

Housing, Communities and Local Government Committee

Oral evidence: Local authority financial sustainability and the section 114 regime, HC 1054

Thursday 25 March 2021

Ordered by the House of Commons to be published on 25 March 2021.

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Members present: Mr Clive Betts (Chair); Bob Blackman; Ian Byrne; Brendan Clarke-Smith; Florence Eshalomi; Ben Everitt; Rachel Hopkins; Andrew Lewer; Mary Robinson.

Questions 98 to 171

Witnesses

I: Katherine Kerswell, Interim CEO, Croydon Council; Councillor Hamida Ali, Leader, Croydon Council; Chris Buss, Interim Section 151 Officer, Croydon Council; Sarah Ironmonger, Director of Audit, Grant Thornton.

Examination of witnesses

Witnesses: Katherine Kerswell, Hamida Ali, Chris Buss and Sarah Ironmonger.

Q98 **Chair:** Welcome, everyone, to this afternoon's session of the Housing, Communities and Local Government Select Committee. The Committee this afternoon is looking once again at the issue of local authority financial sustainability and the section 114 regime. Clearly, the amount of money local government has to spend on its services is extremely important. Covid has posed challenges to local authorities and there has been a necessary response from central Government to see us through the last 12 months.

We have been looking at what the impact has been on local councils, and particularly councils that got into real difficulties. One council in the country where something called a section 114 notice has been served is Croydon Council, because the council felt it was literally at the point of not being able to run to the end of the year financially without Government intervention and support. It is the only council so far where a notice of real severity has been served, because it would have run out of money without Government intervention.



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This afternoon we are looking particularly at Croydon Council in that light. We have with us the leader of the council, the interim chief executive, the interim section 151 officer and an auditor from its auditors Grant Thornton. I will just ask them to go along now and introduce themselves.

Hamida Ali: I am Hamida Ali, leader of Croydon Council.

Katherine Kerswell: My name is Katherine Kerswell; I am the interim chief executive at Croydon Council.

Chris Buss: Good afternoon. I am Chris Buss, interim section 151 officer of the council.

Sarah Ironmonger: I am Sarah Ironmonger from Grant Thornton, the external auditor for Croydon Council.

Q99 **Chair:** Thank you very much indeed. We are going to look at Croydon Council this afternoon, but we have been looking generally across the board at local authorities and how they are dealing and coping in financial terms with the Covid crisis of the last 12 months.

Before I come on to some specific questions about finance, Councillor Ali, I would like you to respond to an issue—I notified you in advance that we would raise this—about a report from “ITV News” on a particular block of flats in Regina Road. It was described as the worst block of flats in the United Kingdom because of the appalling state that tenants were having to live in, which the council simply had not responded to. Perhaps you would like to say something about that report. Is it simply a matter of culture at the council that you could have tenants living in such appalling accommodation and not apparently be aware of it?

Hamida Ali: Thank you for raising this question and giving us the opportunity to share information on this with the Committee in light of what we have seen this week. Everyone who saw that footage of our flats in Regina Road was shocked. I have said elsewhere how sorry I am, and I restate that apology unreservedly before you today. These are not just council properties; they are people’s homes. What happened is completely unacceptable on every level.

Our first priority was to get those families to safety and out of those properties, and that happened last Friday when this was first brought to my attention. Our focus is now on putting that damage right, making sure that we know about any other cases across our tenants and finding out exactly what went so terribly wrong, particularly to the point you raised, Chair, about how this could have been a situation we were not aware of.

We have appointed an external investigator, who will be reporting back to us in less than two weeks. We will share those findings as soon as we have them. Importantly, in the meantime I would ask anyone who is experiencing anything like this in Croydon to please get in touch with us so we can help. It is not acceptable that we were not aware of this



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situation, but I am really keen to understand and get complete assurance about the experiences of our residents.

The other point that I would make, particularly in the context of the deliberations of your inquiry, is that this situation was not a financial one. Our housing revenue account is in balance. Any expense to address a situation of this type would not have been affected by the section 114 notice, which has now lapsed. This was a complete corporate failure, as you highlight, to understand what was happening. That is absolutely what needs to be addressed.

Q100 **Chair:** It is a matter of culture rather than finance.

Hamida Ali: It is certainly not one of finance. I want complete assurance about the extent to which what has affected the residents we heard from this week is the experience of our other residents. My worry is that there is a bigger and more systemic issue at play here. That is what we are working very hard to address, in terms of the experience of the residents in the four flats in particular in Regina Road but, more broadly, what that means for the rest of our residents and what it means for how we are responding.

The fact is that our residents did not feel they were heard, despite contacting the council repeatedly, from their point of view, is very concerning to us. We want to address it as soon as possible.

Q101 **Chair:** Without drawing too close parallels with Grenfell, we have all heard from Grenfell residents how they reported problems over and over again and were not listened to. It is really disappointing, therefore, four years on, that similar processes seem to be in play in which deaf ears are turned to tenants' legitimate concerns.

Hamida Ali: Absolutely: that is of great concern to me and everyone who is here.

Q102 **Chair:** Let us move on to the issues we convened for today specifically. You have made it clear that that is a housing revenue account issue, which is different to the financial problems that eventually led to the 114 notice on your general fund. Could you bring us up to date with what is happening with regard to the general finances of the council, where you are at and how you are beginning to look at the future and get to a better position?

Hamida Ali: The first thing I would want to say is that I am pleased we are able to speak with you, having now set a balanced budget for Croydon Council following our settlement for exceptional financial assistance from the Government. As a result of that, the section 114 that was in place has now lapsed. We are focused on implementing the decisions we have made and, importantly, delivering our budget and not just setting it.



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I hope it is clear that, as part of the work we have done over the last five months to agree the settlement from Government, we have shown not only that we understand our position but that we have the ability to change it. I became leader in October. We have new executive leadership in place, and we are now working towards a medium-term financial strategy, achieving a position of financial sustainability by March 2024.

Issuing the section 114 notice was a really important step in taking back control of a financial position that had become unsustainable. The budget we have set and the medium-term financial strategy ahead of us are measures of stability that mean we can move forward and make sure that we are providing the services our residents importantly rely on. Clearly, there is a huge amount of work ahead of us and a huge amount of further improvement that we need to make to our financial management, our governance and our culture. A lot of that work is underway.

We have established an improvement plan, the Croydon renewal improvement plan, which is made up of 11 programmes of work to drive the range of improvements that we know we need to make. We will be delivering that and managing, monitoring and overseeing our performance against it using a programme management office approach, which will be reporting monthly. To give an example of some of that, after the report in the public interest that was published in October, the council agreed and developed a very clear action plan to respond to the findings of that. It set out 99 actions. We have already completed 34 of those and we are on target to complete a further 22 through the next quarter.

It is really important to say that we have not done this on our own. We have had significant support and advice from a number of partners, including CIPFA, as well as a huge amount of support from the Local Government Association and, importantly, now through the improvement and assurance panel. On behalf of us all, I want to put on record our sincere thanks and appreciation for all their advice, support and challenge.

We completely accept that our recent history means that we are in a process of earning back the confidence in our decisions. That is why I have made sure that officers, and we as members, have co-operated at every step of the way. That has not always been comfortable, but it has been extremely necessary. There will not be many councils in the country that have been as closely scrutinised as Croydon, and that is rightly so.

Our plans to improve our situation have been closely looked at; they have been stress-tested. The Government's agreement to the capitalisation direction, that agreement for exceptional financial assistance, demonstrates a confidence that we are capable of turning this around, but we fully appreciate that there is a difficult road ahead of us. A number of difficult decisions lie ahead of us, but we believe we can



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recover from our current position and rebuild for the future. That is my overriding and total focus.

When I talk about our belief in our capacity to recover our position, it is not just my belief. The rapid non-statutory review led by Chris Wood, the improvement and assurance panel chaired by Tony McArdle and the Minister of State in his letter confirming an offer of a capitalisation direction all recognised our open approach, our commitment and our energy to change. They will continue in their roles to monitor what we do and give their judgment on the extent to which we deliver on that. With all the external challenge and important support that we have in place, while it will be an extremely challenging time for us, I believe we can move forward and set this right.

Q103 Chair: I have two brief points, one of which is quite important. Have the Government indicated that it is now or never—either you take the advice of the improvement and assurance panel and follow the improvement plan, or the commissioners come in?

Hamida Ali: In all the communications we have received from the Minister of State in advance of the non-statutory rapid review team being commissioned, when we were offered the capitalisation direction and when the improvement and assurance panel were appointed, it has been made clear that Government reserve consideration of the option to conduct a best-value inspection and bring in commissioners.

It has been made very clear in the offer of the capitalisation direction that it is conditional for this next financial year. The £50 million we have been offered for 2021-22 will not be released until the summer, and we need to give confidence to the improvement and assurance panel that we are making good progress against the Croydon renewal improvement plan. It is made clear in that letter that, if we are not able to do that, that is absolutely a possibility.

Q104 Chair: Finally and very briefly, because we will go into the specific areas that might have caused you to get to this position, what were the key factors, in a couple of sentences, that let Croydon get into this position? We will come on to the details of it in other questions later on.

Hamida Ali: It was not one factor or one defining event that led to this point. It really was a collection of factors that contributed to our situation and conditions that built up over time. The report in the public interest sets out a range of those really clearly.

I think back to your first evidence session with Rob Whiteman and Councillor Watts, and their reflections on our situation. I agree with their collective analysis. We thought we could absorb the impact of the reduction in local government funding that we had experienced and protect residents from that impact, so we did not make the savings we should have done, which we are looking to make now.



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When you combine that with the failure by us to keep within our budgets, particularly around adult social care and children's social care, and the absence of a culture of rigorous financial compliance, those had a compounded effect on our financial resilience. When the impact of Covid came and some of our strategies did not deliver, we just were not able to withstand the shock of that.

Q105 **Chair:** I saw the chief executive nodding away as you were speaking there. Is there anything you would like to add at this point before we go into the details?

Katherine Kerswell: The leader has summed it up very, very clearly.

Chair: Let us move on, then. The section 114 notice was a watershed moment. It was very important because no other council has been issued with one this year. Therefore, we need to look at that. Brendan Clarke-Smith is going to ask some questions about that.

Q106 **Brendan Clarke-Smith:** Good afternoon, everybody. Councillor Ali, from your perspective, what have been the advantages and disadvantages of issuing a notice?

Hamida Ali: I am conscious that, in previous sessions on this, it has been commented that, clearly, a section 114 should be avoided at all costs. It is extremely rare as a result. From our point of view, it was a very important moment, because it was a signal of our recognition of the situation. It was extremely necessary at the point at which it was issued.

As you will be aware, with a section 114 notice in place, all new spending needs to be approved. We had a spending control panel that was put in place. That was a learning process in itself, particularly when we were needing to authorise important spend to support residents. We had to make sure that we were able to control our situation and signal what was happening. In that sense, it was a very important decision to have made.

I know colleagues will want to add their points of view, but, from a practical perspective, one of the challenges of it being very rare and not often experienced is around the clarity of being in that situation. There was a period, for example, where we understood that we might need to be issuing a section 114 notice every 21 days following the letter of instruction. That was written in the context of a council in that situation being able to bring back a balanced budget within a 21-day period. Given the scale of our overspend, we simply were not in a position to do that.

The other point that I would raise around the challenge, one that Councillor Watts made in a previous session, is about the important message of reassurance that we needed to give to our residents, staff and partners at that point. In the staff webinar that I did with the interim chief executive in that week, I remember that staff were not sure whether they were going to be paid. There was a lack of certainty about what this really meant in practice. Some of our residents were concerned that the council would not continue to deliver basic services.



I have one final observation. While I completely understand the colloquial conversation about a section 114 notice being effective bankruptcy, it is really challenging language when the mechanism of the 114 notice is designed precisely to prevent insolvency and protect a council's capacity to continue delivering vital services. There was a challenge of reassurance and communication with our residents and our staff, importantly, about what this really means in practice, and making residents sure that we will continue to be there for them, even in these times of most emergency.

Q107 **Brendan Clarke-Smith:** Following on from that, the rapid non-statutory review that was commissioned by MHCLG following the report in the public interest suggested that the council was too slow to issue the section 114 notice. Do you agree with this and, if so, why was it not issued earlier?

Hamida Ali: It is of course the section 151 officer's decision to issue the section 114 notice. I am conscious of some of the considerations and reflections you will have had in previous sessions. I have been leader since the end of October; we issued the first section 114 notice on 11 November—in the context of when I took over, it was a relatively short period following which the section 114 notice was issued.

When you reflect on the report in the public interest and the concern from the external auditor's perspective that we were not, as a council, responding soon enough to the alarms they were raising, whether we should have issued it earlier is a legitimate question. I would encourage other colleagues to add their perspectives.

Q108 **Brendan Clarke-Smith:** Katherine, you were nodding your head along there. What would you say to that suggestion?

Katherine Kerswell: I agree. In hindsight, having issued the notice much earlier in the year would have given the council far greater time to have controlled the expenditure in-year and reduced our need for the amount of money that we have been fortunate to agree with MHCLG to borrow. If you reflect more broadly, the best-value review report into the other council that issued a 114 notice said, "If the council had issued this 114 notice two years earlier, things could have been quite different".

There is something for the Committee perhaps to reflect on there and maybe help the sector think through the nature of a 114 as an instrument. Is what we have really fit for purpose? It was designed in quite a different time, and there were other mechanisms that sat alongside it to give councils, and particularly the statutory officers, the ability to ensure that councils stayed within financial balance. The world has really moved on, and it is too blunt an instrument now.

I do not know if my colleague, our chief finance officer, Mr Buss would like to comment at this point, as a very experienced chief finance officer.



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Chris Buss: I would agree with the chief executive on that particular point. Section 114 was an instrument of its time. When it was first introduced in 1988—I am old enough to remember it, unfortunately—there were lots of other protections around for local government. There were specific capital controls; you had an organisation that was responsible for looking after local authority audit; you had a surcharge for councillors if they misbehaved themselves in terms of overspending; and you had protection for statutory officers. They have all gone. They do not exist.

There are limited protections for statutory officers, but the other three controls have all been wiped away. You now have a very blunt instrument. I would probably describe it in footballing terms. If you are a referee, you go straight to a red card with a 114. There needs to be some form of yellow card, a warning mechanism. There is not. You go literally straight to the red card and there is no intermediate step, because there is no other control around. It needs to be looked at.

Q109 **Brendan Clarke-Smith:** To develop that point, if that is okay, the rapid review also suggested that those with financial oversight responsibilities at the council were relatively inexperienced and that that explains the delay. Would you say that was fair or unfair?

Chris Buss: As with all statements, there is an element of truth behind that. If my predecessor had been more experienced, say with my level of experience, would they have acted differently? Probably, yes.

Katherine Kerswell: I go back the comments that the leader made about the broader impacts of issuing a notice such as a 114. Because it is so rare and because it is that red card moment, as a governance mechanism and a warning mechanism, it is really very absolute. Everything stops; all the expenditure stops. As the leader said, our staff were worried about their pensions and their pay. It was an enormous wash-over. It was not an easy mechanism to use to enable us to manage our budgets very, very effectively. There needs to be something different.

People are incredibly anxious, as chief officers, thinking, “Should we move a section 114 notice?” I was interim chief executive at Nottingham City Council during last summer, and there was lots of discussion about whether this was necessary and whether it was a possibility for the council. There was real anxiety about going there, because of what it represented to the residents and to staff. We really need something better to enable us, as chief officers, to flag the warnings that need to be flagged and control expenditure in a much better way than we can at the moment when things get as tough as this. I know these are rare occasions that we are talking about.

Q110 **Brendan Clarke-Smith:** Councillor Ali, in the current case, could the regime have worked better and, if so, how? Is there anything you would do differently?



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Hamida Ali: I would just endorse what my colleagues have said. I would add to what the interim chief executive has said about the enormity of the moment, what it signals both locally and beyond your own geographical borders, and what that says about you as an organisation. There could be something more intermediate. Is the current status quo, because of that enormity and what it might signal about the success or, particularly, the failure of an organisation, a disincentive? Were we too late because of that? Would anyone else be too late—there is the Northamptonshire case—because of that sort of perverse disincentive?

It is an interesting comment that colleagues have raised about whether something more intermediate could be helpful, so that you are really confronting your situation and you are focused on that, as opposed to what might it mean and what should be secondary considerations.

Q111 **Chair:** Following that point up, the desire is to see not 114 notices scrapped, because eventually they may be needed in some cases, but some interim steps. Coming back to Chris Buss's football analogy, you simply need a yellow card, then, saying, "If you do not do something in the next two months, we are likely to serve a 114 notice". Could you bring in a warning of a 114 coming? I know you may be thinking as you go along here, but it would be interesting to have your thoughts on it.

Chris Buss: To some extent that partly exists in the section 25 statement that chief finance officers have to do when they sign off the budget. They are perhaps a lot more robust than they used to be, although sometimes they are not as robust as they can be. If something happens in-year, you cannot reissue a section 25 notice. You did that when you set the budget. You need something that effectively puts everyone on notice, on warning, and there is no formal way of doing it. You have the section 25 statement at the start of the year. If things go wrong, you go straight to 114, which cannot be right.

Chair: It is really helpful for the Committee to understand that. Thank you for raising that.

Q112 **Bob Blackman:** We are going to discuss some other details about internal scrutiny and so on later. Katherine and Chris, you are relatively new to the authority and may not be able to answer some of the questions that colleagues will have. Councillor Ali, you were a member of the cabinet when all this was going on. I understand that you were deputy on finance as well. I do not want to make this personal, and it is not right that we do, but do you bear any responsibility for the financial controls and what was going on when all of this was happening?

Hamida Ali: It is a completely legitimate and important question. I was a cabinet member from the municipal year 2016-17. In the municipal year 2015-16, I was the deputy cabinet member for the finance and treasury portfolio. I was a full cabinet member for that full four-year period, which covers the period the external auditors consider in their report in the public interest.



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I want to say that I fully accept my responsibility as a cabinet member at the time. I reflected on that significantly when I first read the report in the public interest, as I know all my colleagues would have done. That is partly why I stepped forward to take this new responsibility, to take us forward at such a challenging time and to play my part in putting things right. As I have said, that is my total focus.

Q113 **Bob Blackman:** For the record, I just want to be clear on this. Of the cabinet that is now supporting you as leader, seven members, including you, were members of the cabinet previously. Three members of the cabinet, after this report surfaced, resigned from the cabinet. Am I right in that understanding?

Hamida Ali: My challenge is only that our cabinet has changed just in the last week. We have a new member of cabinet. I have also reduced the size of cabinet by one as part of making our own contribution as members. I might not be able to quite tot up the numbers on what is different. I have some members of cabinet who were with me before October, but at least three members of the nine-member cabinet were not serving cabinet members at that time. Forgive me; it will not be seven.

Q114 **Bob Blackman:** I just want to be clear. We are not in the position that the cabinet you now have is completely new. There are people who were cabinet members and responsible for their own areas of the council's expenditure during this time and they have continued on in cabinet. They may have different assignments. I understand that; that is your role.

I just want to be clear that it is not a completely new cabinet. It is a set of councillors who were involved when all of this spending and alleged financial mismanagement was going on. I just want to be clear on this position, because it is important for the record.

Hamida Ali: It is a mix. There are some who were there and some who are new to cabinet. I would just add what my intention has been in this role, particularly reflecting on my experience as a cabinet member previously. The vast majority of my focus as a cabinet member previously—I was responsible for community safety and our relationship with our communities—was on that policy brief. It was on delivering in that policy portfolio.

One of my reflections at this time, as the report in the public interest was coming to light, was that that was not the right balance between my responsibility for a policy area and my engagement in the strategic issues facing the council. One of my very intentional approaches in this role has been to develop with my cabinet team a much more even balance. Cabinet members lead properly on those policy areas, but we are all engaging with and taking responsibility for, specifically in our context, improving our financial situation. That should not, for example, be left to my two cabinet finance leads or disproportionately sit on the shoulders of



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my cabinet colleagues who lead on the area of social care because they disproportionately carry that spend.

We all need to have a proper understanding of our budget, our budget controls, where we need to make savings and those decisions. My observation is that that was not the case previously, and that is why I have taken a very intentional approach as we move forward as a cabinet team.

Q115 Bob Blackman: I understand. My colleagues will want to probe a bit later on in some of these areas. I just wanted to make it clear where we stood. In terms of the actual discussions with MHCLG on the section 114 notice, what discussions happened before and after the notice was raised? Can we be clear when those discussions were initiated? I am conscious that Katherine and Chris may not be able to answer this, but I just want to be clear when this started and what those discussions led to.

Katherine Kerswell: I can certainly explain from September onwards, when I joined. I do have some knowledge of the activity before. From about May 2020, a particular finance panel was set up with external colleagues on it: our partners, members of the cabinet, members of the management team and our external auditor. Sarah from Grant Thornton attended that meeting. That discussed a lot of the issues around the finances of the council and how they could be brought into balance. That meeting began an informal dialogue.

Q116 Bob Blackman: So I am clear in terms of timeframe, that took place in May.

Katherine Kerswell: Yes.

Q117 Bob Blackman: Presumably that was sometime after the council's annual meeting. Was it around that time?

Katherine Kerswell: The first meeting was towards the end of May.

Q118 Bob Blackman: The council's budget started at the beginning of April.

Katherine Kerswell: Yes.

Q119 Bob Blackman: By the beginning of April, there were already problems identified. There must have been.

Katherine Kerswell: Yes. Covid was happening, and people—

Bob Blackman: We all understand that Covid has made life very difficult for all of us.

Katherine Kerswell: It has. Particularly in Croydon's case, a whole series of savings and income targets had been identified and put into the 2021 budget. Early doors, they simply declared, "We simply are not going to be able to deliver this. The budget is not going to work". They began work on what they called in-year savings, a staffing challenge to remove 15% of staffing costs and a whole bag of additional savings that



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happened. That work started from May onwards. Given what we know, we would look back—Sarah, you may wish to comment, because you were a part of that group at that time—and say that the pace was not where it should have been; the energy was perhaps not where it should have been.

To answer your primary question, work began and there was informal dialogue with MLCLG at that time—early, finding out. A lot of councils were in that space. When I joined the authority, I took a report to cabinet in September where the council made a commitment to seek a formal capitalisation direction from MHCLG, and we began formal meetings.

Q120 **Bob Blackman:** Was that the first report to cabinet of the problems?

Katherine Kerswell: No, there was a June cabinet report, I believe, that also went to scrutiny in July. Sarah, could I ask you come in on this? You may remember the audit trail of this a bit better.

Sarah Ironmonger: Yes, I believe it was a July cabinet meeting that went to scrutiny at the very end of August. That is when these matters were being discussed at that level. Having attended the finance review panel, it was certainly referred to at the meetings I was at that informal discussions would start. That was a late June meeting. The finance review panel started in late May. That is not a meeting I would have attended.

Q121 **Bob Blackman:** What discussions were going on with MHCLG over this period? You have said, Katherine, that informal discussions were going on. Had it got to a formal stage by that time?

Katherine Kerswell: They were weekly meetings. I inherited a diary with weekly meetings in it. To the difference between informal and formal, my reason for moving the recommendation that I asked members to consider in the September cabinet report was to put it formally on the record that the council needed to agree a capitalisation direction. It was very clear at that stage that that was our future, so that became formal, if you like. The content of the meetings and how we worked remained informal and very collegiate, but it was a formal commitment to do so at that point.

Q122 **Bob Blackman:** Could that capitalisation direction have been agreed earlier?

Katherine Kerswell: I do not think it could have been agreed earlier, because there was a considerable amount of work that needed to go on within the Treasury and MHCLG. I am not sure how much we would have been fully able to establish the liabilities we were facing.

One of the other things I did in that September report was to commission—this is when Mr Bass first joined our authority to help—an external report, with him managing the process, to look at all the liabilities the council had in its external companies and other entities. We wanted to make absolutely certain of what it was that we were facing,



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not just what we could see happening in the general fund but other things that might come to bear. That information was not available earlier in the year. Our timeline was a bit as it is, really.

Q123 Bob Blackman: Under the CIPFA code, which was revised because of the pandemic, clearly there is a requirement for the chief financial officer to advise informally MHCLG of any particular financial concerns. Can we be clear about when that was done by the chief financial officer? These informal discussions are one thing, but do we have a timeline on what the chief financial officer was saying to MHCLG at the time?

Katherine Kerswell: Our then chief finance officer attended those meetings with me, and we shared the full information that we had. They were very open meetings.

Q124 Bob Blackman: I am sorry, Katherine. That is when you started. When did these informal meetings or whatever start happening? It was before you arrived, obviously.

Katherine Kerswell: Yes, I do not know. In between May and September, I would suggest. They started at some time.

Bob Blackman: We do not know. Okay, that is fine.

Katherine Kerswell: Please remember that we were obviously submitting monthly returns into MHCLG as part of the information—

Q125 Bob Blackman: I understand that, but it is just flagging up the issues of concern. One of the areas we are looking at here is not only what the council did but what MHCLG did in response to a council with problems, which we want to be clear on.

The other issue is that, as we understand it, the Treasury has attached a borrowing rate of 1% above the normal Public Works Loan Board borrowing rate for the loan that has been given. Is that fair and reasonable, especially given interest rates at the moment?

Katherine Kerswell: Could I ask Mr Buss to comment on this? I am not sure what you have described is strictly accurate. Mr Buss will be able to correct me if I am wrong.

Chris Buss: Under both the direction for the current year and the conditional one for next year, if we need to borrow to pay for the capitalisation direction and that borrowing is above our existing level of borrowing, yes, we will pay an extra 1% above the normal PWLB rate. It does not affect our housing revenue account debt, but it will affect our general fund debt.

Our hope is that we will be able to deal with a significant part of the amount we will have to borrow through the realisation of capital assets—we may not be able to do all of it, but we do hope to do that—and the repayment of loans that we have outstanding. Hopefully we will not have to borrow.



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Q126 **Bob Blackman:** That would be the restructuring of existing loans that you have outstanding.

Chris Buss: No, we have loans that are owed to us. When that comes back in, it effectively means we have cash available. However, I suspect that we will have to borrow some of that, even if it is only short term. Is it fair? I do not know. I can understand the reasoning behind it. It adds an extra spending pressure, but I suppose I can sort of see why they do it. It adds to the pressures we have, if we have to borrow it.

Q127 **Bob Blackman:** Clearly, capitalisation, as you quite rightly say, allows you to get to a better financial position. However, there is a downside to this, is there not? Overall, it could weaken your financial position if things go wrong. Have you done that assessment yet?

Chris Buss: We have done the assessment with regard to the next year. In fact, I and the chief executive have just finished quite a lengthy round of meetings going through all the proposals we have in next year's budget to make sure that they are all nailed down and deliverable, and that the message is out in the council that we expect everything to come in either in budget or below budget. There is no new money; there is no extra money.

Part of what we are doing is building up the authority's reserve base as part of the budget that we have set. That gives us a little bit of latitude if things do go wrong.

Q128 **Bob Blackman:** We are going to ask about that in a short while, so I will not intrude on that position. What conditions have been applied to the capitalisation direction, if any, by MHCLG?

Katherine Kerswell: There is a broad one. Every quarter, the improvement and assurance panel feeds back to the Secretary of State in a private report to give assurance on our progress both at pace and in the activity we are doing, the delivering of our improvement plan. They are very focused on different aspects.

At the moment, it will be whether we are getting ready to produce the sale of assets for this year and ensuring that our savings plans are robust and deliverable. It is that sort of assurance level. These questions will move through the year, as we move through our plan. That is the big one. If they are unable to give the Secretary of State assurance, they will raise some very big questions with us about what we are doing.

Q129 **Bob Blackman:** Does the direction require you to dispose of assets?

Katherine Kerswell: I am not sure it specifically requires it, no.

Chris Buss: It does not physically require us to do it. Within our improvement plan, we have said that there are certain assets that we will relinquish.



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Hamida Ali: It is fair to say that the improvement and assurance panel has set out its priorities. Those are around our financial discipline, around limiting our liabilities and around the transformation of our social care spending in particular.

I think I am right in saying that, in the conversations the interim chief executive and other officials were having with MHCLG officials, the assets, what our approach would be and reviewing our assets to make some contribution in that way was a feature of those discussions. It is fair to say that it is an expectation, if not an explicit condition.

Bob Blackman: It is not explicit. That is for you to decide. You are not being told that you have to dispose of particular assets.

Q130 **Mary Robinson:** I would like to explore the extent to which the council was aware of the issues facing it. The report in the public interest by Grant Thornton found that the council had failed over several years to take its warnings seriously. Is that criticism fair? In fact, the report accuses the council of “collective corporate blindness to both the seriousness of the financial position and the urgency with which actions needed to be taken”. How fair is that, Councillor Ali?

Hamida Ali: The report in the public interest makes clear that we were not responding in the way that our external auditors would have expected with the alarms they were increasingly escalating. That ultimately led to the issuing of a report in the public interest, which is an important statutory power that external auditors have.

To give you an example from my experience and my perspective as a cabinet member, in October 2019 our audit committee received an adverse value for money conclusion from the external auditors. That was raised with me and alerted to me by a member of the public externally to the council. We had not had a thorough discussion at cabinet about that.

When I, in this new role, invited our external auditors to come to a cabinet meeting of ours—we have a political cabinet meeting every week to discuss things with the external auditors—they reflected their surprise at how passive our response was through the audit committee and more broadly. They had expected us to be more concerned and maybe more challenging of why that adverse value for money conclusion had been raised. That is a fair assessment of the extent to which we really understood our financial situation and responded to the alarms that were being raised.

Q131 **Mary Robinson:** It is a concern that it is members of public who are bringing this forward to you in the council. The cabinet then has to discuss it, and it appears that it is not always getting to a conclusion that is actually going to lead to this issue being addressed.

Hamida Ali: The two core issues that are raised in the report in the public interest are around our financial resilience and our governance. That is just an interesting example to see whether our governance was



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strong enough to understand this collectively, right across the different organs from a member governance perspective, whether that is cabinet, the audit committee, scrutiny or full council. The report in the public interest makes clear that there was insufficient awareness across all those functions from that kind of corporate perspective.

Q132 **Mary Robinson:** Do you accept that the governance was not strong enough? Why was it allowed to proceed in that way if there was a recognition that it was not strong enough?

Hamida Ali: The report in the public interest has ensured that we have taken those findings on board. A range of review work has been done, whether that is the rapid non-statutory review or the strategic review into our companies, as examples.

One of the core elements of the Croydon renewal improvement plan will be around ensuring that we are strengthening our governance so we are not in that situation again. That is an important part of protecting our financial resilience once we have had a chance to build that up.

Q133 **Mary Robinson:** I am grateful for that. Reflecting back, what do you attribute the council's failure to take the auditors concerns seriously enough to? There is learning from this and you are in a different position now, but I am trying to get back to what happened over the years that allowed this situation to get to the stage where we are now.

Hamida Ali: Just reflecting on something I said earlier, perhaps drawing on the analysis that Rob Whiteman and Councillor Watts gave to you in your first session on this, we clearly had a perspective about how we were seeking to address what all councils in the country would have been doing around ensuring their financial resilience. Clearly, that has been challenged through the recent revelations and discovery work.

What is clear in the report in the public interest, as well, is that this was corporate. From my experience as a member, I see it from that perspective. This was all parts of the organisation. To what extent were members operating in a way that was not hearing those alarms? To what extent did how members were operating mean that officers were not providing the advice and the challenge to us, to make sure that we were hearing the proper advice and understanding our situation?

To what extent did the way our meetings and governance connected mean that, for example, a conversation could be happening in our audit committee that I as a cabinet member in that context would not have been aware of? There are a number of moving parts of this that contributed to that collective lack of appreciation of the seriousness of the situation at that time.

Q134 **Mary Robinson:** Sarah, could I come to you now? From reading the report, you have been raising these issues previously. We have heard several witnesses talk about raising the alarm or the flagging of issues. You have been doing this in your audit reports. What did you put forward



as measures to get the seriousness of this situation across to the council? After you issued an audit report at the end of the financial year, how did you follow up then? What was your role in this? Could you give us an impression of how, over the years, you were able to bring this to light and follow up on your recommendations?

Sarah Ironmonger: In the public interest report I reference the 2017-18 value for money conclusion. In that particular report—this is part of routine audit—we set out a number of recommendations. The wording was, from an audit perspective, quite tough: “These reserves are very low; this is a risk to your medium-term financial plan. Yes, you have plans in place”. I think we say, “It is vital that you deliver on those plans”, or a paraphrase of that. That sort of thing is normal in the audit space. There were a series of recommendations, and those were accepted by both officers and members. What you would want to see at that point is that those recommendations are being implemented.

We got into 2018-19 and those recommendations had not been implemented. We reported that back. In our view, the situation had got worse in terms of financial resilience, which is what led to the adverse value for money conclusion. At that time there was the intermediate step of an “except for”, but we thought it was pervasive enough to reach the adverse. We did not stop at that point. We were continuing to have meetings. It is routine that I will meet with particularly the CFO but also the chief exec throughout any audit year.

In this case, we certainly met the 114 officer and the cabinet portfolio holder in December, a couple of months later. We were raising concerns that the reserve level was about £10 million and the overspend for the year was about £10 million. We were asking, “Have you run out of reserves?” That was the sort of conversation we were having at the time.

We were then talking through what happens next and there was action being taken to look at that position in-year. This brings us into early 2020. We agreed to look very closely at the budget setting for 2021. We did that work in late February and early March. There was a little bit of a time space, because at that point we wanted to consider the next stage in the audit, statutory recommendations, but we were into early April just because of the focus on responding to Covid, which was entirely appropriate at the time.

We had some of those conversations with the predecessors of the people here, and that led to me writing with my concerns to the chief exec, who then took that on board in setting up the finance review panel. That is the flow of what happened here.

Q135 **Mary Robinson:** Thank you for going through that. That gives us an overview. Recommendations have been made for years, and recommendations have not been taken on board and acted on. The situation has deteriorated and it has led us to this position.



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I suppose this is the way audits would work. I just want to open it up to any other witnesses who want to comment on the role of audit in supporting local government financial resilience. This is not making any judgment at all, but are there any other comments on how it could be improved? I know, Chris, you spoke about going back to the way things used to be with local authority audit and the organisations that were involved in giving more support.

Chris Buss: I was not quite suggesting putting everything back to the 1980s; I was using that as an example of what was in place in the 1980s.

Mary Robinson: I know.

Chris Buss: The one thing that is missing—again, it has come up in one of your earlier discussions—is the need for some form of overview of audit. I am not suggesting that we recreate the Audit Commission as it finished up, but when it was started in the early 1980s—it took on board most of the powers of the then District Audit Service—it provided an overview. It provided guidance to auditors. It provided a place for auditors to go.

The idea that local authority audit is exactly the same as auditing a set of private accounts is a fallacy. One is guided by the profit motive; the other is guided by public service. There is a difference between the ways we do things, and there needs to be a slight difference in the way we are audited and the way our auditors are advised and supervised.

Katherine Kerswell: I really concur with Chris's view. Sarah and I had a conversation about this, and I think Sarah has had a lot of reflection on what she would have done differently, like everybody in our circumstances. The question is who Sarah would have gone to with concerns, if she could not get any traction or was not getting the traction that was really needed in hindsight. There really is not anybody for our auditors to talk to and say, "I need to raise a flag about this".

I have been a civil servant as well. I have worked for the National Audit Office on Civil Service reform. I know the importance of the role they have in securing the public interest and value for money. We have lost that space for local government, and it is really, really precious.

As a young chief executive, I know that if I got a phone call from the chief executive of what was then the Audit Commission you sat up straight and you took that call. It mattered. Their oversight and view really mattered. All of that is lost to us now. We do not want what we had back, but we need something. We have a vacuum at the moment, and it is really dangerous for us as a sector.

Q136 **Mary Robinson:** Sarah, according to the LGA, there simply are not enough auditors with the specialist experience needed for local authority audit. Is that your experience? Obviously Grant Thornton has a training programme and is quite extensively involved in local authority audits.



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Sarah Ironmonger: It is fair to say that the pool of people with the experience and skills to do local government audit is fairly limited. Therefore, that is why we have the training programme. You see a lot of movements between the firms. The skills are not transferable instantly from commercial audit into a public audit space. That is why there needs to be this training approach. That is our view of how we do it.

I wanted to add something to what Katherine just said about the analogy of the yellow card that Chris Buss raised. The only point at which I would talk to MHCLG would be when I issued my public interest report. That is the way the statutory power is set up. My auditor confidentiality requirements do not allow me a mechanism to go to them and say, "Actually, we are really worried here".

Mary Robinson: Katherine talked about the Audit Commission, which seemed to have a bit more clout, if you like, with local authorities. That is what I was hearing between the lines there. Do you feel that is an issue? Where you are making year-on-year recommendations to councils like Croydon, and they are not taking what you are saying seriously and not acting on it—that seems to be what I am hearing today—do you have enough clout to deal those councils?

Sarah Ironmonger: One of my reflections, as Katherine said, on the issue of the report in the public interest is that some of the back-bench councillors said to me, "How would I have known what was happening?" I referenced the Redmond review, where he recommends an annual audit report going to full council. With hindsight, it would have made a difference, if that had been in play. We would have then told all of the council that level of concern. You have that automatic way by which everybody knows. The powers are there, but we would all like not to need to have those statutory powers. In my personal view, it would be good to have a place we can go to before it gets to the worst place.

Q137 **Andrew Lewer:** The Grant Thornton report, the PwC report and the rapid review all criticise the council's own financial insight. For many people watching and listening to this who care about local government, discussions about what other people from outside, who had more tools to deal with it, should have done are important, but the council itself was accused by the Grant Thornton report of failing even to discuss financial resilience when it was approving its budgets.

Richard Watts at the LGA said there was "a track record of undelivered savings plans and budgets that were routinely not stuck to over many years". To the leader in particular, do you feel that those are valid and fair criticisms?

Hamida Ali: Yes, I do. When Councillor Watts was speaking at your earlier session—I have referenced some of what he said—his analysis was right. There was a combination of things. We did have a pattern where we would set a balanced budget, but, as the financial year would go on and we would receive quarterly reports of the outturn as we made our



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way through the year, you would see the variances particularly around children's and adult social care coming in over what would be projected in our budget.

The challenge that we faced was that we did not act in response to that pattern. Always at the end of the year there would be some way, such as a corporate adjustment, that we were able to balance that budget. This year, there was a combination of the impact of Covid but also other things that we were expecting, particularly in relation to some of our commercial investments, particularly Brick by Brick. All of those things coming together simply removed our capacity to withstand that.

We had fallen into a habit of, perhaps for a range of reasons, being used to somehow being able to manage at the end of the year. This last year has not allowed us to do that. We should have been responding to that pattern and learning to live within that financial envelope. I might have all kinds of views about whether that financial envelope is enough, but the important thing that is within our gift and our control is our ability to do that.

That is why one of the major priorities for us as an organisation—Chris Buss mentioned this earlier—is around the readiness of the work that we have been engaged in over the last few weeks to prepare for 1 April and the importance of being able to keep to that budget. That is not within the gift of even the people here. My cabinet and the executive leadership team can be clear about that, but we need our whole workforce to work together in order to restore that important financial discipline so we are keeping to the budget we set.

Q138 Andrew Lewer: Is this a cultural issue rather than external factors? You had an overspend in the two largest spending departments of the council, indeed of any council, adult care and children's services. You were not simply seeing an overspend for a year or even two years and doing something about it, but seeing an overspend happening time after time again and hoping something would turn up, when in fact what turned up was going bankrupt.

Hamida Ali: There are a couple of points that I would make about that. It absolutely is partly cultural. There are internal elements and external elements to this. The internal elements from my perspective are partly systems-based. Are we using the systems properly to forecast, track and monitor? Are we using the processes within the organisation right across the board, collectively, up and down the organisation? Are we filing our returns on time?

There are all of those systems and processes elements, but there is a behavioural and cultural piece to this, which features in our Croydon renewal improvement plan. That is around ensuring that we are seeing this not just from the perspective of the team we are part of or the part of the organisation we are part of, but as a whole-organisation endeavour.



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I would highlight one point about the challenges we experience as an authority. One of the things we have benefited from through the support we have had in recent months is around trying to understand where we sit particularly in relation to, for example, other London councils. We have been an outlier in relation to both our adult social care spend and our children's social care spend. That cannot be right. Is that the best value for money for our residents in Croydon? It is not always delivering the high-quality experience that we would want for our residents who are users of our services.

However, the one exception that I would highlight is the experience that Croydon has as a national port of entry, with Lunar House being based in Croydon. As an impact of that, we have a much larger community of young people who come to our shores without their parents and who are in need of particular support. That is the one area I would highlight.

As colleagues in the organisation would describe, we are essentially providing a national service with the funding of a local authority. We get some important additional funding, but we are consistently millions overspent as a result of that. That is the one point that I would say is an external factor as opposed to an internal one within our gift.

Q139 Andrew Lewer: You were a cabinet member while this was going on. Would you say that you were fully aware of the situation and did not act, or would you feel that information that you needed to know was not made available to you as a cabinet member by the previous leadership?

Hamida Ali: I have talked a little bit about my experience as a cabinet member during those four years, and I have reflected to you what I think in hindsight was an imbalance in how I was spending my time as a cabinet member. I should be leading on my policy areas, but I should also be engaged in taking full and proper responsibility alongside my colleagues for understanding our financial position. For example, mine was a very low-spend portfolio. There was a lot of external funding that funded a lot of our services. But, as a collective member of that cabinet, I should have been much more aware and engaged in that.

Reflecting back on my experience, in the last 18 months as a cabinet member, I was getting increasingly concerned about the nature of our budget-setting process, the governance of that and how we were going about setting our budget. I find myself asking more and more questions and getting more and more frustrated about my capacity to get answers to those questions. Equally, when I reflect back on those and think about the rooms in which I asked those questions, they were not meetings in public. Those were meetings of cabinet particularly during the lockdown period, where we were meeting very frequently, daily, three-weekly and then weekly.

As a cabinet member with a very particular responsibility, did I leave this to the finance lead or those with other responsibilities? I was not involving myself enough, when I look back. Even in the period where I



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feel I did, where I became increasingly concerned and was increasingly asking for that information, it was frustrating. That speaks to the corporate challenges that the external auditors highlight. I would not devote that particularly just to members. There was also an officer dynamic in that as well. I felt that the culture was a barrier to being able to exercise my responsibilities properly, as I was increasingly seeking to do as a collective member of cabinet from a financial point of view.

As I say, I have been putting a lot of my attention to how I can make sure, within my role, that the culture I inculcate in my cabinet team and the way I engage with officers properly facilitates that joint conversation around our responsibilities to tackle, as a team, delivering that budget.

Q140 **Andrew Lewer:** Given the frustration that you have described very well and your annoyance at not having the full picture that you have had time to reflect on, would I be right in assuming that the previous leader and cabinet member for finance would not have your support in future in terms of public life?

Hamida Ali: I am conscious that they have resigned from their previous roles of responsibility within cabinet and they have also resigned as councillors. I am conscious they are not here to respond for themselves. I would leave it at that.

Q141 **Andrew Lewer:** Looking at other structures within the internal workings of the council, two of the most crucial ones would be scrutiny and audit. What plans do you have in the council to refresh and revise your arrangements in those key areas for the council?

Hamida Ali: There are recommendations we are responding to as part of our Croydon renewal improvement plan, and there is a lot of work going on with both those cross-party committees. The Centre for Public Scrutiny has been conducting a review together with our scrutiny committee.

Significant work has been going on within our general purposes and audit committee to respond to those recommendations and to improve our practice collectively across both committees. There is a recommendation, for example, in the rapid non-statutory review that recommends thinking about our chair. We are reflecting on whether we should have an external chair of the general purposes and audit committee to assist that committee.

It is worth reflecting on what Sarah Ironmonger was saying about backbench members asking, "How would I have known?" Taking a step back, remember that, as a councillor, you are a member of your community; you are there as somebody who has come forward and, regardless of your party, who wants to make a difference for your local community. You might have all kinds of professional backgrounds and experience, which might not necessarily be finance.



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Local government finance is particularly complex. It takes time to really understand it. I remember when I first started as a councillor six or seven years ago. You would get the odd briefing—it might be two hours long—on the complexity of all of that. If you are not living and breathing that as a professional officer, it is really challenging to make sure that you are asking the right questions. Where is that guidance coming from?

Then there is the language: “adverse value for money conclusion”. As a councillor, you have to remember that you are a member of your community. If you are a back-bench member who is sitting on that audit committee, is it really clear to you what that means, what its significance is, what it means for the best-value duty enshrined in legislation and what could come, if you are not following that, in terms of a best-value inspection and commissioners?

That is an important reflection to make in general, but naturally it has particular implications for us and what we to achieve through our Croydon renewal improvement plan, to make sure that there is a proper ongoing training and investment in members, that our financial literacy is what it needs to be, given the complexity of local government finance, and that those committees are holding whatever administration to account and holding the organisation to account for its delivery. There is work there to be done there for us. We have already started some of that, but there is a lot more to do.

I guess that is why the recommendation for our audit committee is potentially particularly important. If a former professional in that area is the chair, can they assist the committee, and drive and direct that questioning, to make sure that we are being properly held to account for the delivery of our budget?

Q142 Andrew Lewer: The ultimate accountability is councillors. You have referenced both cross-party and community roles there. All of the reports we have been looking at have referenced very strongly the culture of the organisation as being a major contributory factor to these problems. Both audit and scrutiny have been chaired by councillors of the same party as the controlling group. Is that correct?

Hamida Ali: That is right.

Q143 Andrew Lewer: Are they still chaired by members of the same political group or, indeed, the same people?

Hamida Ali: They are currently. I have just referred to a recommendation in our rapid non-statutory review that recommends changing the chair of the audit committee, not in a personal sense, but where that chair comes from. It is recommended that they be from outside the majority group. As I have just referenced, we are considering whether that should be external to the organisation. Reflecting on the corporate responsibility and challenge to us, it was not of one particular



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part; it affected the whole. That is something that we are looking to pursue.

Q144 **Andrew Lewer:** Do you have any particular objection to members of opposite parties, rather than independent people, chairing important committees in order to provide that extra voice and balance?

Hamida Ali: It is not uncommon for the chair of scrutiny to be from the majority group. I know scrutiny has reflected, like all of us have in the chamber, in particular on what we could have done differently and what more we should have done. I know scrutiny is no exception to that work. I am keen to respond to all the recommendations that have been put to us, and the one that has been put to us is in relation to our audit committee.

Q145 **Andrew Lewer:** Chairs of audit and scrutiny committees being from another political party is not something you would object to.

Hamida Ali: We should have proper challenge. I know that is something that every member, regardless of their political grouping, is reflecting on and amending their practice as a result. I suppose the only reflection I would make is this.

The reason I wonder whether the chair of the audit committee should come externally is that the challenge to us was to all of us. It was not just to the majority group; it was to all of us in the chamber. That is why I wonder whether we need that very particular and really experienced background to help direct our audit committee and to provide that proper challenge and oversight, particularly as we seek to recover our financial position.

It is clear from the committee—I know colleagues who are involved in this work—that even the profile of that audit committee is very different. Everybody in the chamber, regardless of whether they are a committee member, is watching those meetings and taking much more interest than there was previously. I wonder whether our audit committee in particular, given its role, could benefit from an external and independent perspective.

Q146 **Andrew Lewer:** I did not pick up any criticisms of minority parties or anyone outside the small group of people running the council within any of the three reports we have seen. Are you saying that minority groups are as much to blame for this situation as the cabinet and the people who led the council?

Hamida Ali: I am not saying that at all, but there were challenges put to the audit committee, to scrutiny and to full council. I am simply reflecting that those are cross-party environments.

Q147 **Florence Eshalomi:** Thank you to our guests this afternoon. The report highlighted financial oversight, undelivered savings plans and budgets, but I represent an inner London constituency not too far from Croydon



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and I have seen the challenges, such as the rising population and the level of cuts directly from central Government.

Croydon—correct me if I am wrong—is the second largest London borough and your population continues to grow. There are issues around adult social care and children’s social care with a diminished budget. Again, notwithstanding the criticism in the report, did that have an impact on the council’s overall finances?

Chair: We are going to come on to a question specifically about children’s and adult social care in a minute.

Hamida Ali: Absolutely: all of those factors have had a significant effect on us. I should make clear—I hope it has been clear throughout this session—that we fully accept that the factors leading to the emergency of our situation were our own. They related to what was within our control, for which we take responsibility.

At the same time, that cannot be divorced from the reality of the landscape of local government finance. In our situation, three-quarters of our revenue support grant has been lost since 2010-11. The fair funding review has not come to a conclusion; I know the Minister of State referred to that in his evidence to you. I have already highlighted some of the issues for us around looking after young people who come to our country without their parents. All of those have absolutely affected us.

Were they responsible for us being in a section 114 notice? No. Could we have avoided that if we had taken quicker action to respond to the issues we have discussed about our capacity to live within our budgets, particularly from a social care point of view, notwithstanding what I have said about the difficulties for us? Yes, I think we could have. Are those factors that you point to irrelevant to our situation? No, not at all.

Q148 **Ben Everitt:** Thank you, Councillor Ali. You are doing a lot of the heavy lifting today, but that is probably the leader’s lot, unfortunately. I am going to start with you and then I will go on to Sarah.

My question is in relation to reserves, but, just before I start on that, to follow on from the point that Florence made, we have previously knocked about three different streams of pressures on councils. One, of course, is the settlement; one is the Covid emergency and the pressures relating to that on income and expenditure; and the other is what we are discussing today, which is pockets of financial mismanagement. I want to mainly focus on that for this set of questions, if that is all right.

On reserves, I was very pleased that you referenced Rob Whiteman’s resilience index from CIPFA in a previous answer, which basically makes this bit quite a lot quicker than it would have been, so thank you very much for that. Rob told us that Croydon was among the lowest in terms of reserves. The first question is to give us a feel for the visibility of that index and the internal controls in the council. Were you aware of that as a corporate body and as politicians?



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Hamida Ali: Yes. If you look at the data, our reserves have been at the level they were at in our most recent fully closed audited accounts, £10.4 million to £10.7 million—I am talking about the general fund reserves—from the time I became a councillor in 2014. It was always understood that those were very low, but the data through the CIPFA resilience index really highlighted to me how much lower our reserves were in comparison particularly to other London councils, although they have been at that level for quite some years.

Q149 **Ben Everitt:** In reference to Mary's questions earlier, you mentioned recent discovery work and recent revelations. It is a very robust and honest statement: that there was a "collective lack of appreciation of the seriousness of the situation". Credit to you for being that straight. That did not extend the reserves. The reserves were a known quantity, were they?

Hamida Ali: There were a known quantity. During 2015-16, I was a member of the audit committee. I would have heard from the section 151 officer about their perspective on our reserves. There was always an understanding that they were very low, but that 3% to 5% level was just about acceptable. Having just said that those reserves stayed at that level, that reflects the fact that we had not taken any action to add to our reserves. One very clear principle of our medium-term financial strategy is the requirement to consolidate our reserves.

From 1 April this year, our reserves should be being added to by at least £20 million and another £10 million in this next financial year, which would substantially change those reserves. I should say that I am very aware that our 2019-20 accounts have not been fully audited, and we are aware that there may be some consequences as a result of that. Were we aware? Yes, we were, but, certainly in that early period of my experience, there was a professional view that that was just about acceptable. The challenge you could legitimately put to me is, "What were you doing to add to those reserves?" It is clear from the read-out that those were not changing in terms of their level.

Q150 **Ben Everitt:** Essentially, you were aware that there was not a plan to increase them, but now there is. That is essentially what you are saying.

Hamida Ali: There is a much bigger commitment to add to those. We were in previous budgets intending to add to reserves, but we would overspend, we would have to have a corporate adjustment, and then we would not be able to contribute. It is a clear non-negotiable requirement from our point of view that we must be adding to our reserves to improve our resilience, which is one of the fundamental challenges for us.

Q151 **Ben Everitt:** That goes back to what you were saying about the culture of sorting it out at the end of the year. It was always the reserves that took a bit of a battering. That is essentially what you are saying.

Hamida Ali: I would look to be challenged particularly by Sarah on this. It was not necessarily coming from the reserves; there would be other



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adjustments, corporately, that would then deliver the £10 million or £11 million that needed to be found to protect the reserves from further reductions. We certainly were not able to add to those reserves as a result. If we had not had to find that corporate adjustment, that £10 million or £11 million could have gone into the reserves to increase them.

Q152 Ian Byrne: The Grant Thornton report criticised the council's transformation scheme for children's and adult social care and concluded, "There is little evidence that the transformation monies have been used to achieve the Government's intended aims ... namely, reducing demand, delivering savings or reducing costs ... The council has failed to deliver real savings in children's and adults' social care". Is this fair, Councillor Ali?

Hamida Ali: The report in the public interest raised significant concerns with us about our use of transformation funding and whether that was meeting the requirements of the arrangements of the scheme to be able to use capital in that way. There are clear commitments in our action plan in response to the report in the public interest to review that from our perspective. That is a reasonable challenge that has been put to us by the auditors.

I would just highlight what I have already said around our particular experience as a borough in relation to supporting unaccompanied young people in particular, right up to the age of 25. At the same time, we know from the discovery work we have been engaged in, even in other areas of provision, such as children's social care, we are spending more than comparable local councils. That is something we are needing to look at very particularly.

Given the savings we are required to find in order to get to that important sustainable financial position, we need to make savings right across the organisation, even though, of course, as Florence Eshalomi referenced earlier, we are in a situation where demand on children's and adult social care continues.

Leaving Croydon's particular situation to one side, one part of your reflections as a Committee in this area of the inquiry is the precarity of local government, the delicate balance on which local government finance depends and the unanswered question of the future of social care. Fundamentally, how will there be security of funding for local services for communities up and down this country? That really is a question that there is not a clear answer to.

Q153 Ian Byrne: That is a really fair answer, to be honest; I know children's and adult social care probably keeps most council leaders and chief executives awake at night. You say that the demand has gone up since 2010. How has the demand gone up from 2010 to now? Has the population gone up? Have there been more pressing issues that mean you have needed to spend more on adult and children's social care? Are there reasons that you could outline?



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Hamida Ali: I might not be able to give that to you in very numerical terms, but the impact of social security reform during that period from 2013 would have had an effect for us as an outer London borough. I am conscious that the funding formulas that operate in determining what that funding assessment sits at were probably last reviewed in 2013, but probably more fundamentally in 2006. The nature of need, demography and further deprivation that has occurred in that time will have affected us. We might perhaps historically have been viewed as a leafy outer London borough, but we are a borough that has as many challenges as our inner London colleagues.

The fact that, for example, residents in Lambeth, just to the north of us, just across the road, as it were, in our northernmost ward, receive £200 more per capita than residents in Croydon has an impact. I am not for a moment suggesting that that is the reason why we are in the situation that we are, but there is no question that it has an impact.

Q154 **Ian Byrne:** It absolutely does have an impact, yes. I am just reading some of the information on Croydon. Your population has grown by over 40,000 since 2010. Given the level of cuts you have faced and the population growth, it would be a difficult situation.

Statutory services are an increasing proportion of council service spend. What would you ask of central Government be? Is it just more money or are there other things they could be doing?

Hamida Ali: To add to something I said a little while ago, it is not particularly about the quantum of money but the security of the funding. Reflecting on some of the things you have already considered, particularly from Rob Whiteman and Councillor Watts in their evidence to you, it feels like local government has to manage a very delicate balance, whether that is the balance of what is coming in in terms of fees and charges, what the nature of the council tax base is, or whether there have been commercial investments because of a need to try to generate some more income.

If you are too exposed on fees and charges, we have learned in that last 12 months that it can really affect you, in the context of Luton and others with airports, for example. Equally, if you do not have a tax base that is as wealthy and affluent as somewhere else, it really drives what you have.

From my point of view, it is as much about the security. The other point that you have reflected on is the amount of grant funding that is coming from ring-fenced short-term grants, which we might be able to bid for as an authority. What is the sustainable future approach going to be in this country for funding local services that is secure and sustainable, so that local government does not have to pursue things?

As council staff and people who have put themselves forward to be councillors, we are interested in representing our communities, good



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community leadership, supporting our communities and the areas we represent, and creating the environment to foster prosperity and opportunity for all our communities. We should not be needing to respond to these different changes.

It feels as if it is clear from Government's point of view that local councils should really be able to run on their own steam and generate the funding they need from their local communities. Given the disparities there are across the country in terms of deprivation and opportunity, it does not feel like this is in the right place. From my point of view, it is about security and sustainability of funding, to make sure that those in our communities who really need the support of local authorities can count on us.

Q155 Ian Byrne: You touched before on fairness and fair funding. I will give you a moment to breathe now. You have done an awful lot of answering. Is there anybody else who wants to come in as regards an ask to Government?

Katherine Kerswell: I have two particular requests. The leader has referred to this, but we need more than a one-year settlement for our funding. We are required, quite properly, to think in terms of a medium term, and we need that. We particularly do, because we have to look to 2024, given the scale of our challenge to bring our funding back into line. It is very, very hard to plan without that. I appreciate that the Government are wrestling with enormous financial issues, but, as a sector, I know we have said that loud and clear.

I also have a very specific request for Croydon. I appreciate that colleagues in the Home Office, DfE and MHCLG are working with us on this, but—the leader has also referred to this—the burden we bear for unaccompanied asylum-seeking children is in the range of £7 million to £8 million a year above the £18 million we get from Government.

We are seeking to borrow £150 million from Government over this period as our capitalisation, £24 million or £25 million of which is this UASC money. It is really, really, really serious for us. I appreciate that colleagues are trying to help, but we have had this conversation for a long time at Croydon Council. We really do need this to be recognised as one of our fundamental issues.

Ian Byrne: That will go in the report. That was a good answer.

Chair: Croydon's investments have received some criticism and expressions of concern, so Bob Blackman is going to explore those.

Q156 Bob Blackman: Yes, I just want to explore the investment decisions. The Grant Thornton report suggests that the decisions on borrowing and investment "exposed the council and future generations of taxpayers to significant financial risk" and that there had not been "appropriate governance over the significant capital spending and the strategy to



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finance that spending". Do you accept that statement from Grant Thornton as being correct?

Hamida Ali: That is a fair assessment. They highlight the level of borrowing that we increased within a three-year period. It was £545 million. That built up over a period of time. I should say that we did not add the total borrowing ourselves, but, clearly, that £545 million in that three-year period is significant. It is a fair assessment to say that, when we considered each of those—

Q157 **Bob Blackman:** In relation to your overall budget, how much is that £545 million as a percentage?

Katherine Kerswell: The budget is £320 million a year.

Q158 **Bob Blackman:** I just wanted to get that in comparison.

Hamida Ali: Just to finish the point, the only thing to add is that, as we were pursuing each of those steps, we might only have been considering the risk of that particular transaction as opposed to the risk—

Bob Blackman: For the entirety, yes.

Hamida Ali: I would just say that, when you look at our borrowing as a whole, a significant quantum though it is, a large proportion of that is around our infrastructure, like lots of our local authorities: building schools, building homes and infrastructure as a whole. I am conscious that there are transactions we have done that have been of particular concern and interest to the Committee, to the rapid non-statutory review and to Government, but they form quite a minor part of the overall borrowing we carry.

Q159 **Bob Blackman:** Prudential borrowing is something that all local authorities do, and is a right and proper use of borrowing powers. Chris, can you give us a view on whether the borrowing over that period of time contravened the prudential code, which prohibits borrowing for yield?

Chris Buss: Having looked at this again and looking at Rob Whiteman's comments on this, I am inclined to agree with Rob. With regard to borrowing, the authority has not broken the code. That is the same conclusion he reached.

Bob Blackman: That is fine.

Chris Buss: There are other perhaps more minor aspects. For instance, we only have a three-year capital strategy and not a 10-year capital strategy, and that is something we will need to correct. With regard to your crucial question about whether our borrowing breaches the code, it is my view that it does not.

Q160 **Bob Blackman:** Local authorities are required by regulation to have regard to the prudential code. In Croydon's case, do you agree that this was having regard to the code? You are saying it has not breached it, but



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was there a proper view of having regard to the code?

Chris Buss: The code, for instance, requires a council to take independent and expert advice. In my review of the papers of what happened two or three years ago, I am having difficulty seeing where the council did that. Your surmise is correct.

Q161 **Bob Blackman:** That is fair enough. Are you reviewing the current investment portfolio and, if so, what are you proposing to do about the various different things like the Croydon Park Hotel and the Colonnades?

Chris Buss: Regarding the Croydon Park Hotel, the cabinet has already made the decision that, together with another site that was not an investment site, they are going to get independent expert advice on the best method of going to the market and getting the best price for those. That process has just started. In terms of the Colonnades, its revenue stream has not been diminished in the pandemic, and it effectively covers its costs. At present, there is no intention to do anything with that site. That does not mean to say that in the future the council will not.

Q162 **Bob Blackman:** You have seen the allegations in the press. I have not seen reports on this, but I have seen press reports that say the council paid top money for the Croydon Park Hotel above and beyond its proper valuation. In your view, is that a fair criticism of the decision-making?

Chris Buss: I have read the valuer's report. The value the council paid was within the figures that were quoted within the independent valuer's report.

Q163 **Bob Blackman:** That is fine. Katherine, one of the concerns in the non-statutory review was many accounts of officers being asked to reword cabinet reports to present the most favourable picture. It is also evident that the tone of many financial reports to cabinet do not accurately reflect the seriousness of the council's financial position. That to me is of concern.

Councillor Ali has answered a lot of our questions as forthrightly as she can, but, if councillors are not being advised on the position properly, there is a concern about what information they are being provided. Do you accept that criticism? You were not there at the time, but it appears that this seems to be the way the council structure was being run.

Katherine Kerswell: Yes. This has been said to me by individuals as well as by the author of the rapid non-statutory review report, and he gained that from interviews with a whole range of people. It is very serious that officers are not providing the full information to members. It is our duty, I believe, to do so. Even though the information may not always be welcome, it has to be given. The strength of local government is that that advice is given in public. That sadly has not always been the case at Croydon.

The leader referenced this earlier. Conversations were being had, but in private. The report in the public interest references an exchange around



scrutiny. There were lots of conversations happening, but again they were not happening in scrutiny; they were not happening in the full council meetings. We did not put our governance in the right place. Culturally, we should have been much more open about what was happening here, because then it can be dealt with. With the disinfectant of sunlight, it can be dealt with at that point.

Q164 **Bob Blackman:** Sarah, in the Grant Thornton report in the public interest, it is stated that there was a “collective corporate blindness to both the seriousness of the financial position and the urgency with which actions needed to be taken”. Can you just elaborate a bit on that? What I am trying to get at here is what information officers were supplying councillors with and where the grasp of all this was within the organisation.

Sarah Ironmonger: It has been referenced in some of the answers earlier. As an example, the audit committee heard about adverse value for money. The technical language might have been difficult, but it was very clear that this was not a good thing and that the reserves were too low. Yet all of them were then in the chamber when they voted the budget through the next year. It was voted through unanimously. You would have expected there to be some challenge there. That is where the collectiveness is.

There was a cabinet meeting in July 2020, which had followed a finance review panel that said, “Actually, we need to be looking at capitalisation as an option”. That did not come through in what I was seeing. Then there was a scrutiny meeting at the end of August where there were some really good questions being asked of scrutiny but, ultimately, the 151 officer at the time said she had no confidence that she could not avoid issuing a section 114. That was a change in the tone. At that point, we really thought that should have been taken and escalated up. That is where that phraseology and the thinking behind it came from.

Q165 **Bob Blackman:** Zeroing in once again on the questions I asked Katherine in relation to the advice that is being provided by officers to councillors on the financial position, you have rightly said what the councillors did, but, if they are not getting the information in the first place, or the information is nuanced or not the full picture that should be answered in public, how can they make a decision in an appropriate way?

Sarah Ironmonger: It is the tone of that content. When I look at the way the budget was set for 2021 and you look at the report, there is a reference to the need to increase reserves in that report. There is this piece that has been referenced before around how the overspends were dealt with through corporate adjustments.

Everybody can have an overspend and deal with it in some financial way, but that should only be buying you time while you address the underspend, and that did not come through. That did not really come through in the sense of, “We are overspending here. This is more than we



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have as reserves. We might be able to find a solution, but we have to stop now". That tone did not come through as clearly as you might like going forward.

- Q166 **Bob Blackman:** Rob Whiteman from CIPFA suggested that Croydon may have seen the investment strategy as a means to avoid making the difficult decisions. I accept that all local authorities have to make difficult decisions. Do you accept that the council was being driven by a view of saying, "Let us keep on with this investment strategy, however risky it may be", in order to avoid taking the tough decisions that are now being forced on you as a council, by reducing the budgets?

Hamida Ali: Referring to something I said a little earlier in the session, we were motivated by an intention to try—clearly, given where we are, it was not possible—to absorb the impact of the reductions we were seeing and to find other ways of generating income, given what I have said already about the delicate balance of the reality of local government finance at the moment and how councils seek to balance their budgets.

I absolutely understand the challenge you are putting to us. I suppose I am just trying to say that our motivations were genuine in seeking to be able to continue to support our residents, but our execution in deploying those strategies, clearly, was not achievable. As you say, we are now having to look at action at this point to make savings. Had we done that earlier, had we started all of the activity we are engaging in now earlier, could we have avoided what has happened in these recent months?

- Q167 **Bob Blackman:** Could you have avoided it? The answer presumably is yes.

Hamida Ali: That is a reasonable assessment.

- Q168 **Chair:** Moving on now to the final questions about some of the investment decisions, was Brick by Brick an organisation set up to build homes or make money?

Hamida Ali: It had two elements to its original business case, which were around trying to tackle the very real problem—not just here in Croydon but anywhere else in the country—of genuinely affordable housing, and trying to generate additional income that could support the council in meeting the needs of its communities. Lots of other councils have pursued a similar approach of setting up a council-owned housing development company. Again, our challenges were around execution as opposed to motive and intention. That would be my view.

- Q169 **Chair:** From the cabinet's point of view, which you were a member of, the feeling was, "We have agreed to something here that ticks both boxes: it builds homes and it gives us money. Let them get on with it", and it is only later on that someone said, "Actually, they are not getting on with it; it is all going pear-shaped".



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Hamida Ali: The report in the public interest makes clear the range of challenges that there were. We then commissioned in September a strategic review of the council's owned companies.

The lion's share of that review was focused on Brick by Brick precisely because of the challenges they put to us, particularly our governance arrangements, or lack thereof, in relation to Brick by Brick: to what extent the council was exercising its responsibilities as the sole shareholder; how we were going about that; and the governance of the individual loan agreements that were being made in order to enable the company to operate.

The strategic review found a series of concerns, not just about the governance, although that was a key issue. How was the council going about ensuring that its interests, i.e. the public's interests, were being served by that investment? It also found a number of shortcomings in relation to the operations of the company.

Both those things combined led to a situation where, particularly in the context of our conversation today about our financial resilience, the company was not delivering, for example, the interest payments and the expected and projected dividends, which was then having a real knock-on effect on the reality of our revenue budget. Particularly in this financial year, that really posed a challenge.

Q170 **Chair:** It was not a bad idea; it was just badly executed with too little oversight.

Hamida Ali: You have summarised my position, yes.

Q171 **Chair:** What are you going to do with it now?

Hamida Ali: As a cabinet, we have made a decision to approach how we resolve our relationship with Brick by Brick. The council has previously put in a significant amount of investment to the operations of Brick by Brick. There are a number of sites underway.

In the interests of protecting that investment, it is really important to complete that as much as possible. We have made a decision that we will conclude our relationship with Brick by Brick by October. We will work to support the company to enable itself to deliver as many of those sites as possible by October. For those that are not completed by that point, we will work with other developers to market those.

That is all subject to exploring the potential for a possible sale opportunity, but we will have to see what comes from that. That is fundamentally the decision that cabinet has made.

Chair: That brings us to the end of the questions for today. Thank you very much to all four of you for coming and answering our questions. In particular, Councillor Ali, you have probably answered more than your colleagues, but for the obvious reason that you are now leader of the



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council and that is your responsibility. We understand that. It is a very difficult responsibility to take this on and move things forward. Clearly, I hope that we do not have to have you back again to ask why things are going wrong, and that things move on in the right direction from now on, with the various support that you have in place.

Is there anything else you want to say to us before we go? At this stage, we have had a fair explanation of all the issues you are facing, and you have given answers to them. We certainly will reflect not merely on what you said about Croydon but also on the general issues of the prudential guidelines, section 114 and all those matters that have been raised with us in other hearings. Perhaps we ought to make recommendations to Government about how we can see improvements for councils and local government generally. We will do that as well.

I was just reminded that at the beginning I did not ask members of the Committee to put on record any interests they may have in this inquiry. You can take it that all members of the Committee have previously expressed their interests in terms of the Local Government Association and so on at previous hearings, so we will put those on the record as the same as before, if we can. Thank you very much to all of you for coming.