

CABINET

Subject Heading:

Finance Update Report

Cabinet Member:

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SLT Lead:

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Policy context:

The report provides an update on the Council's financial position and the proposed approach to setting the 2024/25 budget

Financial summary:

This report includes:

- 22/23 Outturn
- a summary of the council's current financial situation
- the approach to setting the Council's 2024/25 budget and MTFs for the following three years
- The National Funding Outlook

Is this a Key Decision?

No

1. EXECUTIVE SUMMARY

1.1 This Report is an update on the Council's financial position and explains the process that will be undertaken to balance the 2024/25 budget and develop the 2024-2028 Medium Term Financial Strategy. The report includes sections on:

- The Outturn position for 2022/23;
- The latest position on the 2023/24 budget;
- The National Financial Context; and
- The planned process to be undertaken to consult on and balance the 2024/25 budget

1.2 The Council continues to face rising costs following the COVID pandemic and the more recent rising cost of living and high inflation. The Council sets its budget each spring based on a set of assumptions on inflation and demographic demand. The Government has provided additional funding to support Social Care in recent years but this has been inadequate to meet rising demand and costs.

The Council is working very hard to modernise its services and identify efficiencies in order to close funding gaps to meet rising costs and demand. The budget process set out in this report will fundamentally review all services to develop further savings and efficiencies over the summer. The updated plans will be the basis of a budget consultation during the autumn in order to agree proposals to set the budget in February 2024.

A key part of the process will be engagement with Central Government to recognise Havering's position and to update their funding formulae to use both the 2021 Census data and the latest social care exemplifications. Havering has a rapidly growing population and if the Government were to update their formulae this would provide badly needed increased funding to the authority.

2. RECOMMENDATIONS

2.1 Cabinet are asked to note the financial position set out in this report.

3. 2022/23 REVENUE OUTTURN

3.1 The overall Council overspend for 2022/23 was £7.8m at Outturn which is a significant reduction from the Period three position of £19.1m overspent, showing that the Council worked hard to reduce the overspend during the second half of the year.

The table below shows the net service budgets, spend and variances with a comparator to the Period 10 forecasted position.

Service	Original Budget £'m	Revised Budget £'m	Actual Spend £'m	Outturn Variance £m	Period 10 Forecast Variance to Budget £'m
A3000B-Public Health Total	(1.650)	0.003	0.003	0.000	0.000
A4000B-Childrens Total	46.496	52.109	56.755	4.646	4.609
A4600B-Adults Total	72.523	73.570	75.217	1.647	2.294
A5000B-Neighbourhoods Total	11.514	12.952	16.218	3.266	3.974

A5500B-Regeneration Programme Delivery Total	1.262	1.334	0.974	(0.360)	(0.372)
A5700B-Housing Total	3.883	4.038	4.633	0.595	0.472
A7000B-oneSource Shared Total	1.895	3.740	5.492	1.752	2.528
A8000B-oneSource Non-Shared LBH Total	0.361	0.668	1.457	0.789	1.044
A9000B-Chief Operating Officer Total	4.891	6.090	5.419	(0.672)	(0.926)
Service Total	141.175	154.506	166.168	11.662	13.624
Treasury Management	8.136	8.136	3.831	(4.305)	(3.000)
Corporate Contingency Total	1.000	1.000	0.000	(1.000)	(1.000)
Other Corporate budgets	22.599	9.267	10.698	1.431	0.720
Overall Total	172.910	172.910	180.697	7.788	10.344

3.2 Summary of 2022/23 Revenue Outturn Position

The combined effects of the recovery from the COVID pandemic and the current economic crisis has placed pressure on the Council's finances. In March 2022 the Council set a balanced budget for 2022/23 but since then the combined effect of increased demand in Social Care, rising costs and inflation have caused the Council to overspend significantly.

The 2022/23 budget was set based on inflation and interest rates available in January 2022. The Government financial settlement for 2022/23 assumed similar inflation rates of around 2% in the external funding they provided. The global economic situation has caused increased costs across virtually all Council services. The Council continues to work hard to minimise the cost of services it procures but inevitably rising inflation put pressure on the Council's budget during the year and resulted in overspends.

In the Period three monitoring report to Cabinet in September 2022 the Council was projecting an overspend on revenue of £19.1m. The Council has taken decisive action since that report with all Departments closely scrutinising spend in order to contain costs. As a result, the Departmental Overspend had reduced from £18.1m at period three to £11.7m by the year end. The biggest reductions were in Adults and Childrens where a series of actions were undertaken to review placements and contain demand.

The delays to the Capital programme together with higher interest rates meant the Council did not take any external borrowing until February 2023. The high interest rates also improved yields on short term cash lending. These factors combined with the release of the £1m contingency improved the corporate position by £4.9m over the same period.

The robust action of the Council has reduced the overspend at year end to £7.8m from the previous projection at period 3 of £19.1m. Much of the remaining overspend is due to underlying ongoing issues and to reflect this the Council included £10m of growth in setting the 2023/24 budget. This growth has been carefully allocated to address these pressures in order to stabilise the budget

The outturn position has had an impact of the level of General balances the Council retains. At April 2022 the Council held £10.9m in general balances. The overspend has resulted in a reduction in balances to just over £8m as set out in the table below.

GENERAL FUND UNALLOCATED BALANCES	(000,S)
OPENING BALANCE	10,942
CONTRIBUTION	2,000
OUTTURN	-7,788
RELEASE OF EARMARKED RESERVES	3,000
CLOSING BALANCE	8,154

The Council retains an ambition to increase General Balances to £20m in the medium term and the MTF5 in the report below includes further planned contributions to general reserves to achieve this target.

3.3 Capital Programme 2022/23

The table below is a summary of the final outturn position for Capital for the 2022/23 financial year.

Programme Area /Service/ Directorate	2022/23 Budget	2022/23 Forecast Period 9	2022/23 Outturn	2022/23 Variance between Period 9 Forecast and Outturn £m
	£m	£m	£m	£m
Adults Services	3.109	2.776	1.821	(0.956)
OneSource	28.019	13.051	10.033	(3.018)
Neighbourhoods	26.162	24.943	13.399	(11.544)
Regeneration Programme	36.258	10.909	9.614	(1.295)
Children's Services	1.583	1.489	0.128	(1.361)
Chief Operating Officer	11.167	9.810	9.189	(0.621)
Housing Services	149.948	135.574	106.778	(28.796)
Schools Expenditure	0.000	0.000	1.357	1.357
Total	256.245	198.552	152.319	(46.233)

3.3.1 Capital Outcomes

As shown in the table above in 2022/23, there was £152.319m of capital expenditure; which has resulted in notable capital outcomes, which are outlined below:

- Schools Expansions have created an additional 40 SEND places.
- £1.004m has been spent on enhancing ITC Infrastructure.
- The build phase on the new Rainham Leisure Centre has been completed. The new facility is expected to be open in June/July.
- As part of the Highways Improvement Programme: resurfacing/improvement works have been completed on 8.89 miles of roads (43 sites) and 3.47miles of pavements (11 sites) within the borough.

- In Housing, 122 new properties have been added to the Council's existing housing stock and £19.320m has been spent on improving the existing housing stock.
- 17 schools have had capital works totalling £2.094m.
- Mercury Land Holdings expenditure of £7.835m is made up of equity contributions of £6.210m and loans of £1.465m for the funding of Quarles development scheme, which will deliver 120 new homes.
- £1.852m spent on the Rainham & Beam Park regeneration project.
- £1.764m spent on improving Traffic safety via the implementation of CCTV cameras.
- £2.985m spent on renovating Council buildings to improve flexible working across the organisation.
- £1.674m spent on improving parks and open spaces across the borough.

3.3.2 Financing the Capital Programme

The Council has financed the capital expenditure in 2022/23 through a combination of resources both internally and externally generated. Each funding stream is considered in terms of risk and affordability in the short and longer term. The current and future climates have a significant influence on capital funding decisions. As a result, planned disposals are kept under regular review to ensure the timing maximises the potential receipt.

The table below provides how the 2022/23 capital expenditure was funded:

Services	2022/23 Capital Expenditure £m	Financing				
		Capital Receipts £m	Revenue and reserves £m	Infrastructure Tariff and S106 £m	Grants £m	Borrowing £m
Adults Services	1.821	0.000	0.000	0.000	1.752	0.069
OneSource	10.033	1.869	0.116	0.336	5.029	2.683
Neighbourhoods Regeneration Programme	13.399	1.510	0.170	0.297	0.675	10.747
Chief Operating Officer	9.614	0.110	0.017	0.000	0.064	9.423
Housing Services	9.189	3.241	0.044	0.000	0.229	5.675
Children's Service & Schools	106.778	11.690	18.777	0.000	8.690	67.621
	1.485	0.057	0.792	0.000	0.564	0.072
Grand Total	152.319	18.477	19.915	0.634	17.003	96.289

4. THE 2023/24 REVENUE BUDGET

4.1 Assumptions in the 2023/24 Revenue Budget

The 2023/24 balanced revenue budget was approved at Full Council in February 2023. The budget was set against a backdrop of high inflation and increasing demand for Council Services. The budget process was robust and included:

- Over £32m growth to both recognise the underlying pressures from 2022/23 but also to address future demographic demand and known Corporate pressures such as contractual obligations and increases in concessionary fares.
- £9.6m of new savings proposals across all Departments. These savings will be scrutinised closely as part of the 2023/24 monitoring process.
- £13.8m of additional grant funding. This funding was largely for Social Care but was allocated using the formula data from 2013, which significantly understates Havering's true share of the funds. The Council will continue to lobby the Government hard to update their formula to reflect the latest data on Social Care demand.
- A 2% Precept and 2.99% General Council Tax increase

4.2 Update on the 2023/24 Revenue Budget Position

The first full monitoring report on the 2023/24 budget will be for Period 3 and will be part of a finance report to Cabinet in September. This report however highlights significant risks which are emerging on the budget. Departments are working hard to mitigate these risks but it should be noted that the pressures Havering are facing particularly in social care and homelessness are replicated in other authorities and are an issue both in London and Nationally.

4.2.1 Homelessness

Increases in Homelessness is the biggest single emerging issue across London. A significant increase in numbers in Havering since the budget was set has resulted in placements of both single people and families in high cost temporary accommodation. The Government have provided additional funding to help mitigate this pressure and the Council is working hard to develop more suitable accommodation but until those units are available there is a risk to the revenue budget

4.2.2 Adult Social Care

The process to set the Adults budget last winter was robust and recognised both the underlying costs from 2022/23 and the significant inflationary increases required to procure placements moving forward. An additional £9.4m was built into the Adults budget and this will meet that inflationary need. There are however risks to the funding streams which underpin the Adults budget which will not be confirmed until later in the year. Additional funding from Health and for winter pressures is needed to prevent Adults from overspending and if these funds are not adequate there will be a pressure on the budget.

4.2.3 Children's Budget

Significant growth of £8.2m was built into the Children Services budget to address both the underlying aspects of the 2022/23 overspend and future demographic and inflationary costs. The number and complexity of cases across Children Services continues to rise causing a risk to the budget position. The number of children requiring residential placements has risen from 16 a year ago to currently 28. The service has a comprehensive process in place to regularly review these and other placements to

ensure the most appropriate and cost effective outcomes are achieved. These placements however are necessary and costly and the increase in recent months is causing a risk to the 2023/24 budget position.

4.2.4 Potential Shortfalls of income

The current budget process will include a robust review of all income budgets. This will include comparators with our neighbours and forward looking volumetric projections to ensure that budget levels set for income are realistic to the expected levels of activity. At this stage the Council has identified the following areas where it is possible the Council will not fully achieve its income targets.

- Public Protection and Planning
- Enforcement
- Commercial Property income
- Parking and Highways income

It should be noted that by identifying these potential shortfalls at an early stage the services have the remainder of the financial year to develop action plans to either increase income or identify other efficiencies to not overspend against budget. This will be closely monitored and a full report on these potential pressures and mitigations will be included as part of a finance report to cabinet in September.

It is important to note that these risks are part of the process to set the 2024/25 budget and any ongoing pressures will be fully incorporated into that process. The budget timetable will include a full appraisal of these risks as part of the process to ensure the budget contains adequate provision for future demand.

5. THE MEDIUM TERM FINANCIAL STRATEGY 2024/28

5.1 Update on the Medium Term Financial Strategy

The Medium Term Financial Strategy is a live document which is continually updated as new issues emerge during the year. It the basis to record the pressures the Council will face over the next four years in order that decisions can be taken on both savings proposals and ultimately Council Tax levels in order to balance the revenue budget.

The medium term financial plan is presented as part of the budget setting report to Council in February and that in effect is the starting block to begin the cycle to set the following years budget.

The plan is updated to reflect

- Inflation and Demographic pressures
- Estimated pay awards
- Corporate pressures such as Capital Financing costs, Levies and Concessionary fares
- Other costs such as energy increases, contractual obligations and changes in legislation
- The latest assumed grant funding from both the Government and other sources such as Health
- Update on existing savings proposals

The plan has been updated to reflect these issues and the table below sets out the latest estimated gap over the next four years. The plan shows a headline gap of £14.1m for 2024/25 excluding any Council Tax or Adult Precept increase.

LATEST MTFS	2024/25	2025/26	2026/27	2027/28	4 Year Plan
	£m	£m	£m	£m	£m
Corporate Pressures	11.082	4.238	4.052	4.300	23.672
Demographic and Inflationary Pressures	13.507	12.007	13.374	12.500	51.388
Savings Proposals	-6.511	-9.056	-8.180	-1.600	-25.347
Government Funding	-3.991	6.015	0.000	0.000	2.024
Council Tax/Precept	0.000	0.000	0.000	0.000	0.000
TOTAL	14.087	13.204	9.246	15.200	51.737

The plan sets out the potential funding Gap for 2024/25 and allows the authority to plan ahead in order to close the budget gap. There are assumptions in the plan to reach this position including.

- That inflation will reduce in line with Government forecasts. The plan does allow for both inflationary and demographic growth but clearly if inflation were to remain at a high level this would impact on those assumptions
- That there will not be a reduction in funding from central government. A reduction is unlikely as any change in the Government formulae almost certainly would benefit Havering. The plan therefore at present adopts a prudent position on central funding. The plan therefore at present adopts a prudent position on central funding.
- The Plan includes further demographic and inflationary growth recognising both increases in unit cost and demand in Social Care. There is also funding set aside recognising the continued high cost of energy and for known contractual commitments.
- The Corporate Pressures include the increased cost of levies and concessionary fares, the revenue impact of the capital programme and a recognition that general balances need to be increased back towards the Council's target of £20m.

All these assumptions will be tested over the summer as part of the Council's robust review of its projected future expenditure.

5.2 National Funding Outlook

Havering like all local authorities is dependent on Central Government funding to balance its budget. In recent years the Government has chosen to provide 'roll forward' settlements which have used increasingly historic data for distributional purposes. This policy is particularly disadvantageous to authorities like Havering who have experienced

disproportionate population and demographic growth in the years since 2013 when the formula was frozen.

The Government have provided significant extra funding in Social Care in recent years but with rapidly growing demand and high inflation, costs are rising even faster. The Government are still using data from 2013/14 to distribute Social Care Funding despite actually producing updated formulae in the last year. Havering continues to lobby hard for the newer data to be used as a more accurate representation of need across authorities.

The 2024/25 financial settlement will be the last before the next General Election. It is widely expected that this will again be a one off settlement effectively rolling forward the previous years data with some known increases in Social Care Funding. Based on the existing 2013/14 formula Havering can expect to receive approximately £4m additional funds in Social Care. It is also likely that the Government will continue its policy of allowing authorities to increase Council Tax through a precept to help fund the cost of Social Care.

The Government now has a significant amount of new data through the 2021 census and the updated social care data, which would allow it to revise the apportionment methodology of grant between authorities. Using the updated data clearly is fairer and more representative of relative need and Havering will strongly lobby the Government to make these changes.

There is currently a lack of clarity on some of the other Government initiatives including:

5.2.1 The Fair Funding Review

The fair funding review has been delayed for a number of years. Its aim is to review the apportionment method across authorities to devise a formula which is representative of relative need by authority. There has been no recent discussion or consultation on the fair funding review so it can be safely assumed that it will not be introduced until 2025/26 at the very earliest. When the review was originally launched the Government did produce some exemplifications which showed a significant re-distribution of funds away from London. The MTFs currently assumes the potential impact of the review in 2025/26 but clearly this will be updated as further information becomes available.

5.2.2 Cost of Care

The Government has announced that the implementation of the Cost of Care review will be delayed until 2025. The money set aside for the implementation has been redirected to support general social care pressures so if the review were to go ahead then the Government will need to find significant new funds to allow implementation. With an impending General election there is considerable doubt as to when implementation will actually happen.

5.2.3 Business Rate Reform

The Government has undertaken a review of business rates culminating in a Government bill in March 2023. The outcome of the fundamental review of business rates confirmed 3 yearly revaluations from 2023, a new temporary relief for eligible retail,

hospitality and leisure properties for 2022-23, a new 100% improvement relief, and the freezing of the multiplier in 2022-23.

5.3 Forward Plan to address the budget Gap

The tax setting budget report to Council in February 2023 identified a potential budget gap of £10m for 2024/25. After reviewing all assumptions including the impact of the 2023/24 pay award the gap has grown to £14m as presented in this report. The Council has developed a robust and strategic plan to address the budget gap over the coming months in order to balance the budget and minimise the impact on Council Tax. The table below sets out the proposed timetable to deliver the budget.

Date	Item
Jul-23	Cabinet Report updating on the Budget and setting out the planned timetable
Jul /Aug 23	Review of all service spend including
	Review of fees and charges by service
	Identification of new opportunities to deliver savings and efficiencies
	Review of all demographic and inflationary assumptions incorporating any risks and ongoing pressures from the 23/24 budget monitoring
	Review of the Capital Programme
	Benchmarking with other authorities
	Efficiencies through the new target operating model
	Review of earmarked reserves
Sep-23	Cabinet Report updating the 23/24 budget position and setting out proposals to reduce the budget gap and agreeing the format of the budget consultation
Oct- Dec 23	Public Budget Consultation on proposals
Dec-23	Government Finance Settlement is announced
Jan-24	Overview and Scrutiny to review budget proposals
Feb-24	Cabinet Report on the budget and Council Tax to make recommendations to full council
Feb-24	Full Council to set 24/25 budget and Council Tax

5.4 Conclusion

The process to set the 24/25 budget is robust and all areas of Council spend will be reviewed over the summer. This process will develop a set of alternatives which will then be consulted on during the autumn. At the same time the Council will lobby the Government hard to update its formulae in order that Havering gets a fairer share of central funding.

Inflation is still at over 8% and this presents a risk to both the 2023/24 and future budgets. The Council included over £32m of growth in the 2023/24 budget to recognise the pressures faced but even this may not be enough if inflation continues at its current rate. All Departments are working hard to contain any pressures and a full update on the 2023/24 position will be included in a report to cabinet in September

This report sets out the process that will be taken to balance the 2024/25 budget and develop the 4 year Medium Term Financial Strategy whilst at the same time safeguarding the Council's reserves and balances.

6.0 IMPLICATIONS AND RISKS

6.1 Financial Implications and Risks

The financial implications of the Council's MTFS are the subject of this report and are therefore set out in the body of this report. The risks to the 2023/24 budget are set out in the report. This report sets out the process that will be undertaken to deliver a balanced budget in 2024/25.

Detailed proposals and further information on the approach to budget consultation will be set out in a further report in September.

6.2 Legal Implications and Risks

Under S151 of the Local Government Act 1972 a local authority has to make proper arrangements for the administration of its financial affairs.

Under S 28 of the Local Government Act 2003 a local authority has to review its budget calculations from time to time during the financial year and take appropriate action if there is any deterioration in its budget.

The Council is under a duty to "make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness." s 3 Local Government Act 1999. As part of that process it must consult tax payers, those who use or are likely to use services and others who may have an interest in an area where the Council carries out its functions.

6.3 Human Resource Implications and Risks

There are no immediate Human Resource implications arising from the report

6.4 Equalities and Social Inclusion Implications and Risks

There are no immediate Equalities and Social Inclusion implications arising from the report

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