
COUNCIL

Subject Heading:

2025/26 Budget and 2025-2029 Medium Term Financial Strategy

Cabinet Member:

Councillor Chris Wilkins (Cabinet Member for Finance)

ELT Lead:

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Policy context:

This report sets out the Council's revenue budget requirement for 2025/26 and MTFS for the following three years. It makes proposals regarding the level of Council Tax required to meet the budget requirement. The report also provides an update on the outcome of the 2025/26 local government financial settlement.

Financial summary:

This report includes:

- The approach to setting the Council's 2025/26 budget and MTFS for the following three years
- The outcome of the local government finance settlement
- The recommended Council Tax level for 2025/26.
- The proposal to set a balanced budget

Is this a Key Decision?

Yes

The subject matter of this report deals with the following Council Objectives

People – Things that matter for residents	[]
Place – A great place to live, work and enjoy	[]
Resource – A well run Council that delivers for People and Place	[X]

1. EXECUTIVE SUMMARY

This report consists of the following sections:

- Introduction (Section 1)
- Background and Strategic Context (Section 2)
- The budget process and Medium Term Financial Strategy update (Section 3)
 - Update on the Medium Term Financial Strategy
 - Savings process and budget consultation
 - Fees and charges
 - Review of Corporate and Service pressures assumptions
 - Local Government Provisional Finance update
 - Council Tax Requirement
- Proposal for balancing the budget (Section 4)
- Balances, Reserves and Contingencies (Section 5)
- Dedicated Schools Budget (Section 6)
- Housing Revenue Account and 30-year business plan (Section 7)
- Five-year Capital Programme and Flexible use of receipts (Section 8)
- Robustness of the Council's Budget (Section 9)
- Council Tax policies (Section 10)
- Equality Impact Assessment (Section 11)
- Implications (Section 12 onwards)

2. RECOMMENDATIONS

Cabinet is asked to:

1. Note the requirements of Section 106 of the LGA 1992 Act as set out in Section 1 of this report
2. Note the Medium Term Financial Position and the Budget setting process of the Council as set out in Section 3 of this report
3. Note the key assumptions and risks to the 2025/26 budget as set out in **Appendix A** of this report
4. Note the provisional local government finance settlement outcome as set out in **Appendix B** of this report;

5. **Agree** the savings proposals as set out in Sections 3.15 and **Appendix C** of this report and of this report.
6. Agree the proposed Fees and Charges schedule as set out in paragraph 3.16 and **Appendix D** and for officers to proceed with implementation of the proposed fees and charges, subject to consultation where required.
7. Agree the proposed 2.99% increase in core Council Tax for 2025/26 as set out in paragraph 3.18;
8. Agree the proposed additional 2% Council tax increase for the Adult Social Care Precept as set out in paragraph 3.18;
9. Agree the proposed Council Band D basic amount of Council Tax for 2025/26 of £1823.17 being the amount calculated by the Council, in accordance with Section 31B(1) of the Act, as the basic amount of its council tax excluding the GLA precept for the year (as set out in section 3.17 of this report
10. Agree the proposed Council Tax requirement for 2025/26 to be set at £164.361m as set out **Appendix E** of the report
11. Agree the budgets proposed in this report and as set out in **Appendix F**
12. Note the outcomes from the Public Consultation response as set out in **Appendix G** (*to follow*)
13. To note the Schools budget and DSG as set out in Section 6 of this report which is presented as a separate paper to this cabinet but is an integral part of the budget process
14. Note the S25 Statement of Robustness as set out in **Appendix H** of this report.
15. Agree the Council Tax Support Scheme for 2025/26 as set out in **Appendix I** to this report (unchanged from 2024/25).
16. Agree Council Tax discounts for early payment to be given at a rate of 1.5% as set out in **Appendix J** of this report.
17. Agree to direct officers to disregard War Pension income in the assessment of Housing Benefit as detailed in see Section 11 and **Appendix J** and authorises the Chief Executive to approve any policy required to effect the same.
18. Note the Equalities Impact Assessment in respect of the Council Tax Support Scheme as set out in **Appendix K** to this report and the overall Equalities impact assessment for the Council report set out in **Appendix L**
19. Note that in the event the Capitalisation Direction is not awarded to the value requested before the emergency Full Council meeting on the 5th March, the

Strategic Director of Resources (S151 Officer) will be required to issue a S114 report.

20. Agree the recommendations made in the Treasury Management strategy statement which is presented as a separate paper to this cabinet but is an integral part of the budget process

21. Agree the recommendations made in the Capital Strategy which is presented as a separate paper to this cabinet but is an integral part of the budget process

Cabinet is asked to make the following recommendation to Full Council

- That Full Council approves the proposals at 5 - 17 and 20-21 above
- That Full Council notes the proposals at 1 -4 and 18- 19 above
- That full Council resolves to authorise officers to proceed with the implementation of the fees and charges proposal once agreed by Full Council, subject to consultation where required.
- Adopt the Council Tax Support Scheme for 2025/26 as set out in **Appendix I** of this report (unchanged from 2024/25);
- Agree Council Tax discounts for early payment to be given at a rate of 1.5% as set out in **Appendix J** of this report.
- To direct officers to disregard War Pension income in the assessment of Housing Benefit as detailed in see Section 10 and **Appendix J** and authorises the Chief Executive to approve any policy required to effect the same.

Cabinet is asked to delegate the following decisions:

- To delegate to the Strategic Director of Resources (S151 Officer) the power to make further changes to the budget prior to full Council to reflect the final local government finance settlement and confirmation of final figures from the levying bodies
- Delegate to the Strategic Director of Resources (S151 Officer) the power to accept on behalf of the Council all grant funding allocated to the Council by external bodies, including central government (but provided that any new application for grant funding shall be in accordance with the Council's scheme of delegations).
- Delegate to the Strategic Director of Resources (S151 Officer) in consultation with Service Directors the authority to make any necessary changes to service and the associated budgets relating to any subsequent specific grant funding announcements up to the value of £500k, to administer funding where delays may otherwise adversely impact on service delivery and/or budgetary control, subject to consultation with Cabinet Members as appropriate.

- Delegate authority to the Cabinet Member for Adult Social Services and Health and the Leader to approve an annual expenditure plan for the Public Health grant, in consultation with the Strategic Director of Resources and the Director of Public Health.
- Delegate to the Strategic Director of People and the Director of Starting Well authority to agree uplift / inflation increases with relevant social care providers for 2025/2026.

1. Introduction

- 1.1 This report presents the proposed 2025/26 budget and also an update of the Medium Term Financial Strategy (MTFS) between 2025/26 and 2028/29 that will support the delivery of the Council's objectives and priorities. The report includes a recommendation to increase the Havering element of Council Tax by 4.99% (including the Adult Social Care precept) in order to meet the new budget requirement whilst maintaining tight financial control and ensuring prudent levels of reserves and balances are maintained.
- 1.2 Councillors are reminded that Section 106 of the Local Government Finance Act 1992 requires any Member who is two months or more in arrears on their Council Tax to declare their position and not to vote on any issue that could affect the calculation of the budget or the Council Tax. Any Member affected by Section 106 who fails to declare could be subject to prosecution.

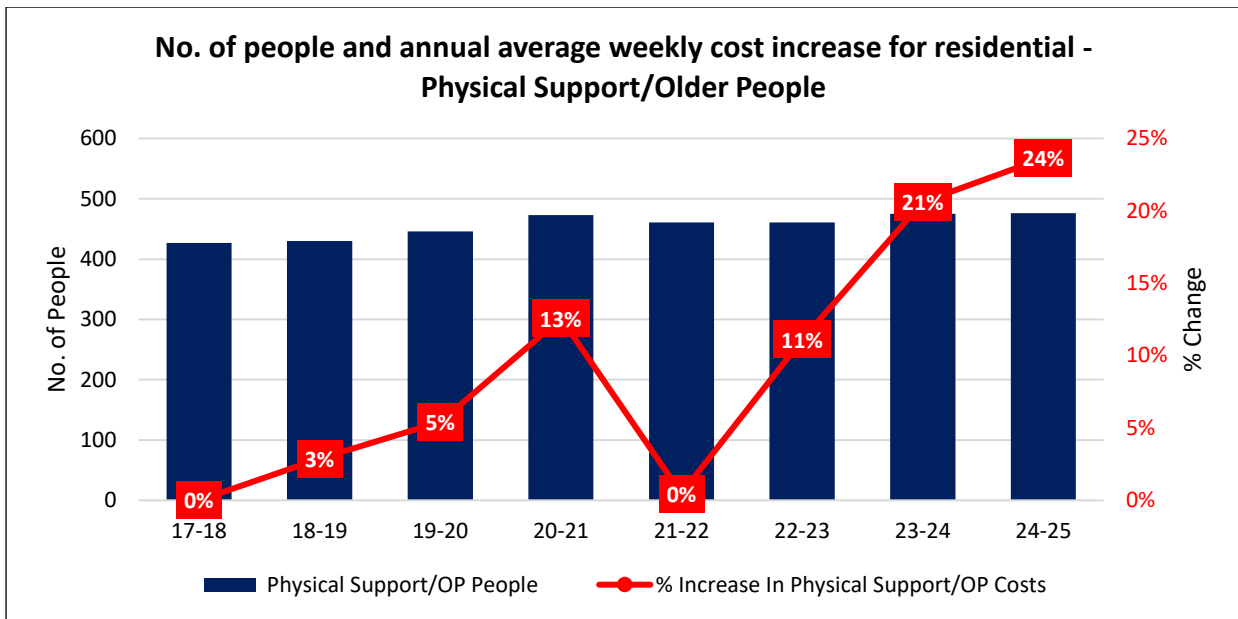
2. Background and Strategic Context

- 2.1 The 2025/26 budget process has been one of the most difficult to date. For years Havering has made representation to the Government about its persistent underfunding position and yet the funding formula despite a new government being in place remains unchanged. This report sets out the steps that have been taken to develop and balance the 2025/26 budget.
- 2.2 The development of the 2024/25 budget identified that in order to meet the demand pressures the Council was facing at that time it would need to make an application for exceptional financial support from the Government. On a worst case scenario the Council was facing around £66m of pressures for 2024/25 which despite £15m of savings proposals, increased Council Tax yield of £8m and additional grant support of £10m left the Council with a shortfall of £32.5m to balance the budget.
- 2.3 The Government provisionally agreed a £32.5m capitalisation direction with the Council allowing it to legally balance the budget but with a recognition that revenue spend to that value would need to be charged to Capital. Moving forward the forecast demand and unit cost pressures along with the increased cost of temporary accommodation has meant that the Council is currently forecasting that it will need all of the £32.5m capitalisation direction in order to balance the budget in 2024/25
- 2.4 This gap is a structural deficit and in preparing the 2025/26 budget and 2025 to 2029 medium term financial strategy, the Council firstly has to recognise this is ongoing spend which will need to be included in addition to further pressures identified for future years.

- 2.5 Havering has experienced large increases in demand for its social care services in recent years driven by a rapidly increasing young population and the 2nd highest proportion of older people in London. The increases in the cost of living coupled with a reduction in available Housing has also led to a significant increase in temporary accommodation costs. These pressures are being experienced by many boroughs but the changes in Havering's demographic profile is proportionally higher than most other London Boroughs. The previous Government froze the grant distribution formula over 10 years ago, resulting in these demographic changes not being matched to the funding the Council receives.
- 2.6 The new Government have proposed a reform of the funding system and multi-year financial settlements but the work on this is only just commencing for implementation in 2026/27. For 2025/26 the Government has provided extra grant funding but has not updated its formulae resulting in a poor financial settlement for Havering. The Council also did not receive any of the £600m Recovery grant which has instead been allocated to high deprivation, low taxbase authorities.
- 2.7 The Local Government finance settlement has therefore failed to address Havering's financial situation in any meaningful way. The autumn budget also introduced higher employer NI costs and whilst the Council is likely to receive a grant to mitigate its own costs, this will not apply to providers. The Council will negotiate the best rates possible with providers but it is inevitable that a proportion of the NI increase will be reflected in future rates. The expectation will be for providers to fund the NI increases directly as this is a tax change introduced by the government.
- 2.8 This report presents the budget process undertaken to balance the 2025/26 budget, includes £10.3m of savings proposals and recommends a 4.99% increase in Council Tax for 2025/26. The budget position will be balanced by requesting a Capitalisation Direction from the Government and the report explains why the Council has no alternative to setting a legally balanced budget.
- 2.9 The Council continues to experience significantly increasing costs across Adult Social Care, Childrens Social Care, Education and Housing Demand.

Adult Social Care:

The biggest drivers of cost pressure areas on Adult services are nursing and residential placements. The graph below show the significant increase in unit costs in residential placements. Average weekly rates have risen by 45% in cost since 2022/23. The average cost of new packages is also significantly exceeding the cost of ending packages due to a combination of market conditions and increased complexity of cases. On average, new packages are costing around £400 per week more than ending packages.



2.10 These trends are likely to continue and when combined with a National Living Wage increase of 6.4% next April and the National Insurance increase will result in significant future pressures on Adult services. The Council has around £100m of provider contracted costs and so these increases will have a material impact on the Council's budget. There are also pressures on the service through transition cases from Children reaching Adulthood. These users frequently require significant support as they leave the Education system resulting in additional costs to the Council.

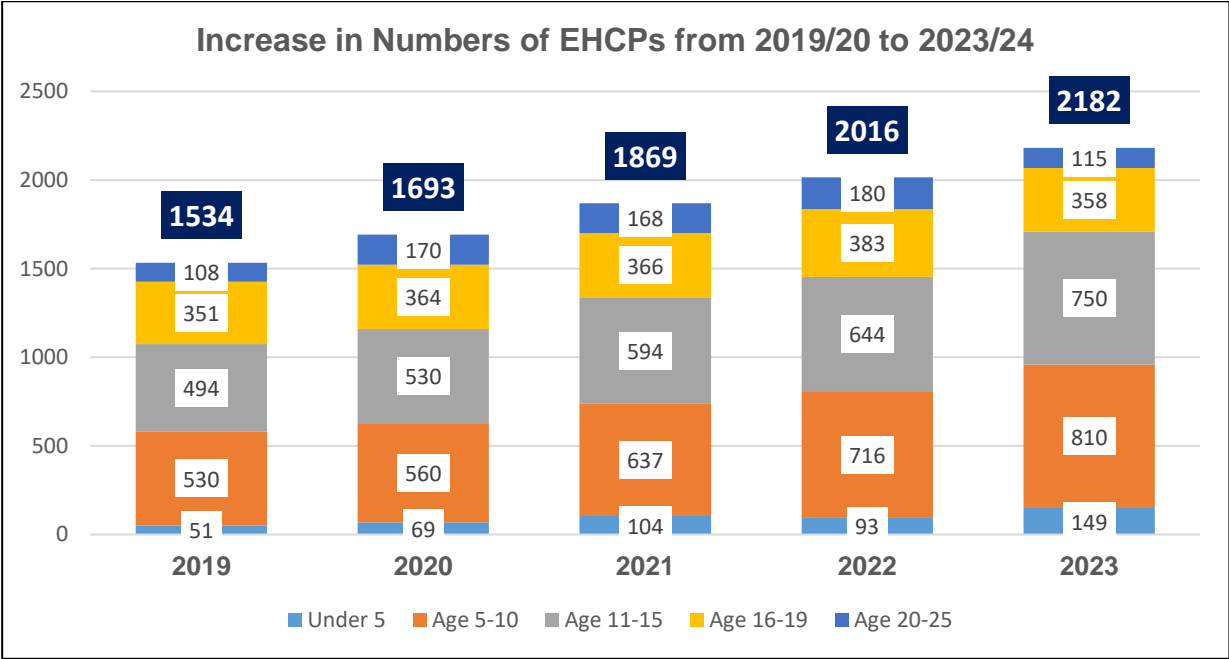
2.11 A proportion of the Council's costs in this area have previously been met by support from Health but there is currently uncertainty as to whether this funding (around £5m in 2024/25) will be continued into future years. The Council continues to work closely with Health colleagues to ensure Havering gets as much support as possible for the Council

Starting Well:

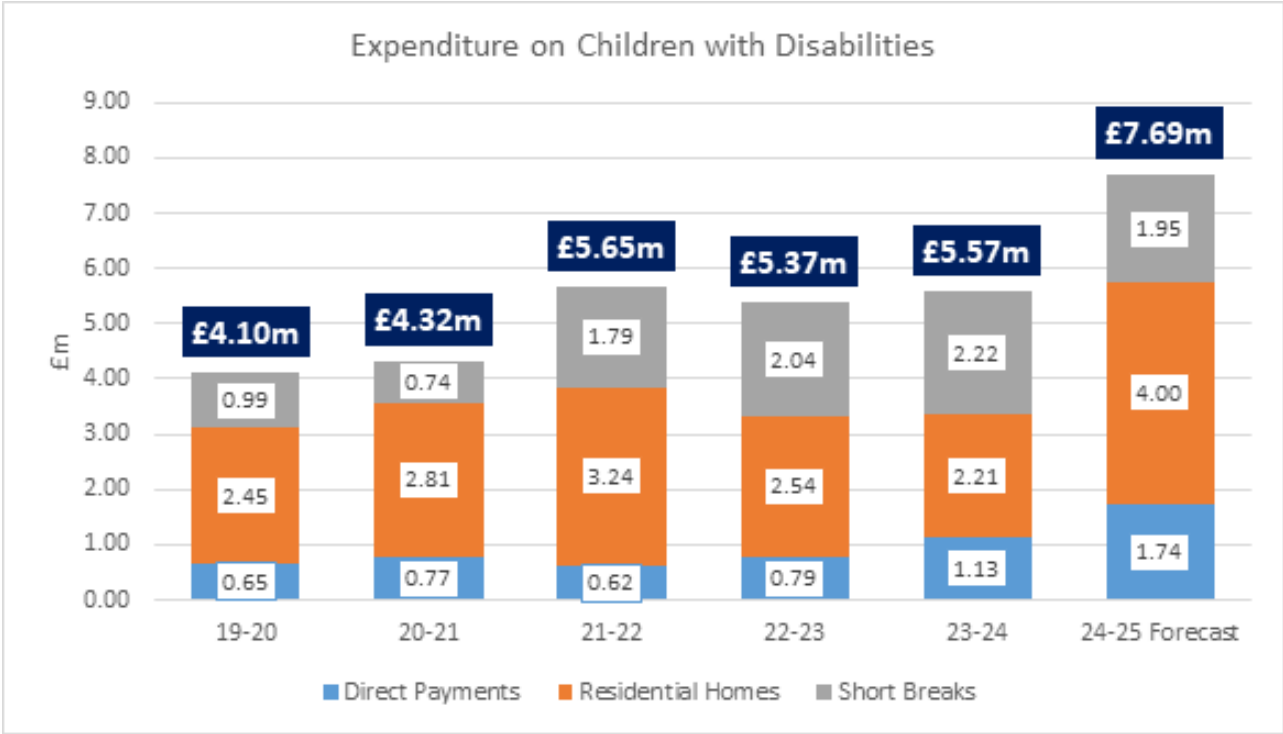
2.12 Within Starting Well the Council is facing continued pressures on its Social Care budgets partially due to implementing the recommendations of the recent OFSTED judgement and partially through increased unit costs of Looked After Children (LAC) provision. The Council increased its staffing base in accordance with the recommendations of the OFSTED report and is currently working hard to reduce dependency on agency cover and recruit on a permanent basis. At the time of the OFSTED inspection, Havering's social worker caseload was 20.4-1 compared to 14-1 in London, and was the 5th highest caseload nationally. The numbers of looked after children in Havering has stabilised over the last year but unit costs of placements continue to rise driven by market conditions, inflation and the complexity of some placements

2.13 The Council is also receiving significant increases in Children with Education Healthcare Plans (EHCP) which has a resultant impact on demand for home to school transport support. The Council has implemented new policies in this area recently but demand continues to rise significantly. There has been a 40% increase in EHCPs since 2019/20 from 1,534 in total to 2,182 in 2023/24. The increase has been particularly strong in Early Years. The costs of an EHCP will vary depending on need – from £10k for additional support in

mainstream school to £50k or more for a special school place. Social Care support also varies – from a small Direct Payment package of £10k a year to a residential home for complex needs at £400k a year.



2.14 The Council has experienced continued increased costs of Children with Disabilities - Expenditure on Social Care for Children with Disabilities has been steadily rising due to both increased demand and complexity. There has been a particularly big increase in placement costs in 2024-25 and if this trend were to continue this would place further pressure on the Councils budget.



Housing Demand:

2.15 The Council is also facing pressures from the cost of providing temporary accommodation to meet increased Housing demand. The numbers of people presenting as homeless continues to rise and whilst the Council has identified new units to help mitigate this demand the numbers in temporary accommodation continue to rise as shown in the table below. The budget pressures are caused in part from the increasing numbers in temporary accommodation which is driven by the unaffordability of the private rented sector and the increased cost to the council caused by the temporary accommodation housing benefit subsidy cap.

Table 1: Rising Numbers in Hotels/ Nightly Let Accommodation

	2020/21	2021/22	2022/23	2023/24	2024/25 (Projected*)	Total
Singles	90	82	131	235	243	781
Families	3	43	257	434	492	1229
Total	93	125	388	669	735	2010

* Figures based on April to Jan figures extrapolated for full year

New Projects and Initiatives

2.16 Despite these pressures the Council has continued to provide high quality services to the public and meet all its statutory obligations. The Council will also be delivering key projects in the near future including:

- 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.
- 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. In 2024/25 the Council secured £24m in GLA grant funding toward the acquisition of 160 homes, match funded by £32.5m of HRA funding. Of this 45 homes will be in 2024/25 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.
- The Council is working closely with our waste collection provider FCC Environment to deliver the roll out of food waste collection required by law by April 2026. The Council is lobbying the Government for funding for this project but is planning to go live with collections in October 2025, 6 months ahead of the statutory deadline. The cost of food waste collection is likely to cost the Council over £4m in capital costs. Currently the Government has provided a grant of £1.9m towards this cost. Going forward, the cost of collection will be an additional £3.8m in a full year, (£2.1m in 2025/26), and we await details of the new burdens funding.

In order to maximise the take up of the new government food waste initiative, costs will be incurred where necessary. Successful roll out of the food waste collection will ultimately be better for the environment and reduce residual waste. If this can be achieved, there will be greater savings through the future waste levy. The roll out of the new service will be subject to a review at the end of year one.

As the Council is seeking exceptional financial support, the figures provided above are the worst-case position and does not assume any new burdens funding. When the new burdens funding is announced, the Council will make every effort to reduce the operating costs proportionate to the grant made available. This will have the impact of potentially reducing the exceptional financial support requested but it must be stressed there is no flexibility in the budget and the Council must take every step possible to reduce the exceptional financial support needed moving forward

- 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.
- Mercury Land Holdings will provide 47 affordable homes for families at Roe Wood Park in Harold Hill (formerly Quarles) in 2026.
- 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.
- 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.

3. The Budget Process and Medium Term Financial Strategy update

3.1 The process to set the budget and medium term financial strategy is an ongoing one and in effect starts at the beginning of the financial year. The process is robust and developing the budget gap takes account of the following factors:

- The underlying gap from 2024/25 as set out in paragraph 2.2
- Inflation Rates
- Demographic Assumptions
- Interest Rates and the cost of borrowing
- Current in-year pressures
- Implications of the future Capital programme
- The need to establish prudent levels of balances and reserves

- Proposed fees and charges
- Levels of Government Funding

- 3.2 The Council has been fully aware throughout the year of the significant gap in the budget for 2025/26 and have regularly updated Councillors on both the budget position and steps the Council has taken to help control spend and mitigate the budget position moving forward. An updated budget position was presented to cabinet on November 6th 2024.
- 3.3 Currently the forecast budget gap for 2025/26 is £70.2m based on a mid-case scenario. On a worst-case scenario, the Council is forecasting a gap of £88m as seen in table 7 below. The gap comprises:

Table 2: Pressures on the budget

Pressures on MTFS	(m)
Underlying Pressures brought forward from 24/25	34.5
Demographic unit costs and inflation including the additional cost of NI	21.3
Other Service Pressures	4.1
Corporate pressures including Pay inflation, ELWA concessionary fares, insurance and capital financing	25.7
New Growth and Investment	4.4
One offs in 24/25 budget (Savings and collection fund surplus)	7.4
Total Pressures	97.4
Government Grant increase	(8.3)
Savings Proposals	(10.3)
Fees and Charges (2.7%)	(0.7)
Assumed Council Tax yield (4.99%)	(7.9)
Net Budget Gap	70.2

Underlying Budget Pressure from 2024/25 £34.5m

- 3.4 The Council is currently forecasting to spend £34.5m over a balanced budget in 2024/25. This was a largely expected position which has been forecasted throughout the year and will be financed using the £32.5m exceptional financial support agreed with the Government. The pressures causing this spend however are ongoing and therefore will need to be included in establishing the budget position for 2025/26.

Demographic and Unit Cost pressures £21.3m

- 3.5 The Council continues to face significant demographic and unit cost pressures across Children’s and Adult Social Care and also to meet Housing Demand. The Council has put significant growth of £48m into these areas over the last two years but demand and complexity alongside increases in cost of care, is still rising so the budget position 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. A total of £21.3m has been added to the MTFS for 2025/26 to meet these pressures

The analysis of demographic pressures moving into 2025/26 has been robust, using metrics measuring both unit costs and service user numbers and considering the sharp increases in the cost of living and inflation rates. The pressures also include the estimated costs from providers due to the 6.4% increase in National Living Wage and the change in thresholds for employer National insurance contributions. The detail behind these assumptions and an assessment of the risks can be found at **Appendix A** of this report.

Other Service Pressures £4.1m

- 3.6 There are also pressures across other services totalling £4.1m for 2025/26. Within this figure is contractual inflationary pressures on the contracts and an assumed pressure relating to the introduction of food waste collection. The Government requires all Councils to collect food waste by April 2026. Havering is planning to roll out the service commencing in October 2025 but there is an anticipated revenue cost of £2.1m for 2025/26 to achieve this. As set out in paragraph 2.16 if grant were to partly or fully mitigate this cost this would reduce the amount of exceptional financial support needed to balance the budget. The Council must take this option to reduce the structural budget gap wherever possible. This also applies to a £1m provision which is set aside to invest in key Public realm services in order to maintain a high level of service delivery

Corporate Pressures £25.7m

- 3.7 The Council also has a number of Corporate pressures within the 2025/26 budget totalling £24.3m. These include the increased cost of inflation and pay awards, concessionary fares, the additional costs of disposal of waste, additional insurance costs and coroners costs. The Corporate pressures also include the interest and repayment costs of financing the Capital programme. These financing costs include the assumed financing cost of the £32.5m exceptional financial support in 2024/25 and an assumed part year cost of financing interest for further support in 2025/26. The Council also has declared a deficit on the collection fund on NNDR which is included in the final budget. This is primarily due to significant revaluations rather than a drop in collection rates.

Growth and Investment £4.4m

- 3.8 The Council is facing financial difficulties and is trying to cut costs and achieve value for money 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 £4.4m are set out in summary in the table below.

Table 3: Growth and Investment

Growth and 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 transformational projects and further development of cloud solutions	2.2
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.	1.2
Investment in property to enhance security, continued support for S92 officers, develop the local plan, the Hornchurch BID and invest in emergency planning and Health and Safety	1.0
Total Investment	4.4

One-Offs in the budget £7.4m

3.9 The 2024/25 budget included £7.4m of items which were one off and so have been reversed out in the 2025/26 budget. These include the Corporate savings relating to the business rate pool, agency levy and Insurance which were initially put in the budget as one off items in 2024/25. The budget in 2024/25 also benefitted from a one off surplus in the Collection fund of £3.6m following a reduction in the business rate appeals provision.

3.10 These Pressures total £96m for 2025/26 of which £34.5m is from the underlying budget gap in 2024/25 and £61.5m are new pressures. The pressures have been partially mitigated by a combination of new Government grant, savings proposals, an increase in fees and charges and an assumed 4.99% increase in Council Tax.

The Local Government Finance Settlement

3.11 On February 3rd the Government published the 2025/26 Final Local Government Finance Settlement. The settlement included over £3.7bn of additional funding nationally but continued to use the historic distribution formulae which results in inequitable settlements for Havering. The Government did include a new £0.6bn recovery grant in the settlement but allocated this to authorities with high deprivation and relatively low tax bases. This meant the allocation did not address the relative change in need since the funding formula was frozen in 2014 and as a result Havering received no recovery grant at all. Of the 19 authorities who had to request exceptional financial support in 2024 only 12 received any funding through this process.

- 3.12 The settlement did provide some good news with £233m additional funding for homelessness, a new £270m childrens grant to support early help and an additional £880m nationally for Adult Social Care. These funds were all welcome news but the allocation of funds for the Adult Social Care funding continued to use historic 2014 relative need data which does not reflect Havering’s changing demographic need. A proportion of both the Childrens and Adults grant was also allocated based on Council Tax equalisation which results in reductions in grant for authorities such as Havering with high Council Tax levels. The Settlement also included one further year of New Homes Bonus and the roll out of Extended Producer Responsibility (EPR) grants to local authorities to support the cost of waste collection.
- 3.13 These new grants are all welcomed but significantly have only provided enough funds to mitigate the additional costs of the National Insurance and National Living Wage increases announced in the Autumn Budget statement. Both these increases will significantly increase staffing costs for our providers and it is inevitable that a proportion of that additional cost will be reflected in future fee increases to the Council. The Council’s commissioning teams will work hard to minimise these costs when agreeing fee rates with providers but with the Council currently commissioning around £100m of Adult Social Care provider costs alone even a small percentage increase is likely to be significant. Further details of the settlement and the Schools settlement can be found in section 6 of this report and **Appendix B**.

Savings Proposals (£10.3m)

- 3.14 The Council has also identified a number of savings proposals to help close the financial Gap. These proposals when put together with the full year effect of previous savings total £10.3m and are included in the budget. It should be noted that the Council has made over £160m of savings since austerity began in 2010 and the scope to identify significant new savings is extremely limited. The Council has low unit costs compared to its neighbours and further cuts would directly impact on service delivery.
- 3.15 The proposed savings are summarised in the table below and are set out in more detail in **Appendix C** to this report.

Table 4: Total Proposed Savings 2025-2029

Saving Area	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	TOTAL £m
Place	-0.100	-0.030	0.000	0.000	-0.130
People	-5.410	-4.170	0.000	0.000	-9.580
Resources and O/S	-0.800	-0.120	0.000	0.000	-0.920
Corporate	-3.940	1.550	-1.100	-1.100	-4.590
TOTAL	-10.250	-2.770	-1.100	-1.100	-15.220

The Council will need exceptional financial support to balance the budget in 2025/26. MHCLG recognises the difficult financial position the Council is facing but expects the Council to fully deliver its savings proposals as part of the financial support agreement

Discretionary Fees and Charges (£0.7m)

3.16 The Council annually reviews its fees and charges to customers. **Appendix D** sets out the proposed fees and charges for 2025/26. It should be noted that some fees are set nationally and the Council has not control over those rates. In setting the fees and charges the Council takes account of:

- Full cost recovery where appropriate
- Statutory fees rates
- Inflation
- Benchmarking and other market comparators
- Delivery costs for social care providers.
- Current market conditions for any increase

3.17 For 2025/26 the Council has uplifted discretionary fees by 2.7% except for fees where local market conditions have either resulted in a larger increase being applied or a fee increase if the Council is already at a high rate compared to the benchmark.

Proposed Council Tax levels and Council Tax Requirement

3.18 The Government settlement assumes the Council will increase Council Tax by the maximum permitted being 2% for the ASC Precept and a further 2.99% for a general Council tax increase. Given the financial situation set out in this report the Council has little alternative but to recommend the maximum 4.99% increase in Council Tax. The table below sets out the implications of this rise for taxpayers.

Table 5: Proposed Council Tax Levels

	Havering Base Council Tax (2.99% Inc)	ASC Precept (2% inc)	Total Havering Council Tax (4.99% inc)	GLA Precept	Total Council Tax
BAND A	1,022.08	193.36	1,215.45	326.92	1542.37
BAND B	1,192.43	225.59	1,418.03	381.41	1799.44
BAND C	1,362.78	257.81	1,620.59	435.89	2056.48
BAND D	1,533.13	290.04	1,823.17	490.38	2313.55
BAND E	1,873.83	354.49	2,228.32	599.35	2827.67
BAND F	2,214.52	418.95	2,633.47	708.33	3341.80
BAND G	2,555.22	483.40	3,038.62	817.30	3855.92
BAND H	3,066.26	580.08	3,646.34	980.76	4627.10

3.19 The Council is required to set out its statutory budget calculations as required by Sections 30 to 36 of the Local Government Finance Act 1992 (“the Act”). The proposed Council Tax requirement is calculated, as set out below: £725.100m* being the aggregate of the expenditure, allowances, reserves and amounts which the Council estimates for the items set out in Section 31A(2) (a) to (f) of the Act; (b) £560.739m being the aggregate of the

income and amounts which the Council estimates for the items set out in Section 31A (3) (a) to (d) of the Act; (c) £164.361m being the amount by which the aggregate at 2.6(a) above exceeds the aggregate at 2.6(b) above, calculated by the Council, in accordance with Section 31A(4) of the Act, as its council tax requirement for the year. This is set out in further detail in **Appendix E** of this report.

Summary Medium Term Strategy Position (assuming most likely scenario)

3.20 The Medium Term financial strategy (MTFS) has been updated to take account of the assumptions set out in this report and appendices. The resultant plan shows an underlying gap of £70.2m for 2025/26 based on the most likely scenario. At this stage the MTFS assumes that the pressure is all ongoing and so future years assume both the carried forward budget gap and the potential financing of this gap through further exceptional financial support

Table 6 Updated Medium Term Financial Strategy

2025-2029 MTFS	2025/26 (£m)	2026/27 (£m)	2027/28 (£m)	2028/29 (£m)
Underlying 24/25 base budget position	34.5			
Demographic and unit cost pressures	21.3	14.0	14.5	15.0
Other service pressures	4.1	5.9	1.0	1.0
Inflation and Pay award	5.2	5.2	5.2	5.2
Investment and Growth	4.4	-0.8	0.0	0.0
Capital Financing	10.6	5.9	2.2	0.9
Other Corporate Pressures	9.9	2.8	2.3	5.1
One off items in 2024/25 budget	7.4	0.0	0.0	0.0
TOTAL PRESSURES	97.4	33.0	25.2	27.2
Savings	-10.3	-2.8	-1.1	-1.1
Government funding	-8.3	5.1	-2.1	-2.3
Fees and Charges	-0.7	-0.7	-0.7	-0.7
Council Tax 4.99%	-7.9			
Underlying Budget gap		70.2	112.1	144.7
Financing costs of Underlying Budget Gap		7.3	11.3	14.6
TOTAL GAP before EFS	70.2	112.1	144.7	182.4

3.21 It is very difficult to project the potential impact of future funding reform until the Government produce exemplifications as part of their forthcoming consultation on new methodology. At this early stage the MTFS takes a prudent view and includes a pressure in 2026/27 based on the original exemplifications of the previous government's fair funding review. At that stage it was projected that funding reform would re-distribute funding away from London. The Council will participate fully in future funding discussions to ensure that in future the Council receives a fairer funding settlement than at present.

3.22 The financial gap shown above is based on a most likely scenario and is £70.2m for 2025/26 before exceptional financial support. The Council however has produced a worst case scenario for the budget as well as part of its planning. This is set out in the table below with the assumptions presented in more detail in **Appendix A** of this report.

Table 7: Budget Gap based on most likely and worst case scenarios

MTFS Based on Most Likely and Worst Case	Most Likely (£m)	Worst (£m)
Underlying Pressures from 24/25 (P8 Monitor)	34.5	36.0
New Growth and Investment	4.4	4.4
Pay and other inflation	5.2	6.7
25/26 Demographic unit cost and additional cost of NI	21.3	35.0
Other Service Pressures	4.1	4.1
Capital financing costs (inc 24/25 Cap Direction)	10.6	11.4
Other Pressures (inc ELWA, Freedom pass, Insurance)	9.9	10.2
One offs in 24/25 budget (Savings and collection fund surplus)	7.4	7.4
Fees and Charges (2.7%)	-0.7	-0.7
Government provisional finance settlement	-8.3	-8.3
Savings proposals	-10.3	-10.3
Council Tax at 4.99%	-7.9	-7.9
Total Budget Gap 2025/26	70.2	88.0

3.23 The assumptions included in the budget are best estimates based on all known information. The budgets however are subject to change and the table below shows the impact of change through a sensitivity analysis of the key areas

Table 8: Sensitivities in the budget

Sensitivity	Approximate Budget	1% change
Adult Social Care provider costs	100m	1m
Childrens Social Care Placement Costs	20m	0.2m
Discretionary fees and charges	(27m)	0.3m
Council Tax yield	(164m)	1.6m
Pay inflation	100m	1.0m

Budget Consultation

- 3.24 The Council ran a Budget Consultation exercise to both illustrate the Council's financial position and also to seek views on Council Tax increases and ways the Council could save money. The consultation was conducted for 6 weeks commencing in November and requested all interested parties to fill in an online form. Hard copies of the consultation were available at all the libraries and the Council held an open question and answer session on the 18th December to further brief the public and key stakeholders.
- 3.25 The Council received 608 responses to the budget consultation. The key outcomes have been presented to members for consideration and are summarised in **Appendix G** of this report. The Council also asked members of the public to sign a petition on the budget asking to grant Havering Council Tax Payers a fair share of Government Funding. The Council has had 2,288 signatures to the petition to date. The petition closes on 31st January and will be submitted to central Government by the Council

4. Proposal to balance the 2025/26 Budget

- 4.1 The Council is still facing a £70.2m budget gap as set out in section 3 of this report even after all the proposed savings have been taken and a 4.99% Council Tax increase has been applied. The Council has been fully aware of the budget situation throughout the year and has met MHCLG officials and ministers on a number of occasions to discuss our position.
- 4.2 The Council had hoped that the Local Government Finance Settlement would at least partially close the budget gap but the benefits of the new grant funding announced has largely been negated by the anticipated additional costs of the NI and NLW increases announced in the autumn statement. The settlement also failed to address the long standing issue of historic data being used to apportion funds between authorities.
- 4.3 The Government have promised full funding reforms in 2025 leading to a multi-year settlement from 2026/27 onwards. Havering will lobby hard to get its point across in the development of the new funding system but unless the Government radically increase the amount of money in the system many authorities will struggle to balance their budgets each year
- 4.4 The Government have recognised that the 2025/26 financial settlement would not fully address the budget situation for many authorities and so indicated in December that authorities could apply once again for Exceptional Financial Support to balance their budgets. Havering submitted an application which has now been updated to reflect the local Government Finance Settlement and requests £70.2m to balance the budget on a most likely scenario. The Council has also made it clear to the Government that our worst case scenario is now £88m and that the exceptional financial support should be extended to meet this potential gap.
- 4.5 The Government have indicated that they will not issue letters to authorities regarding exceptional financial support until late February. The Government do however recognise the need to issue communication before Councils have their full tax setting meetings and so are aware of Havering's proposed Council meeting on 26TH February 2025.

- 4.6 This report assumes that exceptional financial support will be made available to balance the budget. It should be noted that this support comes at a cost as currently legislation requires the Council to borrow at current interest rates and set aside minimum revenue provision (MRP) at 5% for repayment of the debt. The new Government however have removed the previous requirement to borrow at 1% above base rate which is welcomed but Havering along with other Councils is pushing for the requirement to set aside MRP to be waived as well.
- 4.7 The Council has no viable alternative to requesting exceptional financial support. Were the request not to be granted then the Council would need to issue a Section 114 notice through its inability to balance its budget. This position has been discussed with MHCLG and they are fully aware of the situation. S114 legislation was originally introduced to provide senior officers power to regulate excessive spending in an authority. Havering is not spending excessively and so would still be unable to set a balanced budget without exceptional financial support even if the S114 report were issued.
- 4.8 This cabinet report is based on the current information available. The final local government finance settlement is yet to be confirmed and there will also be variances as the final levies are confirmed. Variations to the final income and expenditure levels will directly impact on Havering's exceptional financial support request to the Government. Any additional grants or reductions in expenditure will be used to directly reduce the level of exceptional financial support the Council applies for.

Closing the Budget Gap in Future Years

- 4.9 The Council has an underlying budget gap which will need to be resolved. The Government have promised funding reform which it is hoped will in part address both the quantum and distribution of the central funding amount allocated to Havering moving forward. This alone however will not balance the budget. Major change is needed to allow authorities to build and acquire additional Housing to reduce temporary accommodation and mitigate Housing demand. The Government have already changed the right to buy rules and it is hoped that they will provide more incentives and finance to allow authorities to increase their housing provision
- 4.10 Housing Demand could also be eased if the Government, reduced the inequity in Local Housing Allowance. Currently, the most significant costs of homelessness are borne by local authorities, rather than the DWP, due to housing benefit subsidy loss rules. These rules cap the rates of subsidy claimed by local government for housing households requiring temporary accommodation at Local Housing Allowance (LHA) rates set over a decade ago. The cap should be aligned with wider DWP LHA rates, increasing subsidies to local authorities while maintaining controls to ensure value for money in placements.
- 4.11 The Government will also need to act to help address the national social care funding situation. Legislation is needed to help regulate the providers of childrens homes many of which are financed by hedge funds. It is hoped the Government will also provide capital financing to enable authorities to develop in-house solutions to childrens care placements to reduce costs in the medium term

4.12 The Government have recently announced an independent commission to review the provision of Adult Social Care. The commission, reporting to the Prime Minister, will work with people drawing on care and support, families, staff, politicians and the public, private and third sector to make clear recommendations for how to rebuild the adult social care system to meet the current and future needs of the population. The first phase of the review is scheduled to make medium term recommendations in 2026 with recommended longer term solutions not due to be announced until 2028. Havering welcomes this review but hopes the Government recognise additional funding is needed now on a national scale to reduce the immediate pressures on Council budgets.

5. Balances, Reserves and Contingencies

5.1 Havering recognises the need to have adequate reserves and balances and maintains a £1m corporate contingency for unforeseen in year pressures. Havering's general balances and earmarked reserves have been depleted in recent years through the pressures on services and are amongst the lowest in London. In setting the budget Havering has recognised the need to build up general balances to a target level of £20m. Contributions to balances have been built into the General Fund budget to achieve this target.

5.2 The table below shows the forecast position for reserves at the end of 2024/25 together with projected balances for the next two years. The Council has discussed its reserves position with the Government as part of its applications for exceptional financial support and the Government fully recognises the need to maintain and build up reserves moving forward

Table 9 Reserves and Balances

EARMARKED RESERVES	Opening Balance 24/25 (M)	Forecast Balance 31/03/25 (M)	Forecast Balance 31/03/26 (M)	Forecast Balance 31/03/27 (M)
General Balances	10.2	14.5	19.5	20.0
Risk Mitigation Reserves	13.5	10.0	8.1	8.1
Contractual Reserves	12.2	8.0	8.0	8.0
Internally Earmarked Projects	9.4	7.1	5.8	5.7
TOTAL	45.3	39.6	41.4	41.8

5.3 The Council also has a £1m General contingency in its annual budget. This is held for unforeseen in year circumstances but if not required is released to support that years budget position

6. Schools budget and DSG

6.1 The Dedicated Schools Grant (DSG) is a ring-fenced grant that is allocated to local authorities to meet their responsibilities for early years' education, the funding of schools

and for provision and support for pupils with special educational needs and disabilities and for pupils requiring alternative provision.

- 6.2 There has been a large increase in the overall DSG for 2025/26 of £38.2m. The overall DSG budget will be £355.5m compared to £317.3m. The table below sets out the increase in comparison to 2024/25

Table 10: Havering Dedicated Schools Grant 2025/26

Financial year	Schools Block £m	High Needs Block £m	Central Services To Schools £m	Early Years Block £m	TOTAL £m
2025-26	258.180	47.602	1.912	47.819	355.513
2024-25	237.616	43.391	1.774	34.569	317.350
Difference 2024-25 to 2025-26	20.564	4.211	0.138	13.250	38.163

- 6.3 Further details of the Dedicated Schools grant will be presented as a separate paper to this cabinet agenda

7. The HRA Budget and 30-year Business Plan

- 7.1 The Council has a separate report on this agenda to agree the HRA Budget for 2025/26 and the update of the 30 year HRA Business Plan. This report proposes a rent increase of 2.7% with effect from April 2025. This will mean the average weekly rent for general needs properties will be £132.50
- 7.2 The report also sets out the 30 year business plan and financial assumptions which have been updated to reflect the current national and global outlook. The plan projects a significant deficit in the debt position in the next 10 years gradually smoothing over the 30 year period. This will be continually monitored to ensure the plan remains viable.

8. The five-year Capital Programme

- 8.1 The Capital Strategy and Programme is presented in a separate report on this agenda. The Medium Term Financial Strategy takes full account of the interest and borrowing cost of the proposed programme. This includes the revenue implications of a number of new bids which are included for approval by Council.
- 8.2 The proposed Capital programme will spend £1.11bn of which £0.34bn is for the General Fund and £0.77bn is HRA Capital Spend. The majority (0.28bn) of the general fund spend relates to the Councils regeneration schemes which will deliver new homes and help greatly with the current Housing shortage.
- 8.3 The Capital programme will be funded by a number of sources including receipts (£0.04bn), grants (£0.25bn), contributions from revenue and reserves (£0.06bn) and borrowing (£0.76bn). The affordability of the Capital programme is assessed using a series of

prudential indicators which measure items such as the ratio of financing costs to net revenue stream and the Councils capacity to deliver the programme. Further details of the prudential indicators can be found in the Capital Strategy report elsewhere on this agenda.

9 Strategic Director of Resources (S151 Officer) statement regarding the robustness of the budget and MTFS

9.1 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. This statement is set out in **Appendix H** of this report.

10 Council Tax Policies and Proposals

10.1 The Council has a number of proposed policies regarding Council Tax which require formal approval. These proposed policies are listed below with further detail set out in **Appendices I & J** to this report.

- Proposed discount of 1.5% for Council Tax payers who pay their 2025/26 Council Tax in full before 1st April 2025
- The proposed Council Tax Support scheme for 2025/26
- Proposed Policy regarding war pension income in relation to Housing Benefit Assessment

10.2 The proposed Council Tax Support Scheme 2025-26

10.2.1 The local Council Tax Support (CTS) Scheme in Havering has been designed to help residents on low incomes pay their Council Tax. The amount of Council Tax Support a person can have is based on how much the Government say they need to live on and the person's income and capital. Council Tax Support rules for claimants of pensionable age are prescribed in law and can cover up to 100% of the Council Tax due. Local authority Care Leavers can also receive up to 100% in Council Tax Support. For working age claimants with disabilities and claimants without disabilities, they can receive up to 80% and 75% respectively off their Council Tax bill. The rules within the CTS scheme for working age applicants including Care Leavers have been developed by the Council.

10.2.2 The Council proposes to maintain the current CTS Scheme for 2024 putting forward no significant amendment to that scheme in 2025. A copy of the 2024 Council Tax Support Scheme can be found on the Council's website. In accordance with Schedule 1A of the Local Government Finance Act 1992, Full Council is required to endorse the Council Tax Scheme for 2025/26 before 11 March 2025. The Council has given due regard to the Equality Act 2010 and the need to eliminate unlawful discrimination. The Equalities Impact Assessment of the Council Tax Support scheme is attached as **Appendix K** to this report.

11. Equality impact Assessment on the Budget and Medium Term Financial Strategy

- 11.1 The Equality impact assessment for the budget is set out in **Appendix L**. It should be noted that where savings or indeed growth result in a direct change in service provision then a separate EQUIA will be completed for that change. As such the budget EQUIA is a more general document which considers the overall impact of the budget on the nine protected characteristics

REASONS AND OPTIONS

12. Reasons for the decision:

- 12.1 The Council is required to set a balanced budget in advance of the beginning of each financial year. This report sets out the process to reach a balanced budget for 2025/26 and sets out the Council's future plans for balancing the budget in the medium term from 2025/26 to 2028/29.

Other options considered:

- 12.2 The report outlines all the options identified for balancing the 2025/26 budget. Officers will continue to seek further options for balancing the budgets in future years.
- 12.3 The only alternative to the Capitalisation Direction would be for the S151 Officer to issue a S114 Report, declaring the Council unable to set a legally balanced budget for 2025/26.

IMPLICATIONS AND RISKS

13 Financial Implications and Risks

- 13.1 The financial implications of the Council's Medium Term Financial Strategy are fully set out in this report and are therefore implicit in the body of this report.
- 13.2 The Council is proposing a 4.99% Council Tax increase and will be using a Capitalisation order to balance the budget. This will enable the Council to charge revenue expenditure to capital in 2025/26. The Council will need to either reduce its net expenditure or receive additional grant funding to prevent a similar scenario in the setting of future budgets.
- 13.3 The report contains prudent assumptions on future pressures and £10.3m of savings to be delivered in 2025/26. If the Council is to stay within budget demand will need to be contained within these assumptions and the savings will need to be delivered

14 Legal Implications and Risks

- 14.1 The Council is required under Part 1, Chapter III of the Local Government and Finance

Act 1992 (the 1992 Act) to set its council tax for the forthcoming year. In accordance with section 30(6) and 31A of the 1992 Act this must be set before 11 March of the preceding year, but is not invalid merely because it is set on or after that date.

- 14.2 The Council's calculation of its "council tax requirement" in accordance with sections 31A and 31 B of the 1992 Act is reflected in the body of this report. A delay in setting council tax can have serious financial consequences and may be challenged by way of an application for judicial review under section 66 of the Act.
- 14.3 Under section 25 of the Local Government Act 2003, the Chief Finance Officer is required to report to the Authority on the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves. Cabinet is required to consider these estimates when determining whether the proposals should be submitted to Council for approval.
- 14.4 The process for preparing the budget proposals for each municipal year, including any consultation requirements, is set out in the Budget and Policy Framework Procedure Rules within the Council's Constitution. The setting of the budget is a function reserved to Council following consideration of the initial proposals submitted by the Executive.
- 14.5 The Council's duty is to set a balanced budget, taking into account a range of factors, including consultation feedback and decision makers must also have regard to the Council's public sector equality duties under the Equality Act 2010. Each Member has a duty to ensure that the Council complies with its legal obligations by agreeing a balanced budget.
- 14.6 The budget consultation and approval process is separate from individual decisions which may need to be taken for example in relation to service delivery; these may require a separate consultation process and equality impact assessment before a final decision is taken.
- 14.7 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 feedback, adequate time should be given for consideration of responses and the feedback should be taken into account in any decision taken.
- 14.8 Local Authorities owe a fiduciary duty to council taxpayers, which means the Council must consider the prudent use of resources, including control of expenditure, financial prudence in the short and long term, the need to strike a fair balance between the interests of council taxpayers and ratepayers and the community's interest in adequate and efficient services and the need to act in good faith in relation to compliance with statutory duties and exercising statutory powers.
- 14.9 The Council has an ongoing duty to maintain a balanced budget throughout the year and, accordingly, members are required to monitor the Council's financial position regularly in accordance with section 28 of the Local Government Act 2003 and take appropriate action if there is any significant deterioration in its financial position.
- 14.10 Where it appears that the expenditure the Authority proposes to incur in a financial year is likely to exceed the resources available to meet that expenditure, the Chief Finance Officer

is under an obligation to prepare a report to Council under section 114 of the Local Government Finance Act 1988.

15 Human Resource Implications and Risks

- 15.1 The Council continues to work closely with its staff and with Trades Unions to ensure that the effects on staff of the savings required have been managed in an efficient and compassionate manner. The specific workforce impact has yet to be assessed at the present time. However, all 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.

16 Equalities and Social Inclusion Implications and Risks

- 16.1 Havering has a diverse community made up of many different groups and individuals. The Council values diversity and believes it essential to understand and include the different contributions, perspectives and experience that people from different backgrounds bring.
- 16.2 The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the council, when exercising its functions, to have due regard to:
- (i) the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
 - (ii) the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
 - (iii) foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, gender, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment.

- 16.3 The Council demonstrates its commitment to the Equality Act in its decision-making processes, the provision, procurement and commissioning of its services, and employment practices concerning its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing of all Havering residents in respect of socio-economics and health determinants.
- 16.4 Any decisions which need to be taken in furtherance of the budget proposals will be undertaken in accordance with the duty set out in Section 149 of the Equality Act 2010 and where appropriate full Equality Assessments will be undertaken and form part of the decision making process.

17. Health and Wellbeing Implications and Risks

17.1 The Council considers health and wellbeing implications in all the decisions it takes. The impact on general health and wellbeing is fully considered in developing the savings proposals in this report and in setting the Council's budget each year

18 Climate Change Implications and Risks

18.1 The establishment of the Havering Climate Action Plan signals a commitment by the Council to tackle climate change and will affect all Council policies and decisions. This budget and financial strategy has been developed with this Climate Action Plan in mind and will help in contributing to the Council's aim of achieving net-zero annual carbon emissions by 2040. In addition, all projects included in the programme will follow the principles set out in the action plan and adhere to its key values.

BACKGROUND PAPERS

List of appendices

APPENDIX A	-	Budget Assumptions and Risks
APPENDIX B	-	Local Government Funding Settlement and Dedicated Schools Budget
APPENDIX C	-	Savings Proposals
APPENDIX D	-	Fees and Charges schedule
APPENDIX E	-	Council Tax Requirement and Resolution
APPENDIX F	-	2025/26 Council Budget
APPENDIX G	-	Budget Consultation outcomes
APPENDIX H	-	S25 Statement of Robustness on the budget
APPENDIX I	-	Summary of the Council Tax Support scheme
APPENDIX J	-	Council Tax policies
APPENDIX K	-	EQIA for the Council Tax Support scheme
APPENDIX L	-	EQUIA for the Budget Report