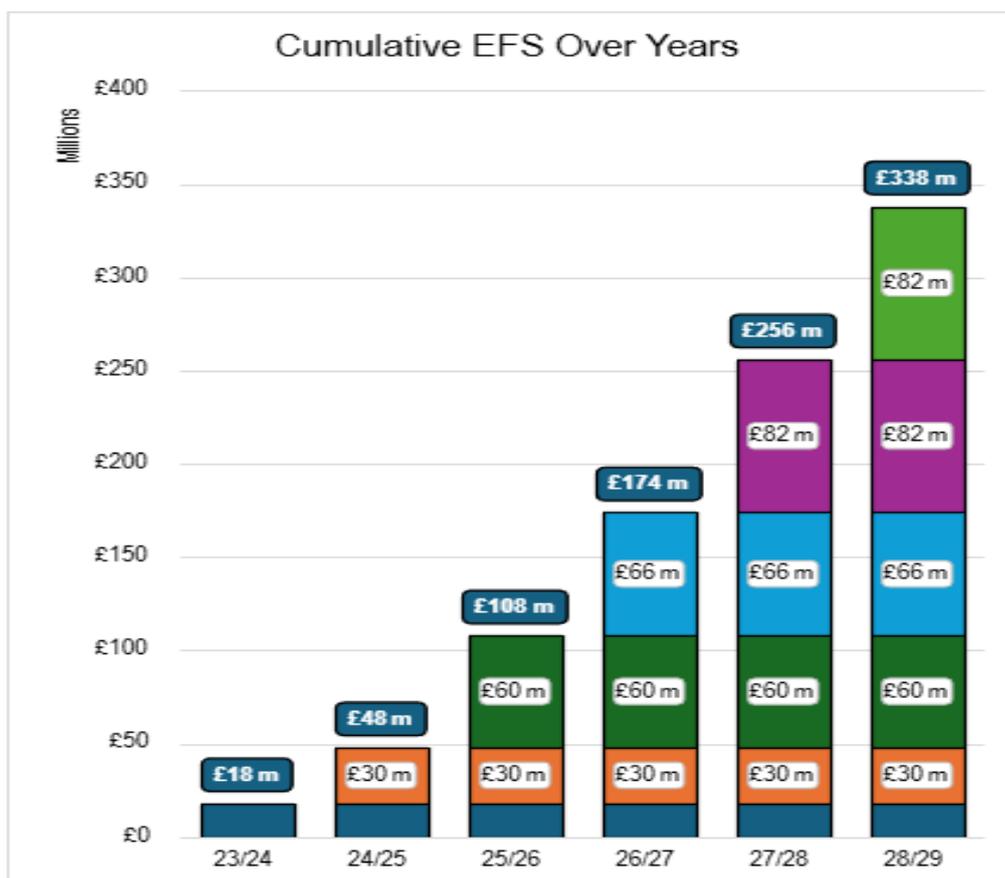


1. Introduction and background

- 1.1 Section 25 of the Local Government Act 2003 requires Chief Financial Officers to report to their authorities about the robustness of estimates and the adequacy of reserves when determining their budget and level of Council Tax. Authorities are required to consider their Chief Financial Officer's report when setting the level of Council Tax.
- 1.2 Throughout this statement, I will clearly set that Havering Council is financially unsustainable for the foreseeable future. Without the Government providing Exceptional Financial Support each year, I will undoubtedly be issuing a S114 report, in accordance with the 1988 Local Government Finance Act.
- 1.3 This is the third year I have led the Council's Budget setting process, since joining the Council in August 2023 and unfortunately, **Havering's financial position will remain unsustainable in the medium to long term**, despite the long-awaited implementation of the Fair Funding reforms. The Medium-Term Financial Plan signals that Havering will **require Exceptional Financial Support (EFS) of c£77m to £93m, per year from 2026/27 through to 2028/29**. For context, Havering's net budget will be £348m next year of which 24% will be funded through borrowing,
- 1.4 Havering's position stems from years of systemic underfunding, which unfortunately remain unresolved despite the implementation of Fair Funding 2.0.
- 1.5 At present, officers and Members have an excellent working relationship. The Council's culture is supportive, transparent and honest. Cabinet Members take on board the advice of officers and have been prepared to make difficult decisions to reduce spend and deliver savings. Havering has not taken excessive commercial risks and has been prudent in its decision-making processes.
- 1.6 In my drafting of the Section 25 Statement this year, I will focus on the points below to ensure the concerns I am raising about Havering's financial position are clearly set out. I will not be re-visiting Havering's financial challenges in my S25 statement this year, which are well-versed but I will address why the implementation of Fair Funding 2.0 has not resolved the Council's Financial challenges.
- Section 2 - Impact of EFS on the Council's Budget Deficit
 - Section 3- Fair Funding benefit, why the Council remains financially unsustainable
 - Section 4 - Robustness of budgets, savings, adequacy of reserves
 - Section 5 - Actions and next steps, what would it take to balance the budget?
 - Section 7- Section 114 report considerations
 - Section 8 - Summary and conclusions

2 Exceptional Financial Support, Impact on the Council's budget deficit

- 2.1 During 2023/24, the Council applied for EFS in year as it was unable to finance the £22m overspend forecast in August 2023. Due to strict spend controls applied in year, the 2023/24 outturn was £18m, and the Council was able to finance the EFS using capital receipts. At the same time, the Council also applied for EFS as it was unable to balance the budget in 2024/25.
- 2.2 To date, the Council has applied for £136m of Exceptional Financial Support. Based on the latest revenue monitoring report, £108m of this support is forecast to be spent at the end of 2025/26 with an ongoing revenue cost of £11m to finance the debt. By the end of the Medium-Term Financial Strategy period to 2028/29, the Council will have amassed debt of £338m with a financing cost of £32m per year. In addition, the Council is unable to service the debt financing costs resulting from EFS, with interest and MRP (MRP is the minimum revenue provision/funds set aside for repayment of sums borrowed) added to future years' EFS applications.



- 2.3 The application for Havering's 2026/27 Exceptional Financial Support (EFS) was submitted to the Minister of Housing, Communities and Local Government (MHCLG) on 12th December 2025. It confirmed that Havering will be unable to set a legally balanced budget without extensive borrowing of c£77m to c£90m each year, to deliver

its statutory responsibilities from 2026/27 through to 2028/29. This position includes the full benefit of c£39m from Fair Funding, assumed Council Tax increases of 4.99% per year and the delivery of £23m of savings, in full.

- 2.4 As with the position the Council was in this time last year, **I must again be clear that without Exceptional Financial Support, currently offered through a Capitalisation Direction, Havering would not be able to set a legally balanced budget for 2026/27.**
- 2.5 I have stated previously that Exceptional Financial Support, if agreed, will only provide a temporary solution to cover the Council for one year only. Exceptional Financial Support does not resolve the Council's structural budget gap and will in fact, increase the Council's budget deficit each year due the Council being unable to repay or fund the interest costs of the debt.
- 2.6 I have stressed in meetings with Officials from MHCLG, the Council will never be able to repay the funds borrowed through EFS and have made it clear that the Council is borrowing to fund the interest and repayment costs. This will be adding £32m to our EFS each year by 2029/30.

3 Fair Funding Impact and why Havering remains unsustainable

- 3.1 It is positive that Havering benefited from the Funding Reforms, gaining c£39m by 2028/29. However, the Council's started the current financial year with a structural budget deficit of £88m and submitted a request for Exceptional Financial Support on the 12th December 2025 to this effect. The additional £39m by 2028/29 will curb the rate in which the Council's budget gap accelerates by, but it does not address the underlying budget deficit accumulated through years of systemic underfunding.
- 3.2 The implementation of the Funding Reforms has now crystalised Havering's financial fate and the Budget report clearly sets out that the Council require Exceptional Financial Support of between £77m to c£90m, per year from 2026/27 through to 2028/29.
- 3.3 The table below illustrates the impact of the Funding Reforms on the Council's budget gap:

	2026/27 (£m)	2027/28 (£m)	2028/29 (£m)	2029/30 (£m)
Budget gap before Fair Funding	81.5	93.4	94.0	
Benefit from Fair Funding re-distribution	-15.6	-11.8	-11.7	
Revised budget gap (mid-case)	65.9	81.6	82.3	
Proportion of the Budget Gap relating to EFS	9.0	15.6	23.6	31.7
Percentage of the Budget Gap relating to EFS	13.6%	19.1%	28.7%	
Revised budget gap (worst-case)	77.0	92.7	93.4	

4 Robustness of the budget, risks, adequacy of reserves

- 4.1 I am satisfied that the Council's budget setting process and estimates contained in the Medium-Term Financial Strategy are robust, with assumptions set out in Appendix A of this report.
- 4.2 In setting the 26/27 budget, the Council has added demographic and inflationary growth of £16m to the People directorate and will be holding £11m to manage additional risks and unforeseen costs. Since 2022/23, the Council has invested **c£90m** of demographic pressures in front-line Social Care and Temporary Accommodation services.
- 4.3 The 2026/27 budget deficit is £66m on a mid-case basis and is £77m on a worst-case basis. The budget deficit is net of a savings of £10m, and Members will be asked to approve a 4.99% increase of Council Tax of £9m and £15m of assumed benefit from the implementation of Funding reforms. The Council's net budget that it can finance directly without EFS is £271m. The Council therefore needs to borrow £77m on a worst-case basis to continue providing statutory services to its residents.
- 4.4 The table below illustrates Havering's structural budget deficit has increased year-on-year, despite the funding reforms. Without the funding reforms, Havering's deficit would be far greater as illustrated below;

	24/25 Outturn (£m)	25/26 Est Outturn (£m)	26/27 (£m)	27/28 (£m)	28/29 (£m)
Structural gap	30.4	60.0	92.6	120.1	132.5
Impact of Fair Funding	0.0	0.0	-15.6	-27.4	-39.1
Revised structural deficit (worst-case)	30.4	60.0	77.0	92.7	93.4

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

Dedicated Schools Grant

- 4.6 The Council is also forecasting a High Needs deficit of £68m on the Dedicated School's Grant (DSG), which has increased from £35m at the end of 2024/25. The DSG high needs deficit is due to increase to £100m by the end of 2026/27, based on the current funding model. The DSG statutory override has currently been extended to March 2028 and I have not incorporated the DSG deficit in the Council's overall budget deficit. The Government has made an announcement in the final settlement to provide grant compensation of 90% of the deficit subject to a local SEND reform plan.

Housing Revenue Account

- 4.7 Havering's Housing Revenue Account is balanced, albeit very tightly. The HRA has reserves of around £34.3m and I have set a rule whereby the reserves must be maintained at 10% of the annual income as a minimum each year. This is achieved throughout the 30-year annual business plan. If at any point, the reserves dip below the 10% threshold, a decision will be made to delay expenditure on aspects of the Regeneration Programme that are not currently in contract.

Earmarked and General Reserves

- 4.8 The Council's earmarked and general fund reserves although are still one of the lowest in London are now at £51m, with a deliberate strategy to increase general reserves by £5m per year from 24/25, until reserves reach 8% of the Net Revenue Budget. Although I am borrowing to increase the Council's reserves position, the Council's reserves must be adequate to respond to in-year risks and unforeseen cost pressures that may arise. To illustrate the level of financial risk the Council is exposed to, the cumulative EFS borrowed by the end of 2025/26 amounts to £90m and the DSG deficit will be £68m to the end of the year. This is over 300% of the level of total reserves the Council has.
- 4.9 The Council's earmarked reserves stand at £40m and are estimated to reduce to £31m at year end to reflect spend against the projects financed through reserves.
- 4.10 The Council now has £15m of unearmarked reserves and the intention is to increase the unearmarked reserves in 2025/26 to £20m, which will equate to 2 months of payroll costs as a measure.

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

5 Financial controls to remain and steps required to balance the budget

- 5.1 Since October 2023, the Council has operated with the controls as follows:

- Spending controls to reduce and stop non-essential spend, supporting an effective financial management culture across the organisation, empowering staff to question what and why they are spending.
- Recruitment panel focused on reducing spend on agency staff and interim costs and supporting the recruitment of permanent staff, subject to funding/budget being available.
- Corporate Debt Board has been set up to review and improve the Council's income collection processes and to monitor performance on collection rates of Council Tax, Business Rates, Housing Rents, Service charges, Adult Social Care debt, Parking debt and miscellaneous debts.
- From January 2026, the Chief Executive has set up an Improvement and Assurance Board, independently chaired by an external advisor who will support the Council with a series of deep-dives, assessing the scope of service delivery across the highest spend service areas across the Council, proposing ideas for service re-design and the ability to deliver savings at scale.
- Finance Oversight Board will re-commence from April 2026 to ensure operational effectiveness and reviews the delivery of planned savings, monitors the achievement of outcomes from invest to save initiatives, delivery of projects in the capital programme and will review financial recovery plans for services that are spending in excess of their budget envelope

5.2 In practice, the Council is operating strict financial controls due to the exceptionally challenging financial situation and the lack of financial sustainability.

5.3 In the coming months, I will be working closely with the Executive Leadership Team, Assistant directors and Heads of Service to review how we can significantly reduce the Council's structural deficit.

5.4 The Executive Leadership Team will be asked to review the level of demographic growth set aside in future year budget rounds to £10m per year, over the next three years and identify preventative measures to reduce the demand led-increases.

5.5 In addition to reducing the demographic pressures to £10m a year, officers across the Council will also be asked to deliver further savings of 5% of savings per year, for 3 years, amounting to £30m. Further discussions will be held with MHCLG regarding the Council's debt financing costs.

6 Consideration of a S114 report

6.1 The S114 legislation dates back to 1988 and in itself, does not, and will not resolve the Council's structural funding deficit.

6.2 The section applicable to Havering's financial is set out below:
Excerpt from 1988 of the Local Government Finance Act, S114 (3)

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

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

- Immediate spending restrictions, except for essential services and statutory obligations
- Council meeting within 21 days of issuing the report to decide on actions to be taken
- The council will conduct a thorough review of its finances and develop an Improvement and Recovery Plan. This plan outlines steps to achieve a balanced budget, which may include cost-cutting measures, asset sales, and seeking additional financial support from the government
- The Council must communicate the report with various stakeholders, partners, government departments and auditors and plans to address the report The council will closely monitor its financial position and report on progress regularly. If the financial situation does not improve, further S114 notices may be issued

6.4 I have clearly set out that the Council will remain in financially unstable for the foreseeable future unless action is taken promptly at the beginning of next financial year to deliver the points set out below in paragraph 7.2. It may be that the actions below are insufficient to bring the Council back to a financially sustainable position.

6.5 I will continue to work with colleagues at MHCLG and engagement with the Council's External Auditors, EY to raise concerns about Havering remaining in a financially unsustainable position for the foreseeable future, based on the Medium-Term Financial Strategy presented as part of the 2026/27 Budget Setting process.

7 Summary and Conclusion

7.1 Havering's financial challenge as presented is unsustainable with a forecast deficit of c£77m to c£93m per year over the next three years.

7.2 However, I will be working closely with Members and officers in the months ahead on how we can significantly reduce the budget deficit through achieving the following measures:

- Reduce the Council's demographic pressure to £10m per year

- Identify efficiency savings of 5% per annum, equating to £30m of recurring savings by the end of 2028/29
- Deliver existing savings of £23m proposed, in full
- Continue to assess above referendum Council Tax increases, which will be subject to a Full Council decision and agreement from MHCLG
- Continue to discuss the position with MHCLG regarding the financing costs and MRP costs of EFS, asking the Department to consider alternative treatment of the debt financing costs, should the Council be in a position to address the non-debt financing element of the budget deficit

7.3 The points set out in preceding paragraph forms the action plan, which if achievable, will support the Council on the road to financial sustainability. I will continue to monitor the commitment of officers to deliver on the points above, as well as assess the appetite of Members to work closely with officers to support the service re-designs in order to significantly reduce our costs.

7.4 I will continue to assess the Council's financial position, our financial management culture and our ability to ability to deliver change as part of my ongoing consideration regarding whether a S114 report is appropriate, and when it will be required.