

James Blyth
Deputy Director - Local Government
Stewardship,
Ministry of Housing, Communities &
Local Government

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Dear James,

First, I would like to thank you for the support you have given to the London Borough of Croydon (the Council) during this process.

This letter and its more detailed annex are submitted in response to the Ministry of Housing, Communities and Local Government's (MHCLG) "minded to" letter of 12 June 2025. It is acknowledged that this is a lengthy response. However, the content of and proposals in the Government's letter require detailed analysis, and a fully evidenced response. This will ensure the Secretary of State is able to draw upon the most complete advice in determining her final decision.

It is essential for the Secretary of State to bear in mind that her powers under section 15 of the Local Government Act 1999 only come into operation where she is satisfied that that an authority is failing to comply with the requirements of Part I of the Act.

It is not clear from your letter in what respect the Secretary of State believes that to be the case.

However, the only requirement which could sensibly be regarded as even potentially in play here is the requirement under section 3(1) to "make arrangements to secure continuous improvement in the way in which [the authority's] functions are exercised, having regard to a combination of economy, efficiency and effectiveness."

As the courts have held, this provision is concerned with intentions and not with outcomes.

It requires authorities to think about how to achieve the statutory objective, and to build that into their decision-making processes, but it is not a duty which is breached simply because particular improvements are not achieved, still less because the Secretary of State or anyone else disagrees with particular actions or decisions on the part of the authority.

All the evidence in this case is that the Council has made enormous efforts to improve its

economy, efficiency and effectiveness. The fact that, in the view of the Improvement and Assurance Panel (IAP) or the Secretary of State (and indeed in the view of the Council itself), financial stability has not been achieved, does not mean that there has been a breach of the section 3(1) duty.

The Council's position is that it has been doing all that it reasonably can to achieve financial stability, in the circumstances with which it is faced (including in particular the existing debt burden and the costs of financing that).

Nowhere does your letter of 12 June 2025, or for that matter the IAP's letter of 25 April 2025, identify any specific step which the Council ought to have taken but has failed to take. Still less does it identify any specific respect in which the Council has failed to aim at returning to financial stability, or at any other objective comprised within the concept of economy, efficiency and effectiveness.

If the Secretary of State considers that there are any such breaches of section 3(1), it is incumbent upon her to identify precisely what they are, so that further representations can be directed towards those particular matters on an informed basis.

If that is not the Secretary of State's view, then she should acknowledge that this is not a case for intervention or further intervention under section 15, and she should look to work with the Council by other means, as to which we have made constructive proposals in these representations.

The other detailed points made in this letter and these representations are without prejudice to this basic position. This representation will address the core purpose in the letter, that of securing the fastest and most effective restoration of financial sustainability to the Council's budget.

It has been developed following dialogue with the directly elected Executive Mayor, the Cabinet, Overview and Scrutiny Committee Chairs, as well as from meetings with Councillors from all political parties elected to the Council. This letter and its annex represent the collective response of the Council's corporate statutory officers. It has been agreed with the Executive Mayor and Cabinet.

Significant change at Croydon delivered to date, willingness and credible capability to change further

The Council and its management are willing, eager and capable of delivering significant change in services, budgets and programmes. The Council's staff are engaged and motivated to make the authority a genuine leader in cost-effective, high-productivity and digitally enabled service delivery.

The local recognition of the need to radically rebuild the Council's service and financial base followed on from the shock of the 2020 governance and financial failures. This was spelt out by Grant Thornton, the Council's auditors, in their scathing 'Report in the Public Interest' in 2020 about the failed corporate governance and management of the Council's administration at that time. This showed, amongst other things, that the Council's significantly reduced levels of reserves were insufficient; that control of expenditure had been weak, and that a sharp increase in borrowing (£545m in just three years) had been combined with lax oversight of several Council-owned companies. The financial crisis at the Council was firmly established at that point.

Change of leadership

Following the change of leadership in the autumn of 2020, the Council began the rigorous process of restoring its governance and the financial sustainability of its budget. Since the election of the Executive Mayor in 2022, and the adoption of the Mayor's Business Plan, the priority of the Council has been to fix the finances, (whilst recognising the

Government's critical role in resolving the legacy debt problem) and create a sustainable organisation that provides cost-effective services to Croydon's residents.

In the summer of 2022, the Mayor's "Opening the Books" programme involved independent forensic accountants and experts to analyse the budget and restate the Council's true financial position. This programme rebased the balance sheet, rebased the annual budgets and tested compliance with all relevant rules and regulations. This work increased the Government's Exceptional Financial Support (EFS) needed by the Council to restore the balance sheet by £417m, all from events prior to 2020.

The Council has undergone significant changes in governance, management and its collective attention to financial and service risk. It has delivered £167m of savings (from 2021/22) to its revenue budget. This equates to an average of £42m, each year for the past four years. The Council has delivered annual budgets 'to balance' in three out of the past four financial years, benefiting from the smoothing mechanism EFS provided in each of those years.

Building on this successful experience of change, the Council has committed to deliver more savings of around £125m over the next four years - £50m is planned for implementation in 2025/26. This will be delivered through the carefully developed and fully costed Future Croydon Transformation Plan, created in partnership with Boston Consulting Group, world leaders in this field. This plan is being delivered through linked digital platforms that will manage demand and reduce operating costs as well as ensure reduced and consistent contract costs. There is a significant return on investment identified in the business case. For every £1 invested this will return £2.50 of benefit.

Over the last four years around £210m in capital receipts has been generated and used, via EFS, to balance the revenue budget. There has been no increase in debt. A further £68m of assets have been identified to generate additional capital receipts. This will not be enough to cover the use of EFS necessary to balance the 2025/26 budget and the MTFS and so "EFS borrowing" will be needed until the debt problem is resolved.

It is clear, that without, a fundamental solution, the Council's structural debt problem will worsen. The Council's draft statement of accounts for 2023/24, reports the impact of the *"toxic debt burden of negative equity from historic uncontrolled borrowing."* The period before the current governance, financial and managerial improvements were made, was one where borrowing was inappropriately used to fund revenue expenditure and failed commercial investments, rather than to acquire new assets.

It is the structural character of the debt that is the root cause

The Council's 2025/26 budget requires £71m of debt servicing costs - around 19% of the £373m base budget. By 2028/29, if current assumptions hold and despite all the budget management changes planned, the requirement for debt servicing will be £109m - around 26% of the then budget. This is plainly the most significant issue that needs to be addressed if financial sustainability is to be secured.

The current year's budget is balanced only after £136m of EFS allowing the Council to borrow more to support essential service expenditure. For this to be addressed within one year as is inferred in the "minded to" letter; would require the most drastic level of savings and the highest of Council Tax rises. If the burden was shared equally between budget savings and Council Tax increases, the budget next year would need to be cut by a further £60m (on top of the £35m planned for that year) and the Council Tax would need to be raised by 27.3%. This would also only be a "one-year fix" and would not address the debt burden continuing to negatively impact the revenue budget in future years.

This clearly shows that it is financially infeasible and managerially intractable to achieve a balanced budget simply through adopting urgent measures. This is the reason why the Improvement & Assurance Panel (IAP) was unable to suggest deliverable ways forward. Unfortunately, their comment on the *"runaway position on the Council's finances"* confuses

the escalating impact of EFS borrowing on Croydon's revenue account, with the disciplines being exercised to deliver to budget, deliver in-year savings, mitigate an in-year overspend and reduce operating costs.

This confusion appears to have led to the Secretary of State and Minister being satisfied, that the failure to meet the duty of best value is caused by a lack of grip and response, (continuous improvement, leadership and use of resources) with no recognition of the fundamental causal factors caused by the structural character of the debt.

The Council accepts that despite all its efforts, it has not been able to balance the budget from its own resources.

This response provides evidence, that is not referenced in the IAP's letter, that it can't be met by the Council alone, and this position has been accepted by the IAP since November 2022, and they have advised the Department as such in their letters and in the Exit Strategy.

The IAP suggests the Council has to simply go "*further and faster*" and with more "*alacrity*" as a solution to the current financial circumstances, which risks oversimplifying the significant, sustained effort and strategic planning that has underpinned our recovery and will not solve the problem.

The IAP's comments appear to overlook the scale and complexity of the progress made in Croydon and what is required to resolve the budget. Their call for greater speed does not reflect the realities of delivering sustainable change in local government. Indeed, it risks underestimating the depth and rigour of the further transformation that is required. For whilst the Council is bold and determined in its pursuit of change, it does so by planning and rigorous forethought, ensuring that its actions are never reckless and will never lead to a disproportionate impact on the residents in Croydon.

Trilemma

In essence, there is a 'trilemma' between three conflicting issues, only two of which are capable of being controlled by the Council. In short, the burden on the revenue account of escalating debt substantially outpaces any reasoned and reasonable approach to redesigning services, reducing costs and raising revenues locally. This is a serious and substantive challenge.

Unfortunately, the IAP's letter to the Secretary of State omits relevant required material such as the January 2025 Local Government Association Corporate Peer Challenge Report (LGA CPC), or any detail on the delivery of the "*proxies for success*" to end intervention, contained within the IAP's Exit Strategy. Their letter also contains other material and factual errors, inconsistencies and misinterpretations. Importantly, it does not appear to conform with the Statutory Guidance on intervention in Best Value Authorities.

The Secretary of State's "minded to" letter appears to rely too heavily upon the IAP's letter and therefore concludes that the restoration of financial sustainability to the Council's budget will be more swiftly delivered through the transfer of powers from elected representatives and officials to appointed commissioners, acting on behalf of the Secretary of State. Yet, any commissioners would still have to operate within the same reality of legal and budgetary constraints, timescales and within the same financial boundaries.

Properly functioning

Croydon Council has evidenced that it is politically and managerially capable of making the appropriate and sustainable changes to its functions in a timely and appropriate manner. It has an externally assured track record of doing so. It meets the aspects of the best value framework that are within its control. Indeed, the IAP itself says that in all other respects the Council is '*a properly functioning organisation.*'

The “minded to” letter references the Secretary of State placing reliance on the January 2025 LGA CPC report to support her conclusion that commissioners are required. However, the Peer report describes, “*effective and visible political leadership*”, “*made significant progress in responding to the issues flagged*”, “*work has generated tangible benefits for local people*”, “*strong culture with a dedicated workforce*”, “*Peer team saw no evidence during the challenge that would raise concerns*” (in the 7 themes).

There is no explanation as to why the Secretary of State has come to her view with this reliance on the LGACPC report in this way, as it does not support her conclusion. In fact, it recommends the opposite action to commissioners. It is important to understand the Secretary of State’s reasoning further.

Materially more

The Council fully recognises that it needs to restore financial sustainability in short order, but the only remedy suggested by the IAP is an undefined faster and tighter grip of its own budget and revenues. The IAP’s letter contains mention of concerns raised with the Council and a view that the Council could have done materially more regarding its budget in 2024/25 but with no specific details.

The IAP’s letter does not address the April 2025 letter’s contradiction of their full support and commendation of the 2024/25 budget, “*it has set a sound one for the year ahead*”, “*robust arrangements in place to manage and monitor budgets throughout the year*” and the 2024/25 budget process was, “*a robust process of development and challenge*”. These comments are all from the IAP’s April 2024 letter.

The IAP’s 2025 letter does not address any of the detailed additional work by the Council which mitigated £20m of the impact of pressures in 2024/25. They also omit to mention the detail in the Transformation Plan currently being delivered that is reducing the operating costs of the Council and that the Transformation Plan includes all the areas they suggested the Council consider. These points were also raised in the Council’s letter to MHCLG of 29 May 2025.

2025/26 budget process

The IAP’s letter criticises the 2025/26 budget process as having to deal with emerging demand pressures later than ideal and, therefore, leaving little time to scrutinise them. This has already been raised with MCHLG in the Council’s letter of 29 May 2025. The concerns raised by the IAP that the Council had not forecast possible growth in its 2024/25 budget accurately, meant that detailed attention was properly paid to this in the 2025/26 budget process by the Council. The sector-wide nature of the growth experienced in 2024/25 and its impact on many councils’ budgets and planning is disregarded in the IAP’s letter.

Operating Costs

The Secretary of State’s “minded to” decision references the IAP’s comment that, operating costs “*remain unreasonably high*”. Remaining unreasonably high, could be taken to mean that the costs are remaining high without a reason, or it could mean that the Council is being unreasonable, or lacking in its approach to reducing its operating costs. Commentary on the Council’s comparative benchmarked position should describe it in relation to others in statistical terms of what is reasonable, or an established norm, and over an agreed timeline for reduction. The use of the term “*remain unreasonably high*” infers behaviour by the Council to be irrational or unwarranted in regard to tackling its operating costs.

The data set and grant funding

The data referred to in the IAP’s letter is the LG Futures 2024/25 Revenue Account (RA) data estimated expenditure. The IAP fail to mention that this data set is gross estimated expenditure minus sales, fees and charges with no identification of the beneficial use of grants in reducing operating costs. It is not a data set of actual operating costs to the Council as it includes all grant funded expenditure. The conclusion in the IAP letter referring to the LG Futures RA data, and the other unspecified benchmarking data, is that the Council could

move to the bottom 20% cost profile of comparator councils and significantly reduce its budget pressure.

Headroom

Croydon is a beneficiary of many grants from Government for its services and as part of the plan to become financially sustainable, it has actively sought out external grants to fund activity in the borough, removing the pressure on Croydon taxpayers. Also, owing to its size and sub-regional role it attracts specific grants that other councils do not. A recent assessment to ascertain what operating cost headroom might be available, shows the LG Futures notional £135.8m possible savings at the lowest 20% of councils, reduce by £43m, owing to accounting for Croydon specific grant funding. This brings the notional savings headroom in the LG Futures RA data down to £92.8m which is close to the current proposed level of savings in the MTFS.

Remain unreasonably high

The Written Ministerial Statement (WMC) notes that the *“Council’s operating costs can be improved to be more in line with other authorities”*. The IAP’s letter fails to evidence the work that is already underway to reduce operating costs in the Transformation Programme to deliver nearly £125m of savings in the MTFS. Due to the omissions in the IAP’s letter, and the inaccurate descriptor of, *“remain unreasonably high”*, the Council’s work in this area has been mischaracterised, contributing to the Secretary of State’s conclusion *“that Croydon is not yet meeting its Best Value Duty to Continuous Improvement, Leadership and Use of Resources.”*

The *“unreasonably”* descriptor is not an accurate conclusion to draw from benchmarking data. Benchmarking available from London Council’s, undertaken by EY against all London Boroughs demonstrates that the Council’s costs are not unreasonably out of line with other London Boroughs. There is also benchmarking from the Local Government Association demonstrating the same.

The LG Futures benchmarking is against 16 “Near Neighbours”. These differ from “Near Neighbours”, that others, such as the Department for Education, use. The Council uses LG Futures benchmarking as a tool owing to its granularity which provides managers with data on areas within services that are worth exploring for savings, but its analysis is skewed by differences between boroughs in the way Revenue Outturn and Revenue Account forms are completed, the non-assessment of differences in grant expenditure and dated population figures. The LG Futures data comparisons must always be triangulated with other data.

The IAP’s comment that *“it is relevant to note that operating costs remain unreasonably high”* cannot be considered as balanced and reasonable and therefore cannot be relied upon for final decision making.

No direction

As the Secretary of State will be aware, Annex A paragraph 2 to the Directions given by the Secretary of State on 20 July 2023 required the Council, amongst other matters, to “adopt any recommendations from the [IAP] with respect to the London Borough of Croydon Renewal Plan and its implementation.”

This was in effect a power for the IAP to give directions to the Council with respect to the matters covered by the Renewal Plan, which included financial management.

The IAP has never exercised that power, which is a baffling omission if the view is being taken that the Council has failed to set about improving its financial management in a manner compliant with its duties under the 1999 Act.

It also leaves the Council in the dark as to what exactly it is supposed to have failed to have done that it was possible for it to do.

A way forward

The Council has suggested alternative ways to resolve the root cause of the unsustainable budget to DLUHC and MHCLG and wishes to work in continued partnership to find a resolution to the problem.

Finding a sustainable resolution of the debt problem with Government is essential and has been accepted by the IAP and the Council since November 2022. It has formed a central platform in the Financial Stability actions in the Exit Strategy to “*deliver the Council’s finances on a sustainable footing*” and to end intervention.

The Council wishes to continue receiving support from the Government to restore its financial sustainability and continue to access support from MHCLG, the Local Government Association and the sector, as it continues to improve and transform its functions and services. However, as this representation makes clear, a different solution to successfully achieve that, is needed from the one proposed in the “minded to” letter.

The Council’s plan to restore financial sustainability

The Council’s plan to restore the financial sustainability of the budget and reduce the annual use of EFS, was structured around a programme of:

- significant annual savings;
- a one-off Council Tax increase in 2023, of 14.99%, 10% above the cap;
- other increases in income or effective use of grant funding;
- a transformation of its service delivery model and reduction of operating costs, to become the most cost-efficient council in London; and
- a negotiated solution with Government on debt costs.

The Council was on track with this plan. However, two factors have disrupted this ...

- Despite three submissions, meetings and many responses to queries from DLUHC / MHCLG officials on the proposals, it has not been possible to achieve a solution with Government on the treatment of our structural legacy debt. Since 2023, the Government has not responded with a proposal, despite the advice of the Government appointed IAP, that this was required as a solution to meet the duty of best value. It is understood that two other councils with similar, non-asset backed, high debt levels have secured agreement.
- The sector-wide exponential demand and cost increases to the 2024/25 revenue budget led to a £34m overspend, despite the Council delivering £22m in-year savings and mitigating a further £20m of costs in-year. The IAP omitted to mention the mitigation and savings delivered in-year in their letter and have mischaracterised the overspend as “*runaway expenditure*” - inferring a lack of control by the Council and thereby of inadequate financial governance. The Council understands all London Boroughs bar one, have been forecasting an overspend in 2024/25. This position was highlighted in the data that was sent by the Council to MHCLG on 29th May 2025.

The requirement for the sum of £136m in 2025/26 from EFS was created by the following elements.

- resourcing the whole year impact of the 2024/25 £34m overspend from additional demand and cost increases at £73m,
- forecasting further potential growth of £25m that may occur in 2025/26,
- plus, covering the existing £38m EFS for unaffordable debt costs,

This meant the Council’s 2025/26 budget and the MTFs 2025-29 both required an increase to £136m and an increasing amount of Exceptional Financial Support (EFS) to balance.

Owing to the Council's four years of significant budget savings totalling £167m and the pre-2020/21 governance and financial failures, the Council does not have the financial resilience or level of reserves that other councils can use, to manage the impact of rising in-year demand and unforeseen cost spikes.

Focus on where the challenges are most acute

The Council agrees with the conclusion of the IAP's April 2025 letter which requests the Government to, *"increase the focus upon where the challenges are most acute"*.

To do this, the Council's situation must be accurately understood and evidenced, as must the steps taken to date by the Council and the IAP. Since the development of the Croydon Renewal Plan 2021/22, the Mayor's Business Plan and the 2022 findings of the Opening the Books programme, it has been the position of both the IAP and the Council, that the complete solution to restoring financial sustainability to the Council's budget lay outside of the Council.

This is evidenced in the IAP's 22 November 2022 letter which states; *"The additional financial pressure on the Council's revenue budgets brought about by the increased costs of its structural debt, however, add a degree of challenge to future sustainability which place it beyond the Council's ability to meet"*.

In 2022/23, joint work with the IAP began to develop a Financial Sustainability Plan to offer solutions to Government for the treatment of the structural debt. This was submitted to the Department for Levelling Up, Housing and Communities (DLUHC) in June 2023. This plan accurately forecast the 'debt cost doom loop' in which the Council now finds itself. The continued use of EFS, without any solution to the structural debt problem, frustrates the development of other more financially sustainable solutions that could resolve in-year overspend.

In October 2023, the IAP published its Exit Strategy which stated, *"The Council has amassed £1.6bn in debt (incl. £300m HRA debt), much of it unsecured, and holds significantly less value than this in terms of assets for disposal. ... The Council is in discussions with the government over the methods by which its financial sustainability may be restored. As of October 2023, these discussions are not yet concluded."*

The IAP's Exit Strategy action for the Council to place its finances on a sustainable footing (the proxy for success) defines that the 2025/26 budget and the 2025-2029 MTFS would both require, *"either a continuation of the use of EFS or a Government solution on the treatment of the Council's debt"*. That is the Council's position now.

The IAP's April 2024 letter says, Croydon Council is *"one of the most financially distressed in the country"*. This statement was made before the sector-wide demand and cost spike in 2024/25 materialised and which has exacerbated the challenge.

In May 2024, the Council submitted an updated Financial Sustainability Plan to DLUHC to try again, to find a resolution to the sustainability of the Council's budget and treat the impact of the cost of debt on the Council's finances.

In September 2024, at the request of MHCLG officials, the Financial Sustainability Plan was submitted as part of the Council's response to the Government's consultation on the comprehensive spending review. A resolution has not yet been forthcoming.

At present the 2025/29 MTFS forecasts the Council's debt to rise to £1.8bn by 2029 if nothing changes. The annual revenue cost of servicing the debt is forecast to rise to £109m in 2029. The Council has only £68m of economically advantageous assets left. The Council completely agrees with MHCLG that this cannot continue. A resolution to the longstanding request to Government on the structural debt burden is urgently required to enable the Council's other financial sustainability actions to be effective.

The “minded to” decision as the Government’s resolution to the situation, is to appoint commissioners, based on the premise that the Council can, with different governance, restore its financial sustainability from its own resources.

This is not a reasonable solution in the light of evidence from:

- the IAP’s letters - January 2021- November 2024;
- the May 2025 Delivery of the Exit Strategy report;
- independent benchmarking reports;
- the Council’s analysis of its budget headroom;
- the 2025/29 MTFS £125m savings plans;
- the 2023/24 Financial Sustainability Plan (debt treatment);
- the 2025/26 Stabilisation Plan;
- and the 2024/28 Future Croydon Transformation Plan.

Future Croydon Transformation Plan and the Stabilisation Plan

With the support of Boston Consulting Group, the Council developed a fully funded four-year Transformation Plan. This fundamentally challenged all standing assumptions and reset the operating model with detailed plans to reduce the cost base and support the restoration of the sustainability of the Council’s budget.

The redesign principles of;

- prevention to manage demand differently;
- working with partners such as voluntary and community groups to contract more cost effectively many more services with them; and
- deploying digital and AI technology to transform service delivery

will enable the Council to significantly reduce its operating costs.

At the same time this will provide services in line with other industries which is what residents have told us they expect from their Council. In response to the IAP’s request to review the Council’s risk appetite, this four-year programme has been redesigned to deliver over 2 years. This 4/2-year programme is in active implementation to deliver the £125m savings required in the MTFS.

The Panel requested the Council develop a Stabilisation Plan in January 2025. Produced in three months, it is a one-year solution to offset the use of the forecast £25m growth funding in the 2025/26 budget and should deliver £27.3m savings. As this was proposed to be funded via EFS borrowing in the MTFS, this will helpfully reduce the increase in debt from EFS in 2025/26.

It does not replace the Transformation Plan but should be seen as a vital subset of that, as it accelerates some of the Transformation Plan’s later actions. The analysis of the savings potential by Boston Consulting Group for the Transformation Plan, has directly informed the Council’s understanding of the opportunity that exists to reduce its operating costs.

As the Council is required to meet its statutory duties, it believes that budget headroom does not exist to deliver the quantum of overall savings that would be sufficient to completely restore the financial sustainability of the budget, in addition to the already agreed 2025/29 £125m MTFS savings. An independent financial assessment is essential to determine this.

Balancing the budget without EFS

The following illustration shows the scale of the financial challenge facing the Council to balance next year’s budget from its own resources, without any use of EFS or a resolution to the debt problem.

1. The February 2025 MTFS reported the budget gap for 2026/27 as £153m and requires that sum as EFS borrowing, to balance the budget. Adjusting for the recent Government confirmed Council Tax referendum limit of 4.99%, (the MTFS previously assumed 2.99%) and for the new savings of £27.3m for 2025/26 from the Stabilisation Plan, the current gap for 2026/27 is assumed to be £120.3m from EFS borrowing.
2. Croydon currently has the second highest Council Tax in London at Band D following the 2023 Council Tax increase of 14.99%, 10% above the national cap. This generated an increase in income in that year of £22m.
3. If no EFS borrowing was allowed, the budget would need to be balanced through a choice of options.
 - a. If half of the £120.3m gap was tackled through a Council Tax increase, (a 1% rise in Council Tax generates approximately £2.7m in income), this would require a Council Tax increase of 22.3% above the 4.99% totalling 27.3%.
 - b. Although this may not be enough, once the cost of increased Council Tax Support is accounted for. The principle of diminishing returns applies. For every % increase in Council Tax, it is prudent to assume that resident hardship would also increase.
 - c. This 27.3% increase would probably result in Croydon having the highest Council Tax in the country for 2026/27. As this is above the national cap, this would also need separate Government approval.
 - d. If the other half of the £120.3m budget gap was addressed by savings, this would require savings of just over £60m in addition to the £35m in savings already planned for 2026/27, so £95m of savings in total.
4. This would be on top of the £50m savings planned for 2025/26 and roughly three times the level of savings delivered in the last couple of years. It would be, by far, the highest level of service cuts made by one council, in one year, in the country.
5. These changes would only balance the 2026/27 budget without the use of EFS. The rest of the Council's MTFS would not be financially sustainable and further savings at similar scale or further use of EFS would be required in 2027/28 and onwards, until the debt problem was resolved.
6. These figures do not take account of any changes following the funding formula review as this has not concluded.

This is not being proposed by the Council but is shared here to illustrate the challenge and the omission in the advice in the IAP's letter.

The premise in the "Secretary of State" "minded to" letter, based on the advice in the IAP's letter and as seen in the proposed direction for commissioners of 10.a) to "*meet future commitments without additional borrowing*"; suggests MHCLG believes the Council can remove the use of EFS in 2026/27 with different governance.

The period of the proposed intervention with a review to consider removing commissioners in the summer of 2026, also suggests that MHCLG believes that financial sustainability can be delivered in that timeline with a different form of governance.

Further consideration

The reasonableness of the proposed escalation of the intervention with commissioners, their directions, and the delivery timeline to restore financial sustainability, requires further consideration. The statutory guidance offers as good practice; an "*independent review be considered when approaching the end of a period of intervention.*"

The difference between the Council's evidence in this representation, and the views and

omissions in the IAP's letter on this fundamental point, would suggest that such an independent review would be a reasonable step to take and be of value. It would accurately clarify where the solution to the Council's financial sustainability lies and its realistic timeline.

It would define where the focus of resolving the challenge of the Council's unsustainable budget should be best placed, and the governance needed to deliver it, before any removal of powers from democratically elected representatives is agreed.

Meeting threshold for escalation of intervention

The statutory guidance for intervention explicitly describes the situation in which the escalation of intervention can take place. *"If an authority does not have the willingness, capability and capacity to improve without external support and, based on the evidence, the Secretary of State is satisfied that the authority is failing to comply with the best value duty,..."*

It is unclear how the Secretary of State's view can have been formed when the *"other relevant information"* required in the statutory guidance, provides evidence that the specific conditions for such escalation (*"willingness, capacity and capability to improve"*) do not exist at Croydon Council.

The Council has publicly recognised that its 2025/26 revenue budget and forecast MTFS 2025/29 is unsustainable owing to the increasing reliance on EFS. There is no unwillingness to face this nor denial of this situation by the Council.

It is reasonable to assume that the *"other relevant information"* in addition to the Exit Strategy which has been considered by the Secretary of State, covers assessments from independent external bodies, e.g.

- the 2025 Local Government Association Corporate Peer Challenge report,
- the 2025 Lifting of the Voluntary Undertaking by the Social Housing Regulator
- the 2024 (strengthened) Good Ofsted Children's services report,
- the 2024 Good Ofsted Calleydown report
- the 2023 Good Ofsted Adult Learning report
- External Auditor letters
- CQC reports into Adult Social Care (7)
 - Shared Lives – Outstanding
 - Community Re-ablement – Good
 - Provision of personal care and support facilities – Good
- SEND Local Area Inspection report - no statement of action required.
- The Chair of the IAP has advised that the delivery of Croydon's Safety Valve programme is in the 'top two' Local Authorities nationally.

The IAP's April 2024 letter describes the Council as *"steadily improving service delivery across all areas although objective testing of this is awaited in key services"*. The first three published positive reports above, represent that *"awaited objective testing"* described by the IAP.

The reports all consistently evidence an authority, that is willing to face its circumstances, takes necessary and difficult decisions, has effective leadership, acts at pace, has the capacity and capability to deliver improvement and has continuously done so over the last 3 years. The IAP's own comments to the LGA CPC report were that leadership was not

failing.

There is no evidence provided which supports the conclusion reached by the Secretary of State in the “minded to” letter, that there are “*serious concerns on the ability to improve, aspects of leadership and use of resources*”. The lack of evidence also brings into question, the need for the broad range of directions. It will be important to understand how this view has been reached.

This “minded to” decision for commissioners would also send confusing messages to the sector, in the context of externally validated good performance of the council’s services.

Failing the duty of Best Value

Owing to the unsustainable revenue cost impact, of the non-asset backed debt of the Council, it is not reasonable to judge the Council as failing its duty of best value in respect of its ability to deliver a balanced budget.

Until such time as a resolution to the Council’s structural debt and its revenue cost is reached, the Council will have to access ESF to balance its budget. As this comprises borrowing more money, this increases the debt problem and its annual cost, creating the inescapable debt cost doom loop.

Subject to independent financial assessment, the Council believes that the annual increase in the cost of servicing the debt makes it arithmetically impossible for savings to be made in year to keep pace with, and deal with, the cost of debt increases. Furthermore, this does not allow the Council to be in a position to deal with other revenue pressures that would ordinarily be resolved through significant savings programmes such as tackling in-year overspends.

The IAP, the Government’s own appointees, advised DLUHC in 2022 and again in 2023, that the Council is unable to meet the duty of best value in delivering a balanced budget and the requirements of the statutory guidance for that, from its own means. The advice was that a solution to the structural debt problem was necessary, and this could only be done by Government.

The Council cannot meet the requirement in the statutory guidance to exit from intervention by delivering a balanced budget, until such time as this is resolved.

The loss of local democratic control

A Best Value Review is vital to establish the best course of action for MHCLG to take. The “minded to” decision to appoint commissioners constitutes the most significant decision MHCLG can take, the removal from the democratically elected representatives of the residents of Croydon, their legal authority and local democratic control of functions. Such a decision can only rationally and reasonably be taken with a fully triangulated and accurate evidence base to legally justify it.

There has been no failure to comply with the exiting statutory intervention model – the IAP and at no time have they had cause to direct the Council’s actions to meet the duty of best value.

There has been no identification in the IAP’s April 2025 letter of any breach of the duty of best value in regard to governance by elected representatives. It is unclear how the Secretary of State’s view can have been formed to require the removal of functions associated with scrutiny and democratic decision-making on this basis. If the minded to decision is enacted, further clarification on how these functions would be controlled by the commissioners is requested.

It is the Council’s understanding that this would be the first appointment of commissioners and removal of powers from elected representatives where governance has not been identified as failing.

Urgency

The Council notes that MHCLG has sent the “minded to” letter and initiated the intervention review process solely owing to the ending of the IAP’s current period of tenure on 20 July 2025, and receipt of the IAP’s final letter of 25 April 2025. The Council notes that this process has not been triggered by the IAP or MHCLG as a case of urgency in response to the situation at the Council.

Therefore, it would be reasonable and appropriate, to pause, in order to enable the execution of a rapid Best Value Review, to establish the most effective course of action.

Comparative intervention

The Council draws the Secretary of State’s attention to her 8th May 2025 decision on intervention at Warrington Borough Council. The decision was taken to send envoys to support Warrington, following a Best Value Review.

This decision has enabled the Secretary of State, to both ensure the council improves but does so in a way reflective of the new Government’s reset relationship with the sector. *“As part of our commitment to reset the relationship with local and regional government, I am seeking to develop the ‘envoy’ model, which prioritises building a council’s own capacity to improve, by supporting its recovery primarily with expert advice, rather than taking over functions.”*

Her decision to appoint envoys, was made, despite the advice of the recommendation in the Best Value Review. The review’s advice was to appoint commissioners, after that review had concluded that Warrington Council was not meeting 5 of the 7 themes in the statutory guidance, including governance.

As well as representing a sensible approach, which the Council urges the Secretary of State to adopt in its own case as well, there is the important point that the Secretary of State needs to act consistently between different authorities in the exercise of her powers.

It is hard to see any valid reason for appointing commissioners in Croydon but not in Warrington, when the assessment of Croydon’s actions and approach is so much more favourable than that of Warrington Council.

Holding a rapid Best Value Review with a financial assessment would enable MHCLG to consider independent, triangulated, expert advice and evidence as well as this representation and the IAP’s letter.

It would support reaching a balanced and consistent judgement, on the best means to secure the fastest, and most effective restoration of the financial sustainability of Croydon Council’s budget, which is the core purpose of the Secretary of State’ “minded to” letter.

Conclusion and Recommendations

The Council recommends

- that MHCLG consider a rapid Best Value Review be undertaken, to include an independent financial assessment, to advise on the fastest and most effective restoration of the financial sustainability of the Council’s budget.
- that a stay to the final decision on the “minded to” position in MHCLG’s 12 June letter is made. This will enable the findings of the review to be fully considered, the impact of the funding formula review to be considered; and to avoid unreasonable and pre-emptive action being taken.

The Council continues to recommend the three proposals put forward by the Executive Mayor to the Secretary of State in his letter of 1st May 2025:

- Commission an Independent Financial Assessment;
- Establish an External Assurance Board, involving sector-led oversight;

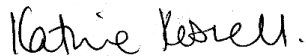
- Maintain and strengthen existing financial assurance mechanisms: with a 'non-statutory improvement adviser.'

This approach aligns with the Government's commitment to resetting local-central relations whilst offering a replicable model for authorities facing similar legacy crises. Croydon has demonstrated unprecedented operational recovery under extraordinary constraints. The Council stands ready to finalise these proposals with MHCLG, ensuring Croydon's future as a self-sustaining authority delivering value for its 390,000 residents.

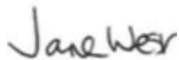
The residual challenge, an unsustainable debt inherited from pre-2021 Administrations, requires partnership beyond traditional intervention. This has long been recognised by the IAP and Government but remains unresolved. The evidence shows that the solution to restoring the financial sustainability of the budget lies outside of the Council's control. It is not that the Council is incapable of gripping and controlling its finances to restore the financial sustainability of its budget.

Thank you again for your support through this process and the professional and cordial way this has been conducted. If it would be helpful to provide any further evidence to that submitted or meet to discuss any of the points contained in this letter or annexes, the Council would be very pleased to do so at your earliest convenience.

Yours sincerely



Katherine Kerswell
Chief Executive and Head of Paid Service



Jane West,
Corporate Director of Resources and Chief Finance Officer



Stephen Lawrence-Orumwense,
Director of Legal Services and Monitoring Officer

Please note: As the MHCLG "minded to" letter is in the public domain and this matter is of public interest to the residents of Croydon; this representation and its annex have been published on the Council's website in accordance with the Council's commitment to openness, transparency and accountability.