CABINET

Subject Heading:	**2026-2029 Medium Term Financial Strategy Update**
Cabinet Member:	**Councillor Chris Wilkins (Cabinet Member for Finance)**
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Policy context:	The report provides an update on the progress towards setting the 2026/27 budget and the development of the 2026-2029 Medium Term Financial Strategy
Financial summary:	This report includes: • Update on the 2025/26 revenue monitoring position (Section 5) • Update on the progress towards setting the 2026/27 budget (Section 6) • Update on the Medium-Term Financial Strategy for 2026-29 (Section 6) • Update on the MTFS Gap and continued engagement with MHCLG (Section 7)
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 2026/27. The report includes:

- Background
- An update on National funding changes
- Update on the revenue monitoring position for 2025/26
- Updates made to the Medium-Term Financial Strategy and revised budget gap
- Financing the budget and engagement with MHCLG
- Next Steps
- Medium-term budget initiatives

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 consultations (where required) to implement the savings in this report.

2.3 Cabinet are asked to authorise officers to action efficiency and invest to save proposals with immediate effect in 2025/26 where possible if the operational savings proposals are not public facing, and so therefore is not subject to consultation and an EQUIA.

2.4 Cabinet are asked to note the position regarding further exceptional financial support from the Government and to note that officers will continually review and update the Medium Term Financial Strategy from now through to when the Budget is signed off by Full Council.

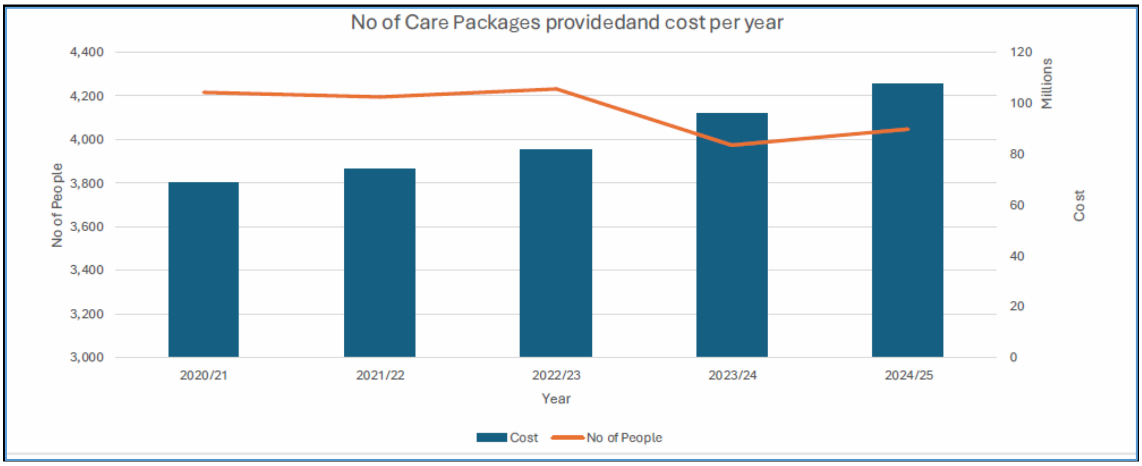
3. BACKGROUND

3.1. Havering is a cost-effective authority which has managed its budgets carefully over many years. In recent years the statutory costs of the Council have risen sharply, most notably in the provision of Social Care and in the additional demands of providing housing for residents to whom the Council has a statutory duty.

3.2 Increased Adult Social Care Costs:

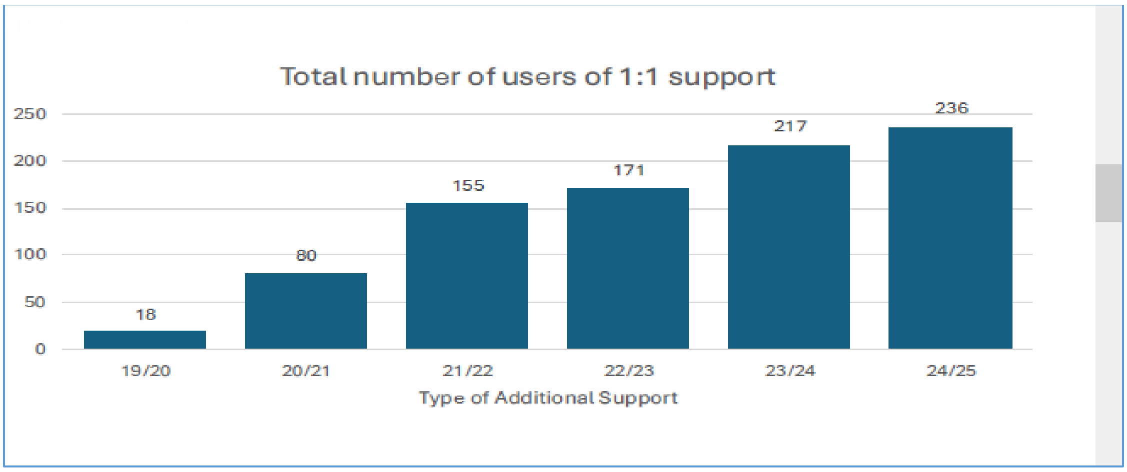
3.2.1 Overall expenditure within Adult Social Care is increasing significantly year on year, while the total number of care packages provided remains relatively stable. This is due to inflation and increasing complexity of packages. The chart below shows how costs have increased over the last 5 years which the number of care packages have actually declined slightly

Numbers of Adult Social Care users and cost per year



3.2.2 The rising costs are partially due to inflation. The National Living Wage which drives the labour cost market has risen by 35% over the last 5 years. Complexity of cases has also significantly increased with more users requiring both longer and more extensive packages. At the same time the numbers of self-funders are reducing, placing greater financial demands on the Council to meet its statutory duty. The chart below shows the increase in users requiring 1-1 support over the last 5 years.

Increase in numbers of users requiring 1-2-1 support by year



3.3 Children’s Social Care costs

3.3.1 Children and young people now make up 23% of Havering’s total population. There has been a rise in the proportion maintained despite this overall growth in Children and Young People (CYP) population. The Council is projecting continued growth and diversification in the child population with a 12% increase in the total child population by 2026. The 10.4% CYP population growth from 2011 to 2021 outpaced the London average of 7.7% However Havering’s 6% rise in children since 2020 is double the next largest increase among Outer London boroughs.

3.3.2 Havering saw the largest net inflow of children among all London boroughs between 2016 -2020 and this trend also includes children from neighbouring boroughs. In contrast, ten of the other Outer London boroughs saw a decline in their child population since 2020. The trend is being driven by both inward migration from inner London Boroughs and new housing developments attracting young families to Havering's good and outstanding schools and green spaces.

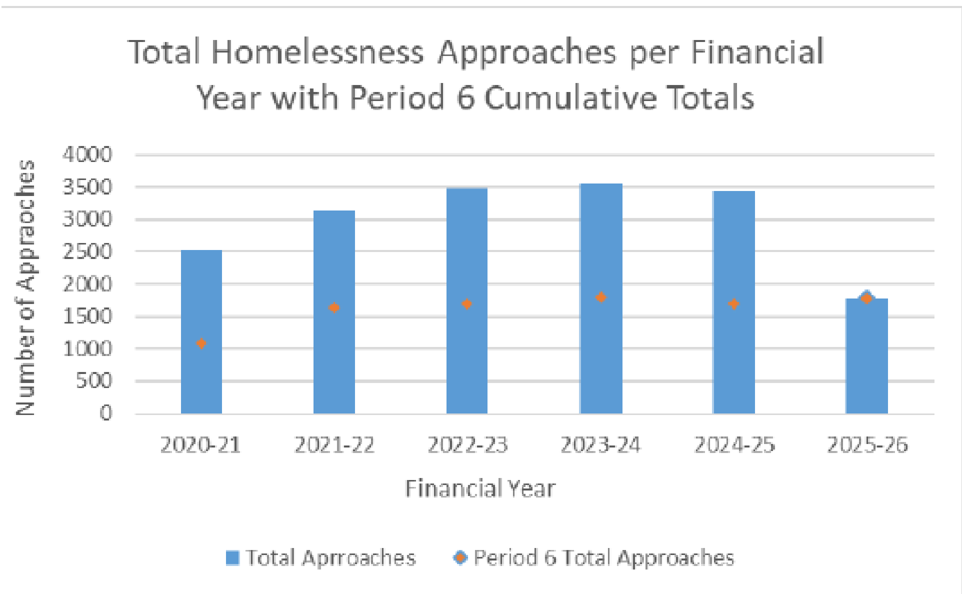
3.3.3 As the child population of the borough goes up there is an increasing incidence of children with disability (as shown by the 12% annual increase in Education Health and Care Plan's - EHCP's) and as a result the number of families eligible for support such as Home to School Transport, Direct Payments and Short Breaks has also increased. All these factors alongside sharply rising unit costs of residential placements with known profiteering in the market and increasing complex social care cases have resulted in the additional costs the Council has faced in Starting Well over the last few years

3.3.4 The Council has also responded to the recent Ofsted Children's Social Care judgement by further investing in its workforce for social care. This has resulted in reduced caseloads and has delivered better outcomes for our children and was one of the key recommendations of the Ofsted report

3.4 Rising cost of Housing Demand

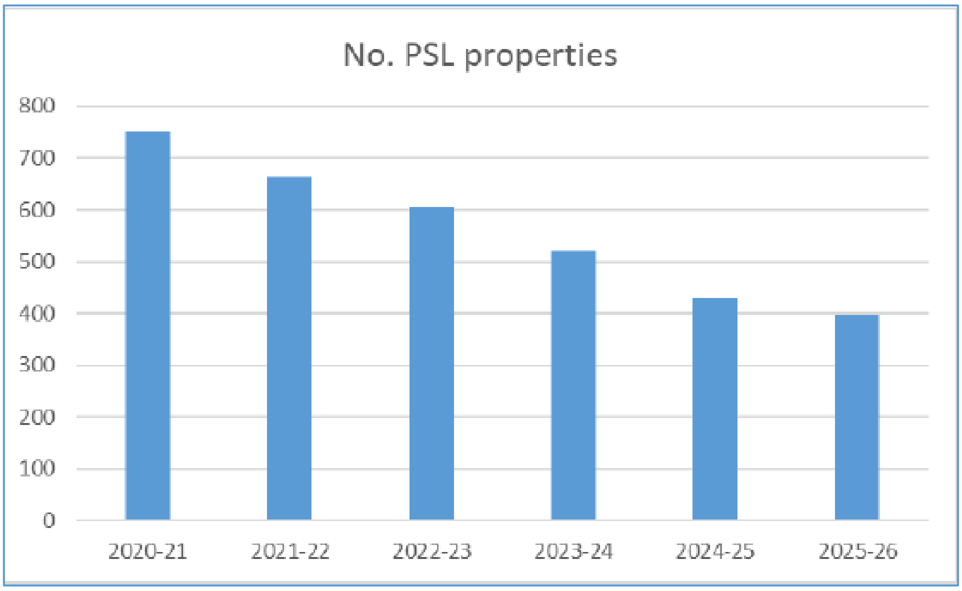
3.4.1 The number of approaches to the Council for support has increased significantly following COVID. This was driven primarily by the cost-of-living crisis and the impact of legislation on the Private Rental Sector, with PSLs exiting the market. In the last 18 months, the numbers have begun to plateau, however, with the cost of living still high and economic uncertainty this trend could easily alter. The graph below shows how approaches have increased over the last 5 years

Numbers of homelessness approaches by year



3.4.2 Approaches have been increasing at a time when the availability of accommodation has been declining. The number of Private Sector Leasing properties is steadily declining. In the current economic climate, many landlords find the open market more financially rewarding than leasing properties to the council at fixed rates. Recent tax changes and tighter regulations have led to a rise in landlords handing back PSL properties. As the number of PSLs reduce the amount spent on rent payable reduces as does the income received. The average annual cost of a PSL to the council is over £15k less than a hotel per year.

Reduction in PSL Properties available over time

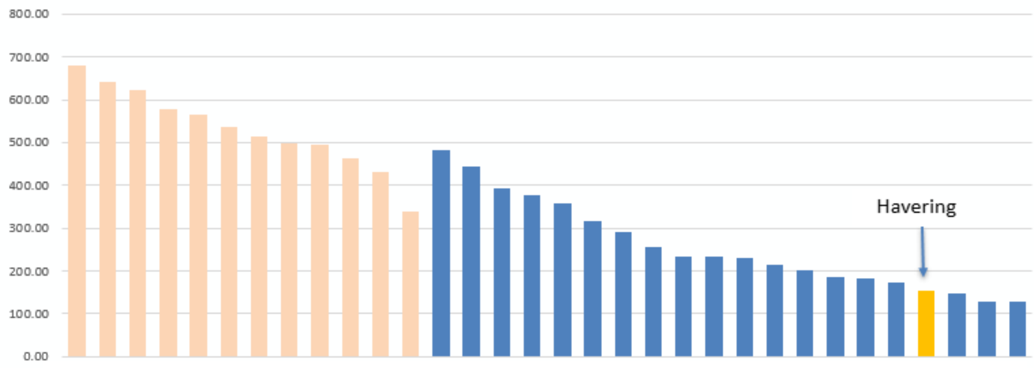


3.5 Central Government have provided additional grant in recent years to help meet the costs of Social Care and have given authorities permission to increase Council Tax through a precept to provide further funding. This total additional funding however has been far short of the amount the Council has needed to meet the rising demographic demand and unit costs.

3.6 This funding shortfall has been compounded for Havering by Central Government using historic data over a decade old to allocate funds between different authorities. Havering has seen the fourth fastest children's population nationally and significant relative change in its Adult's relative need since the formula was frozen in 2014, resulting in a shortfall in grant every year compared to the value up to date data would have provided.

The graph below shows that currently Havering receives the 4th lowest level of General grant support per head of population from the Government despite rapidly growing need over the last decade

Settlement Funding per Head of Population compared to other London Boroughs



3.7 Havering has acted robustly and has identified significant savings and efficiencies over many years to help balance its budget, delivering in excess of £160m of savings since 2010, much of which has been reinvested in front-line service provision. Since 2023/24 the inequality in grant has increased compared to rising demand to such an extent that the Council has had no choice but to request exceptional financial support from the Government.

3.8 The current Council budget for 2025/26 is underpinned by £88m of exceptional financial support from the Government which represented the worst-case scenario when the budget was set in February 2025. The Council continues to do everything it can to contain spend and the most recent revenue monitoring position projects the Council currently projected to spend under its most likely budget scenario of a £70.2m gap. This is a structural financial deficit as a result sharply rising costs not matched by adequate funding from Government.

3.9 The Council has developed and updated its Medium-Term Financial Strategy (MTFS) throughout the year in preparation for setting the 2026/27 budget and Council Tax. The plan includes an assumed structural deficit brought forward from 2025/26 of £69m before any new pressures and other budget changes are taken into account. This report provides an update on the MTFS and sets out the next steps towards setting the 2026/27 budget early next year

4. GOVERNMENT POLICY AND NATIONAL CONTEXT

4.1 The current central Government was elected in July 2024 and at an early stage announced plans to reform the Local Government Finance system in several ways. The announcements included

- **The fair funding review**: This review is aimed at updating the formulae and method used to apportion central funds between local authorities

- **Business Rate reform:** This will include a business rate reset and changes to the multipliers used to calculate business rates and the reliefs for various business rate categories

- **Local Government Reform:** At present, this does not directly affect London Boroughs. The proposals invite current districts and county councils to develop new unitary Councils. These changes are currently underway in Essex.

- **The Casey review of Social Care:** The Prime Minister has agreed that Baroness Louise Casey will chair an independent commission into adult social care. The commission will be undertaken in 2 phases with the final phase reporting back by 2028 to the Prime Minister.

4.1.1 The Government have also made other announcements which will have a direct impact on Local Councils. These include:

- 50% funding Cuts to running costs for Integrated Care Boards
- Collection of Food Waste to become a statutory requirement
- The Government target of building 1.5m new homes by 2029
- 35% increase in the National Living Wage over the last 5 years with next years increase to be announced as part of the November 2025 budget

4.2 **The Fair Funding Review:**

4.2.1 On 20th June 2025 the Government launched the Fair Funding Review with a consultation paper seeking views on a proposed new formula to distribute funding between local authorities. The consultation closed in mid-august and it is expected the Government will indicate their plans in a policy statement in early November and then action the reforms as part of the local government finance settlement announcement in December.

4.2.2 From Havering's point of view, this review has been long overdue, and the Council has lobbied for reform for many years for funding that matches the needs of our residents. The continued use of outdated data to distribute grant has adversely affected Havering and is a major contributor to the present financial situation the Council finds itself in. Havering therefore welcomes this review and is pleased that it would appear from the consultation proposals that the Government is fully committed to using up to date datasets to distribute grants moving forwards.

4.2.3 The Consultation paper provided exemplifications of the data that the Government is considering to use in the new formula and this has allowed modelling of the provisional outcome. The Government has indicated its intention to refine this data using information such as deprivation indices released since the publication of the consultation paper in June and as such there is significant uncertainty remaining over the final impact for each authority.

4.2.4 It is clear from the modelling that using up to date data is likely to benefit Havering and the Council can expect to receive a larger share of Government Funding than was previously the case. This confirms the position the Council has lobbied the Government about for several years. The fair funding review will not be backdated and whilst the new formula will be fairer, it will not close the structural gap brought forward by previous years underfunding. The Council continues to lobby the Government and meet MHCLG officials to put this point across.

4.2.5 The main proposals from the Government are

- A new formula to distribute grant based on updated relative need less each authorities ability to raise resources (Council Tax)

- The new formula to be phased in over a three-year period

- Other funding to include 4 specific grants for Public Health, Homelessness and Rough sleeping, Crisis and resilience and a Children Families and Youth grant

- The majority of the grants previously separated in Core Spending Power to be merged to one funding pot with new funding allocated in one larger grant via the new formula

4.2.6 Whilst Havering welcomes the introduction of the new formula, the Council is opposed to the phasing in of the new grant levels over three years. The new grant levels will be based on up-to-date data and as such should be introduced with immediate effect without transition. The Government has mechanisms such as Exceptional Financial Support to help any authorities with significant losses whilst they transition to their new correct grant level.

4.2.7 The Government are expected to signal their final intentions with regard to the review in a Policy statement which is expected to be announced by early to mid-November. The Chancellor has announced the budget speech on 26th November. These dates are later than the Government had originally planned and as a result the Local Government Finance settlement is not now expected until shortly before the Parliamentary recess on 18th December.

4.3 **Business Rate Reform**

4.3.1 The Government have announced that they plan to introduce business rate reforms this winter. Firstly there will be a Business Rate revaluation with those businesses who have large increases in their rateable value and therefore rates bill receiving transitional support.

4.3.2 From April 2026, the Government will introduce five new business rates multipliers. These will reflect both business type and property value. The five new multipliers will apply as follows:

- Small business Retail, Hospitality and Leisure (RHL) multiplier: RHL businesses with RV below £51,000
- Small business non-RHL multiplier: Non-RHL businesses with RV below £51,000
- Standard RHL multiplier: RHL businesses with RV between £51,000 and £499,999
- Standard non-RHL multiplier: Non-RHL businesses with RV between £51,000 and £499,999
- Large property multiplier: For all properties with RV of £500,000 and above

The Government have announced that the rates for these new multipliers will be announced as part of the budget statement on November 25th

4.3.3 These changes will impact the value of Business Rates the Council will collect. This will not however affect the resources available to the Council as the revised retained value will be part of the Council's funding calculated as part of the new relative needs formula. The introduction of different multipliers may have an initial administrative impact as the Council will need to update its systems to reflect the new rates.

4.3.4 The reset will change the amount of Business Rates that will need to be paid. Some businesses within Havering will benefit from this but for those with a significantly higher bill transitional relief will be made available to smooth changes.

4.4 The Casey review of Social Care

4.4.1 The review will be in two phases. The purpose of the first phase of the commission is to set out the plan for how to implement a national care service, a government manifesto commitment. This should report in **2026**. The commission should start a national conversation about what adult social care should deliver for citizens and build consensus with the public on how best to meet the current and future needs of the population. It will consider older people's care and support for working age disabled adults separately, recognising that these services meet different needs.

4.4.2 The second phase will then make longer-term recommendations for the transformation of adult social care, reporting back by 2028. This should build on the commission's medium-term recommendations to look at the model of care needed to address demographic change, how services must be organised to deliver this and discuss alternative models that could be considered in future to deliver a fair and affordable adult care system.

4.4.3 Havering along with many other authorities are concerned about the proposed timings of this review. Whilst the complexity of the issue is understood the shortfall in funding nationally for social care is becoming unsustainable. The Local Government Association, have indicated a significant and growing national shortfall in adult social care funding, estimated to be at least £2.3 billion for 2025-26. The Government Spending review announced in June 2025 did nothing to indicate this would be resolved over the next three years.

5. THE 2025/26 BUDGET PERIOD 6 REVENUE MONITORING

5.1. The Period 6 revenue monitor is the subject of a separate report to this cabinet meeting. The report shows a potential financial gap for 2025/26 of £62.6m This position is an improvement on the most likely budget scenario set out in the Council's budget setting report in February 2025 but will still require an offsetting Capitalisation direction to be used to balance the budget at year end. The position is set out in the table below:

Table 1: Period 6 Revenue Monitoring Position 2025/26

	Revised Budget (£m)	Outturn Forecast (£m)	Outturn Variance to budget
People	199.8	207.0	7.2
Place	19.3	16.0	-3.3
Resources	29.2	29.8	0.6
Service Total	**248.3**	**252.8**	**4.5**
Corporate	26.3	14.2	-12.1
Corporate worst case budget	17.8	0	-17.8
Total Planned Spend	**292.4**	**267.0**	**-25.4**
Council Tax and Govt grants	-204.4	-204.4	0.0
Reduction in EFS required	-88.0	-62.6	25.4
Total Financing	**-292.4**	**-267.0**	**25.4**

5.2 The gap shown above is a structural gap in the Council's finances and this has been used as the base starting position when preparing the 2026/27 budget and MTFS. It should be noted that the budget position shown assumes approximately £1.7m of the savings forecast for 2025/26 will not be delivered. This has been reflected in the starting position for the 2026/27 budget. The Council will continue to try and deliver these proposals or identify alternative efficiencies and any progress on this will be included in both future monitoring reports and an updated starting position for the 2026/27 budget.

5.3 The final Council Tax setting report in February 2026 will use the latest monitoring position to assess the ongoing 2025/26 budget gap to be brought forward for use in the 2026/27 budget. Changes in legislation in planning and parking may result in additional income to the Council and these areas in particular will be reviewed to ensure any benefit is included in the 2026/27 budget and MTFS. This may include additional income budgets being included for 2026/27 based on the latest 2025/26 position and projected future income levels.

6. UPDATE ON THE 26/27 BUDGET GAP AND MTFS UPDATE

6.1. 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 2025 the medium-term financial strategy set out a potential gap of £112.1m for 2026/27.

Table 2: MTFS position presented to full Council in February 2025

2025-2029 MTFS	2026/27 (£m)	2027/28 (£m)	2028/29 (£m)
Demographic and unit cost pressures	14.0	14.5	15.0
Other service pressures	5.9	1.0	1.0
Inflation and Pay award	5.2	5.2	5.2
Investment and Growth	-0.8	0.0	0.0
Capital Financing	5.9	2.2	0.9
Other Corporate Pressures	5.4	2.3	5.1

TOTAL PRESSURES	**35.6**	**25.2**	**27.2**
Savings	-5.4	-1.1	-1.1
Government funding	5.1	-2.1	-2.3
Fees and Charges	-0.7	-0.7	-0.7
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	**112.1**	**144.7**	**182.4**

6.2. 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.

6.3. There are increased Demographic and Unit Cost Pressures since February (£14m assumed in the February Budget report now increased to £20.4m in 2026/27). The demographic pressures below will continue to be reviewed until the final budget report is produced in February 2026. Demographic growth will be allocated based on a set of most likely assumptions of user numbers and inflationary pressures. If these assumptions change after budget setting then any unutilised growth will be held corporately and will be declared as an underspend against the budget

Adult Social Care Demographics

6.3.1 The cost of providing Adult Social Care has been increasing year on year. The main driver is the economic climate that providers are working in the costs of which are driven by inflation rates. The cost base of most adult social care providers in Havering is dominated by staff wages close to the National Living Wage (NLW), Real Living Wage (RLW), or London Living Wage (LLW). The large increases in NLW in recent years has meant that cost inflation in adult social care will be significantly higher than the general inflation rate. The NLW has increased by 35% over the last 5 years and there will be an announcement on the April 2026 uplift as part of the Chancellors budget speech on November 26th 2025

6.3.2 Annual uplifts are assessed and agreed annually to providers in order to support and sustain the provider market. The other main element of the adult social care demographic growth is the increase in complexity of cases that are being seen year on year. This is increasing the costs with Adult Social Care and is demand led. Although numbers of users are remaining relatively stable for Adult Social Care, there is also an increase in costs annually, due to the cost of new starters packages being significantly higher than the cost of those users ending.

Children’s Social Care Demographics

6.3.3 The costs for children's social care in Havering was one of the lowest in the country prior to the pandemic but has grown significantly in recent years. The total Children’s Social

Care budget has grown by 60% since 22-23. This has been driven by sharply increasing unit costs for care and placements and there has also been considerable investment into staffing following the Ofsted report last year.

6.3.4 The modelling for the MTFS assumes a rise of 15 net children in care over the next two years. It is recognised however that there may in fact be more individuals coming and leaving care during any particular year. The average unit of care over all care areas has risen by an average of 12%. This has been driven by inflation and wage uplifts, market pressures, changes in the placement mix and increasing complexity of need. The modelling for Children's Social care assumes that there will be general price inflation increases of 5%.

6.3.5 It should be noted that the demographic growth calculation does not include asylum seeking children although there is a real risk that we may be asked to take on more cases via the national dispersal scheme. The cost of provision for those over 18 exceeds the grant provided by the Government so a significant increase in this area would present a pressure to the Council

Increased Cost of Housing Demand

6.3.6 The volume of demand for the service is now around 300 households a month and is causing significant pressure on need for emergency temporary accommodation. The average caseloads have become unsustainable at over 70 per officer which reduces the Councils ability to discharge its duty to households at pace is diminished with current resource levels. The demographic pressure request includes additional staffing to reduce these case levels.

6.3.7 Trends in recent years indicate a growth of 9 households each month requiring emergency temporary accommodation. Average households number of night stays in nightly paid accommodation is increasing

6.3.8 The supply of private sector lease (PSL) accommodation is losing 100 properties a year meaning by 2029 we will have under 50 PSL properties at the current loss rate. Can we add a chart to loss of PSL properties. Need to set out impact on average cost per household in TA between PSL and other accommodation.

6.3.9 The Council does have a number of mitigations which will help meet this growing need and these are set out in the savings section of this report. Allocation of Housing growth will be very closely monitored and will be based on a clear data showing transparent factors such as reductions in PSL's and increased requirement for temporary accommodation. The mitigations proposed in this report if approved will also be closely monitored both in terms of delivery timescale and anticipated benefit.

Summary of Demographic Pressures

6.3.10 The three areas described above all are likely to continue to experience additional demand over the next few years. These are National issues, and Havering is not alone in experiencing these pressures. It is hoped that the Government will recognise this National need moving forward and will make further funding announcements in advance of the Casey review reporting schedule.

6.3.11 The table below summarises the forecast demographic growth which has been built into the Medium-Term Financial Strategy. The Council will continue to review these likely pressures and has also developed key mitigating processes such as Better Living and targeted reviews to partially offset these pressures

Table 3: Revised Demographic Growth

Demographic Growth	**2026/27 (£m)**	**2027/28 (£m)**	**2028/29 (£m)**
Adult Social Care	12.300	9.700	10.500
Children's Social Care	4.100	4.400	5.000
Housing Demand	4.000	3.040	6.530
TOTAL	**20.400**	**17.140**	**22.030**

6.4. Growth and Investment

6.4.1 The Council's budget position is tight and the Council has strict spending controls in place to minimise costs wherever possible. In setting the budget however there is a recognition that investment is needed in key areas either to help deliver savings and efficiencies or where services need investment to continue to meet service levels.

6.4.2 The Council is proposing to invest £5.9m in 2026/27 to meet future demand and deliver future efficiencies as set out in the table below.

Table 4: Growth and Investment by Directorate

Directorate	**2026/27 (£m)**	**2027/28 (£m)**	**2028/29 (£m)**
Place	2.330	-0.420	-0.200
People	2.610	1.800	2.230
Resources	0.930	-0.280	-0.050
Total	**5.870**	**1.100**	**1.980**

6.4.3 These growth items can be categorised to show which are needed to service improvement, which are to deliver savings and which are inflationary increase. This is set out in the table below

Table 5: Growth and Investment by Category

Category	**2026/27 (£m)**	**2027/28 (£m)**	**2028/29 (£m)**
Investment to deliver savings	0.250	-0.010	0.000
One Off Projects	1.090	-0.810	-0.200

Ongoing Investment	4.530	1.920	2.180
Total	**5.870**	**2.320**	**3.280**

6.4.4 **Growth will only be allocated** to projects where a clear business case has been produced, setting out the benefits and cashable benefits to be delivered from the investment. The growth maybe to deliver future efficiencies, cashable savings, or as a service requirement to modernise or adapt to meet future demand.

6.4.5 There are also several Capital proposals which will improve Council services and deliver future efficiencies. These Capital bids are listed below. The revenue financing costs of these bids has been assumed in the updated financing costs for the Council. Work will commence to develop business plans where appropriate for these projects

Table 6: Capital Proposals

Category	2026/27 (£m)	2027/28 (£m)	2028/29 (£m)
Build/ Buy two children's homes	2.000	1.800	0.000
Balgores new accommodation	2.200	0.000	0.000
Asbestos reviews	0.500	0.000	0.000
Condition Works	0.000	2.000	0.000
Parks Improvement	0.200	0.200	0.200
Total	**4.900**	**4.000**	**0.200**

6.5. Savings Proposals

6.5.1 The Council already had identified a number of savings proposals for future years when the 2025/26 budget was set in February 2025. Since then, officers have reviewed these proposals to ensure they are still deliverable and have identified a further set of savings to help the budget position.

6.5.2 Some savings are internal efficiencies which any large organisation would annually identify and will be actioned as soon as possible. Any saving proposals that will have a public impact however will be subject to consultation and equality impact assessments where necessary. The table below sets out a summary of savings by Department with detailed templates for each new proposal shown in **Appendix A** of this report

Table 7a: New and existing Savings Proposals

	26/27 (£M)	27/28 (£M)	28/29 (£M)
Existing and already in MTFS	-5.440	-1.100	-1.100

New Savings	-4.720	-1.890	-13.440
TOTAL	**-10.160**	**-2.990**	**-14.540**

Table 7b: Savings by Directorate

Place	-0.620	-0.480	0.000
People	-7.170	-1.410	-13.440
Resources	-0.070	0.000	0.000
Corporate	-2.300	-1.100	-1.100
TOTAL	**-10.160**	**-2.990**	**-14.540**

6.6. Corporate Assumptions

6.6.1 The Medium-Term Financial Strategy contains a number of Corporate assumptions which are refreshed to include the latest estimates available. These assumptions include:

- **ELWA Waste Disposal Costs**. The cost of the levy is set to rise until December 2027 at which point there will be new contract arrangements which are expected to deliver a significant saving. There will be new contracts to deal with the various waste streams and revised contract process will be confirmed over the next 2 years as the various contracts are awarded. The figure included for 2028/29 in the Medium-Term Financial Strategy is therefore a high-level estimate which will be refined as future levy figures are confirmed

- **Concessionary Fares**. The cost of Concessionary fares is based on an annual negotiated settlement with TFL and the other transport providers. The agreed settlement is apportioned across boroughs on a usage basis. This negotiation is undertaken on behalf of all London Boroughs by London Councils and the MTFS includes the latest assumptions from their modelling.

- **Pay and Price Inflation**. The MTFS includes a 3% pay assumption for the next three years. The inflation provision includes departmental contractual inflation and the Council also holds corporate inflation to reflect expected increases in insurance, energy and business rate costs. Each 1% of pay inflation adds £1.2m to the budget.

- **Actuarial review of the Pension Fund.** There is a triennial review of the pension fund which also determines the recommended contributions the Council needs to make to the fund on an annual basis. The fund has performed well over the last three years and as a result the Council has been able to reduce the contribution it makes to the pensions fund generating a saving both to the general fund and the HRA.

- **Capital Financing Costs.** The MTFS contains assumptions regarding the financing costs of funding the borrowing required for the Capital programme. These forecasts reflect the prevailing interest rates and the updated profiling of the Capital programme. The Council also receives income from loans to Mercury Land Holdings and where these loans are in place income is assumed at market rates.

- **Capital Financing costs (EFS)** The MTFS contains the assumed borrowing and repayment costs for exceptional financial support based on the forecasted financial gaps in this report. The Council will continue to lobby the Government on flexibility regarding these costs but currently has no alternative but to assume these costs in its planning. The forecasts are based on a 5% interest cost and repayment over 20 years (5%)

- **Contribution to General Balances.** The Council currently holds a £5m budgeted contribution to general reserves. The **MTFS** assumes that in order to get to £25m of general reserves (which will represent around 8% of the net revenue spend by 2026/27) the Council will need to retain this budget for 2026/27 but it can be released thereafter. The CIPFA FM review was quite clear in the need for the Council to maintain general reserves at a level consummate with the size of the Council's budget

- **Other Corporate Adjustments.** The medium-term update also includes the latest estimates for contributions to the collection fund, reflection of one off savings in the 2025/26 budget and a review of all other corporate budgets to identify any funds that can be released to support the overall Council position

6.7. **Government Grant Assumptions:**

6.7.1 The report current excludes figures for Government grant pending the outcome of the fair funding review. Modelling by London Councils, assessing the exemplifications released by the Government in June indicate that the Council will significantly gain from the review but the exact amount is subject to further change. The Council will only find out the actual impact of the review when the provisional Local Government Finance Settlement is released in mid-December.

6.7.2 The Government have indicated that the model will be updated to include the most recent deprivation data. There may also be other changes as all the replies to the consultation are considered. Havering almost certainly will receive an improved grant level as a result of the fair funding review but the figures presented in this report are an estimate and will change when the formal settlement is announced in December. It should be noted that Havering despite having areas of high need is not as deprived as other areas of London and the country. There is therefore a risk that if a greater weighting in the final formula were placed on deprivation this would negate some of the benefit Havering is set to receive through updated relative need.

Revised Medium Term Financial Strategy:

6.8. The new assumptions have been brought together in the table below to show the latest projected position. This currently excludes grant changes as a result of the fair funding review which it is expected will help reduce the gap shown. It is clear however that the Council will be reliant on further exceptional financial support moving forward

Table 8: Updated Medium Term Financial Strategy

MTFS	2026/27 (£m)	2027/28 (£m)	2028/29 (£m)
Underlying Budget Gap	69.000	93.600	111.060
Demographic and unit cost pressures	20.400	17.140	22.030
New Investment requests	5.870	1.100	1.980
Corporate Adjustments	7.390	4.010	2.040
Financing Cost of EFS	7.000	7.500	7.200
FUNDING			
Increased Fees and Charges	-0.700	-0.700	-0.700
Savings	-10.160	-2.990	-14.540
Provision for non-delivery of savings	3.000		
Council Tax (provisionally assumed at 4.99% but not agreed yet)	-8.200	-8.600	-9.000
TOTAL 3 YEARS	**93.600**	**111.060**	**120.070**

6.8.1 The underlying budget gap is assumed at £69.0m which takes account of all know ongoing pressures in the current year budget. The period 6 revenue monitoring position shows a gap of £62.6m but this contains underspends on treasury management and the pension fund which are already adjusted in the corporate line of the table above. The period 6 monitor shows an overspend on departmental spend but the ongoing effect of this overspend is also reflected in the demographic growth figure in the table above

6.8.2 The table above **excludes** the impact of the fair funding review and does not include any increase in Government grant for the Council. Modelling from the exemplifications provided in the Government's consultation paper would indicate that Havering could benefit by up to £40m over the three years of the medium-term financial strategy. There is still a high level of uncertainty regarding this and speculation that the formulae may be altered significantly before release so prudently Government grant changes have been excluded from the table until the Government make more formal indications in November

6.8.3 It is clear however that even if the Council benefits significantly from the fair funding review this will not close the structural gap that the Council has accumulated through previous years of inequitable funding. The Council continues to be in close dialogue with the Government regarding this and the significant effect of the financial costs due to EFS.

6.8.4 The MTFS assumes Council Tax increases will be at 4.99%. Final decisions on the level of Council Tax will be taken at full Council in February 2026 and as such the figures in the table above are merely estimates of the potential yield should Council Tax be increased at this level. It should be noted that a clear Government funding assumption is that Councils increase their Council Tax by 2% for Adult Social Care and 2.99% for general Council Tax. The general grant allocated by the Government will take into account an assumption on this additional yield to the Council.

6.9 There are assumptions in the Medium-Term Financial Strategy which could potentially change due to either Government decisions or prevailing inflation levels. All assumptions will be reviewed regularly in the lead up to budget setting in February, but the table below gives a guide to the impact of a change in these areas

Table 9: Sensitivity analysis of cost and income drivers

Cost/Income Driver	Impact (£m)
1% increase in Pay	1.3
1% increase in NI Employer contributions	1.3
1% increase in Adult Social Care placement costs	1.1
1% increase in Starting Well budget	0.8
1% increase in fees and charges	-0.2

7. FINANCING THE BUDGET GAP AND FURTHER ENGAGEMENT WITH MHCLG

7.1. 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 2026)
- Ongoing reviews of all current and future spending through the recovery boards

7.2. The Council however has a structural deficit in its budget and even with the potential benefit of the fair funding review will not be able to balance the budget either in 2026/27 or over the three-year period. The Council is therefore in regular dialogue with MHCLG over its position with specific lobbying points including:

- Ask MLCLG to consider frontloading any benefits from the fair funding review into 2026/27 for authorities in financial difficulty such as Havering

- That MHCLG consider the detrimental impact of financing costs for EFS on the Councils budget

- That the Government recognise the shortfall in Social Care funding nationally and inject significant new funds to help address this imbalance whilst the Casey review develops the longer-term vision for Social Care

- Raise awareness on the need to have a financial solution to the schools funding deficit. Authorities including Havering have been allowed to carry forward high needs deficits on their balance sheets and this has now been extended to March 2028. Havering's deficit at the end of 2025/26 is forecast to be £66m increasing from £36m at the end of 2024/25 and a national solution needs to be found to this imbalance. The main reason for a DSG deficit is the overspending on the High Needs Block, which funds support for children with Special Educational Needs and Disabilities (SEND). This is driven by a rising number of children with SEND and increased costs for their support, which have outpaced funding increases.

7.3 The financial gap shown in Section 6 of this report will necessitate a further request to the Government for Exceptional Financial Support for 2026/27. Council officers have made MHCLG aware of this situation and whilst the Council will do everything it can to reduce the structural deficit the sheer size of the gap means it is inevitable EFS will be needed again in 2026/27. The Council will be in a position to confirm the value required after the Provisional Local Government Settlement has been announced in December.

8. OTHER IMPROVED OUTCOMES AND COST PREVENTION MEASURES

- Move towards opening the East Havering Data Centre Campus, Green Energy Infrastructure and Ecology Park Project. This will create significant opportunities for the borough including new local jobs and localised green energy aswell as bringing external investment to the borough.

Focus on improving business as usual delivery

- Continue to 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 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
- Complete the move to a Havering only IT service which will secure access to dedicated technical resources and a focused digital strategy.

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.
- Continue the ward-led enablement pilot to help reduce patient deconditioning whilst in hospital and associated costs for discharge arrangements where patients have higher needs.

9. COMMUNICATION AND ENGAGEMENT APPROACH ON THE BUDGET

9.1. 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
- Engagement with all Councillors on the budget position

10. IMPLICATIONS AND RISKS

10.1. Financial Implications and Risks

10.1.1 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 2026/27 budget and the implications if the Council is unable to reduce its pressures in order to deliver a balanced budget.

10.1.2 The Council will need agreement of exceptional financial support with the Government in order to set a balanced budget for 2026/27. If this support is not forthcoming the Council will not be able to balance its budget and potentially will need to issue a S114 notice

10.1.3 The Council has a structural budget deficit which is forecasted to remain through the three years of the financial strategy. The duration of the plan matches the Government's three year phasing in of the fair funding review formulaic updates. At present the Council is still forecasting a significant gap for 2028/29. There is a risk that the Government may cease EFS for authorities once the fair funding review is completed and as such the Council will need to find savings and additional income in order to close the gap by that time.

10.1.4 The costs of EFS will potentially become an increasing part of the Council's revenue budget. The financing costs per year for each £10m of EFS will be around £1m at the current interest rates. Half of this cost is minimum revenue provision set aside to repay the borrowing with the remainder being an interest payment. The Council was able to use Capital Receipts to finance EFS for 2023/24 but by the end of 2025/26 will have had further capitalisation directions of £30.4m for 2024/25 and potentially £70m for 2025/26 with an ongoing revenue impact of around £10m per year.

10.2. Legal Implications and Risks

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

Under S 28 of the Local Government Act 2003 a local authority is required 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.

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.

10.3. **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.

10.4. **Equalities and Social Inclusion Implications and Risks**

There are no immediate Equalities and Social Inclusion implications arising from the report. The savings proposals in this report where applicable will be subject to consultation and an EQUIA for any that have a direct impact on the public.