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**CABINET**

*6 November 2024*

**Subject Heading:**

**2025-2029 Medium Term Financial Strategy Update**

**Cabinet Member:**

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

**ELT Lead:**

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**Policy context:**

The report provides an update on the progress towards setting the 2025/26 budget and the development of the 2025-2029 Medium Term Financial Strategy

**Financial summary:**

This report includes:

- Update on the 2024/25 revenue monitoring position (Section 6)
- Update on the progress towards setting the 2025/26 budget (Section 7)
- Update on the Medium-Term Financial Strategy for 2025-29 (Section 7)
- Proposed consultation approach for 2025/26 (Section 12)

**Is this a Key Decision?**

No

## **1. EXECUTIVE SUMMARY**

- 1.1. This report provides an update on the progress towards setting the Council's budget for 2025/26. The report includes the latest monitoring position for 2024/25 and how this will impact on the 2025/26 budget. The report sets out the national financial context following the General election in July and how this might affect the budget position. At the time of writing the report, the measures proposed in Autumn Budget are yet to be announced.
- 1.2 The report updates the medium-term financial strategy taking account of the latest assumptions and includes detail of proposed growth and savings for the budget. The report shows the remaining gap facing the Council for 2025/26 and the cumulative estimated gap over the next 4 years. The report focuses on the Council's General Fund position. A further report on the Council's Housing Revenue Account position will follow in January and the February budget report will contain additional information on the Dedicated Schools Grant, Capital and Treasury management strategies.
- 1.3 Due to years of systemic underfunding based on data from over a decade ago, the government grant Havering receives no longer meets the fast-changing demands on the Council's services. Despite putting forward a sizeable savings programme of £15.3m, 2024/25 was the first year the Council was unable to set a legally balanced budget report without Exceptional Financial Support from the Government. This report sets out the impact of the capitalisation direction agreed for 2024/25 and the implications if future capitalisation directions were used to balance future years.
- 1.4 The Council will continue to engage with our community openly and transparently, raising awareness of the Council's financial challenges and the proposals put in place to respond to the significant financial challenges ahead.
- 1.5 In spite of everything, the Council continues to deliver for its residents and the community. A number of the initiatives the Council has delivered and/or is progressing with is captured in this report.

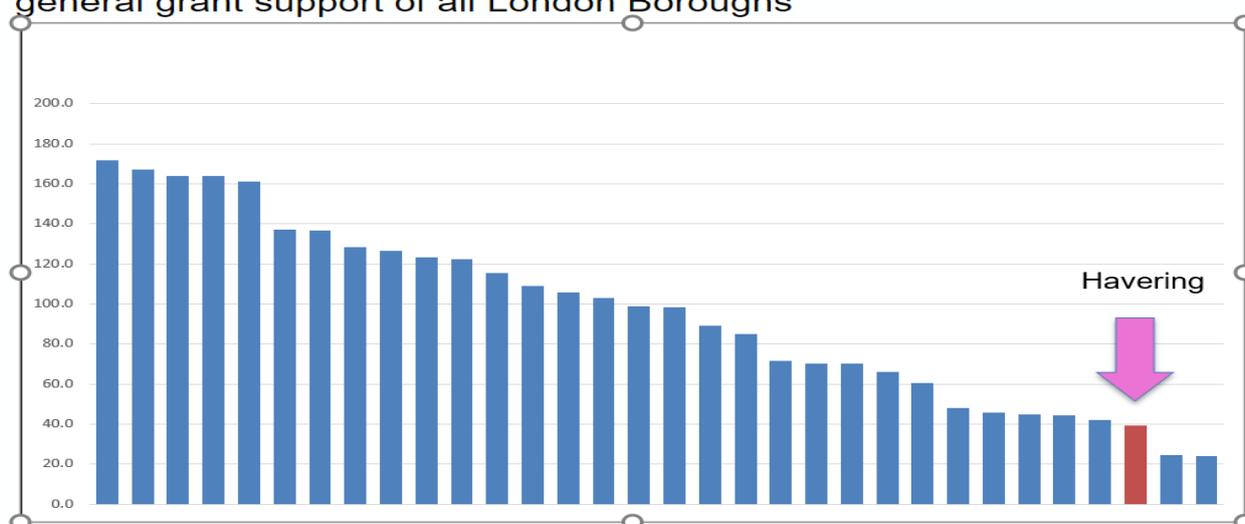
## **2. RECOMMENDATIONS**

- 2.1. Cabinet are asked to note the medium-term financial position set out in this report
- 2.2 Cabinet are asked to note the proposed savings and investment set out in this report and authorise officers to start the budget engagement process, including specific OBJ consultations (where required) to deliver the savings in this report.
- 2.3 Cabinet are asked to note the position regarding further exceptional financial support from the Government and agree to the proposed steps to lobby the Government on this matter.

### 3. BACKGROUND AND NATIONAL CONTEXT

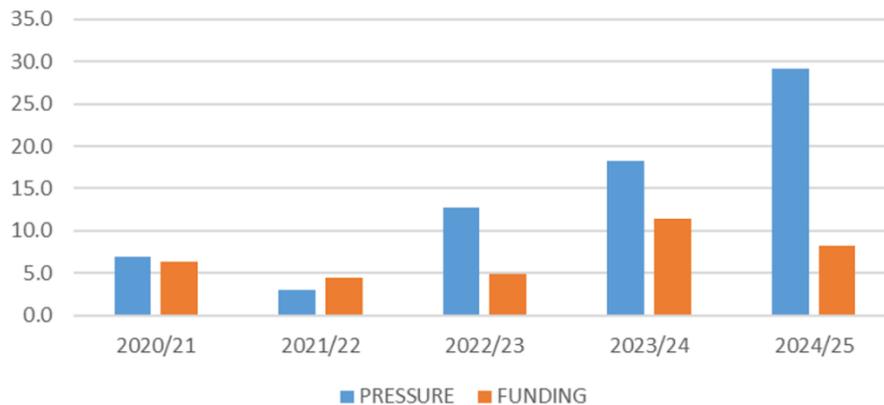
- 3.1. Havering is an efficient well-run authority which has managed its budgets carefully over many years. Over the last decade the Government has reduced the amount of funding the authority has received both in cash terms and through an inequitable funding formula which does not reflect the demographic pressures the Council faces. Despite the changes in the borough's population, Havering receives one of the lowest core grants (settlement funding assessment) across London as seen in the graph below:

This Graph illustrates that Havering receives the 3<sup>rd</sup> lowest level of general grant support of all London Boroughs



- 3.2. Havering undertook a comprehensive budget exercise in setting the 2024/25 budget which identified over £66m of growth would be needed to set a budget to meet the pressures the Council was facing. The budget also included £15.3m of savings and fee increases to help mitigate the pressure. Despite the level of savings put forward, the Council was unable to set a balanced the budget without a £32.5m capitalisation directive which was agreed with the previous Government.
- 3.3. The Council's finances reached this position after years of underfunding from central Government, both in terms of the amount allocated nationally to fund social care and more significantly for Havering the outdated distribution formula used to allocate grant. Rapidly rising demand and unit costs in Social Care had resulted in pressures which far exceeded the grant received and Council Tax increases permitted by the previous Government. To illustrate this, the graph below shows the difference between additional funding against the cost of new pressures per annum for social care and temporary accommodation (TA).

Comparison of Pressure on Social Care and TA vs  
New Grant and Precept increase



- 3.4 The first quarter revenue monitoring report for 2024/25 has projected a £32.3m overspend which if not mitigated would require almost the entire capitalisation direction to balance spend at year end. This has confirmed the service demand pressures which were predicted in the Council's annual budget report. These are underlying pressures and will need to be built into the 25/26 base budget together with any further projected demographic and unit cost increases.
- 3.5 The new Government was elected in July this year and have committed to a government wide review to look at reforms that could better support local government. This is welcomed and it is hoped will provide the platform to adequately fund Council services moving forward. The Government have announced an autumn statement on 30<sup>th</sup> October and it is hoped this will include new funding for Councils. As this report is written however uncertainty remains with no confirmed news of Government plans for the local government finance settlement in December.
- 3.6 The current Government have yet to confirm any intentions regarding Council Tax thresholds or the granting of Capitalisation directions in 2025/26. Havering has an structural budget deficit and will not be able to fully balance its budget for 25/26 without further external support or direction from the Government. This position is likely to continue unless Havering receives adequate funding to deliver the statutory responsibilities and services much-valued by residents.

#### 4. GOVERNMENT POLICY AND NATIONAL CONTEXT

- 4.1. The new Labour Government have announced an Autumn Statement on October 30<sup>th</sup> which is likely to set out the Spending limits by sector for the next year. The Government have then committed to a multi-year spending review in 2025. Alongside this the Government have also announced a review to identify government reforms that could better support councils.
- 4.2. Local Government finance settlement for 2025/26 will be announced in December. Given the proximity to the autumn statement it is unlikely the Government will be able to introduce any significant reforms for 2025/26. The medium-term financial strategy

currently assumes no growth for Social Care which was the position left by the previous Government. The plan will be updated as and when formal announcements are made regarding any new funding for 2025/26.

- 4.3. One announcement that has been made is the continuation of the Household Support Fund until March 2025. This announcement has provided a further £1.6m fund to support Havering residents over the next 6 months. This is welcome news and it is hoped that the Government will identify further funding moving forward to allow the scheme to continue beyond the current financial year
- 4.4. The Council continues to be in dialogue with Ministry of Housing Communities and Local Government (MHCLG) over the financial position it faces. It is hoped that the Government will recognise our position and be able to provide a solution to enable the Council to set a budget for 2025/26. Given the extent of the current financial gap the Council will either need a further capitalisation direction or preferably financing from central Government to recognise the position the Council is in through no fault of its own.
- 4.5. The Government have not yet made their intentions clear regarding whether it will grant exceptional financial support for 2025/26 and what conditions will be attached to any support. Given the current financial situation of the Council if it became apparent that Government support was not forthcoming then the Council would have no alternative but to issue a S114 notice. It should be noted that there are several authorities in a similar financial position and there were 19 authorities who were reliant on such support to balance their 2024/25 budgets.

## **5. LOCAL OUTCOMES DELIVERED**

- 5.1. Despite the financial challenges faced by the Council, the Council continues to work hard to deliver for our residents. In the last few years, the Council has implemented a number of innovative strategies in response to the financial pressures that have also led to improved outcomes for our residents.
- 5.2. In November 2023, the Council re-opened Royal Jubilee Court to provide accommodation for over 70 families, including those with young children. Royal Jubilee Court is a purpose-built provision with kitchen facilities to cook hot meals, leading to improved living arrangements for a number of our residents. The provision also supports the Council to avoid c£2.3m of hotel costs each year.
- 5.3. The Council has ambitions to further its sheltered housing provision with a joint work force focussing on enabling people to live independently long term as part of the existing medium term financial strategy proposals. Two schemes will be coming on-line next year providing several units for care leavers and learning disability service users. The Council is looking to build on these schemes and explore its own provision of care in the Adults and Children's social care arena and beyond.
- 5.4. Reablement continues to be a focus to drive better outcomes for Ageing Well service users, including ward led enablement to reduce deconditioning of our older residents whilst inpatient. This service promotes both recovery and reduced costs flowing into the

Council. There has been success in driving cost avoidance and this scheme continues to run and be built upon

- 5.5. During 2024, the Council successfully delivered 197 homes at Park Rise, Hornchurch that included 80 affordable rent and 54 shared ownership properties. Park Rise will be showcased as an exemplar supported housing development in a forthcoming GLA publication. The Council's development in New Green, Rainham – successfully delivered 197 affordable homes in 2023. This scheme was a finalist for Best Regeneration Initiative at the 2023 What House awards.
- 5.6. The Council continues to address the Housing shortfall and has been working closely with the Greater London Authority (GLA) to secure funding to acquire new homes. This year the Council secured £24m in GLA grant funding toward the acquisition of 160 homes, match funded by £32.5m of HRA funding. 45 homes will be available this financial year with 115 to follow in 2025/26. In the last 4 years, the Council has successfully acquired 144 affordable homes using a combination of GLA funding and match-funding from the Housing Revenue Account.

## 6. PERIOD 3 REVENUE MONITORING

- 6.1. The last published Cabinet report in August presented the first quarter revenue monitoring position for 2024/25. This report showed a potential financial gap for 2024/25 of £32.3m which would require almost all of the Capitalisation direction to be used to balance the budget at year end. The position is set out in the table below:

**Table 1: Period 3 revenue monitoring position 2024/25**

Service Budgets	Original Budget £m	Growth Allocated £m	Revised Budget £m	Period 3 Projection £m	Period 3 Variance £m
Resources Directorate	12.2	0.0	12.2	12.9	0.7
People - Starting Well	53.7	13.2	66.9	73.7	6.8
People - Ageing Well	36.4	9.1	45.5	49.4	3.9
People - Living Well	34.2	9.1	43.3	47.1	3.8
Place Directorate	10.7	2.5	13.2	16.3	3.1
OneSource Shared	9.9	2.0	11.9	11.9	0.0
<b>Total Service Budgets</b>	<b>157.1</b>	<b>35.9</b>	<b>193.0</b>	<b>211.3</b>	<b>18.3</b>
<b>Corporate Total</b>	<b>6.2</b>	<b>12.7</b>	<b>18.9</b>	<b>18.9</b>	<b>0.0</b>
<b>Total Planned spend</b>	<b>163.3</b>	<b>48.6</b>	<b>211.9</b>	<b>230.2</b>	<b>18.3</b>
Growth applied	48.6	-48.6	0.0	0.0	0.0
Budget Capitalisation direction	-14.0	0.0	-14.0	0.0	14.0
<b>Total cumulative Position</b>	<b>197.9</b>	<b>0.0</b>	<b>197.9</b>	<b>230.2</b>	<b>32.3</b>

- 6.2. The pressures the Council is facing compared to base budget are service based and as such are all likely to be ongoing. This report therefore assumes a further £32.3m will need to be added to the MTFS Gap to close for 25/26. The Council has a number of steps in place to help reduce and mitigate the monitoring pressure and it is hoped that this will both reduce the overspend and allow the ongoing MTFS assumption to be adjusted as well.
- 6.3. The Council is doing everything it can to mitigate spend in order to reduce costs both in year and on an ongoing basis. These actions include:
- Recruitment board to review new posts
  - Review of all agency expenditure
  - Review and reduction in the use of Purchase Cards
  - Panels set up across Resources, People and Place to control and review spend
  - Panels set up to review social care placements
  - Review of all service areas to identify in year savings and efficiencies
  - Joint working with Health to ensure costs are appropriately shared
  - Review of existing and forthcoming contracts
  - Project work to identify and realise housing solutions to mitigate temporary accommodation pressures
  - Lobbying the Government to recognise the shortfall in funding was a significant factor in the recent OFSTED outcome
- 6.4. The Council has also set up Financial Recovery Boards which will closely monitor all spend activity for each Department. This will include savings delivery, action taken to reduce costs such as agency spend, progress on mitigation of pressures and development of efficiency initiatives to reduce costs.
- 6.5. The Council has also put in place a debt board which will oversee debt collection for the various income generating sections of the Council. This board will review collection methods, level of debt and write offs and the resourcing of debt collection to ensure the Council is maximising collection wherever possible. This will include ensuring enforcement is undertaken effectively where possible and debts are written off in a timely fashion.

## **7. UPDATE ON THE 25/26 BUDGET GAP AND MTFS UPDATE**

- 7.1. The medium-term financial strategy is a live document and is updated through the year before being presented to full Council in February each year as part of the Council Tax setting meeting. In February 2024 the medium-term financial strategy set out a potential gap of £21.6m for 2025/26 rising to £49.7m by 2027/28. This however excluded the ongoing impact of the £32.5m Capitalisation directive which had been put in place to balance the 2024/25 budget. The table below sets out this position:

**Table 2: Medium Term Financial Plan as at February 2024**

	25/26 (£'m)	26/27 (£'m)	27/28 (£'m)	3 year Total (£'m)
Corporate Pressures	20.955	12.701	7.176	<b>40.832</b>
Service Pressures	9.300	8.367	5.500	<b>23.167</b>
Savings Proposals	-8.296	-7.420	-1.100	<b>-16.816</b>
Government funding assumption	-0.389	5.103	-2.177	<b>2.537</b>
<b>Subtotal</b>	<b>21.570</b>	<b>18.751</b>	<b>9.399</b>	<b>49.720</b>
24/25 Capitalisation direction	32.500	0.000	0.000	<b>32.500</b>
<b>TOTAL MTFFS GAP (as at February 2024)</b>	<b>54.070</b>	<b>18.751</b>	<b>9.399</b>	<b>82.220</b>

It should be noted that the gaps shown for 2026/27 onwards in the table above assume the 2025/26 budget gap is resolved.

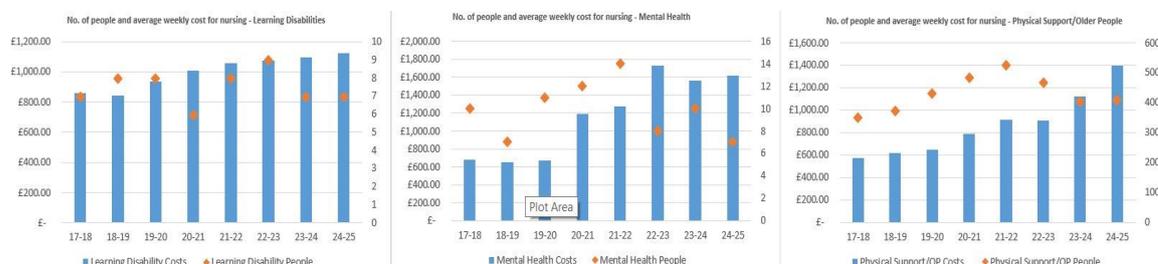
7.2. Since February all the assumptions in the plan have been reviewed and tested to ensure they reflect the latest assumed position moving forward. The following sections highlights the changes made to the assumptions on demographic growth, inflation and government grant. The plan has also been extended to take account of 2028/29 potential pressures.

7.3. Demographic and Unit Cost Pressures:

The Council is continues to grapple with significant demographic pressures across Children’s and Adult Social Care and also homelessness. The Council has put significant growth into these areas over the last two years but demand and complexity alongside increases in cost of care, is still rising so the medium-term strategy prudently assumes the current trends will continue. The demographic and unit cost pressures have required additional funding to be built into the Medium-Term Financial Strategy to cover both the underlying impact of the 2024/25 overspend but also further projected demand for 2025/26.

#### 7.4. Ageing and Living Well – Adult Social Care

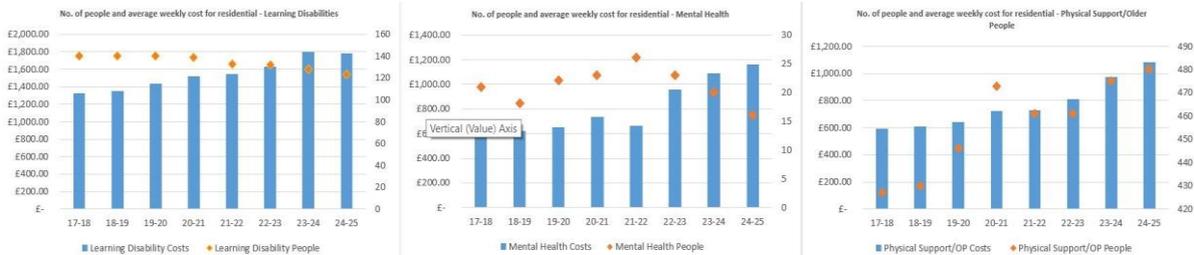
7.4.1.1. The biggest drivers of increased costs across Adult Social Care are nursing and residential placements. The following graphs shows the number of service users and average weekly costs for nursing.



7.4.1.2. These graphs show that whilst the number of service users supported is forecast to remain steady, weekly costs are increasing in all areas compared to 23/24 with the biggest impact being seen in Older people nursing with additional costs of £3 million for 24/25.

7.4.1.3. The average weekly cost for supported accommodation across the three areas is currently £1,377 per week and 423 clients are currently being supported amounting to an annual forecast of around £19m.

7.4.1.4. There is a similar pattern across residential placements as shown in the graphs below.



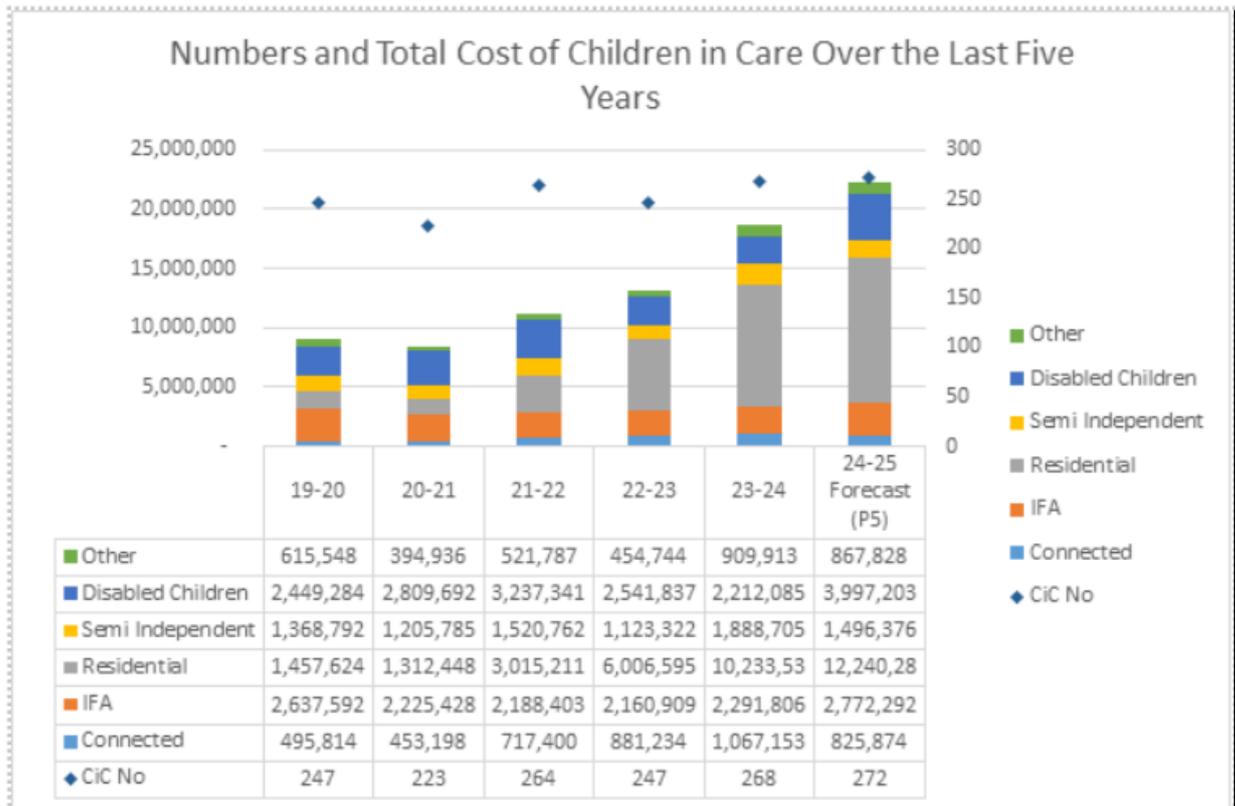
7.4.1.5. Unit costs are still rising sharply for residential placements particularly for users with mental health needs and older people. The Council is facing particular pressures in this area through the differential in the unit cost of placements ending compared to the weekly cost of a new package. This means that although user numbers have remained broadly the same the Council is still experiencing rising costs due to the new placement costs.

7.4.1.6. The Adult Social care placement budgets total over £90m in cost and whilst there are user contributions the impact of even modest 3-4% inflation costs are significant. The service continues to work closely with health colleagues to ensure costs are appropriately apportioned, but health funding has also decreased causing further pressures on the service.

7.5. **Starting Well – Childrens Social Care**

7.5.1.1. Spend on Supporting Children in Care has increased steadily over the last five years – especially residential children's home care. This is due to a combination of increasing numbers, complexity of need exhibited by the children and young people and rising costs of care.

7.5.1.2. The graph below shows that whilst the total number of children in care has increased slightly the number of residential placements and more materially the unit cost of those placements has risen exponentially over the last five years. The Council now has around 32 residential placements costing over £12m per year. The cost of providing for disabled children also has risen significantly in the last 12 months in particular



7.5.1.3. The Council has also been implementing the recommendations of the OFSTED Childrens report earlier in the year. This report made significant staffing recommendations which have been actioned resulting in a net additional 60 staff in social care. This will greatly help caseload management but has added significant cost to the Council's budget.

7.5.1.4. The Council also continues to experience increasing demand for Home to School transport. The sharp increase in EHCPs has resulted in a significant increase in demand for transport assistance, as can be seen in the table below.

**Table 3: Home to School transport demand**

Having Travel Assistance	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Total applications received	449	428	495	175	690	840	867
Approved for Passenger Bus	303	347	373	348	366	358	443
Approved for Taxi/Shared Taxi	79	97	133	158	175	199	222
Approved for Personal Transport Budget	22	14	45	17	43	68	124
Approved for Travel Training	19	11	25	11	13	29	13
<b>Total applications approved</b>	<b>423</b>	<b>469</b>	<b>576</b>	<b>534</b>	<b>597</b>	<b>654</b>	<b>802</b>

7.5.1.5. The Council has also an increasing deficit on the DSG High needs block. Spend has increased by 8-10% year-on-year due to increasing pupil numbers and complexity of need. Havering has participated in the DfE Delivering Better Value programme and has identified several mitigations to reduce the level of overspend on the DSG high Needs budget. There however needs to be a national solution to the DSG deficits and

there remains a risk to the general fund until the Government is able to provide a solution

## 7.6. Living Well – Housing Demand

7.6.1.1. Housing Demand has continued to rise over the last 3 years with increased numbers of families presenting as homeless. There is an ongoing shortage of suitable accommodation as Private Sector Landlord (PSL) numbers continue to fall resulting in high-cost Bed and Breakfast and nightly let accommodation being used as a temporary measure. The Council is identifying alternative options such as Royal Jubilee Court to help meet demand, but the overall shortage of accommodation has resulted in a projected overspend in 24/25 and further anticipated costs in 25/26. The cost differential between a PSL placement and Bed and Breakfast accommodation is now over £30k a year.

## 7.7. Other Updates to the Medium-Term Financial Strategy

7.7.1.1. The future pressures within the MTFs are partly to finance the Council's capital programme. The 5-year Capital programme is agreed as part of the budget setting process at full Council. Progress is then monitored on a quarterly basis to cabinet. The General fund capital programme is partly financed by grants and capital receipts with the remainder funded from borrowing. The MTFs allows for the anticipated cost of this borrowing together with the minimum Revenue Provision (MRP) cost the Council by law has to set aside to finance repayment of borrowing. The Capital financing costs also assume the cost of borrowing and repayment required in respect of the 2024/25 capitalisation direction

7.7.1.2. There are a number of other updates to the strategy including:

- Revised estimate of the ELWA levy based on their outturn figures for 23/24
- Update to inflation primarily to build in budget to cover the likely 2024/25 pay award. The Council had allowed for 3% in its most likely scenario but the final settlement has exceeded this
- The plan has been updated to include assumed demographic and corporate pressures for 2028/29 as is normal when extending a four-year plan

7.7.1.3. The Council budget is driven by a number of metrics. The table below is a sensitivity analysis showing the financial impact of changes to current assumptions:

**Table 4: Sensitivity analysis of cost and income drivers**

Cost/Income Driver	Impact (£m)
1% increase in Pay	1.0
1% increase in NI Employer contributions	1.0

1% increase in Adult Social Care placement costs	1.0
1% increase in Starting Well budget	0.7
1% increase in general Government grant support	-0.4
1% increase in Social Care Grants	-0.3
1% increase in fees and charges	-0.3

7.7.1.4. The Council is awaiting the outcome of the Autumn Budget and the implications for the local Government Finance Settlement in December. The medium-term financial strategy currently still therefore reflects the position of the previous Government which is set out in the table below. It should be noted that whilst the Government may announce increased grant levels this autumn they are also likely to change employer national insurance contributions which would have an adverse effect on the budget

**Table 5; Current grant assumptions**

Grant	Assumption	Impact £'m
Settlement Funding Assessment	5% increase	-2.0
New Homes Bonus	Grant ends	0.7
Services Grant	Grant ends	0.2
Social Care Grants	No increase	0.0
Health discharge grant	24/25 increase reversed	2.2
EPR Packaging Grant	New grant from April 24	-1.5
<b>TOTAL MOVEMENT</b>		<b>-0.4</b>

These assumptions will all be updated as soon as formal Government announcements are made. The position shown is a prudent position and there has been strong representation from across local government for the financial settlement to provide significantly more funding for the sector.

7.8. Since Austerity began in 2010, the Council has made over £160m of cuts, savings, and efficiencies which has been re-invested into frontline services such as social care and more recently, temporary accommodation. The Council is facing financial difficulties and is trying to cut costs wherever possible. In some areas however vital investment is needed to improve and modernise processes which ultimately will lead to better services for the public and also enable future efficiencies to be made. These proposals, totalling £3.930m are set out in summary in the table below.

**Table 6: Growth and Investment**

Investment	(M)
Investment in Information technology including the setting up of a digital team, procurement of a new booking system for registrars, other procurement initiatives, investment to improve Council Tax collection and further development of cloud solutions	1.950
Investment following the recent OFSTED judgement including greater capacity in Education attendance, SEN and support functions. Investment in Adult Social Care to meet current demand	1.300
Investment in property to enhance security, continued support for S92 officers, develop the local plan, the Hornchurch BID and invest in emergency planning	0.680
<b>Total Investment</b>	<b>3.930</b>

- 7.9. The Council has also identified a number of additional savings and efficiencies which if approved will help close the budget gap. The table below summarises these proposals of **£4.130m** by Department with detailed templates at **Appendix A** of this report.
- 7.10. The Council proposes to increase discretionary fees and charges at a rate equivalent to RPI (2.7%). This increase is assumed in the updated plan position in this report
- 7.11. The Government is yet to give any indication on whether they will continue previous policy of setting a referendum limit to cap Council Tax levels. The previous Government also allowed Council tax increases specifically to fund social care pressures in the form of a precept.
- 7.12. At this stage no decisions have been taken on potential Council Tax increases. The Council is fully aware of the balance between raising much needed income to support direct services and setting a fair rate of Council Tax that is not excessive. The Council will formalise its position on Council Tax when the extent of Government financial support for 2025/26 is clarified
- 7.13. The table below is a summary of the adjustments mentioned below and shows a potential financial gap of £73.6m for 2025/26 before Council Tax is considered. At this stage the plan assumes no further central funding from central Government and is based on the funding position set out by the previous Government.

**Table 7: Updated Medium-Term Financial Strategy**

Most likely scenario	2025/26 (£m)	2026/27 (£m)	2027/28 (£m)	2028/29 (£m)	4 Year Plan (£m)
<b>OPENING GAP</b>	<b>21.570</b>	<b>18.751</b>	<b>9.399</b>	<b>0.000</b>	<b>49.720</b>
Underlying budget gap from 24/25	32.300	0.000	0.000	0.000	<b>32.300</b>
Increased demographic pressures	11.500	0.000	0.000	0.000	<b>11.500</b>
Update to Capital financing figures	3.249	0.692	1.841	0.879	<b>6.661</b>
Update to ELWA Levy cost	-0.500	0.000	0.000	0.000	<b>-0.500</b>
Inflation	2.500	0.500	0.500	0.500	<b>4.000</b>
Update to existing savings proposals	3.237	3.000	0.000	0.000	<b>6.237</b>
Add assumptions for 2028/29	0.000	0.000	0.000	7.500	<b>7.500</b>
Investment and Growth	3.930	-0.130	0.060	0.000	<b>3.860</b>
New Savings proposals	-4.130	2.150	0.000	0.000	<b>-1.980</b>
<b>Revised Gap before Council Tax</b>	<b>73.656</b>	<b>24.963</b>	<b>11.800</b>	<b>8.879</b>	<b>119.298</b>
<b>CUMULATIVE GAP</b>		<b>98.619</b>	<b>110.419</b>	<b>119.298</b>	

7.14 The table above shows the MTFs based on the current most likely scenario. The figures are all estimates and subject to change and so the Council has developed a best, most likely and worst case scenario for planning purposes. This is set out in the table below and shows under the worst case scenario the gap could be as high as £92.1m before Council Tax and new grants are taken into account

**Table 8: Best, Worst, Most Likely scenario planning**

	Best (£'m)	Most Likely (£'m)	Worst (£'m)
Underlying Pressures from 24/25 (P3 Monitor)	25.0	32.3	35.0
New Growth and Investment	3.9	3.9	3.9
Pay and other inflation	6.0	7.5	9.0
25/26 Demographic growth	8.0	17.5	28.2
Capital financing costs (inc 24/25 Cap Directive)	8.0	9.3	10.5

Other Pressures (inc ELWA, Freedom pass, Insurance)	3.4	6.3	8.6
One offs in 24/25 budget (Savings and collection fund surplus)	7.5	7.5	7.5
Government settlement (based on no new growth)	-5.0	-0.4	-0.4
Savings already agreed	-6.0	-6.0	-6.0
New Savings proposals	-4.2	-4.2	-4.2
	<b>46.6</b>	<b>73.7</b>	<b>92.1</b>

## 8. FINANCING THE BUDGET GAP AND ENGAGEMENT WITH MHCLG

8.1. The Council is working hard to close the medium-term financial gap and is committed to the following measures to help close the budget gap:

- Implementation of Savings and efficiencies as set out in **Appendix A**
- A Council Tax increase (level to be agreed at Council in February 2025)
- Ongoing reviews of all current and future pressures through the recovery boards

8.2. These measures alone will not fully close the budget gap the Council is facing. It is hoped that the autumn statement will bring badly needed extra funding for local Government which would also help close the budget gap. The Council however has an underlying shortfall caused by years of underfunding from the previous national government. The Council is also therefore entering in dialogue with the new Government to set out our financial situation. This engagement will include:

- Seeking meetings with the Local Government minister to put forward Havering's case
- Lobbying Government to recognise the relationship between the adverse OFSTED judgement announced earlier this year and the underfunding of the Council over the past 15 years
- To engage in discussion with the Government regarding a fix to the underlying budget issue the Council faces or agree a further capitalisation direction to allow time for funding reform to be actioned.

8.3. The new Government have yet to make any formal announcement regarding Council Tax. The previous Conservative Governments introduced annual Council Tax referendum levels and had also permitted authorities to include a Social Care precept as part of the Council Tax increase. It is unclear whether this policy will continue under the new Government or whether they will allow authorities more flexibility regarding tax increases

## **9. SUMMARY OF THE COUNCIL'S FINANCIAL POSITION**

- 9.1. The Council has been systematically underfunded by central government for over 10 years and the budget difficulties and low levels of reserves are reflective of that. Havering is an efficient well-run Council with low unit costs in comparison to its neighbours. The current budget gap is caused by the rising cost of social care coupled with a Government funding formula which does not reflect Havering's rapidly increasing demand. The Council will do everything it can to contain the 2024/25 overspend and set a balanced budget for 2025/26.
- 9.2. The Council was unable to set a budget for 24/25 without exceptional financial support of £32.5m. This has now resulted in a structural budget deficit on a continued basis until the government reforms the national funding system.
- 9.3. The Medium-Term financial strategy shows a gap of c£74m still to be closed to balance the 2025/26 budget. This position does not include any assumptions on Council Tax which will generate £1.5m per 1% increase and nor does it include additional funding assumptions apart of those set out in table 5 above. These adjustments will close a proportion of this gap, but the Council will still require additional support either through additional funding or a capitalisation direction to balance the budget.
- 9.4. It is hoped and expected that central Government will recognise the position the Council faces but if such central support is not forthcoming then the Council again will be faced with the prospect of issuing a section 114 notice.
- 9.5. Local authorities have a statutory duty to set a balanced budget each year and ultimately if this is not possible the only alternative is to issue a S114 notice. A S114 notice would bring additional costs through external Commissioners who would be appointed by the Government. Havering is not in that position at the moment but unless the imbalance between the funding it receives and the demand it faces changes then ultimately the Council will not be able to balance its budget.
- 9.6. The Council will do everything it can to reduce costs and identify efficiencies in order to close the budget gap. The scale of the task however means that it is inevitable that the Council will need exceptional financial support again from the Government in order to set a legally balanced budget. Capitalisation directions under the current rules come at a cost to the Council through repayment costs and interest on borrowing. The Council welcomes the recent announcement by the Government to waive the 1% surcharge on the borrowing interest rate which would save the Council £0.3m per year based on the existing capitalisation direction.
- 9.7. The new Government have yet to make any formal announcements regarding Exceptional Financial Support for 2025/26. It is clear that Havering will be amongst a number of authorities who will need further exceptional financial support and the Council is lobbying hard not only for longer term financial solutions to our problems but also that the conditions of any support for 2025/26 do not come at a further cost to the Council.

## **10. FURTHER MEDIUM INITIATIVES – IMPROVED OUTCOMES AND COST PREVENTION MEASURES**

- 10.1. During this year, the Council secured £3m in grant funding from MHCLG's Local Authority Housing Fund to support delivery of 10 modular homes and 5 acquisitions, match funded by £2.4m of HRA. The grant represents 56% of scheme costs. The new homes will be available by March 2026.
- 10.2. Work has begun on the construction of the new **Family Welcome Centre** in Harold Hill town centre which will have 74 affordable rent accommodation and include emergency accommodation designed for families in need. The scheme will open in 2025.
- 10.3. Mercury Land Holdings will provide 47 affordable homes for families at **Roe Wood Park** in Harold Hill (formerly Quarles) in 2026.
- 10.4. Havering is building a new 300 place special school to meet the needs of pupils with severe and complex learning disabilities and mental health needs. This will enable Havering Young People to receive a high quality education that is nearer home rather than having to travel elsewhere to expensive independent sector schools. It is expected to provide significant savings to both the Dedicated Schools Grant and also to the Council's General fund budget through reduced travel distances. This will open in 2027.
- 10.5. In the interim Havering will build on its inclusive approach through expanding the number of places in specialist units alongside mainstream schools which will also offer savings while supporting young people to flourish.
- 10.6. The Council is exploring the use of AI through the roll out of a product that supports social care practitioners by populating relevant templates (assessments, support plans, reviews) from a recording of interventions/visits with residents. Early indications are that it could reduce casework administration tasks by up to 50%, released capacity to be more productive enabling workers to process case work more quickly, bring down waiting lists and engage more effectively with vulnerable residents.
- 10.7. The Council recognises that the budget position will not be resolved in a single year. The Council is working on these medium term projects together with other major projects such as the waste disposal re-procurement to increase efficiency and reduce costs in the medium term. It is hoped that these initiatives alongside the national reform of local government financing will allow the Council to set balanced budgets in the future without the need for exceptional financial support.

## **11. MHCLG FINANCIAL REVIEW AND IMPROVEMENT PLAN**

- 11.1. As stated earlier in this report the Council balanced the 2024/25 revenue budget through the provisional agreement from the previous Government of a capitalisation directive of £32.5m. This agreement required the Council to produce an improvement and transformation plan by August and agree to undergo an independent financial review to confirm the Council's financial position.
- 11.2. In June 2024 the Government commissioned CIPFA (Chartered Institute of Public Finance and Accountancy) to undergo a four-week financial review of the Council's financial

position. The review was wide reaching and explored all aspects of the Council's budgetary position including in depth looks at social care and temporary accommodation being the main cost drivers. The review was concluded in early August and the subsequent report has been sent by CIPFA to the Government to review. It is hoped that this independent review has exemplified the Council's position and will be the platform towards achieving adequate funding moving forward.

11.3. The Council has also developed an improvement and transformation plan which was formally published and approved at full Council on 24<sup>th</sup> July 2024. This plan sets out transformational actions Havering has already taken to become more efficient together with future actions which will reduce costs and make improvements to Council services. These actions are summarised below:

#### **Long term strategic ambitions**

- Open the East Havering Data Centre Campus, Green Energy Infrastructure and Ecology Park Project, subject to planning approval. This will create significant opportunities for the borough including new local jobs and localised green energy as well as bringing external investment to the borough.

#### **Focus on improving business as usual delivery**

- Reduce high-cost agency and consultancy costs and increase the percentage of permanent Council staff, subject to funding being available.
- Review of staff resources to ensure the right capacity and capability supports delivery of efficiencies and savings
- Focus on collecting a greater level of former tenant arrears and other debts owed to the Council.
- Review Social care placements to ensure all are both appropriate for the service user and represent best value for the authority
- Move to a Havering only IT service which will secure access to dedicated technical resources and a focused digital strategy.
- Continue to be in the top quartile for income collection in London for Council Tax, business rates and rent.

#### **Examples of improved partnership working arrangements**

- Continued Joint work with Health and hospitals to ensure the NHS contributes appropriately for health elements of care packages provided to children and adults
- Support local economic growth, when feasible, and foster a procurement ecosystem that minimises waste and maximises resource utilisation.
- Reduce spend on energy across the Corporate Estate through both energy efficiency and improved procurement of supply

#### **Examples of improving outcomes for residents**

- Reduce spend on Home to school transport by promoting the use of a personal transport budget, encouraging independence and better longer-term outcomes for the young person.

- Use a ward-led enablement pilot to help reduce patient deconditioning whilst in hospital and associated costs for discharge arrangements where patients have higher needs.
- To implement the Havering Climate Change Action Plan

## **12. COMMUNICATION AND ENGAGEMENT APPROACH ON THE BUDGET**

12.1. The Council has a number of communication plans to raise awareness of the Council's budget position including:

- Engagement with the media and press setting out Havering's position
- Joint work with other councils with similar pressures.
- Meetings with MHCLG and appropriate officials at the Government.
- Engagement with the national political parties and local MP's to raise awareness and to provide positive action
- Work with London Councils and LGA on funding gaps.

12.2. The Council will have difficult decisions to take both in 2025/26 and moving forward regarding the services we deliver and the level of Council Tax we will be asking residents to pay. It is proposed that the budget consultation for 2025/26 will be a high level engagement seeking the views of residents and key stakeholders on a number of key issues relating to service provision, Council tax and fees and charges.

## **13. IMPLICATIONS AND RISKS**

### **13.1. 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 report sets out the difficulties being faced in setting the 2025/26 budget and the implications if the Council is unable to reduce its pressures in order to deliver a balanced budget.

### **13.2. Legal Implications and Risks**

13.2.1.1. The Council is required under S151 of the Local Government Act 1972 to make arrangements for the proper administration of its financial affairs.

13.2.1.2. 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.

13.2.1.3. 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.

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

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.

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

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