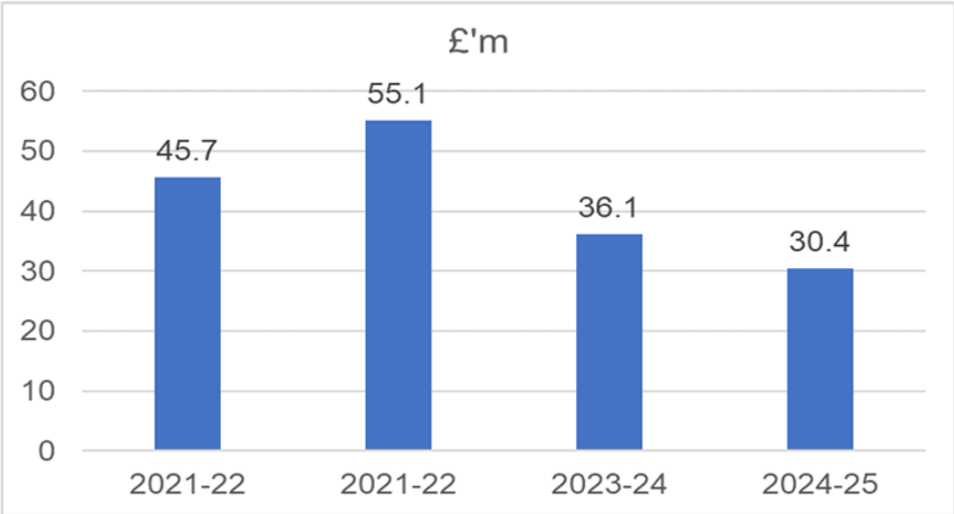
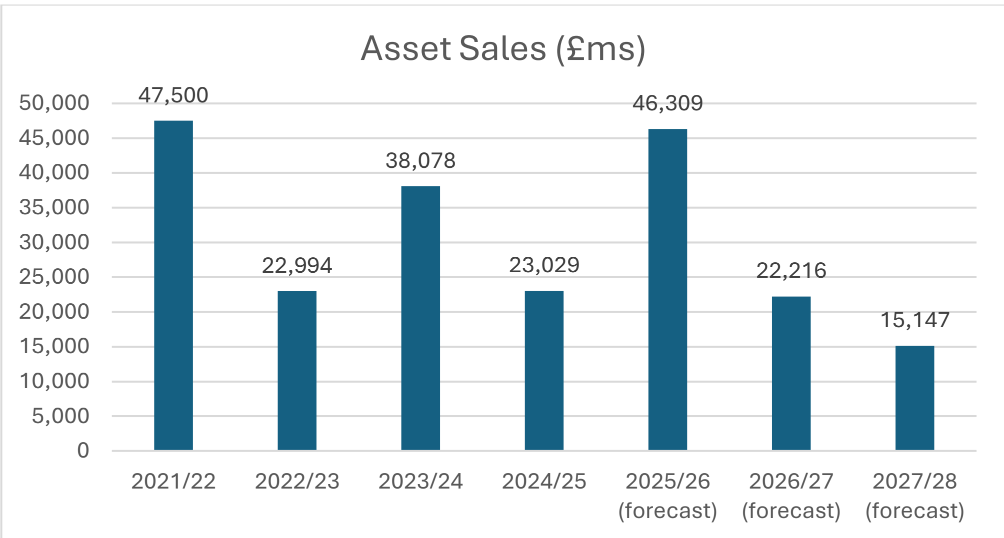
Appendix 1

Savings and Capital Receipts

The Council has delivered savings and balanced its budgets (using a declining amount of Exceptional Financial Support (EFS) from 2020/21 to 2022/23), making £167m in savings over this period. In 25/26 it is aiming to deliver nearly £50m of savings.



Over a 4-year period the Council raised £210m of capital assets which were used in place of borrowing to fund the EFS, so the budget balanced and most importantly debt and financing costs did not increase. Overall, the Council has achieved 23% higher than book value for its asset sales.

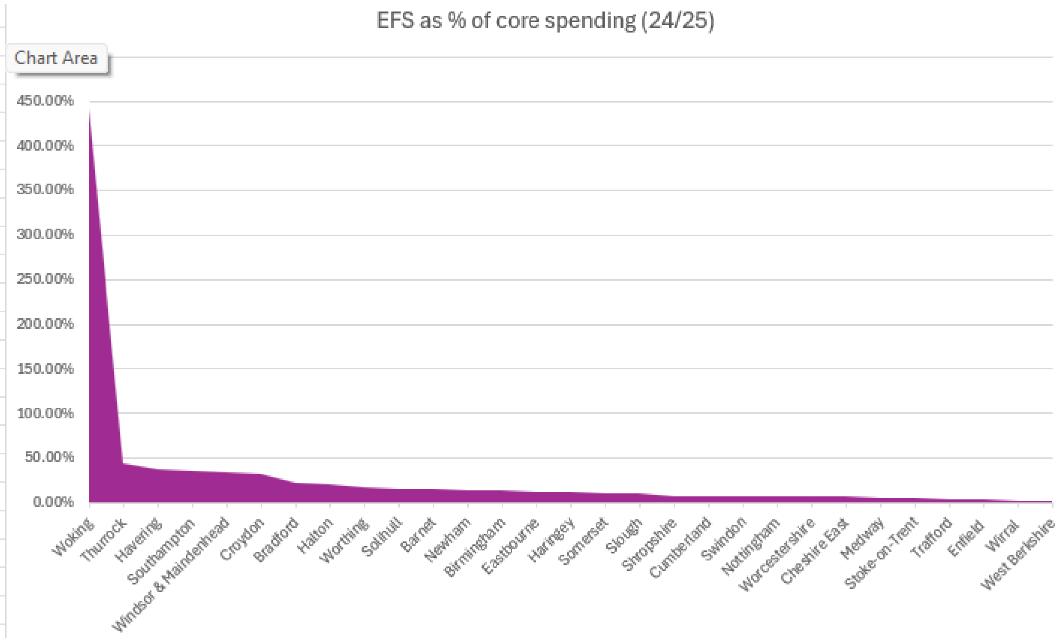


Croydon has generated over £130m in asset disposals over the past 3 years. Adding the property sales proceeds and debt repayment from Brick by Brick to the Council, the income receipts secured by the Council over this period is over £210 million.

As the Council concludes its asset disposal programme, with the sale of residual sites of tranches 0-3, the remaining economically advantageous assets to sell are fewer in number, lower in individual value and more time consuming to resolve. The forecast asset sales for 2025/26 are £46.309m and a further £22.216m in 2026/27.

From 2020/21 the Council has used EFS to resolve the unsustainability of its annual budgets. The use of EFS was on a reducing trajectory subject to the resolution of the debt treatment dialogue with the Department. Following the sector wide demand and cost increases of 2024/25, the MTFS now predicts an increasing use of EFS to 2028/29.

The IAP letter makes comparative comments about the council's budget and its use of EFS. The language is of "*outlier*", "*excessively*" and "*runaway*", however, no comparator detail is given.



The Council estimates that owing to requiring EFS (whilst working on the resolution on the treatment of historic debt), the opportunity cost of the use of capital receipts to service this debt is £19.55m. Next year, the debt servicing costs will increase by a further £12m.

The Council appreciates what a complex matter it is for the Department to determine a solution for the debt. Despite the best efforts of the Department and the Council, the lack of a solution to the debt costs, plus the sector wide significant increase in the demand for and cost of certain services, has challenged the Council's former path to a sustainable financial position.

Escalation of debt servicing costs

Croydon's total General Fund debt currently stands at £1.4bn and is now projected to increase to £1.8bn by 2029. The continuing use of EFS increases the total debt of the Council, escalates the cost of servicing the debt, and is becoming a spiral of increasing cost. Debt costs will be an increasing proportion of the Council's budget, making the annual level of savings that Croydon would need to find within its own means impossible, whilst continuing to meet statutory duties.

In 2025/26, the cost of servicing this debt is £71m, 16% of Croydon's core spending power. It is already the Council's third largest General Fund budget after adults and children's social care. The annual debt cost is forecast to increase to £110m by 2029.

This financial year the Council aims to make savings of £4.4m in adult social care and £3.7m in children's social care, a total of ~£8m. Over the same period the Council's debt costs will rise by £12m.

The IAP's advice to the Department for the Council to resolve its own financial unsustainability, does not comment on the practicality of dealing with the escalating annual increase in the cost of the debt, neither do they raise the urgent need for resolution to the debt issue.

Any assessment of the Council's record of reducing costs and delivering savings whilst meeting its statutory obligations, will show that it is not reasonable to advise that the Council can make £200m sustainable annual savings over the next four years and eradicate entirely the need for EFS, in addition to the already planned MTFS savings of £87m.

Challenges for financial sustainability – revenue expenditure

Croydon has been hit by the increased demand and cost increases in temporary accommodation, adults and children's placements and SEND transport.

All London councils bar one, are in the same position of rapidly increasing overspends, leading us to overspend in 2024/25 by a forecast £34m.

- **Homelessness presentation:** Croydon has the 3rd highest presentation of homelessness in the country (MHCLG Data). Currently there are 3,643 households in temporary accommodation, with 4,276 children.

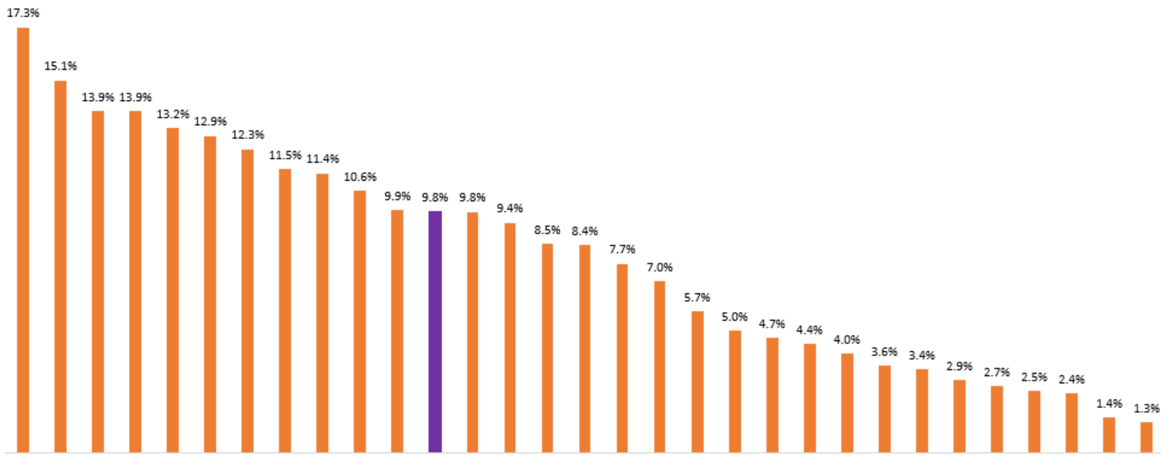
- **Market price rises:** Nightly let temporary accommodation prices increased by from £54 to £81 per night during 2024/25, with the Council having little to no control of rates set by private sector landlords. In addition, the gap between the costs of rents and what can be recovered through Housing Benefit is capped at 90% of 2011 LHA rates which cost an estimated £11.4m to the Council in 2024/25.

- **EHCPs:** Sustained and extraordinary rise in Education, Health and Care Plans (EHCP) and the cost of the transport driven by the design of the SEND system. In the last 2 years EHC Plans have increased by 30% with a 21% increase for those using transport.

- **Children's Placements:** The number of children taken into care has remained relatively stable over the last 4 years but in 2024/25 the cost of the placements doubled in price due to increased complexity, scarcity of supply and market inflation.

The table below sets out the Council's overspend in 2024/25 as a proportion of its core spending power in comparison to other London Boroughs.

Forecast 2024/25 overspend as a percentage of total budget, London Boroughs Comparison (Croydon in blue)



Given the available data, the Council expresses its concern regarding the IAP's characterisation of the 2024/25 financial position as an "*outlier*" with "*runaway expenditure.*" This description is inaccurate and does not reflect the comparative context and efforts undertaken by the Council.

The Council has requested the IAP to assess its performance both comparatively and normatively and to comment upon context. It is not clear how robust financial advice can be provided to the Department without such comparative data and context. Despite the requests, the Panel has declined to consider this, citing a remit limited to Croydon alone.

Challenges for financial sustainability – comparative unit cost reduction of services

The Council appreciates the IAP's comment that "*Croydon placed closer to the average for some services.*" However, this is not fully accurate. According to LG Futures benchmarking (2023–2024 Revenue Outturn), Croydon's unit costs are as follows among 16 nearest neighbours:

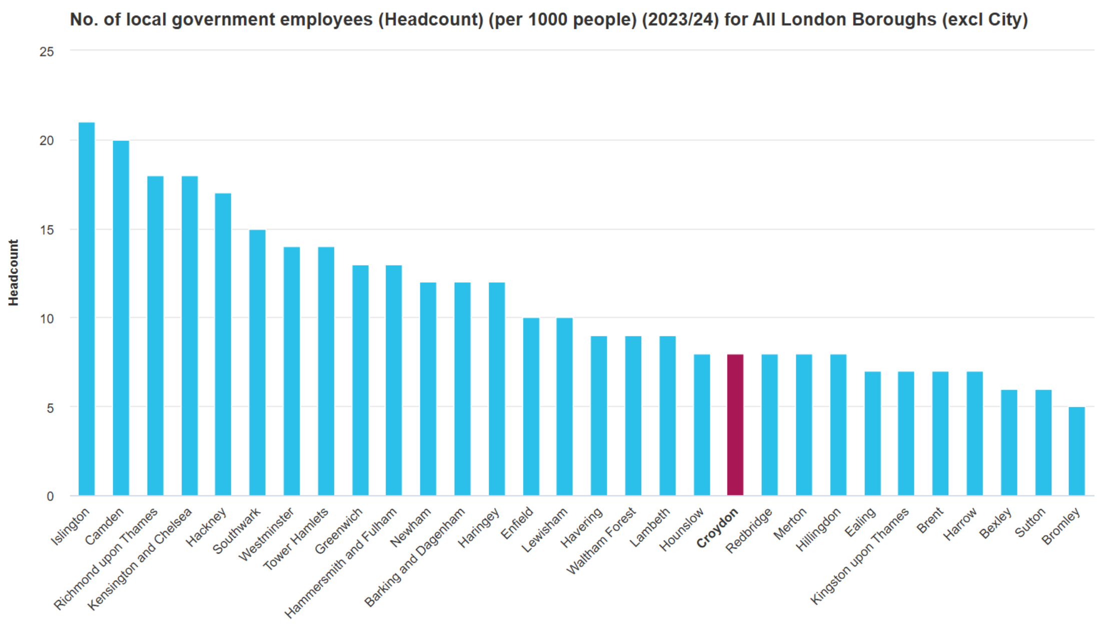
- Culture & Heritage: 14th lowest (bottom 20%)
- Library Services: 14th lowest (bottom 20%)
- Open Spaces: 15th lowest (bottom 20%)
- Cemetery, Cremation & Mortuary Services: 14th lowest (bottom 20%)
- Local Tax Collection: 15th lowest (bottom 20%)
- Street Cleansing: 11th lowest (bottom 40%)

There are funded plans in place to address areas where costs are above average.

- Children, Young People & Education and Adult Social Care: Transformation programmes are underway to ensure unit costs are in the lowest 20% of comparable councils.

- Housing: While unit costs are higher, the IAP acknowledges the need for investment due to historic underspending and rising demand. LGA data (May 2025) places Croydon's general fund housing expenditure at 16th in London per capita.

Another important context and data set when considering capacity for further savings is the Council's staff population. This is relatively low compared to other London Boroughs.



Croydon has engaged leading experts (Boston Consulting Group, Newtons, and Impower) to develop a Transformation Plan, with an agreed and funded programme to deliver £56m in savings including a 10% reduction in headcount and 25% reduction in agency use.

The IAP's letter fails to acknowledge the scale and ambition of this programme or its role in driving down costs and tackling the MTFS.

Conclusion on the Council's financial position

This appendix has explained how the Council's budget has changed over the four years and shown that the Council is doing all it can to tackle the financial unsustainability of its budget and will continue to do so.

Over the past four years, the Council has subjected itself to extensive external reviews to identify further solutions for financial sustainability, including:

- PWC Strategic Review of Companies
- Kroll Review of Fraud
- "Opening the Books" Exercise (Worth Technical Accounting Solutions Ltd)
- Two CIPFA reviews (including transformation programme savings)
- Methods review
- Mazars corporate review
- LGA Corporate Peer Challenge Review
- LGA Public Health Review
- LGA Adult Social Care and Health Review
- Care Experienced Young People Tsar Review
- MHCLG review of Homelessness Data
- MHCLG Non-statutory review and 12 month follow up report

These reviews, along with the strategic partners, have reaffirmed the Council's financial position and trajectory.

Forthcoming Reviews

Three further reviews are scheduled for 2025/26:

- Outcome-Based Budgeting Exercise (pilot in children's services)
- Discretionary Service Review (pilot in children's services)
- Treasury Management Review

While these may yield positive outcomes, they are unlikely to bridge the current MTFS gap, forecast to require £660m in EFS.

The analysis from these reviews, and the scale of the gap in the MTFS supports the Council’s premise that it cannot resolve the unsustainability of the finances by itself.

Considering the IAP’s view, that the Council is unable to resolve its finances ‘*within its means’*, the reasonableness of the IAP’s advice to the Department should be further considered.