

BUDGET ASSUMPTIONS AND RISKS

APPENDIX A

Corporate Pressure	Mid Case £m	Worst case £m	Assumption
Waste Disposal (ELWA) (includes benefit of £2.1m disposal extended producer responsibility allocation)	0.4	0.4	Based on the latest data from ELWA regarding contractual uplifts and estimated inflation and tonnages
Concessionary Travel increased costs	0.9	0.9	Based on agreed settlement with TFL and the associated transport operating companies (ATOC) negotiated across London by London Councils
Capital Financing Costs for 5 year Capital programme (Interest and repayment)	5.7	6.0	Based latest assumed Capital spend (MRP on a scheme by scheme basis on Asset life and Interest for borrowing at 5%) – Interest assumed to increase to 5.5% in worst case scenario
Potential Capital Financing Costs (Capitalisation)	5.0	5.4	This is the expected cost of the capitalisation directive required to balance the revenue budget. This recognises the costs of financing the existing £32.5m Capitalisation directive and the potential part year interest costs of a further agreement for 2025/26.
Provisions for Pay inflation	3.0	4.0	The pay award for 25/26 is assumed at 3% for planning purposes with a worst case at 4%
Cost of Insurance premiums	0.5	1.0	The Council will need to renew its major insurance contracts in 25/26 and a budget provision is included recognising the national increase in premium costs
Other price, contractual inflation and provision for costs of NI/NLW increases outside Social Care	8.8	9.2	The Council has a number of contracts with agreed mechanisms for uplifts each year. This pressure also recognises that energy prices remain volatile and may increase again. The worst case scenario assumes inflation increases from the current assumption of 2.7% to 4%
TOTAL CORPORATE PRESSURES	24.3	26.9	

Service Assumptions	Most Likely £m	Worst Case £m	Assumption
Underlying Budget pressures brought forward from 2024/25	34.5	36.0	The Council is currently forecasting to spend £34.5m more than its budget requirement in 2024/25. This will be financed in 2024/25 through EFS. The ongoing pressures are largely across People Services and are all ongoing. The reasons for the overspend in Adults are largely driven by increased unit costs compared to budget and on off support from health not being continued both of which will be ongoing.
Adults 25/26 Additional Demographic and Unit Cost Pressure. This pressure includes the expected impact of the NI and National Living Wage increases announced in the autumn budget. There are also some expected additional staffing pressures to meet demand	9.6	15.6	The assumption for 25/26 is a combined 8% increase in placement costs which also takes account of the forthcoming increase in minimum wage and the additional provider costs through the increase in Employer National Insurance Contributions This is partially offset by assumed additional income from users. There is an assumption of a net 100 additional users. There is also an assumption of an additional cost for transition cases from children's (approximately 5-7 cases). The worst case scenario assumes 3% higher inflation and further growth of 100 users and higher costs of meeting the potential NI pressure
Children's and Education 25/26 pressure	7.7	11.0	<p>There is a midcase assumption of 20 additional looked after children and inflation on placements to be an initial 5% with 1m additional pressure as a result of the NI increase.</p> <p>There is an assumption that the number of EHCP's will increase by 10% a year and the cost of Children with disabilities will increase by 10% through both additional numbers, inflation and complexity of case</p> <p>The worst case assumption assumes 30 extra looked after children and a 7% base assumption on inflationary costs</p>

Homelessness ongoing pressure on temporary accommodation	4.0	8.4	The Homelessness pressure is based on an assumption that a net additional 16 families a week will need Housing. This rises to 20 per week in the worst case scenario. The assumption is that £1.1m of costs will be mitigated through new accommodation becoming available during the year as part of the Chalkhill and modular projects. The worst case scenario does not factor in this income. Inflation on temporary accommodation costs is assumed at 5% midcase and 7% worst case
Revenue Cost of implementing collection of food waste and estimated contractual inflation	3.1	3.1	The major Waste contract and forthcoming highways contract have a series of indices based on wage costs, inflation and property development which will result in an inflationary uplift each year. There is also the anticipated cost of delivering a food waste collection service commencing in October. It is hoped that Government grant will partially mitigate this cost but no announcements have been made as yet
Public Realm pressures	1.0	1.0	This is a general provision to recognise that there will be potential new and emerging pressures within Public Realm
TOTAL SERVICE PRESSURES	59.9	75.1	

BUDGET RISKS

The Budget Risks in this table have been analysed using a matrix to assess the potential impact on the Council. Each risk is assessed for likelihood and financial impact on a scale of 1 to 4 giving a combined score which represents the risk to the Council. The scoring is based on officer opinion of risks and is therefore subjective. The worst case scenario assumes the demographic risk materialises

Likelihood	Score	Financial Impact	Score
Unlikely	1	Minimal	1
Possible	2	Under 500k	2
Probable	3	500k-1m	3
Very Likely	4	Over 1m	4

Ref	Title	Description	Likelihood	Estimated Financial Impact	Total Risk rating
C1	Future finance settlements	The Government have committed to full funding reform in 2025 resulting in multi year updated settlements from 2026/27 onwards. It is hoped that this provides a fairer allocation of funds and begins to address the imbalance in the Council's funding. There remains a risk however that the reform process will not deliver the change Havering needs and indeed the National economic situation will result in inadequate financial settlements moving forward	3	4	12
C2	Rising Inflation and Unit Costs	Inflation has reduced through 2024 but there are still ongoing world events which could impact future rates. If inflation did not reduce in line with Government projections this would have a large impact on unit costs and pay.	2	3	6

Ref	Title	Description	Likelihood	Financial Impact	Total Risk Rating
C3	Interest Rates	Interest rates are slowly falling but borrowing rates are still at around 5%. Interest rates are expected to slowly start to drop over the medium term. The Council benefits from high interest rates by way of increased yields on its cash balances. The cost however of borrowing is higher aswell which has been factored into the MTFS as part of the Capital financing costs.	2	3	6
C4	Loss/reduction in Business Rates	In recent years as a result of austerity and the general reduced footfall from the high streets, a number of local businesses have failed. Business rates are in part locally retained meaning that significant downturn in yield will have a direct impact. The Government has also committed to a reset of the business rate system as part of the funding reforms. The financial outcome of the reset at the moment is unclear and represents a risk to the budget	2	4	8
C5	Affordability of Capital Programme	The Capital programme is based on a robust funding strategy. Significant overspends or enhancements to projects will result in a revenue pressure through increased interest charge on higher borrowing and increased debt principal repayment (Minimum Revenue Provision or MRP). The Council has reviewed the Capital Programme in the build up to setting the 2025/26 revenue budget and has built in any borrowing and repayment required to fund it in the MTFS	1	2	2

Ref	Title	Description	Likelihood	Financial Impact	Total Risk rating
C6	New Legislation	The Government could at any time introduce new legislation or transfer new burdens to local government. History has shown that frequently new legislation is not accompanied by enough associated funding	3	2	6
C7	The impact of delays, changes, and market fluctuations to the Regeneration Programme	The regeneration models contained in the business cases make assumptions regarding inflation, interest rates and the property market. Changes to these factors could affect the expected yields. There is also a significant cost associated with delays to the programme either caused by changes to proposals or any other reason	2	4	8
C8	Higher than expected population growth/demographics	The Council's plans recognise the effect of population growth and the demographic pressures that brings particularly to Social Care. If either the population increased at a higher rate or factors such as poverty and deprivation resulted in increased demand above current planned amounts then this would have a direct impact on the MTFS	2	4	8
C9	Ongoing cost pressures in adult and children's social care	Over the last 4 years in particular social care has seen unprecedented increases in demand and complexity in residents care and support needs, resulting in the need for budget growth. Numbers and in particular unit costs are still rising placing pressure on the existing MTFS assumptions. Unit costs will also be affected by the decision to raise Employer National Insurance contributions. The potential impact of this has been factored into the MTFS assumptions.	3	4	12

Ref	Title	Description	Likelihood	Financial Impact	Total Risk rating
C10	Impact of adverse inspections	The Government inspect Council various Council services on a cyclical basis. If the findings of such inspections result in changes or improvements being needed the Council will need to finance those additional costs	1	3	3
C11	IBCF and other Grants	The 2025/26 settlement largely continues previous grant funding. The position in the future is far less clear and whilst this is taken into account in the MTFS a loss of smaller grants will impact on planning.	2	2	4
C12	Pension Fund Performance /Actuarial Review	A downturn in the performance of the pension fund could result in increased contributions being required at the next triennial review. Latest forecasts are that this is unlikely but it would have a direct impact on the MTFS assumptions	1	4	4
C13	Budget Failure/ Overspends	The MTFS allows for any recognised ongoing budget pressures. Unbudgeted overspends will depleted general and earmarked reserves. There is a risk that the overspend on 2024/25 budget will exceed the EFS agreed with the Government and officers are working hard to control spend in order to minimise this risk.	2	4	8
C14	IT System Failure	Significant IT failure could result in loss of service provision, potential loss of data and additional repair or replacement costs	1	4	4
C15	Future Waste disposal arrangements	Preparations are well underway for the new disposal contracts following the end of the current 25 year contract. There is a risk however that the cost of the levy may increase in the short term above current MTFS assumptions as preparation for 2027 accelerates	2	3	6

Ref	Title	Description	Likelihood	Financial Impact	Total Risk Rating
C16	Adverse Weather/Cold winter	A cold or wet winter can result in increased environmental costs through gritting or possibly flood alleviation. Freezing weather also can break up road surfaces resulting in emergency repairs	3	2	6
C17	Fraud	The Council has measures in place to minimise the risk of fraud. If a major financial fraud were discovered this could have a reputational risk and result in additional costs both to improve systems and to mitigate any uninsured losses.	2	3	6
C18	Collection Rates	Council Tax is set on assumed collection rates. Failure to achieve those rates will have an impact on the collection fund and the level of bad debt provision required. Both of these items will impact on future planning. The Council has reviewed budgeted collection rates as part of the Tax setting process	2	3	6