved with very little discussion or comment despite the financial challenges that BBB finds itself in.

Ultimately the Council needed to review all of the subsidiaries that were currently in place, and determine the ongoing rationale for each of these to determine whether the subsidiaries continue to deliver the intended benefits and consider closing subsidiaries that are no longer in use. Our value for money conclusion is qualified in respect of governance of group structures.

The Council commissioned its own review of these arrangements in 2021 and further action has been taken which has been reported in the Interim Annual Audit Reports for 2020/21 and 2021/22.

Detailed Findings

5 Refurbishment of Fairfield Halls

In December 2020, management raised concerns with the auditor regarding the refurbishment of Fairfield Halls. Fairfield Halls is a Council owned entertainment venue that was closed for refurbishment which reopened in September 2019. The refurbishment was passed to the Council's wholly owned company, Brick by Brick. Concerns were raised relating to the award of the contract, how the Council oversaw refurbishment and what the final expenditure was.

Ultimately our findings were sufficiently significant to lead to our second Public Interest Report issued in January 2022. The summary of the findings are on page 8 of this report.

Our value for money conclusion is qualified in respect of the arrangements for the refurbishment of Fairfield Halls.

6. The Condition of the Council's Housing Stock

As mentioned in the introduction to this report, we were alerted to concerns with the Council's Housing Stock via an news investigation into appalling living conditions of the residents of Regina Road, South Norwood, in March 2021. This investigation set out the condition of some of the Council's Social Housing, which in cases were found not to be habitable by humans due to the level of mould, leaks and other issues present. In a number of cases, it was alleged that residents had been complaining to the Council since 2019 for repairs to be made but had received no tangible response in the 18 months to the date of the investigation.

On the back of the investigation, the Council engaged Ark Consultancy Limited to review the flats covered by the investigation to determine how things had been left to deteriorate to such a level, along whether these issues were caused by wider concerns with the Council's Housing function. The report from Ark was produced in May 2021, and identified there was no single reason that caused the issues at Regina Road. However they identified that there was a range of operational issues across the Council, and its Contractor, which led to a failure to deliver even the 'core' housing services effectively. It was felt that these issues were symptomatic of poor performance across the whole housing service and its ability to improve moving forward. These issues were:

- A lack of capacity and competence;
- A poor operating culture with a lack of care and respect for tenants;
- Systemic problems in how the Council communicates and deals with tenants' concerns and complaints;
- Weak performance management meaning senior managers do not appear to know what is going on; and
- Poor use of data and 'intelligence' by the Council and its contractors.

On the back of the Ark report, and its findings, the Council set up a Housing Improvement Board who were tasked with monitoring the Council's responses to the recommendations from the review. The Board includes Council resident representatives and an independent chair, and holds regular meetings in public to examine the council's housing services, both in terms of resident satisfaction and overall performance. One of the first things the Board has looked to do is to produce a Housing Improvement Plan, albeit this had yet to be formally approved in early 2022.

Despite these steps, concerns were raised within the Council in early 2022 that none of the immediate actions identified by ARK had yet to be implemented, almost a year after the Council was notified of these. Whilst we appreciate it takes time to set up and embed these new structures into the organisation, we would have expected progress to be made on these areas of immediate concern already and is something that the Council needs to get to work on in a timely manner whilst trying to improve some of the longer-term issues identified by from the review.