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## CABINET

**Subject Heading:**

**Progress on the 2024/25 Budget and MTFS Update**

**Cabinet Member:**

**Councillor Chris Wilkins (Cabinet Member for Finance and transformation)**

**SLT Lead:**

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**Policy context:**

The report provides an update on the process to set the 2024/25 budget and an update on the Councils 4 year medium term financial strategy.

**Financial summary:**

This report includes:

- Update on the 2024/25 Revenue Budget and 4 year MTFS
- Proposals to close the 2024/25 budget gap
- Approach to the public Budget Communication and Consultation

**Is this a Key Decision?**

No

## **1. EXECUTIVE SUMMARY**

- 1.1. This report sets out the actions the Council is taking in order to control spending and mitigate the pressures the Council is facing in 2023/24. The report also sets out proposals to close the 2024/25 budget gap. These proposals will be consulted on before final decisions are taken in the new year on the 2024/25 budget
- 1.2 The Council has acted robustly to the financial situation it has been placed in by years of underfunding from central government. Addition savings proposals have been identified and spending controls have been put in place. The underlying issues of rising demand in comparison to insufficient central funding remains however and until the Government fully recognise the pressures efficient Councils such as Havering are facing, the Council will continue to struggle to balance the books.
- 1.3 The report also sets out the proposed communications and consultation approach on the budget. The Councils proposals will be consulted on for a six week period commencing in November and the Council will be seeking for views from as many residents and key stakeholders as possible.

## **2. RECOMMENDATIONS**

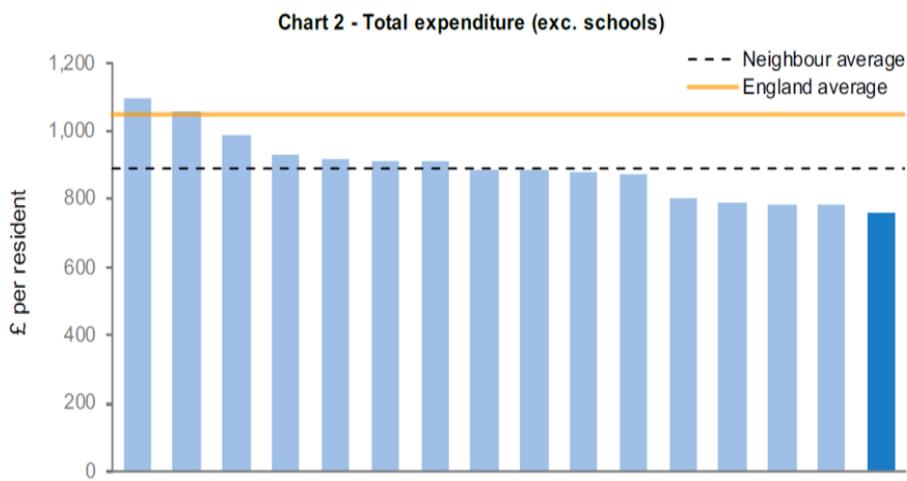
- 2.1. Cabinet are asked to agree that we proceed with consultation on the £11.9m of budget savings proposals set out in section 4.7 of this report and appendix A.
- 2.2. Cabinet are asked to note that that despite the £11.9m of proposals put forward, there is still a residual budget gap of £12.0m and that Officers will be putting additional proposals forward for further consideration and decision in due course
- 2.3. Cabinet are asked to agree for Officers to engage with the Department of Levelling Up and Communities to formally request a Capitalisation Directive which will only be drawn down in the event the Council is unable to set a legally balanced budget for 24/25
- 2.4. Cabinet are asked to note the actions the Council is taking to control in-year spending
- 2.5 Cabinet are asked to agree the Consultation approach set out in Section 6 of this report

### 3. BACKGROUND

- 3.1. Havering is an efficient well-run council with low unit costs in comparison to its neighbours. The Council's costs for the majority of the services provided is much lower than the national average. Havering is now in an extremely difficult financial position due to years of underfunding from central government. The Council has seen rapidly increasing costs for the provision of Social Care in recent years driven by both increased demand and rising unit costs from our providers. Government Funding is still based on formulae which are now 10 years out of date and not fit for purpose.
- 3.2. A report to cabinet in October set out the pressures the Council is facing to set a balanced budget for 2024/25. This report identified a financial gap of £31.2m for 2024/25 even after taking account of £6.8m previously agreed savings and £9.8m of assumed additional Government Support.
- 3.3. Havering has always managed its finances effectively. The Council has low unit costs compared to many of its neighbours and is top quartile in London for Council Tax collection. The authority has relatively low levels of borrowing to deliver the Capital programme and therefore has lower financing costs than other similar London Boroughs.

In 2023/24, Havering's total expenditure per resident (excluding schools) was 15.0% lower than the nearest neighbour average. It was ranked 16th highest out of the 16 authorities in the group.

Its position relative to its nearest neighbours is illustrated in the chart below.



- 3.4 Havering however has the 4<sup>th</sup> highest increase in children nationally and has the 2<sup>nd</sup> Oldest population in London. Demographic increases have historically been matched by additional funding from the Government but recent Governments have chosen to freeze the funding formula based on data that is now over 10 years old. This has led to a sizable imbalance in external funding compared to the additional demand and rising costs being faced by the Council
- 3.5 Havering is facing significant new pressures across People Services which are driven by increased demand, complexity of cases and costs across the main care areas.
- In Starting Well (Children's Services) the number of complex placements requiring Council support has risen significantly over the last two years. The Council has a statutory duty to protect and support these vulnerable children but these are high-cost placements in a market where provider prices are sharply increasing, with many of the children's homes now owned by Private Equity firms reporting record profits;
  - In Living Well (Housing and Temporary Accommodation) the number of families and single people presenting as homeless continues to rise. This in turn is resulting in an increase in the number of people the Council has a statutory duty to house. This increase in housing support has come at the same time as a significant reduction in the number of Private Sector Landlord properties as landlords continue to leave the market due to various government reforms. The Council has had no alternative but to use expensive hotel and bed & breakfast accommodation to provide housing support;
  - In Ageing Well (Adult Social Care) the Council continues to have a high volume of older people requiring support. The cost of these packages has risen sharply as providers increase their fees causing a significant pressure on the Council's budget. The Council already spends over £80m on placement costs in this area so the sharp increase in unit costs has had a significant effect on the budget. The Government has provided additional funds to help meet this demand but is insufficient to cover the additional costs. The Ageing Well budget is also underpinned by support from our Health partners who are facing similar financial difficulties. This uncertainty is also placing further risk on the Council's budget assumptions in this area.
- 3.6 These pressures are causing an overspend on the 23/24 budget which was forecasted at £23m at Period 4 in the October cabinet report. The Council has a robust set of measures in place to try and contain this overspend as set out in section 4.2 of this report. The ongoing demographic pressures however are significant and the shortfall caused by the Government not reflecting current social care data in their funding formula has resulted in the budget position the Council faces in its medium term financial strategy.

## **4. UPDATE ON 2024/25 BUDGET SETTING PROPOSALS**

4.1. The Council has acted robustly to the budget challenges it faces both in year and across the 4-year medium term financial period. The Council has developed plans to help mitigate the in year overspend position and has developed assumptions on the budget in order to identify the budget gap over the next four years

### **4.2. Mitigation of the 2023/24 projected Overspend**

4.2.1 In order to mitigate the 2023/24 budget overspend a series of spending control measures have been put in place including:

4.2.2 Identification of In-year savings and increased income:

All services have reviewed their areas to identify savings and efficiencies that could be delivered in year. Proposals include:

- Review of all high-cost social care placements to ensure the placement is both appropriate for the service user and represents best value for the authority
- Review of placements to identify in-house opportunities rather than more expensive out of borough placements
- Review of staffing and structures including ensuring funds are appropriately charged to revenue, capital and the Housing Revenue Account
- Ensure the Public Health Grant is utilised effectively to deliver strategic health aims of the Council
- Improve debt collection within Housing and from Private Sector Landlords
- Joint work with Health and hospitals to ensure better outcomes for adults leaving hospital and costs for continuing care are shared appropriately

4.2.3 All service managers are fully committed to delivery of existing savings or the identification of alternative in year cost saving measures to mitigate any delay in saving delivery.

4.2.4 All managers to review all agency staff and interim staff to either curtail contracts where possible or identify opportunities to make staff permanent

4.2.5 Implementation of strict Spend Controls across all services. Managers to only spend where absolutely necessary and required to fulfil statutory duties or obligations in respect of Health and Safety

4.2.6 Review of all contracts to ensure best value and to seek efficiency on contracts near to renewal or closure

4.2.7 All Asset disposals will be reviewed to identify whether they can be brought forward and accelerated to reduce revenue expenditure.

### 4.3 Assumptions within the Medium Term Financial Strategy

4.3.1 The Medium Term Financial Strategy (MTFS) contains a series of assumptions which are subject to change and are reviewed on a regular basis. The MTFS currently has the following assumptions shown in the table below.

4.3.2 In developing the Medium Term Financial Strategy other assumptions about Growth have been including:

- The number of people requiring Housing support to increase by 120 in 2024/25
- Additional cost of a user in Temporary Accommodation compared to other options £21k
- Further increases of 13% in the number of Education Health Care Plans
- Assumed 10% increase in Looked After Children Costs
- Assumption of 100 additional Adults requiring social care support
- Assumption of £2m for the additional cost of transition cases in from Starting Well to Ageing well

Pressure and Income	Current Assumption %	Impact of 1% Increase £m
2024/25 Pay Inflation	3%	1.0
Council Tax income	TBC	-1.5
Contractual Inflation	7%	0.3
Government Support (SFA)	0%	-0.4
Increase in families requiring housing support	10%	0.3
Discretionary Income from Fees and Charges (excludes social care fees)	3%	-0.3
Adult Social Care Provider Costs	5%	0.9
Starting Well Budget	N/A	0.7
Cost of Freedom Pass <i>(the Freedom pass costs halved when usage stopped during COVID and are still returning to previous levels)</i>	33%	0.05
Additional social care grant support assumed	16%	0.24
Settlement Funding Assessment (Core Grant)	5%	0.02
Waste Disposal Levy	10%	0.2

## **4.4 Review of Fees and Charges**

4.4.1 The Council reviews its fees and charges every year as part of the budget cycle and a schedule of proposed rates are included for approval in the budget papers in February each year. Many of the fees the Council charges are set nationally but for the discretionary fees the Council has to consider the following factors in setting fees

- The inflationary increase in cost of providing the service
- Market conditions and the fee other similar providers are charging
- The ability of our customers to pay the fees

4.4.2 The Council has considered these factors in developing the proposed fees and charges for 2024/25. The proposed fees will be formally agreed at Council in February and a full fees and charges schedule will be published with that report. The savings proposals discussed in Section 4.7 of this report include fees and charges proposals but final decisions will not be taken until after the consultation period has closed and all views have been taken into consideration.

## **4.5 Review of the Capital Programme**

4.5.1 The majority of the Council's Capital programme is focussed on Housing and Regeneration which is crucial to delivering new homes in the medium term to help the current Housing shortage. This remains a key objective of the Council but the revised Government fire safety regulations and the current cost of supplies and materials has caused the Council to review its business models including the delivery timetable.

4.5.2 This position has resulted in a re-profiling of the regeneration capital programme and whilst this has largely already been reflected in the budget assumptions the expected timing of spend will be kept under constant review.

4.5.3 The Council is also undertaking a review of its digital strategy to ensure it delivers modernised outcomes for service users. The Capital programme currently has expected spend which will be reprofiled when the review is complete.

4.5.4 The Council has included in its revenue budget provision to fund the elements of the Capital programme which are expected to require external borrowing. If however, the Council were able to identify additional Capital receipts then this would reduce the need to externally borrow which in turn would reduce the revenue budget gap.

4.5.5 The Council has already undertaken work to identify potential sites for disposal and is now reviewing that schedule to see if any of the proposals can be accelerated to help generate receipts at an earlier stage

## 4.6 New Savings proposals and other measures to close the budget gap

4.6.1 All managers have been asked to review their services and also look at the wider Council position in order to develop a set of savings and efficiency proposals totalling £11.9m which will help close the 2024/25 budget gap.

4.6.2 These proposals are set out in summary at **Appendix A** of this report and will be consulted on as part of the budget process. Any proposals that have a direct service impact will be subject to an Equality impact assessment which will be completed before budget decisions are made. Each proposal has a more detailed template which are also included as follows

- Appendix A1: Corporate Savings Proposals
- Appendix A2: People Savings Proposals
- Appendix A3: Place Savings Proposals
- Appendix A4; Resources Savings Proposals

4.6.3 As part of this process a number of savings proposals were identified which it has been decided will not be pursued further at this stage. These are listed at **Appendix B** of this report together with the rationale for not moving forward with the proposal. Whilst it is not planned to adopt these proposals the Council may need to review this position if the financial gap does not improve

4.6.4 Council and Health Partners have been working closely to understand the risks of any changes in service as a result of the proposed savings measures and the impact of that on the health system. ICB, Health Providers and LBH colleagues have also developed some joint mitigations to support the current budget position as well to mitigation any risks if services are stopped. These include:

- NHS NEL to pay appropriate share of complex placements
- Joint CAMHS planning
- Development of Crisis cafes and lower end support for CYP Mental Health
- Improving Family Support and confidence programme for families with SEND children
- Enhanced drug and alcohol support
- Continued Support for community centres - continued warm hubs
- Reviewing NHS Estates or Land for possible emergency accommodation
- Delivering the ageing well winter plan all year round

## 4.7 Council Tax Proposals

4.7.1 The final decisions on Council Tax will not be taken until the budget is formally set in February 2024. The Government however assume in their funding models that Councils apply the Adult Social Care Precept and also raise Council Tax to the referendum limits.

4.7.2 The Government will confirm in the provisional local government finance settlement the limits for 24/25 which are widely expected to be 2% for the precept and a further 2.99% for general Council Tax. If these levels were applied to Havering's Council Tax this would generate additional yield of £7.3m

#### **4.8 Using a Capitalisation Order to balance the 2024/25 revenue budget**

4.8.1 The Government has allowed several authorities in the past to balance their revenue budget by means of a Capitalisation Directive. This allows an authority to charge revenue expenditure to Capital as part of the budget. The directive from the Government however comes at a significant cost as authorities are required to borrow at PWLB interest rates +1% (currently around 6.8%) and set aside provision over 20 years to repay the loan.

4.8.2 This mechanism is designed to support authorities who have a specific budget issue which when resolved will allow them to go back to a more balanced position. Havering has an underlying budget issue through underfunding and so if it were forced into taking a capitalisation order it would be very likely that further orders would be required until the funding inequality is addressed by the Government.

4.8.3 Havering is against taking such a loan as it would be costly and would not resolve the underlying funding issues. The Council will do everything it can to close the budget gap but recognises that it is possible after all other avenues have been exhausted that this will be the only way to balance the budget. The Council is therefore likely to request a Capitalisation order from the Government as approval will be needed prior to inclusion in any budget papers. The Council will then consider all the options in this report before any decision on utilising such a loan is taken.

4.8.4 As set out in the report, as the circumstances leading to this are not of Havering's making, it will try to negotiate different terms to those set out in 4.9.1, but this might not be possible, The Council will continue to review its assumptions each month to ensure that an capitalisation order request is based on the most robust information available

#### **4.9 Review of Earmarked and General Reserves**

4.9.1 At the end of 2022/23 Havering had £8.1m of General Reserves and £39.7m of General Fund Earmarked Reserves. These reserve levels are already very low and are likely to be stretched still further unless the current year overspend is mitigated. The Council is fully aware of the need to replenish general unallocated reserves and will be reviewing all earmarked reserves to identify if any can be released for this purpose.

4.9.2 The Council will set a balanced budget for 2024/25. Given the low levels of reserves and the current 2023/24 budget position there are no plans to utilise reserves to help balance the 2024/25 budget position. The Council is against using one off funds to close the budget gap although it is recognised that without further Government support the Council could be forced into the Capitalisation order described in paragraph 4.8

#### 4.10 Update on the Budget and Medium-Term Financial Strategy

4.10.1 The proposals set out in this report if approved following consultation will reduce the financial gap the Council faces for 2024/25. The Council is also implementing strict spending controls in all areas and will review the impact of this on the 2024/25 budget proposals over the coming months.

4.10.2 The table below sets out the potential impact of the proposals in this report to be consulted on. There is still a significant gap to close and the Council will continue to lobby the Government had to provide additional funding to recognise the additional demand the Council is facing

Table 1: Updates to the four-year Medium Term Financial Strategy

<b>Revised 2024-2028 MTFS</b>	<b>2024/25 £m</b>	<b>2025/26 £m</b>	<b>2026/27 £m</b>	<b>2027/28 £m</b>	<b>4 Year Plan £m</b>
Corporate Pressures	4.4	9.8	7.1	2.7	<b>24.0</b>
Demographic and Service Pressures	34.9	9.3	8.4	5.5	<b>58.1</b>
Pay Award and other Inflation	8.5	5.0	5.0	5.0	<b>23.5</b>
Assumed Savings previously built into the strategy	-6.8	-9.1	-8.2	-1.6	<b>-25.7</b>
Additional Government Funding	-9.8	1.0	6.0	0.0	<b>-2.8</b>
<b>Budget Gap October Cabinet</b>	<b>31.2</b>	<b>16.0</b>	<b>18.3</b>	<b>11.6</b>	<b>77.1</b>
New Savings Income and Efficiency Proposals	-11.9	2.6	-0.1	0.0	<b>-9.4</b>
Notional Increase in Council Tax/Precept (4.99%)	-7.3	0.0	0.0	0.0	<b>-7.3</b>
<b>REVISED GAP</b>	<b>12.0</b>	<b>18.6</b>	<b>18.2</b>	<b>11.6</b>	<b>60.4</b>

## 5. COMMUNICATION AND CONSULTATION ON THE BUDGET

### 5.1 Raising Awareness of the Council's financial position

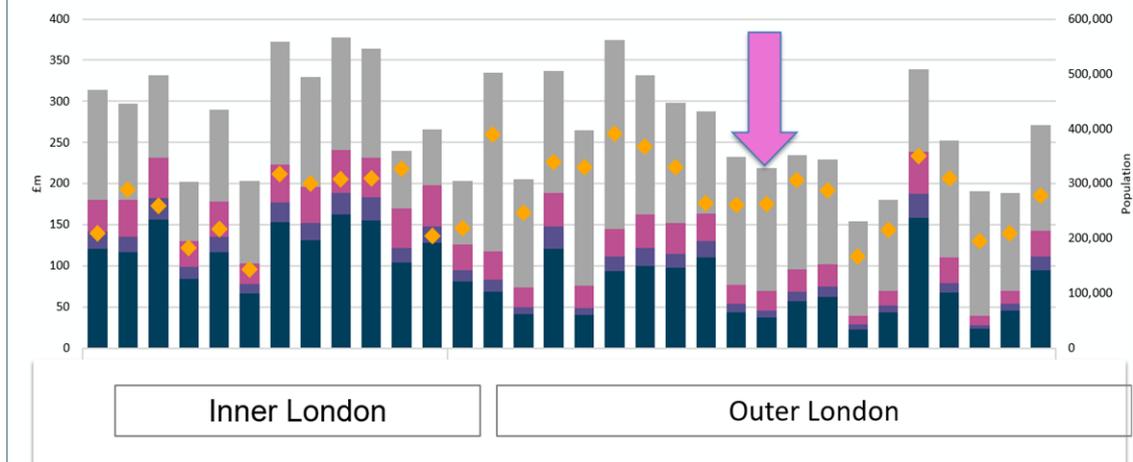
5.1.2 The Council has entered discussions with Central Government and will continue to meet Government representatives including ministers at Department of Levelling Up, Housing and Communities (DLUHC) to lobby for immediate direct grant support and also to request an update to the methodology used to apportion funds to reflect current demography.

5.1.3 The focus of these meetings has been to set out our position that Havering is a low-cost efficient Council and is in the current financial situation due to Government grant support not reflecting the rapidly changing demographic profile of the Borough. The Council has reached this position through persistent underfunding from central government that has been reduced significantly despite increasing costs. Havering's core funding from central government is the 3<sup>rd</sup> lowest in London. Our funding has simply not kept pace relative to our population changes

2023/24 Core Spending Power with Diamonds Showing Population Numbers

Havering's central government grant is the 3<sup>rd</sup> lowest in London

In 2010/11 Havering received nearly £100m in central grant. This was reduced over a decade of austerity to £37m in 2023/24.



5.1.4 Officers have already met the Director of Local Government Finance at DLUHC and have also met officers from the DFE to set out our position. The Council, with the support of our local MPs, will continue to raise political awareness of the financial situation at National level.

5.1.5 The Council has also had discussions with the local and national press and Local Government bodies such as London Councils and the LGA in order to raise awareness of the financial situation that Havering faces. Havering is not alone and a number of other authorities across the country are also reporting similar financial difficulties.

5.1.6 Havering has also spoken to other Councils in the position, including one that has been through a Section 114 to ensure that we are and have done everything we should and could do to help manage the situation.

## **5.2 Budget Consultation**

5.2.1 Havering has also commenced a campaign locally to raise awareness of the financial pressures it faces. The Council is fully committed to keeping residents and key stakeholders aware of the budget position. The Council is proposing to launch a budget consultation for a six-week period commencing in November with the aim of getting as many views on the Council's financial position as possible.

5.2.2 It is important that a wider audience fully understands the position the Council faces and so the Council has already undertaken various national and local media briefings setting out the reasons for the financial gap. The Council has also fully briefed our MPs and Councillors from all parties

5.2.3 The Council is proposing to send out a leaflet to every household which will contain a link to the budget consultation paper. It is also planned to set up focus groups to discuss various aspects of the budget and also to stage events in the town centres and libraries to encourage residents to give their views.

5.2.4 The budget Consultation paper will ask the residents some key questions relating to the Council's financial position and will be available online but also in hard copy on request. User of the libraries and community hubs will be able to access the consultation through the public computers available at those buildings.

5.2.5 The Council as the biggest employer in the borough will also stage a series of internal briefings to its staff to get feedback on the budget. Over 60% Council's staff are also residents of the borough and will be encouraged to give their views as well through the consultation paper.

5.2.6 All the responses to the communications and consultation paper will be collated in early January and will be presented to Councillors before final decisions are taken on the budget in February 2024

## **6. BUDGET RISKS AND CONCLUSION**

### **6.1 Risks to the budget process**

6.1.1 The Council has undertaken a thorough process to develop the projected financial position for 2024/25. All assumptions have been tested and will continue to be updated up until the budget is set in February 2024. Section 4.4 of this report sets out the current assumptions used in the medium-term financial strategy.

6.1.2 The demand assumptions are all subject to an element of risk particularly in social care where circumstances beyond the Council's control can result in additional users at potentially high cost. The Council is also working hard to commission placements which are both appropriate for the service user and represent best value for the Council. This

is a difficult process as providers increasingly are raising costs knowing that local authorities have a statutory duty to these vulnerable people.

- 6.1.3 Assumptions have been made regarding the level of Government support for next year which if not realised will be a risk to the budget. This will not be formally announced until December but assumptions include additional Social Care grant in line with indications the Government made in December 2022 and July 2023 on potential funding levels for next year. The Council continues to lobby hard for changes to the funding formula to reflect current need
- 6.1.4 The Council has assumed inflation will reduce during 2024/25 as currently forecasted by central Government. If inflation remains at the current high levels this will continue to fuel increases in the councils running cost over and above the amounts assumed in the budget.
- 6.1.5 The 2024/25 budget already includes £6.8m of previously agreed savings to support the budget position. Failure to deliver these savings will result in an overspend in 2024/25 and an increase in future year budget gaps. Officers have reviewed these savings proposals and at this stage all are viewed as deliverable

## **6.2 Conclusion**

- 6.2.1 This report sets out proposals which if adopted will partially close the budget gap for 2024/25. The Council has implemented spending controls and is reviewing all its services to identify efficiencies and contain demand where possible. The Council is also lobbying the Government for the additional support it needs to reflect updated demographic demand. The Council will also continue to review all corporate assumptions to ensure any pressures are based on the latest data available.
- 6.2.2 It is recognised however that even with all of these measures in place there is still a significant possibility that there will be a budget gap to close next year. The Council will then be in the unenviable position of either utilising a Capitalisation order at high cost (assuming the Government agrees to this proposal) or issuing a S114 notice through being unable to balance its budget. The Council will work tirelessly this winter to try and avoid this position but options are very limited on services that are already low cost compared to our neighbours. If a Section 114 notice does have to be issued, due to the Councils low unit costs, and other factors set out in the report, it will probably just lead to a Capitalisation order anyway.
- 6.2.3 The Council is very aware of the impact that reduced services will have on Service Users and residents. Any proposals that affect direct services will have an equality impact assessment undertaken before they are agreed. The Council fully recognises that the increased cost of living has had a significant effect on many residents in the borough and will do everything it can to maintain high quality services for the public despite the limited resources available.

## **7. IMPLICATIONS AND RISKS**

### **7.1. Financial Implications and Risks:**

7.1.1 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 also set out in the report. The report sets out the proposals to close the 2024/25 budget gap and the implications if the Council is unable to reduce its pressures in order to deliver a balanced budget.

### **7.2. Legal Implications and Risks**

7.2.1. The Council is required under S151 of the Local Government Act 1972 to make arrangements for the proper administration of its financial affairs. The Council's Strategic Director of Resources is responsible for the administration of those affairs and has a statutory duty to report to members if it is likely that the Council will be unable to maintain a balanced budget. The proposals set out in this report seek to address the Council's current financial position.

7.2.2. Under section 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.

7.2.3 In accordance with section 3(1) of the Local Government Act 1999, the Council has 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" (This is "the best value duty".) The monitoring of the financial position assists the Council in meeting that duty and this should be considered when any savings proposals are developed

7.2.4 Where consultation is undertaken, it must comply with the 'Gunning' principles; namely it must be undertaken at a formative stage, sufficient information should be provided to enable informed feedback; adequate time should be given for consideration and response and the feedback should be taken into account before a decision is taken.

### **7.3. Human Resource Implications and Risks**

7.3.1. There are no immediate Human Resource implications or risks arising from the report at this stage and any specific workforce impact is difficult to assess at the present time. However, any current or future savings proposals or changes to the funding regime that impact on staff numbers or job roles, will be managed in accordance with both statutory requirements and the Council's Organisational Change policy and associated procedures.

### **7.4. Equalities and Social Inclusion Implications and Risks**

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

## **Appendices to this report**

Appendix A : Summary of savings proposals

Appendix A1 : Corporate Savings proposals

Appendix A2 : People Savings Proposals

Appendix A3 : Place Savings Proposals

Appendix A4 : Resources Saving Proposals

Appendix B : Rejected Savings Proposals