

Labour-run Croydon council declares bankruptcy due to rampant property speculation

Robert Stevens

26 November 2020

After years of financial skulduggery, including the sell-off of public assets, Labour Party-run Croydon Council in south London effectively declared bankruptcy on November 11. It issued a Section 114 notice under the 1988 Local Government Finance Act, which councils are required to do if they do not have sufficient financial resources to function.

The council has a budget deficit of £66 million and total debt of £1.5 billion.

After making its announcement, the council was legally obliged to cease all spending apart from on statutory services and to safeguard vulnerable people. Existing commitments and contracts must continue to be honoured.

The cuts to come threaten hundreds more job losses and cuts to public services already pared to the bone for a population of nearly 390,000 people. This week the council outlined a “renewal” programme of spending cuts that “will require one of the most significant change programmes in local government.” There would be “tough decisions” and “We will stop delivering some services that we know our communities find valuable,” the council stated.

Further redundancies will be in addition to the 400 job losses already enforced this year. According to reports, 35 council-owned buildings will be closed or sold off, including some of its 13 libraries and nine children’s centres, leisure centres, and waste and recycling facilities.

These cuts will be imposed in the middle of a pandemic that has pauperised millions, with the *Guardian* noting that the council “also plans to cut its welfare benefits advice team—despite a 300% increase in demand in recent months.” Croydon borough already has some of the highest rates of poverty in Britain. Across the area, 30 percent of children are living in poverty, and in one ward this rises to 44 percent—equivalent to 1,200 children.

In a particularly cruel move, the council is planning to offload its responsibility, to other local authorities, for the care of some of its 249 unaccompanied asylum seeker

children.

Council leader Hamida Ali said in justification, “The Covid-19 crisis and a decade of austerity have had a major impact on our finances but it’s clear the council has also made mistakes”. These are self-serving lies. The council has enforced budget cuts in response to cuts in funding from central government. As of this year’s budget, Croydon had already slashed £242 million in costs since 2010.

Making “mistakes” is more accurately described as rank incompetence, as Croydon council turned to property investments to try and make up for funding losses.

The audit statement released as the council went bust concluded that its investments “were not grounded in a sufficient understanding of the retail and leisure market.” An article by the website Inside Croydon quoted a council insider saying, “If it wasn’t for the fact that those councillors involved have such little understanding of business and economics, it would be a case of corruption and a referral to the Director of Public Prosecutions.”

Over the last decade, Labour-run councils nationally have developed close relations with property developers, with some directly benefitting from the rich pickings on offer.

Croydon set up its own in-house property developer, Brick by Brick. On announcing bankruptcy, the council’s director of finance Lisa Taylor stated that £36 million of the debt was due to “undeliverable” income from Brick by Brick.

Brick by Brick was established in 2015, with the council’s chief executive, Jo Negrini (salary £220,000 per year), playing a main role. The council borrowed £262 million from the Public Works Loan Board, which it then loaned on to Brick by Brick on favourable terms. Despite the company having not completed a single house build by February 2019, it then asked the council for a further loan of £78 million.

This was part of a property speculation spending spree that saw the council borrow £545 million over the last three years to buy a shopping centre and a hotel, as well as to

establish Brick by Brick. The hotel is now in administration and the promises by the council that Brick by Brick would supply affordable housing for its residents proved to be lies, with mortgages far too costly for the vast majority of the borough's residents.

Servicing its loans was costing Croydon council millions each year, but as late as 2018, even as they were enforcing millions of pounds in budget cuts, they voted through a £100 million budget for asset acquisition.

Council-owned land in prime London locations was sold at rock bottom rates to Brick by Brick. *Private Eye* magazine described these as sales at "mate's rates". In total, 24 parcels of land were sold off. Four of the sites were sold for £10,000 each and six, including land and garages, were literally given away at a £1 apiece. In 2018, Croydon sold off a public green space in Upper Norwood to Brick by Brick for £250.

The council claimed that Brick By Brick would then build homes and sell them at "market rates", with profits going back into building homes to let to tenants at a "social" rent. Nothing of the sort happened. Plenty of expensive homes and flats got built for a select affluent layer, while the number of homes completed for social rent totalled three one-bedroom flats.

Examples of rapacious property speculation are myriad. Brick by Brick built 15 flats and 15 "family houses" on a site in Ravensdale and Rushden. None were designated as social housing, instead put up for sale at a total price of more than £16 million. Inside Croydon noted of this social cleansing operation, "The land on which they have been built was previously public open space used by social housing tenants living in 1970s-built blocks, but who were largely ignored by council consultations and planners when the Brick by Brick scheme was put forward."

Fifty-seven flats in six blocks in Auckland Rise-Sylvan Hill-Church Road site were described by Brick by Brick as located in a "leafy enclave in Upper Norwood." Inside Croydon reported, "One-bedroom flats are going for as much as £395,000, and two-bed apartments are on the market for nearly half a million pounds." The flats in the "leafy enclave" are on "public land snapped up for less than £1.5 million" and "could end up fetching more than £21 million."

A car park in Coulsdon was sold to Brick by Brick for £1.5 million, after the council had granted planning permission for 157 homes to be built on it. Inside Croydon reported that "the large site is reckoned to be worth at least £5 million, perhaps as much as £7 million."

It adds, "In all, Croydon council disposed of 25 packages of public land in 2018, generating £4,517,146. Many of those sales went to Brick by Brick."

Looking after mates extended to Negrini receiving in August, just months before the council went bust and when everyone knew the writing was on the wall, a severance package allegedly totalling a £440,000.

The council has also utilised reactionary changes by the Tory government to planning legislation, known as "permitted development" (PD), enabling developers to turn redundant office and commercial properties into "rabbit hutch" housing. The WSWS noted earlier this year, "Croydon Central Labour MP Sarah Jones called on the government to scrap PD, despite Croydon having the largest number of office-to-residential conversions in the country, some of which have been commissioned *by the council itself*."

The cronyism and search for a fast buck practised by the Croydon Labourites takes place to lesser or greater degrees in every council. The WSWS has previously detailed the social cleansing, gentrifications plans, and austerity cuts of a number of London Labour councils, including Newham, Lewisham, Southwark and Haringey.

Labour councils have cemented close relationships with big business over decades, but this has accelerated over the last ten years with central government budget cuts resulting in councils losing much of their previous grants.

Everything carried out by Croydon and other Labour councils was sanctioned by Jeremy Corbyn within weeks of him taking the Labour leadership in September 2015. Corbyn, his Shadow Chancellor John McDonnell and Shadow Communities Secretary Jon Trickett instructed Labour councils—who run the authorities in every major urban area in England and Wales—not to fight the budget cuts demanded by the Conservative government, insisting that they set "legal budgets."

Haringey, in north London, was dubbed the first "Corbyn council" after being taken over by his supporters. After the departure of Blairite Clair Kober as council leader in 2018—to take up a position and reap her rewards in the property development sector—Joseph Ejiofor secured her vacated position with the backing of the Corbyn-supporting Momentum group. The Corbynites have enforced an austerity agenda ever since.



To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact