Appendix H

Section 25 Statement – Statement of Robustness

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 this report, Havering’s financial position has markedly worsened since last year and the Council’s annual structural deficit has more than doubled compared to the 24/25 budget.

1.3 On 13th December, I submitted Havering’s draft request for Exceptional Financial Support (EFS) to the Minister of Housing, Communities and Local Government (MHCLG).

1.4 I must be clear that without Exceptional Financial Support, currently offered through a Capitalisation Direction, Havering would be unable to set a legally balanced budget for 2025/26.

1.5 In respect of the 2025/26 budget setting process, Havering’s EFS request amounts of c£71m on a mid-case basis and almost £89m on a worst-case basis. For context, the net controllable budget Havering can directly finance will be £205m next financial year and the EFS will equate to 35% of the net budget on a mid-case basis and 43% on a worst-case basis.

1.6 Havering’s financial position has resulted from years of systemic underfunding together with rapidly increasing provider costs which can now no longer be contained through the funding it has available. Havering has always been very prudent in its financial decision making and has not taken excessive commercial risks.

1.7 An EFS, if agreed, will only provide a temporary solution to cover the Council for one year only. The Council’s structural deficit will continue to grow year on year unless the proposed funding reforms resolves two things. Firstly to redress the imbalance of funding across Local Government and secondly to adequately fund local government as a whole to meet the demands and service pressures.

1.8 This Statement sets out the following

- Havering's financial challenge
- Robustness of the budget, risks, inflation and legislative requirements
  - Housing Revenue account
  - Dedicated schools grant
- Identification and delivery of savings
- Reserves, contingencies
- S114 considerations
- Summary and Conclusion

2 Havering's financial challenge

2.1 Havering's financial challenges are well-versed. Over 66% of the Council's Core Spending Power is made up of Council Tax compared to 36% of Inner-London funding and 55% of Outer London. Time and time again, Havering receives proportionately less grant than is required to deliver its core services.

2.2 In addition to Havering's inadequate funding, Havering has the second largest proportion of older people population and has seen the 4th fastest growing children's population nationally since the 2011 census. Despite the borough's demographic profile, Havering receiving the third lowest Settlement Funding Assessments in London of £40.1m.

2.3 There has been a 70% increase in children with Education, Health and Care Plans since 2019 which has added huge pressures to the Council's special educational needs transport costs and increased the High Needs deficit on the Dedicated Schools grant.

2.4 The Fair Cost of Care analysis has driven up the cost of placements and new packages of care have increased by 45% in cost per week, per service user since 2022/23.

2.5 Changes in tax laws have in part driven private landlords to exit the housing market which has resulted in the increase use of bed and breakfast, nightly let accommodation to meet our statutory Housing duties.

2.6 The culmination of the pressures described above has left the Council with an estimated budget gap of £71m for 25/26 and £450m cumulatively over the 4 year medium term financial plan.

3 Robustness of the budget, risks, inflation and legislative requirements

3.1 The budget setting process in 2024/25 saw c£66m of growth being added to the budget, with around £18m being held back to manage additional risks and unforeseen costs.

3.2 In order to balance the budget, Members agreed to £15.3m of additional savings, a 4.99% increase in Council Tax (£7.5m) and a capitalisation direction of up to £32.5m. Based on the current forecast position, the Council has exceeded its capitalisation direction by £2m and is forecast to require £2m in from general balances in respect of the current financial year. Without a capitalisation direction, the budget the Council can finance directly through grant income, council tax and fees/charges is £197.5m. During 24/25, the £32.5m capitalisation direction was 16% of the Council's direct controllable net budget. It is important to emphasise the £32.5m gap is the Council's structural budget deficit and will be carried forward as a baseline amount each year until something fundamental changes to how the funding is allocated.

3.3 To set the budget for 25/26, the Council has allocated £28.4m of growth to recognise service demands, demographic pressures and has built in £5.2m for inflationary pressures. Most notably, the main legislative change in service delivery will be around the collection of food waste. The MTFS has built in £4.2m for capital investment to top up the £1.9m grant received so far and £2.1m in revenue costs in 2025/26, rising to £3.8m in a full year to fund delivery of the new service. The Government is expected to make further announcements on funding in due course

3.4 Members will be asked to approve £10.3m of savings and recommended to approve a 4.99% increase in Council Tax which will result in income of £7.9m. Including additional government grant of £5.9m, the standalone budget gap for 25/26 is estimated to be £36.7m. Coupled with the structural deficit c/fwd from

24/25, the gap for 25/26 will be £71.2m on a mid-case basis and potentially up to £89m on a worst-case basis.

3.5 Similarly, the budget setting process for 26/27 will start with the structural deficit carried forward from 25/26 and Havering's financial position will begin to worsen exponentially until the funding reforms take place.

Housing Revenue Account

3.6 Havering's Housing Revenue Account is balanced, albeit very tightly. The HRA has reserves of around £5.5m and I have set a rule whereby the reserves must be maintained at 10% of the annual income as a minimum each year. This is achieved throughout the 30-year annual business plan. If at any point, the reserves dip below the 10% threshold, a decision will be made to delay expenditure on aspects of the Regeneration Programme that are not currently in contract.

Dedicated Schools Grant (DSG)

3.7 The Council currently has a cumulative deficit of £15m which is estimated to increase to £35m by the end of 2024/25 financial year. Havering is part of the Department for Education's "Delivery Better Value" programme and the cumulative deficit, although has grown rapidly, is still in line with the upper bounds estimated by the DBV programme.

3.8 The Government have yet to decide on the continuation of the DSG statutory override, which is due to expire in March 2026. If the override is lifted, the forecast deficit by March 2026 is forecast to be around £65m, which will more than wipe out the entirety of the Council's earmarked and unearmarked reserves. The forecast £65m deficit does not consider the 700 outstanding EHCP assessments that the team are currently progressing.

4 Identification, delivery and implementation of savings

4.1 Since 2010, the Council has delivered over £160m of savings, most of which has been re-invested into front line service delivery in Adults and Children's social care.

4.2 In terms of Havering's record of savings delivery, over the past 6 years, the Council has delivered around 74% of savings.

4.3 However, it has become increasingly difficult to identify new/alternative savings to address the extent of the budget deficit going forward.

4.4 Havering's total discretionary income budget equates to £28m and even a 50% increase would be insufficient to address the cumulative deficit and is on the unrealistic assumption that price has no impact on demand.

4.5 Around 80% of the Council's service spend is now on the People directorate with the remaining 20% on other services. Even if the two other directorates Place and Resources were removed altogether, it would be insufficient to respond to the cumulative structural deficit.

4.6 Havering's unit costs are among the lowest compared to its neighbouring boroughs and Havering's collection rates for Council Tax and NNDR are high-performing – top third for Council Tax and top five in London.

4.7 Officers will continue to make efficiencies, and I will continue to drive an effective financial management culture throughout the Council, alongside the Council's leadership team. The weekly recruitment panel and the spend control panels will continue to operate throughout 25/26 and Finance being at the heart of every decision will be paramount in how the Council operates on a day-to-day basis.

5 Reserves and Contingencies

5.1 Havering's reserves remain low but did not see a dramatic decline due to the Council applying for a Capitalisation Direction for the 23/24 overspend.

5.2 The Council's earmarked reserves stand at £35m and are estimated to reduce by £25m at year end to reflect spend against the projects financed through reserves.

5.3 The Council has £10.2m of unearmarked reserves and the intention is to increase the unearmarked reserves to c10% of the Council's net budget to £20m, which will equate to 2 months of payroll costs as a measure.

5.4 The Council holds a £1m general contingency within its net budget.

6 Delivery of Corporate Plan and the Council's vision

6.1 In recent years, Havering has stripped out costs and cut back funding on a number of the services it provides.

6.2 The refresh of the Corporate Plan has been carried out through the lens of what can be achieved within the existing funding envelope, considering the workload load impact of the teams that are already stretched to the core.

6.3 In addition to funding millions of demographic and demand led pressures, investment must go into fund digital capabilities and programme management activities to drive much needed change and service improvements which will built upon gradually. The MTFS builds in £4.4m to invest in supporting change delivery. This may be inadequate, but it is certainly a starting point compared to where the Council has been in the past.

7 Consideration of a S114 report

7.1 The S114 legislation dates back to 1988 and in itself, does not and will not resolve the Council's structural funding deficit. The section applicable to Havering's financial is set out below:

Excerpt from 1988 of the Local Government Finance Act, S114 (3)

(3)The chief finance officer of a relevant authority shall make a report under this section if it appears to him that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure.

7.2 Issuance of a S114 report will trigger a number of steps outlined but not limited to the below:

- Immediate spending restrictions, except for essential services and statutory obligations
- Council meeting within 21 days of issuing the report to decide on actions to be taken

- The council will conduct a thorough review of its finances and develop an Improvement and Recovery Plan. This plan outlines steps to achieve a balanced budget, which may include cost-cutting measures, asset sales, and seeking additional financial support from the government
- The Council must communicate the report with various stakeholders, partners, government departments and auditors and plans to address the report The council will closely monitor its financial position and report on progress regularly. If the financial situation does not improve, further S114 notices may be issued

7.3 Seeing as Havering's financial position has arisen through years of systemic underfunding, my issuance of a S114 report will not enable the Council to set a balanced budget without exceptional financial support from the Government.

7.4 Issuing a S114 report is something I will consider carefully if the Council's financial position continues to significantly deteriorate after the Government have implemented the funding reforms as by then, the Council will have an indication of the likelihood of receiving adequate funding to enable service provision within it's revised funding envelope.

8 Summary and Conclusion

8.1 Havering's financial challenge remains acutely difficult and has significantly worsened since the budget was set in 2024/25. It is only with a capitalisation direction that the Council can set a balanced budget for 2025/26. The Council financial position is not sustainable and as much as the expenditure aspect of the budget is robust, the funding is woefully short resulting in the need for exceptional financial support.

8.2 A capitalisation direction is only a short-term solution and will only add to Havering's debt year on year. The annual deficit is estimated to be £71.2m for 2025/26 and the cumulative amount borrowed to finance capitalisation directions will be over £200m by end of 26/27 unless a funding solution is identified.

8.3 Officers will continue to deliver statutory services and will constantly drive efficiencies in everything we do. However, unless the funding reforms adequately funds Havering to deliver the legally required statutory services, Havering will continue to require Exceptional Financial support or whatever its equivalent guise is in future.