

2025-2029 Medium Term Financial Strategy Update

October 2024

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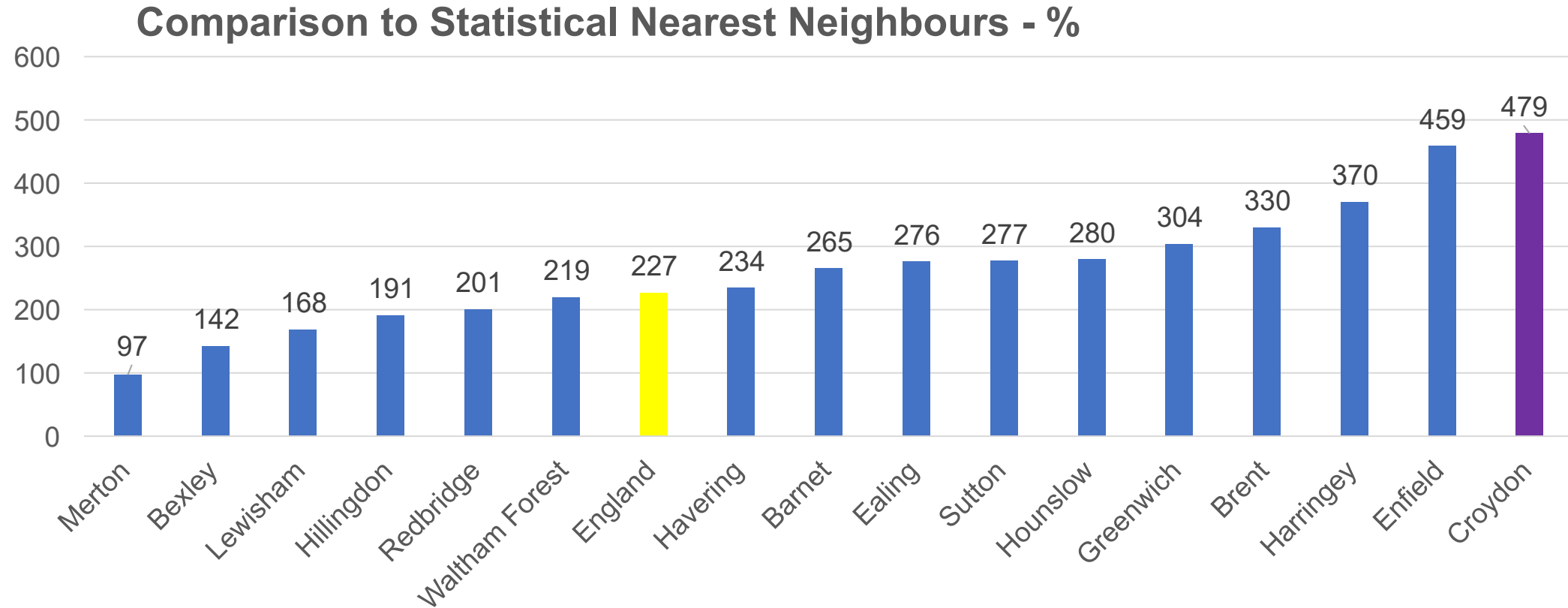
How did we arrive here

Croydon faces a particular financial challenge as it deals with:

- Reliance on extraordinary financial support from the government and the associated impact on debt financing costs. By 2021-22 16% (£50m) of Croydon's core spending power was spent on debt servicing. This was twice the median figure for English authorities.
- The Council is experiencing an enormous increase in demand and unit costs for support for families facing homelessness, support for children with complex needs and for home to school transport for children with special educational needs and disabilities. It is a situation without precedent but one which is echoed nationally.
- Higher than expected inflationary pressures are being driven by the rises in the London Living Wage.
- Reducing opportunity for savings after many years of managing the impact of austerity.

Total Debt as a Percentage of Core Spending Power

Source - OFLOG data as at the close of 2021-22



The Current Year Position (all figures £m)

The Month 4 CRM forecast is for a projected overspend of £20.6m after use of the £38m capitalisation direction.

Directorate	Net Budget	Forecast	Forecast Variance
Adult Social Care and Health	141.4	144.5	3.1
Assistant Chief Executive	43.8	42.8	(1.0)
Children, Young People and Education	98.2	112.5	14.3
Housing	23.8	39.5	15.7
Resources	36.3	35.7	(0.6)
Sustainable Communities, Regeneration & Economic Recovery	73.0	76.6	3.6
Subtotal Service Directorates	416.5	451.6	35.1
Corporate Items and Funding	(55.2)	(56.7)	(1.5)
Total Net Expenditure Budget	361.3	394.9	33.6
Use of one-off corporate earmarked reserves	-	(13.0)	(13.0)
After use of corporate earmarked reserves	361.3	381.9	20.6

In-year Recovery Plans

- An in-depth review of children's expenditure, progressing a quick win approach together with the strategic delivery partner
- Tightened spend control panel criteria (including the removal of previous exemptions)
- The setting up of a new agency staffing expenditure panel and a contracts panel
- Budget holder risk assessed review of all budgets
- Review of all grant related expenditure to ensure we are claiming all appropriate expenditure
- Review of IT and communications equipment
- In-year recovery plans are being developed for homelessness, children's social care placements and transport for children with special educational needs and disabilities.

2025-29 MTFS - Cabinet Update 16 October (all figures £m)

Figures are cumulative	2025-26	2026-27	2027-28	2028-29
Base Budget	390.4	390.4	390.4	390.4
Provision for Inflation	25.5	39.5	53.5	67.5
Growth (includes demand & demographic pressures)	52.1	78.7	96.6	113.9
Net Cost of Borrowing	62.3	62.9	63.3	63.6
Contingencies and other sums (no Transformation revenue budget allowed for)	10.0	15.0	20.0	25.0
Core Grants	-60.7	-61.5	-62.3	-63.1
Net Budget Requirement	479.6	525.0	561.5	597.3
Revenue Support Grant	-18.0	-18.2	-18.4	-18.5
Business Rates (includes top-up grant)	-81.8	-83.4	-85.1	-86.8
Council Tax	-274.9	-284.6	-294.6	-305.0
Budget Gap (before savings)	104.9	138.8	163.4	187.0

2025-26 MTFS Forecast – Expenditure Assumptions

Inflation provision of £25.5m is modelled for 2025-26 and £14m for subsequent years compared to £18m in 2024-25. Of the £25.5m, £5.5m is a catch-up figure for the 2024-25 shortfall. Of the remaining £20m, £4m could fund a 2% pay award leaving £16m for contract inflation.

Growth pressures are provided for in accordance with discussions at the Star Chamber meetings.

The net cost of borrowing will need to be updated for future interest rate projections, potential capital receipts, the revised capital programme and future use of capitalisation directions.

Contingency, transformation and other sums. Core investment in the transformation programme has been removed due to the scale of the revenue budget gap. The provision for economic demand pressures has been reinstated with an additional £5m per annum. The corporate risk budget is maintained at £5m.

2024/25 MTFS Forecast – Resource Assumptions

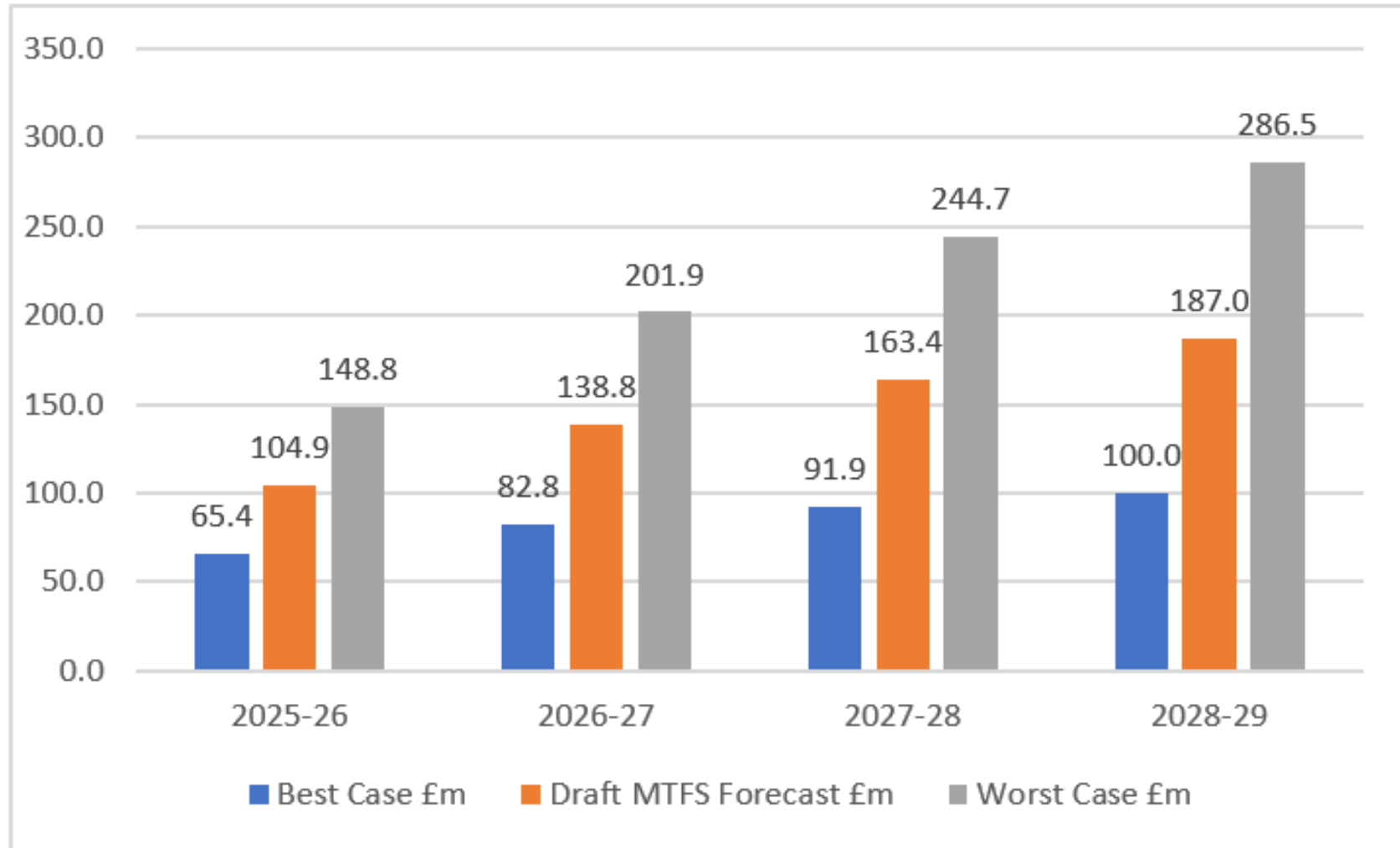
A **Council Tax** increase of 4.99% (including 2% regarding the adult social care precept) is modelled for 2025-26 and 2.99% for future years. No indication has been given by the new government on the 2025-26 referendum cap. The Mayor has given a commitment that Croydon will not increase future council tax levels above the referendum limits set for other London Boroughs.

A final decision on the Council Tax increase will be subject to Member approval at Budget Council in late February/early March 2025.

The **grant** forecast has been increased by a prudent 1% and will be updated in line with the 2024 Autumn Statement (due 30 October) and announcement of the 2025-26 Provisional Local Government Finance Settlement (usually December).

An increase of 2% has been assumed in **Business Rates** funding. The estimate will be refreshed in January in accordance with the government timetable for submitting the 2025-26 forecast.

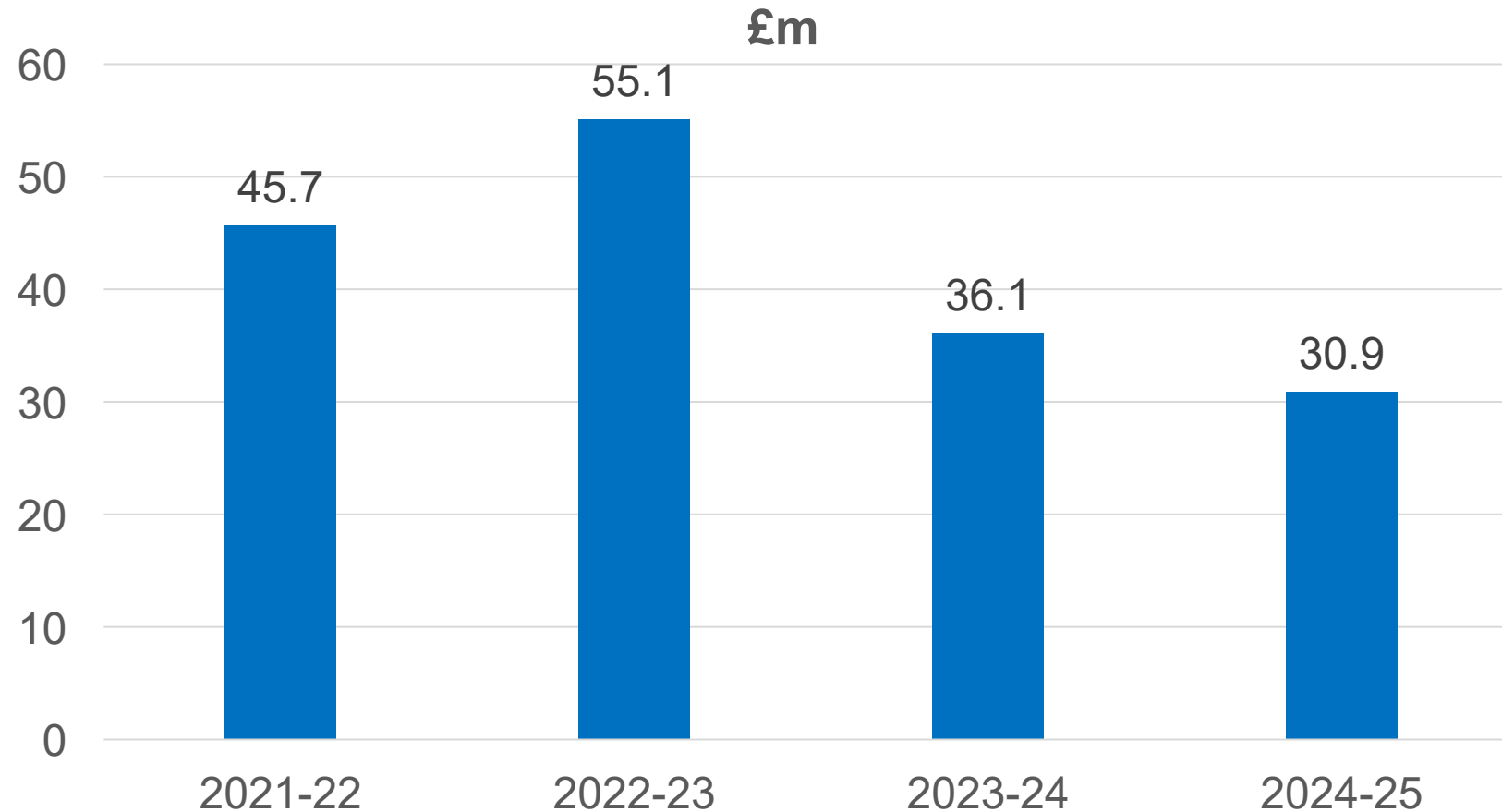
The Future is Uncertain – Best and Worst Case



Closing the Budget Gap (all figures £m)

All figures are cumulative	2025-26	2026-27	2027-28	2028-29
Budget Gap (before savings)	104.9	138.8	163.4	187.0
New savings in borrowing costs from asset disposals	-2.5	-3.3	-3.3	-3.3
Proposed savings (budget challenge meetings)	-14.1	-31.8	-39.5	-41.2
Allowance for further savings	-5.0	-10.0	-15.0	-20.0
Budget Gap (net of savings)	83.3	93.7	105.6	122.5
Further Request for government support in relation to the debt burden	-38.0	-38.0	-38.0	-38.0
Remaining Budget Gap for discussion with government	45.3	55.7	67.6	84.5
Best case adjustment for 2025-26	-39.5			
Best case deficit	5.8			

Historic Savings Trend



Next Steps

Public engagement on the draft budget proposals (growth and savings) will begin on 28 October (assuming approved at Cabinet on 16 October) and close in mid-December. Open to all including residents, businesses, partners and staff.

Further actions will be taken to try to reduce the forecast 2025-26 budget gap. These include further Star Chambers with Directorates, a review of the current MTFS assumptions, updates in line with government spending announcements and feedback from the budget engagement process.

Discussions are ongoing regarding the required level and type of **additional government support**. Croydon is concerned that the use of capitalisation directions hinders the Council's return to financial sustainability by adding to the prohibitive cost of the Council's debt burden.

Required **Equality Impact Assessments** need to be completed.

The **initial 2025-26 budget proposals** will be presented to Scrutiny and Overview Committee in January 2025.