



CABINET

Subject Heading:

Revenue and Capital Budget Monitoring Report of 2025/26 as at P10/Q3

Cabinet Member:

Councillor Chris Wilkins (Cabinet Member for Finance.)

SLT Lead:

Kathy Freeman, Strategic Director of Resources and Sec 151 Officer.

Report Author and contact details:

Katherine Heffernan, Philippa Farrell, Heads of Finance Business Partnering

01708 432406

***[Katherine.heffernan@havering.gov.uk](mailto:katherine.heffernan@havering.gov.uk),
philippa.farrell@havering.gov.uk***

Policy context:

This report provides a summary of the Council's forecast financial position for 2025/26 as at the end of January 2026.

Financial summary:

At the end of period 10 of the Financial Year the Council is forecasting an underspend of £17.4m against the mid case scenario and a total underspend of £35m against the total budget including worse case provision. This will require use of £53m of Exceptional Financial Support. The DSG is forecasting an in year overspend that will bring the total deficit to £67.7m.

Is this a Key Decision?

No – the report is for noting

When should this matter be reviewed?

Reviewing OSC:

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

Resources – Enabling a resident-focused and resilient Council - x

Place - A great place to live, work and enjoy

People – Supporting Our Residents to Stay Safe and Well

SUMMARY

1.1.1. This report gives an overview of the Council's financial position setting out the forecast revenue expenditure as at the end of January 2026 with an explanation of the significant variances. It also provides an update on progress towards savings targets and an overview of the capital programme at the end of quarter three.

RECOMMENDATIONS

- 2.1 Councillors are asked to note the improvements in the Council's financial position that have mean that the forecast outturn position as at the end of P10 is an underspend on the Council's General Fund of £17.4m (sections 4, 5 and 6) and an underspend on the HRA of £2.83m (Section 8)
- 2.2 Councillors are asked to note the progress toward the delivery of savings as set out in the Council's MTFs as at the end of December 2025 (quarter three of the financial year) as set out in section 7
- 2.3 Councillors are asked to note the forecast overspend of £31.5m DSG budgets that will bring the overall DSG deficit to £67.7m (section 9). An update on the impact on the Council's financial position following the announcement of the High Needs Stability Grant is given in the same section.
- 2.4 Councillors are asked to note the update in section 10 on the position of the Council's maintained schools.

- 2.5 Councillors are asked to note the capital monitoring position of the Council as at the end of December 2025 (quarter three of the financial year) as set out in section 12
- 2.6 Councillors are asked to note that £3,695,506.79 of irrecoverable Council Tax debt has been passed for approval to write-off.

REPORT DETAIL

3. THE COUNCIL'S REVENUE BUDGET FOR 2025/26

- 3.1 As is well known to Cabinet, Havering is currently in a period of intense financial pressure as a result of long-standing government underfunding at a time of rapid demographic change and growth. The Council is however continuing to address these challenges, taking strong and concerted action to reduce spending and maximise income. This has resulted in a substantial improvement in the in year financial position since the last report.
- 3.2 Although Havering is an efficient council with low unit costs in comparison with its neighbours, it was unable to set a balanced budget for 2024/25 and was required to make use of Exceptional Financial Support and capitalise £30.4m of expenditure.
- 3.3 With no substantial change to funding arrangements for 2025-26 while the population continues to grow this unsatisfactory situation has persisted. The budget has been set on the basis that at least £70.2m of Exceptional Financial Support will be required with the worst-case potential of £88.0m. The total budget requirement in the realistic "mid" case scenario is £274.5m against available funding from Council tax and Settlement Funding Assessment of £204.6m. A contingency of £17.8m has been also added for the worst-case scenario taking the total budget to £292.39m.
- 3.3 The Exceptional Financial Support allows the Council to use capitalisation for its revenue pressures, funding them with either capital receipts or borrowing. It is subject to stringent conditions and strict government oversight but has allowed the Council to set a balanced budget for this financial year. However, in making use of capitalisation the Council will incur financing costs in the form of MRP and interest on any borrowing.
- 3.4 To date however the Council has been able to successfully manage its cash position and has not yet had to borrow to meet its revenue pressures. This has been achieved through a strong Treasury management strategy and has made substantial savings on interest.

4. The Revenue Monitoring Position as at the end of Period 10

4.1 An update on the Council’s revenue position at the end of quarter three was given in the MTFs report in February. This report updates the position by one month to the end of month 10 and provides more detail. As at the end of January 2026, the Council is forecasting an underspend of £17.4m against the mid-case budget as shown in the table below. This is a large improvement of nearly £10m since the last monitoring report at the midpoint of the year.

4.2 In addition the Council does not now expect to make any use of the £17.8m worst case provision. This means that against the Council’s total net budget there will be an underspend of £35.2n. This will still however require the use of around £53m of exceptional financial support

Table One – The Council’s Revenue Position at the end of Period 10

	Revised Budget 2025-26	Actuals YTD as Period 10	Outturn Forecast at end of January	Forecast Outturn Variance	As % of Budget
TOTAL NET					
TOTAL NET	£m	£m	£m	£m	£m
PEOPLE	200.12	173.99	203.26	3.15	2%
PLACE	19.75	17.24	16.37	-3.37	-17%
RESOURCES	29.36	20.29	29.88	0.52	2%
TOTAL SERVICE DIRECTORATES	249.23	211.52	249.51	0.3	0%
Corporate Budgets	27.73	-10.18	10.04	-17.7	-64%
HRA & DSG - Contribution	-2.37	0	-2.37	0	0%
MID CASE BUDGET	274.59	201.34	257.18	-17.4	-6%
Worst Case Provision	17.8	0	0	-17.8	-100%
TOTAL NET	292.39	201.34	257.18	-35.2	-12%
Budget Financing	-292.39	-203.42	-292.39	0	0%
TOTAL NET	0	-2.08	-35.21	-35.2	-12%

4.3 Since Period 6 there have been some adjustments to the budget with budget being allocated to services to fund the Local Government pay award. This was funded from a central contingency and has no net impact on the position.

4.4 As we approach the end of the year the forecasts are now based mainly on actual expenditure and known commitments but there are still some assumptions contained with the forecast for the continuation of the upwards trends in demand in social care which should help avoid any final swings in forecasts especially in demand led budgets. During the year, the monthly increases in Ageing and Living Well care commitments have been broadly in

line with the assumed trends. However, if the final month changes are lower than the contingency assumed it is possible that the underspend could increase.

4.4 Where services had previously been forecasting potential overspends, managers have been asked to identify and implement further mitigation actions to offset or reduce these pressures which has contributed in many areas to a reduction in forecast. Managers have held vacancies, delayed or reduced expenditure and maximised income in order to achieve this and this effort will continue.

4.5 Although we are nearly at the end of the financial year there are still some risks that could impact the position adversely. Although the current forecast position is an underspend of £17.4m, the total potential range for the final outturn is an **underspend of between £15m to £19m** against the mid case scenario.

Table two: The top risks to the Council's Revenue Position

Risk	Directorate	Description	Value	RAG
Bad Debt	People/Ageing Well	The bad debt position could fluctuate as we approach year end – the income team have been doing additional work on bad debts and figures are yet to be received by the finance business partnering team. There could be an increase/decrease to the position	Up to £1m	Orange
Launders Lane – following Judicial Review	Place/PPP	There could be further costs associated with this land but is not possible to quantify at this time. The landowner should be liable but there is a risk of default.	Non-quantifiable	Yellow
Planning Performance Agreement (PPA) - EHDC	Place/PPP	The authority has committed expenditure to the project and must meet milestones to receive compensation (currently on track.) The authority is required to recover additional expenditure from the project promoter which requires an additional re-negotiation of the PPA.	The total value of the PPA is £2m.	Green

Rental Income	Place - Housing & Property	Issues with void properties, some of which have been impacted by the Regeneration Programme. Renegotiated leases, being less than previous agreements. Stock numbers reduced due to the Regeneration Programme.	TBC
---------------	----------------------------	---	-----

5. Key Service Variances

5.1 As table one above shows there is a forecast overspend of £0.3m across service budgets. This is made up of £3.15m relating to People services where the current demographic pressures are felt most strongly, offset by forecast underspends of £3.37m within Place mostly relating to an improved income position. There is also £0.5m of forecast overspend in Resources.

5.2 A detailed budget monitoring pack is provided as an appendix, but a summary of the main issues is given below.

5.3 People – Ageing Well

5.3.1 Ageing Well is now broadly on balance. Commissioning and engagement with the market now means that the rates for care being paid by the Council are in line with our policies and much more under control. The main risk in this area is the level of complexity of need experienced by many clients which can mean that 1-2-1 and double handling care packages are required in increasing numbers. However, the increase in demographic demand this year has been in line or slightly under our assumptions resulting in this balanced position.

5.4 Living Well

5.4.1 There is a forecast **overspend of £2.3m** of which £1.1m relates to Housing Demand and £2.6m relates to Adult Social Care, offset by £0.3m underspends in Culture and Leisure.

5.4.2 As for Ageing Well the Social Care pressures mostly arise from the number of new clients and the complexity of their needs which has resulted in an overspend forecast. In addition, the savings achieved from initiatives such as Better Living and targeted reviews have not been in line with targets. However, the growth in the overspend has slowed with only a small increase since P6.

5.4.3 On the other hand the position in Housing Demand has improved greatly since P6 (£2.5m). This is largely due to improved Housing Benefit income. A recent change of systems meant that for a time the level of HB income

was unclear and so only a very low and prudent forecast was included -but now the data and processes are much more robust and more income is forecast. However, the underlying demand pressure remains high. Although the number of new presentations is not currently increasing, the length of time for which households require support is lengthening, resulting in greater costs overall and the availability of PSL accommodation is reducing forcing increased use of more expensive nightly lets

5.4.4 These overspend pressures are partly offset by Culture and Leisure which is forecasting an underspend of £0.36m from the renegotiated SLM contract for Leisure services.

5.5 Starting Well

5.5.1 There is a now a forecast underspend of £0.13m across the whole of Starting Well which is an improvement of £0.67m from period 6.

5.5.2 At the start of the year the position on Home to School transport showed evidence that the changes to policies and processes were helping to control spending and the savings were being achieved allowing some budget to be handed back to the centre. However, since then the traffic issues around Gallows Corner have led to much longer journey times meaning an additional route is required and those costs which are paid by hour not mileage ie driver and escorts have increased. This is partly offset by underspends elsewhere in Education. In particular SEND services has an underspend where an Educational Psychology contract was delayed starting which is contributing to a backlog in EHCP assessments.

5.5.3 The other significant area of overspending is Children in Care which is being driven by a small number of very high-cost residential placements. However, since P6 there has been an increased underspend in Care Leavers placements which is now partly offsetting this.

5.5.4 In addition there are underspends on staffing across Children's Social Care resulting from high numbers of vacancies and in particular the restructure of Early Help which is now concluded.

5.6 Place

5.6.1 There is an **underspend in Place of £3.36m** which is driven by additional income especially in Parking (£2.5m) where it is partly the result of the increase in the Parking penalty charge notice amount and a further £0.7m across the rest of Environment. The position in Planning and Public Protection is now a small overspend of £0.09m which is however a change from a previous underspend position. This is the result of reprofiling of income relating to the EH data centre into next year.

5.7 Resources

- 5.7.1 There is an **overspend of £0.5m** across Resources which is an improvement since quarter 2 as a result of additional funding for Partnerships being identified. The pressures mostly relate to under achieved income targets in Bereavements and Enforcement/Bailiffs.

6. Corporate Items

- 6.1 The Council holds a number of Corporate budgets for central costs including capital financing costs, levies and treasury management. At period 10 these budgets are forecast to underspend against budget by £17.7m.
- 6.2 The amount the Council contributes to the Pension Fund is determined every three years by an actuarial review of the pension fund. The next review is due to conclude in April 2026 but in advance of the review the actuary has indicated that the Council can reduce its past fund contribution in 2025/26 by £2.0m. This contribution reduction will be split between the HRA and the general fund with a reduction to the General Fund of approximately £1.8m
- 6.3 The Council sets its Capital financing budgets each February based on the latest forecast of capital expenditure at that time. The MRP for 2025/26 is calculated using the Capital Financing Requirement as at 31st March 2025. As there was capital slippage between budget setting and outturn there is an underspend of £1.1m on the MRP budget for 2025/26
- 6.4 Within the Capital financing budgets there is a planned contribution to reserves of £0.3m. The adequacy of capital reserves was reviewed at year end for 2024/25 and it was concluded that the reserves were sufficient that this contribution was not needed in 2025/26. These budgets will be further reviewed as part of the 2026/27 budget setting process to ascertain future requirements
- 6.5 The Council budgets for income due on known loans from Mercury Land Holdings (MLH). The Council is expected to receive £0.6m of income above that budgeted due to interest due on the working capital loan to MLH.
- 6.6 The Council has used internal borrowing to delay the need for external borrowing for both EFS and general Capital spend resulting in a GF underspend of £5.1m and has also been able to generate additional interest on its short-term deposits creating an underspend of £1.5m
- 6.7 The food waste collection rollout is now forecast to commence in 2026/27 resulting in a saving to the planned budget of £2.1m and there has been £1.8m of other returned growth to the corporate budget.
- 6.8 The Council holds a contingent budget in relation to Business Rate under indexation and IT. This budget will not be needed in 2025/26 and can also be

deleted on an ongoing basis as part of the 2026/27 budget process releasing an underspend of £2.4m

- 6.9 There are two Corporate savings which are likely to underachieve creating a £0.5m shortfall. These are the agency levy saving (£0.1m) and the Business Rate Pool £0.4m) . The agency levy shortfall is due to reduced agency levels across the Council which overall is good financially but results in a shortfall in the levy. The Business Rate Pool shortfall is due to a reduction in the levy Thurrock now is liable to pay to the Government as a result of appeals and retail discounts. This reduction will result in a reduced benefit from the joint pool with Thurrock Havering and LBBD
- 6.10 Concessionary fares are set each December at a meeting of London Council’s technical committee. In March after the Council had set its budget it was announced the Councils would receive a rebate of concessionary fares of £0.15m for 2025/26

7. Progress Towards Delivery of Savings

- 7.1 There are £10.2m of MTFS savings required to be delivered in this financial year. At this stage (end of January) £7.47m has been entirely delivered.
- 7.2 The remaining £2.78m of savings are highly uncertain and are not expected to be delivered in year. These include two Corporate savings (the agency levy saving (£0.2m) and the Business Rate Pool £0.3m) which are likely to underachieve creating a £0.5m shortfall. There have also been delays in some People savings including the Family Welcome Centre, supported living units at Mowbrays and the new ways of delivering family support in Starting Well. Savings around transitions and targeted reviews have been pursued but have not met the full target in year.

8. Housing Revenue Account (HRA)

- 8.1 The HRA is forecasting a £2.8m underspend which is an improvement of £0.5m since Period 6.

Table Three: Housing Revenue Account

	Revised Budget 2025-26	Outturn Forecast at end of January	Forecast Outturn Variance	As % of Budget
TOTAL NET				

TOTAL NET	£m	£m	£m	£m
Dwelling Rents	-62.44	-62.73	-0.29	0%
Service Charges - Tenants	-8.25	-8.83	-0.58	7%
Service Charges - Leaseholders	-3.48	-3.48	0	0%
Other Income	-0.59	-0.83	-0.24	41%
Interest Receivable	0	-1.1	-1.1	0%
TOTAL INCOME	-74.76	-76.97	-2.21	3%
Repairs and Maintenance	14.88	14.99	0.11	1%
General Management	24.71	24.17	-0.54	-2%
Special Services	3.08	4.07	0.99	32%
Other Expenditure	3.51	3.43	-0.08	-2%
Interest Payable	17.03	16.14	-0.89	-5%
Depreciation	10.88	10.88	0	0%
Bad Debt	0.67	0.4	-0.27	-40%
TOTAL EXPENDITURE	74.76	74.08	-0.68	-1%
NET SURPLUS	0	-2.89	-2.89	-4%

- 8.2 The Period 10 variance (£2.898m), is made up of a range of elements but the most significant are projected interest accrued from a partner loan in the Joint Venture (Wates £1.100m) and a lower than budgeted borrowing requirement for 2025/26 (£0.896m).
- 8.3 In addition the income forecast is better than budget as a result of lower rent voids (£0.300m). The current estimate of Bad Debt Provision required is £0.265m below budget.
- 8.4 This has been partially offset by the cost of the Housing Replacement IT System £0.503m and an increase in Hostel costs £0.235m.
- 8.4 The main risk to the HRA position is the possible impairment of capital assets. This may arise if the Council decided to cancel any of the HRA funded regeneration schemes.

9. Dedicated Schools Grant (DSG)

- 9.1 There is a forecast overspend of £31.5m on the High Needs Block which is available to fund the costs of support for pupils with Special Educational Needs. This block has been overspending for a number of years now and **by the end of the year the cumulative deficit is expected to be £67.7m** although the statutory override has been extended for another two years.
- 9.2 The pressure on this budget is driven entirely by demand for additional support which has been increasing very sharply over recent years and is outstripping the increase in grant funding. The Council already has a very inclusive approach to high needs and most spend is in the form of additional

support in mainstream schools and special units which is both the preferred setting for many students and the lowest cost.

- 9.3 As part of its Final Local Government Settlement the Government announced its intention to provide a High Needs Stability grant to fund 90% of accumulated deficits on the High Needs Block. The remaining 10% will be a local contribution which for Havering will be in the region of £6.7m.
- 9.4 The provision of this grant will be subject to conditions including the preparation of an acceptable SEND reform plan. Further information is expected to be announced shortly.

10. Maintained Schools

- 10.1 The Council has 38 maintained and Voluntary Aided schools including one Special School and the rest Infant, Junior or Primary schools. These schools are part of the Council's financial position but have delegated budgets and carry forward their balances from one year to the next.
- 10.2 In recent years the rate of increase in Education Funding has not kept pace with inflation and many schools have also seen increasing numbers and complexity of children with special educational needs. These combined factors have created severe budgetary pressures and a number of schools are now facing financial difficulties and are in an overall deficit. At the end of 24/25 there were 15 such schools with an overall deficit balance of £6.48m.
- 10.3 Under the School Financing Regulations schools are not normally permitted to set a deficit budget but it is recognised that this cannot always be avoided. In such circumstances the Local Authority may issue a licensed deficit for a defined period. However, this can only be done after a school has prepared a recovery plan to allow it to return to surplus over a number of years.
- 10.4 When Schools submitted their three-year budget plans at the end of the summer term it became apparent that in addition to the existing deficit schools a further six were unable to balance their budget this year. The finance team have worked with the Headteachers and Governors of all schools in financial difficulty and the table below shows the position at quarter three.

GROUP	DEFINITION	No	YEAR END FORECAST	COMMENTS
A	Schools Not at Risk of Deficit	10	£1.108m	these schools are in a comparatively healthy position but average balances are still

				lower on average than in previous years
B	Schools at risk of future deficits	7	£0.87m	These schools are forecasting a potential deficit in future years however there is time to take action
C	Schools at risk of deficit this year	6	(£0.25m)	these schools are at risk of deficit but forecasts are improving. (Previous forecast was -£445k)
D	Schools in deficit that have robust recovery plans	6	(£1.15m)	these schools have plans that show a return to surplus over time. Forecast is improving (was -£1.851m)
E	Schools in severe financial difficulty	10	(£8.25m)	these schools have severe and enduring pressures that we have not yet been able to resolve.
			(£8.33m)	

10.5 To put this in context the average budget of a maintained primary school is £3.3m.

11. Earmarked and General Reserves

11.1 The Council's levels of Earmarked and General Reserves are monitored closely and will be reported on throughout the financial year. The Council currently has £15.2m of General Balances and has budgeted to increase this value to £20.2m in 2025/26.

11.2 The Council is committed to building General Reserves to approximately 10% of the net spend in the medium term to safeguard against future risks and uncertainties. The current net spend is £275m and therefore approximately 10% would require a General Balance of £27m. The Council held £15m of general balances at the start of 2025/26 and with the budgetted £5m contribution to be added will have around £20m of general balances at year end.

11.3 The Council held £40.0m of General Fund Earmarked reserves at 31st March 2025. These reserves are split into three main areas being Risk, Contractual and Service projects as displayed in the table below.

Table 4: Earmarked Reserves

RESERVE TYPE SUMMARY	Opening Balance 25/26 £m	Forecast Balance 25/26 £m	Forecast Balance 26/27 £m	Forecast Balance 27/28 £m
Risk Mitigation Reserves	(16,845)	(11,318)	(9,972)	(7,807)
Contractual Reserves	(9,796)	(9,745)	(9,745)	(9,745)
Internally Earmarked Projects	(13,409)	(10,059)	(9,659)	(9,759)
TOTAL	(40,050)	(31,122)	(29,376)	(27,311)

11.4 These reserves are kept under constant review and the Council fully recognises the need to maintain Risk and Contractual reserves to offset future risk. In provisionally agreeing the exceptional financial support for recent years the Government fully recognised and agreed with the need to maintain reserves and balances at a level to safeguard the Council in the future

12. Capital Programme

12.1 The current position on the Council's capital programme is set out in Appendix 2. The total in year budget is £243m of which £82m is General Fund and £161m is HRA. This incorporates budget slippage from 24/26. Excluding previous years spend of £588.815m (shown for information in the table above), the total capital programme for 2025/26 and beyond is £1,808.5m split between the GF (£402.77mm) and HRA (£817.50m).

12.2 As in previous years there has been a high level of slippage against the programme. Forecast expenditure this year is £163.9 which is £80m lower than forecast at quarter two. £63.75m of this expenditure is General Fund and £100.14m is HRA. £61m of the reduction in forecast is in the HRA.

12.3 Capital expenditure as at the 30th December is £80.644m to date. Notable achievements so far for 2025/26 are as follows.

- Spend of £18m on the Council Housing Acquisitions Programme, £7.5m on building of a new hostel and over £23m on improving the housing stock across the borough.
- £4.3m on improving the quality of our roads and infrastructure.
- £5m on enhancing our schools and educational facilities.
- £6.3m on the 12 Estates project to improve housing across borough.
- £2m on the regeneration of Bridge Close.
- £392k the purchase of Public Realm (Parks) & (Bereavement Services) vehicles.

13. Debt Write Off

- 13.1 In accordance with Part 3.3 of the Constitution, the Strategic Director of Resources has specific powers to write off sums which are irrecoverable provided that all write-offs are reported to Full Council.
- 13.2 Council Tax Services, Exchequer & Transactional Services have submitted a list of the Council Tax Debtors where recovery action has been unsuccessful. In the majority of cases it has not been possible to trace the debtor, protracted recovery action has taken place, the debtor is deceased, insolvent or statute barred. The total value of the Council Tax debt is £3,695,506.79. This amount will be written off against the bad debt provision already made in the Council's financial account

IMPLICATIONS AND RISKS

Financial implications and risks:

This report sets out the Council's financial position at the end of quarter one and the main risks to that position. The position and these risks will be carefully monitored throughout the year with updates being brought regularly to Cabinet. Pressures that go beyond the boundary of the financial year will be addressed as part of the Medium-Term Financial Planning process.

Legal implications and risks:

There are no legal implications arising directly from the recommendations in this report.

Human Resources implications and risks:

There are no HR implications arising directly from this monitoring report. Where changes to the workforce are required in response to financial issues then these will be managed in accordance with the Council's policies and procedures.

Equalities implications and risks:

There are no Equalities implications arising directly from this monitoring report. All future changes to Council services made in response to financial pressures will have had an EQIA and consultation carried out as part of their implementation.

Health and Wellbeing implications and Risks

There are no Health and Wellbeing implications arising directly from this monitoring report.

BACKGROUND PAPERS

- 1 The Council's 2025/26 Budget and 2025-2029 Medium Term Financial Strategy**