APPENDIX 5

MEDIUM TERM FINANCIAL PLAN (MTFP) 2025/26 to 2027/28

1.0 INTRODUCTION

1.1 This MTFP updates the Council's budget strategy for the financial years 2025/26 to 2027/28. It is based on current policies and a review of the service and financial planning horizon. The resources forecasts contained therein are based on illustrative external funding levels for 2025/26 to 2027/28 including: - the 2024/25 Local Government Finance Settlement and the 2023 Autumn Statement.

1.2 The updated MTFP is also based on estimates of future council tax, business rates and other income.

1.3 The financial challenge ahead remains considerable, particularly given the significant uncertainty regarding the impact of future government plans for funding levels. The report emphasises the need to build upon a direction of travel whereby the Council looks to embed a transformation programme which aims to maximise efficiency but also recognises that the scale of the budget gap set out in this MTFP means that there will need to be reductions in some of the services we provide.

1.4 It will also be necessary to build upon the Council's track record in relation to sound financial management with an emphasis on financial solutions that increase financial sustainability, get things right first time, drive out value from our asset base and create the conditions for and to harness economic growth, with a real focus on the customer, residents and businesses. We also need to ensure that robust action plans are developed in areas where we have cost pressures - most significantly, but not exclusively, in social care which despite significant growth in budgets and increases in grant remains our biggest revenue spend risk.

1.5 The Forecast is primarily concerned with General Fund revenue expenditure and income, but consideration is also given to the Housing Revenue Account (HRA). For further information on the HRA please refer to the HRA budget and business plan approved by Cabinet on 22nd January 2024.

3.0 FINANCIAL BACKGROUND

3.1 Introduction

3.1.1 The Council has been operating in a challenging financial environment for some years. Over the past decade, Hackney's core funding from the Government has fallen significantly in real terms since 2010 by almost 40% if we exclude Council Tax. This has coincided with significant ongoing cost pressures resulting from: - increased demand for many services; increased unit costs; the impact of Government interventions in areas such as welfare, homelessness and education; the on-going impact of the cyberattack, the very high inflation levels in 2022 and 2023, and the ongoing albeit reducing impact of Covid-19. Areas particularly affected include adult social care, children's services, supporting an ageing population, homelessness and certain Education services such as SEN and home to school transport.

3.2 Autumn Statement 2023

3.2.1 The key points of the Statement that impact on Local Government are as follows: -

- In general terms, the Statement was disappointing as no new money was announced for services under most pressure (Adult Social Care and Children's Services), although an additional £120m homelessness prevention grant will be made available UK wide

- The small business multiplier is frozen for a further year which means businesses with a rateable value of £51k will not face an increase in their bills (if their rateable value does not increase during the year). But businesses with a rateable value greater than £51k will face increases as the standard business rates multiplier will increase in line with inflation

- Retail Hospitality and Leisure (RHL) business rates relief (75% relief) will be extended for another year.

- Councils will receive compensation for the freezing of the small business rates multiplier and the extension of the RHL relief

- There are plans to allow local authorities to be able to fully recover the cost of planning fees for major planning applications if decisions are made within certain timelines. If the timelines are not met, developers will receive a refund of these fees

- There was no mention of an extension of the Housing Support Fund into 2024-25 in the Statement and there remains a considerable amount of uncertainty with respect to its future. The message seems to be that the Government is not currently planning an extension but does not rule it out.

- The Local Housing Allowance rate (a determinant of the level of housing benefit people receive to pay private sector rent) will be increased to 30% of local market rents. This is intended to relieve pressure for those on low incomes, particularly regarding housing costs.

- OBR forecasts assume that council tax receipts will increase by 5% in 2024-25 and 2025-26 and by 5.1% in 2026-27 and then by 5.2% in 2027/28 and 2028/29

- There will be £3bn more invested into the Affordable Homes Guarantee Scheme to support housing associations access cheaper loans for energy efficiency works and building new homes.

3.2.2 On future funding levels the Statement noted that planned departmental spending will grow at 1% a year in real terms (accounting for inflation) from 2025-26 to 2028-29. No detail was given on how individual departments will be affected but the Institute for Fiscal Studies have estimated that, based on reasonable assumptions about what may be needed for the NHS and schools and existing commitments on defence, overseas aid and childcare, funding for other services in England may need to be cut by an average of over 3% per year in real terms. It follows that pressures on external funding allocations are likely to continue if these departmental spending plans are carried out.

3.3 Provisional and Final Local Government Finance Settlement 2024/25

3.3.1 The Provisional Local Government Settlement for 2024/25 was published on 18th December 2023. Additional funding for social care was subsequently announced in January 2024 and the Final Settlement was published on 5th February 2024. The details of the Provisional Settlement are set out in the 2024-25 Budget report but it is worth reiterating the concluding paragraph.

3.3.2 It is clear that the funding in the Settlement does not provide enough funding to meet the severe cost and demand pressures Hackney and other Councils face next year and in future years. The LGA have estimated, for example, that “The settlement means councils still face a £4 billion funding gap over the next two years”. The financial situation therefore remains extremely challenging going forward. In terms of future years we have no indication of our future funding levels but we do know that we cannot rely on inflationary increases in funding in future years, to reduce budget gaps - the inflation rate (CPI) in January 2024 was 4% and in February 2024 the Bank of England stated that “It could fall to 2% for a short while in the Spring before rising a bit after that”.

3.3.3 What is of most relevance in the Settlement in the context of the MTFP is the uncertainty surrounding future years. Nothing was added to what was set out in the Autumn Statement and noted above.

3.3.4 Also, neither the fundamental reform to needs assessments (previously termed the Fair Funding Review) nor the business rates reset will be implemented before 2025/26 and no indication was given by the Government as to when either will be introduced. Given that much of the work previously done on the new needs assessments is now out of date, this will have to be revisited which will almost certainly require a substantial amount of work to be carried out. It follows that there must be significant doubt whether the new funding system will be introduced in 2025-26 or even in 2026-27.

3.3.5 In conclusion, the 2024-25 Local Government Finance Settlement and 2023 Autumn Statement failed to provide any certainty for the future funding of local government. The uncertainty hinders the ability of Hackney and other councils to plan their budgets and deliver the maximum value for money for taxpayers, including our residents. The Council needs certainty over how it will be resourced and we look forward to the reintroduction of multi year settlements.

3.4 Cost Pressures

3.4.1. As we noted in the Budget Report, the Council's preferred strategy to manage growth, inflation and its impact on cost pressures, has been for service areas to manage pressures within their budgets including by factoring one-off funding and grants (for example, the Social Care Grant and the Homelessness Prevention Grant) as far as possible. Although it has always been recognised that there will inevitably be some cost pressures which cannot be managed by service areas or which are truly unavoidable and for which budget growth has been added.

3.4.2 This strategy has become increasingly more difficult given the escalating demands on services (particularly social care). Over the period 2025/26 to 2027/28, we expect most cost pressures to be contained within existing budgets and, or met in part by one-off funding (e.g. the Social Care Grant) but there are pressures which will require additional funding, primarily the

- Assumed Pay awards
- Energy Costs
- Some Building Maintenance Costs
- Certain Directorate Cost pressures - primarily pressures in social care and children's services which are not met by one-off grants.
- Temporary Accommodation

Funding for Directorate cost pressures are held corporately until such time as the pressure emerges and will only be allocated to Directorates following agreement of the Interim Group Director of Finance and after it is clear that the pressure cannot be managed from within the current directorate cash limits.

3.4.3 During the period covered by the Plan we expect that additional cost pressures in certain services will require increased funding. These include: - Childrens' services (placements, especially residential and high cost supported, and disabled children's services), Adult Social Care (demand led cost pressures arising from demographic factors and the increasing complexity of client needs); and Homelessness, Energy costs and Building Maintenance. For the latter three categories there is less certainty around the direction of travel and although provision is made corporately they are subject to variation.

3.5 Medium Term Financial Plan

3.5.1 In this section we present a revised indicative financial forecast which covers the period 2025/26 to 2027/28.

3.5.2 Making budgetary forecasts for future years is very difficult because a robust estimate of core funding is crucial to the validity of the forecast as we are so dependent on this funding stream; and as noted previously, no departmental spending plans beyond 2024/25 were published in the 2023 Autumn Statement. It follows that there is minimal information on which to base our estimates

3.5.3 As noted above, the Autumn Statement 2023 stated that planned departmental spending will grow at 1% a year in real terms (accounting for inflation) from 2025-26 to 2028-29. No detail was given on how individual departments will be affected but as previously noted, the Institute for Fiscal Studies have estimated that, based on reasonable assumptions about what may be needed for the NHS and schools and existing commitments on defence, overseas aid and childcare, funding for other services in England may need to be cut by an average of over 3% per year in real terms. year. It follows that external funding allocations will remain challenging if these departmental spending plans are implemented

3.5.4 With regards to the long awaited Funding Review and Business Rates Reset, as noted previously, there is great uncertainty about when it will be introduced. What we do know is that Hackney will almost certainly lose from any funding reform that amends the current system rather than completely replaces it, as:

(a) We have become less deprived (according to official deprivation measures such as the Index of Multiple Deprivation), since the needs assessments (a critical element of funding allocations) were last formulated in 2013.

(b) Our population (one of the most important determinants of the needs assessments) will be based on the 2021 Census in any new system, which has grown by relatively less than the London average;

3.5.5 A more specific issue is that any reform is likely to review the way in which councils in London and the South East are compensated for the higher wages and rates bills that they face compared to the rest of England: and every reformulation of the governing formula that has been made to date has disadvantaged Hackney.

3.5.6 Also, the Business Rates Reset will almost certainly reduce our external funding as our rateable value has increased by far more than the national average primarily because of the 2017 and 2022 business rate revaluations

3.5.7 Given we expect to lose funding as a result of the review, we anticipate that if and when a new system is introduced, we will be protected by a system of safety nets but at this stage, we do not know how this will operate, what level of protection it will afford and how quickly it will be unwound. A safety net is a mechanism employed to limit the losses from one year to the next with the protection eventually being withdrawn at which time the full loss will flow through.

3.5.8 Given that no departmental spending plans were published beyond 2024/25 and given that we don’t know when Fair Funding nor the Business Rates reset will be introduced, then we can only make (very) indicative estimates of our external funding levels in the forecast. These estimates may change if more clarification is issued on any of these matters.

3.6 Medium Term Financial Plan - Underlying Assumptions

The underlying assumptions are as follows:-

Income

(a) We assume that the Funding Reform and Business Rates Reset will both be introduced during 2027/28. As noted in 3.5.4 above, we expect to lose funding with the annual losses being limited by the application of safety nets by the Government. We have assumed that in 2027/28 our losses will be limited to 2% of our 2024-25 core spending allocation which equals £7.280m.

(b) Revenue Support Grant is increased by 2% in each year of the Plan in line with forecast inflation levels.

(c) The business rates multiplier is assumed to increase by 2% in each year of the Plan for properties with rateable values greater than £51k, but frozen in all years for properties with a rateable value of less than £51k. This is reflected in our estimation of the top-up grant. It is further assumed that we receive a S31 grant allocation which ensures that we receive full compensation for the failure to increase multiplier in line with inflation for the properties with a rateable value of less than £51k.

(d) The business rates rateable values in all years are assumed to be unchanged from 2024-25. Retail Hospitality Reliefs are assumed to be deleted in 2025/26 but all other reliefs are assumed to increase by the forecast inflation of 2% in each year. A provision against income losses from appeals of £8m is included in each year and the collection rate is assumed to be 95% in 2025/26, 96% in 2026/27 and 96.25% in 2027-28.

(e) Business Rates Retention is set at 30% throughout the period of the Plan (i.e the % that Hackney keeps from the total business rates yield, with the balance going to the GLA and the Government)

(f) The Council Tax rate is assumed to increase by 2.99% in all years of the Plan. We also assume that taxbase will increase by 300 Band D properties each year; and the collection rate will be 94% in 2025/26, 94.5% in 2026/27 and 95% in 2027-28.

(g) We assume that we will not receive any Services Grant nor New Homes Bonus Grant in all years of the Plan. This follows on from the significant decreases in the Settlement for 2024/25.

(h) Public Health Grants are set equal to the previous year's grant with any subsequent increase being passed on to the service.

(i) The 2024/25 Social Services Grants are assumed to increase by 2% per annum and this is factored into the growth we have assumed in the forecast for social care.

<u>Expenditure</u>

(a) It is assumed that all of the 12 Area Savings for 2025-26 and 2026-27 and other agreed savings are achieved. This will need to be closely tracked and alternative proposals identified if these are not delivered.

(b) A total of £20.481m growth has been included in the plan to manage cost pressures in 2025-26 (£18.329m for Adults and Childrens), which rises to £34.481m in 2026-27 (£30.329m for Adults and Childrens) and to £38.981m in 2027-28 (£34.329m for Adults and Children). These are cumulative estimates which take into account the assumptions around increases in the social care grants set out above. This provision for growth will be subject to ongoing review.

(c) An additional provision for Energy of £6.220m is applied in each year of the plan and will be subject to ongoing review as energy prices fluctuate.

(d) In constructing the impact of the pay award, we have rolled forward the additional costs of the 2024-25 pay award costs into 2025-26 to 2027-28 (assumed to be 3%), and further assumed an additional 3% for 2025-26, and then a further 3% for 2026-27 and a further 3% for 2027-28.

(e) The Concessionary Fares and NLWA levies are increased in line with latest forecasts from TfL and the NLWA.

(f) RCCO is set at £3.350m in each of the three years.

(g) The Minimum Revenue Provision is £12m in 2025/26, then £15.7m in 2026/27 and £17.9m in 2027/28. Interest charges are set at £2.9m, £3.9m and £3.9m respectively.

3.7 The forecast derived from these assumptions is shown below. Please note that the forecast must be regarded as **illustrative only.** This is primarily due to the external funding uncertainties but also due to unknowns in relation to demand pressures.

Forecast 2025-26 to 2027-28

RESOURCES	**2025-26 £m**	**2026-27 £m**	**2027-28 £m**
External Core Funding incl S31 Top Up Grant	134.329	135.273	130.567
Business Rates Income including S31 & deficit c/fwd	75.878	78.355	80.406
Council Tax incl deficit c/fwd & support netted off	112.300	116.723	121.314
Improved Better Care Fund & Better Care Fund	21.837	21.837	21.837
Public Health	37.041	37.041	37.041
New Homes Bonus/Services Grant	0.000	0.000	0.000
TOTAL	**381.385**	**389.230**	**391.166**
EXPENDITURE	**2025-26 £m**	**2026-27 £m**	**2027-28 £m**
Directorate Cash Limits after Savings and HRA Recharge	302.867	295.030	295.030
AH&I and C&E Cost Pressures and Growth	18.329	30.329	34.329
Other Directorates' Cost Pressures and Growth	2.152	4.152	4.652
General Finance (Corporate) Account			
Superannuation	11.951	11.951	11.951
Capital (Minimum Revenue Provision & Interest)	14.900	19.643	21.834
Pay Award	13.479	20.483	27.778
NLWA Levy	11.588	11.737	15.591
Concessionary Fares Levy	12.625	14.404	16.183
Provision for increased Energy Costs	6.220	6.220	6.220
Provision for increased Building Maintenance Costs	3.200	3.200	3.200
Revenue Contribution to Capital Outlay (RCCO)	3.350	3.350	3.350
Other Corporate Items	3.185	3.365	3.370
TOTAL	**403.846**	**423.864**	**443.488**
GAP	**-22.461**	**-34.635**	**-52.322**

3.8 The cumulative forecast budget gaps are £22.461m, £34.635m and £52.322m respectively. The primary reasons for the large budget gaps in all years is the budget added to address cost pressures in adult social care and children's services, the pay award and increases in the Minimum Revenue Provision (MRP).

3.9 These budget gaps can be reduced by the following mitigations:

(a) Pause the Revenue Contribution to Capital Outlay (RCCO) transfer. This will mean replacing revenue funding with borrowing. This will increase our assumption around money set aside for borrowing (the minimum revenue provision) and interest costs, however this cost is spread over a much longer timeframe and could assist the Council in the medium term given the challenging level of the budget gap.

(b) Pause the current budgeted revenue contributions to lifecycle funds in relation to fleet replacement and whole life costing in respect of corporate buildings. This will increase our assumption around money set aside for borrowing (the minimum revenue provision) and interest costs, however this cost is spread over a much longer timeframe and could assist the Council in the medium term given the challenging level of the budget gap.

3.10 If (a) and (b) were agreed as part of the budget setting process for the medium term period it would be recommended that this was kept under review and potentially built back into the budget at a future date if and when this becomes feasible.

This has the following impact on the budget gaps:

	2025-26 £m	2026-27 £m	2027-28 £m
Budget Gaps before Mitigations	-22.461	-34.635	-52.322
Mitigations:			
Pause RCCO Transfer	3.350	3.350	3.350
Pause budgeted revenue contributions to lifecycle funds	1.610	1.610	1.610
Adjustments to MRP and interest (3.9a)	-0.165	-0.424	-0.679
Adjustments to Interest charges (3.9b)	-0.079	-0.204	-0.326
Budget Gaps after Mitigations	**-17.745**	**-30.303**	**-48.367**

3.11 It is also worth noting that the assumed increase in the council tax rate in the Plan is 2.99%. However, it is quite possible, given the 2023-24 and 2024-25 council tax referendum schemes, boroughs may be able to increase their rate increase to 4.99% in future years. The effect of a 4.99% increase in each year would be to increase council tax income (and hence reduce the gaps) by the following amounts: £2.2m in 2025-26; £4.6m in 2026-27; and £7.3m in 2027-28 (these estimates are cumulative).

4.0 HRA

4.1 The HRA covers all income and expenditure relating to the portfolio of housing stock owned by the Council. It is required by the Local Government and Housing Act 1989 to be ring-fenced from the Council's General Fund. The legislation specifies that only expenditure relating to the Council's landlord role can be charged to the HRA and, by extension, funded by the rents charged to tenants. The Council has a legal duty to ensure that the account remains solvent and to prepare a long-term business plan, the 30-year HRA Business Plan annually and keeps this under regular review.

4.2 The HRA budget is set in line with the HRA Business Plan which was approved in March 2019 as part of the Housing Asset Management Strategy. This plan sets out the Council's financial plans for managing and maintaining its housing stock (including leasehold properties) and other assets held in the HRA. The HRA Business Plan financial model informs the budget setting and capital programme over the Business Plan period. Its fundamental purpose is to set out the resources required to ensure the effective and sustainable management of our housing assets.

4.3 Reviewing and updating the 30-year HRA Business Plan involves a long-term assessment of the funding needed to deliver landlord duties alongside wider strategic housing objectives. This involves detailed modelling of operating resource requirements, capital investment plans and external funding streams against wider environmental factors such as macroeconomic assumptions and potential legislative changes.

4.4 In undertaking this review we follow the HRA Voluntary Code of Practice which covers six Principles that describe what the sector considers as essential elements for the continued sustainability of a self-financed HRA Financial viability. The finance Principle is that the housing authority has put in place arrangements to monitor the viability of the housing business and takes appropriate actions to maintain viability. Therefore, the following framework has been designed for assessing the viability of the HRA Business Plan and is being applied within the current model. These metrics are based on successful operation of similar minimum/maximum metrics across the housing sector. They represent a sound and effective way of managing borrowing and investment capacity:

- A minimum closing reserve balance of 10% of total revenue expenditure
- An Interest Cover Ratio set at a minimum of 1.25, defined as net operating surplus divided by HRA interest costs;
- A Loan to Value ratio set at a maximum of 70%, defined as outstanding HRA borrowing (HRA Capital Financing Requirement) divided by total asset valuation of HRA assets on the balance sheet.

4.5 Adopting these measures and testing changes to the plan against them will enable the Council to maximise its outcomes whilst ensuring a financially sustainable Business Plan is always in place. It will also ensure that decision making on future HRA capital schemes becomes more efficient in terms of considering long-term income and expenditure forecasts.

4.6 The main source of funding for housing is rental income. The Social Housing Regulator sets the rent standard for Social Housing and for 2024/25 this was set as CPI plus 1%. For 2024/25 we have approved this rent increase. The current policy within the HRA business plan is to follow the Social Housing Rent Standard in order to maintain a financially viable HRA. This policy is needed to fund general inflation levels to deliver our operational requirements and strategic priorities, from repairs and maintenance to building safety and decarbonisation. 2024/25 is the last year of the Rent Standard of CPI plus 1%

4.7 The assumption for rent increases in the HRA business plan going forward is CPI, 3% for 2025/26 and 2% thereafter which is the Government long term target for inflation. It is essential that rent levels need to keep pace with inflation because any departure from this would require additional savings that would impact on services to tenants and ultimately, have a long term impact on future rent levels and income and reduce the resources we have to invest in our housing stock.

4.8 Over the medium term there is a need to deliver service transformation and deliver savings from 2025/26 onwards in order to replenish the RCCO budget removed to balance the 2023/24 budget and continue to invest in our housing stock. It is recognised that there will need to be an continuing open and honest conversation with our tenants that recognises that in real terms there will be less money to spend going forward and therefore want to ensure that we proactively target our spending of the available budget in a way that reflects their priorities. This engagement has begun with the consultation over the Summer on “Future Housing Priorities” which will inform our financial planning going forward.

4.9 The Council wishes to sustain its investment in its housing assets by ensuring all homes are maintained to a high standard, through a wide range of works and cyclical programmes that ensure compliance with legal and safety regulations and that protect against, and prevent deterioration of its buildings. There are also wider Council ambitions to reduce the carbon emissions from the housing stock from investment in thermal and heating technologies, but there is currently no identified resource to fund this investment. However, the Council will continue to adopt the “fabric first” approach and use existing available resources to carry out improvements to the fabric of our buildings until better and more reliable technology is available to replace current energy systems. This will include carrying out pilot retrofit initiatives.

4.10 In addition to investment in existing properties, the Council continues to progress three extensive regeneration programmes within the borough: Woodberry Down, the Estate Regeneration Programme (ERP), and the Housing Supply Programme (HSP). In addition, it approved a new housing regeneration programme, the New Council House Building Programme, in

December. The financial plans for the existing HRA stock and the regeneration programmes are presented and monitored separately to ensure the viability of each of the asset investments.

4.11 There are risks facing the HRA over the medium to long term and the financial modelling takes these risks into account as far as possible. To mitigate the risks and to ensure the financial viability of the HRA we have set the metrics in para 4.4 and we will monitor these regularly. The specific risks facing the HRA are as follows:

- Assumed Pay awards, if the pay awards is in excess of the planning assumption
- Energy Costs - the volatility of the energy market continues to be impact financial planning
- Inflation on Building Maintenance Costs exceeding the planning assumption. Rent increases are linked to CPI and the inflation impacting building maintenance costs may be significantly more than that.
- Impact of the cost of living crisis on rent collection and other income.
- The requirements of the Building Safety Act.

4.12 The HRA Business Plan financial model requires savings of £10.5m over the period 2024/25 to 2027//28 and the current savings plan will deliver £7.8m over the period. The development of savings proposals will be undertaken in the context of the strategic objectives for housing services, the housing improvement plan, the feedback from our residents and also the need to balance the competing priorities of :

- Maintaining and improving the service we deliver to our tenants and leaseholders;
- Maintaining the investment in our housing stock;
- Ensuring the safety of our residents in their homes;
- Delivering the Council’s climate action ambitions for council housing stock;
- The delivery of our housing regeneration programmes; and
- Sustainable borrowing for the HRA.

5.0 CAPITAL

5.1 The capital program significantly influences our Medium-Term Financial Plan (MTFP), especially in terms of the provisions we allocate for debt repayment and financing, as well as our revenue contributions to capital expenditures. As we move ahead, with a decreasing pool of capital receipts and a growing dependence on borrowing, it becomes imperative for us to enhance the provisions within our revenue budgets. In this iteration of the MTFP, we have incorporated increases in revenue allocations to align with our existing capital program.

5.2 It's essential to highlight that regulations mandate a 'minimum revenue provision' for assets funded through borrowing, which comes into play a year after the asset comes into use. Consequently, a decision taken, let's say in 2024/25, regarding a major capital project may not translate into a revenue charge on the general fund until 2026/27 or even later. This impact necessitates careful consideration during capital investment decision-making, despite the fact that the charge won't materialise until after the asset is in use. Furthermore, it underscores the cumulative and long-term implications of significant capital decisions; for instance, a new asset with a useful life of 30 years will generate a revenue charge extending over the next three decades.

6.0 EDUCATION

6.1 Hackney Education. In the medium term, the key financial considerations for the Council in relation to Hackney Education are the continued impact of the rising numbers of children and young people (CYP) with education, health and care plans (EHCP's). Government expectation is that the DSG overspend will remain in the Council's accounts as a deficit balance which will then reduce in future years as additional funding is received. However, the Government's commitment to this additional funding and the level this will be at remains unclear. The recent increase in funding has not kept pace with increases in demand. The current regulations around the treatment of any DSG overspends have been extended to the end of 2025/26, therefore there is a financial risk to the Council of carrying this deficit forward beyond this period. The deficit is expected to be circa £20.7m by the end of 2023/24. Also the National reform of the free early years entitlement is expected to have a significant impact on demand for childcare placements, with the greatest shift expected to be for two year olds 30 hour care. There is likely to be significantly more demand for childcare through the proposed reform, specifically for two year olds. Further funding details have been received and implementation of the reforms will commence from September 2024, the scale of the potential impact is currently being assessed.

6.2 Schools. During the early stages of the consultation for the National Funding Formula (NFF), some of the initial models suggested that Hackney schools may have ended up facing significant funding reductions. This was as a result of the expectation that central government would redirect resources from those local authorities viewed as better funded - like Hackney - to those viewed as less well-funded. After significant lobbying from many stakeholders, the reality of the implementation of the NFF was per pupil funding increases across the board, with increases weighted towards lower funding authorities. This is expected to continue to be the case in the medium term.

Hackney, in line with the rest of London, is facing considerable changes in terms of demographics, with many primary schools now facing falling rolls after a decade of unprecedented demand for places. It is uncertain how long this period of decreased demand will last and it is vital that the school funding system is able to respond to this challenge swiftly to ensure that schools are not destabilised financially. This is the main financial concern for schools in Hackney in the medium term.

7.0 CONCLUSION

7.1 The 2024-25 MTFP demonstrates the significant financial challenge the Council faces over the period 2025-26 to 2027-28. Against a background of a likely real term freeze in external resources, the council faces increasing demand and cost pressures across various services especially in Adult Social Care, Children's Social Services, SEND and Temporary Accommodation. This will require the development of further savings proposals, the successful implementation of the various transformation exercises and the continued effort to drive out efficiencies and economies across all services.

7.2 The most significant issue that we faced in formulating this plan was the huge uncertainty regarding external funding arrangements. If and when more is known about financing levels for 2025-26 and the timing and content of the possible funding review, we will produce an updated iteration of the Plan.