

Section 25 Statement of Robustness on the budget Appendix H

1 Introduction and Background

- 1.1 Section 25 of the Local Government Act 2003 requires Chief Financial Officers to report to their authorities about the robustness of estimates and the adequacy of reserves when determining their budget and level of Council Tax. Authorities are required to consider their Chief Financial Officer's report when setting the level of Council Tax.
- 1.2 As I write Havering's S25 Statement of Robustness, the Council is facing significant financial pressure and is applying to the Department of Levelling Up, Communities and Housing (DLUHC) for Exceptional Financial Support.
- 1.3 The Council's in-year General Fund overspend is forecast at over £22m, against un-earmarked reserves of £8m. The Service overspend element is now £27m, much of which has been incorporated as growth in the 2024/25 budget.
- 1.4 Without approval of Havering's Exceptional Financial Support submission, the Council will be unable to set a legally balanced budget for 2024/25. The net base gap budget gap is £14m but this excludes a number of risks that may occur during next year. In order to ensure the Council's budget is robust, the Medium Term Financial Plan builds in an additional element of "risk" to increase financial resilience in next year's budget in the event of unexpected costs or costs exceeding our assumptions.
- 1.5 This statement contains the following sections:
- The Council's financial challenge
 - Level of savings, implementation and delivery
 - Key assumptions, inflationary and new legislative risks
 - Delivery of Corporate Plan and key organisational priorities
 - Processes on spend controls, recruitment panels, recovery boards
 - Adequacy of reserves and financial resilience
 - Process of Capitalisation Direction

2 Havering's Financial Challenge

- 2.1 For many years the Council has been underfunded. The current funding formula remains unchanged since 2013 and uses census data that is over a decade old. During the last ten years, Havering has seen the fourth fastest growing children's numbers as a proportion to its overall population. The growth in demand for Children's Services is coupled with the Council maintaining support to the Borough's elderly population, with Havering being home to the second highest proportion of elderly people across London.
- 2.2 Despite our rapidly changing demographic profile, the funding allocated has simply not kept pace with the changing needs and demands for services.

Nationally, Core Spending Power (CSP) increased by 6.5% yet Havering's CSP increase was lower than average at 6.2%. Notwithstanding this marginal variation, c70% of Havering's CSP is generated through Council Tax compared to 60% in outer London boroughs which means Havering receives proportionally less grant than other London boroughs. For 2024/25, the Council is forecasting pressures of c£66m against new grant funding of £5.6m.

3 Level of Savings, Implementation and Delivery

- 3.1 The base case net budget gap for 2024/25 stands at £14m, which the Council is unable to find additional savings to offset the residual deficit by. Since 2010, the Council has delivered c£160m of savings resulting in the Council's costs being lower than its neighbours and the national average. Havering is low-cost and top quartile for income collection, making it extremely difficult for the Council to identify further savings to reduce the £14m deficit.
- 3.2 The net budget gap is after taking into account the Council being able to fully implement £16.5m of savings with effect from 1st April. There are underlying risks relating to non-delivery of in-year savings of c£2m that must be delivered by 1st April 2024 to prevent an overspend occurring next financial year. Officers understand the scale of the challenge and there is a Council-wide endeavour to deliver the planned proposals.

4 Robustness of 2024/25 Budget, Key Assumptions, Inflationary and Legislative Risks

- 4.1 The Budget setting process considers best, mid and worst case scenarios. Even assuming the worst case scenario, it is extremely difficult to accurately estimate the multitude of factors that are outside the control of officers.
- 4.2 For planning purposes, the Council has built in additional risks as part of the request for exceptional financial support. However, with assumptions, they are taken at a point in time and there must be an appreciation that the position will vary. Changes to interest rates, inflation, market and supplier demands, additional service demands, unfunded new burdens and other factors will impact on the Council to spend during 2024/25.

5 Housing Revenue Account Risks and Dedicated Schools Risks

- 5.1 The HRA budget for 2024/25 is robust and incorporates risks on additional expenditure on both the Revenue and Capital budgets.
- 5.2 Over the 30-year Business Plan, the level of reserves does not dip below the recommended level of reserves, set at 10% of income from rents, service charges and leaseholders.

- 5.3 The Dedicated Schools Grant is currently forecasting a cumulative deficit position of c£8m and is estimated to increase by millions over the next four years. If the Statutory Override (the ability to leave the deficit on the balance sheet) is not extended beyond 25/26 this will trigger an automatic S114.

6 Delivery of Corporate Plan and Organisational Priorities

- 6.1 It will be difficult to balance delivery of the Council's Corporate Plan and longer term strategic objectives against the backdrop of the financial challenges we face. The Corporate Plan has been refreshed through the lens of our residents and communities as well as taking into account what is affordable and can be delivered within the confines of the financial envelope.
- 6.2 Longer term plans are under review, capital expenditure has been paused but the Council is still committed to delivering projects through to completion where it is more cost effective to continue and where the projects contribute to the longer term strategic aims of the Borough.

7 Essential Spend, Recruitment Panel and Finance Recovery Board

- 7.1 Controlling, monitoring and understanding the cost drivers and expenditure profiles will be extremely important next year. Early risks and financial pressures must be identified early so mitigation plans to reduce expenditure can be put in place in good time, where possible.
- 7.2 The Finance Recovery Board will continue to monitor overspending services and discussions will focus on mitigations to reduce the overspend and cost prevention measures.
- 7.3 The Recruitment Panel will continue throughout next year and consideration will be given as to whether vacancies can be held, recruitment can be delayed or if the post can be covered by the existing workforce. This position can only be sustained on a short term basis to prevent team members from feeling burn out.

8 Adequacy of Reserves and Financial Resilience

- 8.1 Havering's reserves are the third lowest in London. General Fund balances are £8m, with £39m of reserves earmarked for specific projects, many of which are contractually committed to. £8m of un-earmarked reserves is equivalent to c4% of the Council's projected 2024/25 net budget of £19.75m. This is far below the recommended minimum level of reserves and is significantly lower than the average level of un-ring-fenced reserves across London.
- 8.2 As a minimum, the Council is looking to maintain its un-earmarked balances at £8m and, in order for the Council to build an element of financial capacity, the

Council is actively assessing ways to build up its financial resilience through increasing its reserves.

- 8.3 It is crucial that the Council does not use its reserves to fund the in-year overspend as the reserves must be maintained to withstand unexpected financial risks/pressures that may arise in 2024/25.

9 Process for Capitalisation Direction

- 9.1 A Capitalisation Direction has been submitted to fund the in-year overspend and to fund the residual, estimated worst case budget gap. However, this position still makes a number of assumptions on varying factors such as interest rates, market inflation, demand for Council services and implementation of the £16.5m savings.
- 9.2 It has been made clear to DLUHC that the Council's budget deficit has arisen due to years of structural underfunding and Havering will request exceptional financial support through a Capitalisation Direction year-on-year until the Government resolves the inadequacies of the outdated funding system. The Capitalisation Direction will add further debt and will increase the budget deficit in future years.

10 Summary and Conclusion

- 10.1 Although I am recommending approval of a robust budget for 2024/25, it is recognised that Havering's financial situation is not sustainable in the long term due to the underlying budget deficit, resulting from years of systemic underfunding.
- 10.2 The budget has been built on a thorough review of factors known to Officers at this moment in time and incorporates inherent risks and pressures. The budget presented is as robust as it can be, based on the information available at present. However, it should be accepted that there are significant financial risks ahead and issues outside of the Council's control that may arise. As such, the Council is looking to maintain its un-earmarked reserves to deal with these pressures until it is able to take longer term action if required.
- 10.3 Discussions will continue on the level of financial support Havering requires until the Government changes its funding formula and Havering will only be able to set a balanced budget in future years if the borrowing options remain open to us.

Kathy Freeman, Strategic Director of Resources

12th January 2024