APPENDIX 5

GENERAL FUND REVISED 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 <u>illustrative</u> external funding levels, taking account of the Chancellor's 30th October 2024 budget and the worsening in year financial position as set out in the September 2024 report to Cabinet. The MTFP will be reviewed again and extended to 2028/29 once we have the provisional Local Government Settlement which is expected in December. This will then be published as an appendix to the budget report in February 2025.

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 means that there will need to be reductions in some of the services we provide.

1.4 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 and homelessness prevention which despite growth in budgets and increases in grants remain our biggest revenue expenditure risk.

1.5 The MTFP defines the resources available to the authority to implement its priorities as set out in the Strategic Plan. It also sits alongside the Corporate Transformation Strategy 2024-2028 which is a key part of delivering against the MTFP and meeting the estimated budget gaps. The Transformation Strategy identifies existing corporate projects that are already in delivery as well as encouraging a progressive and ambitious approach to service resourcing and delivery, and our relationship with residents. It brings a greater Council-wide focus on enabling partnership delivery with local communities, organisations and local businesses. The scope and funding for the Transformation Programme is currently under review - with planned increased investment to be funded from capital receipts expected to generate a greater level of return in terms of savings to the Council's budgets as well as non-financial benefits. However, as has been frequently highlighted, given the scale of the financial challenge, the Transformation Programme alone will not be sufficient to meet the budget gap and there will be difficult decisions to take.

1.6 The Forecast is concerned with General Fund revenue expenditure and income.

2.0 FINANCIAL BACKGROUND

2.1 Introduction

2.1.1 The Council has been operating in a challenging financial environment since 2010 with Hackney's core funding from the Government falling significantly in real terms by almost 40% if we exclude Council Tax, between 2010 and 2024.. This has coincided with significant ongoing cost pressures resulting from various factors including: - increased demand for many services; increased unit costs; the impact of past Government interventions in areas such as welfare and Education; the lack of central intervention in homelessness; the 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 SEND and home to school transport.

2.2 Autumn Budget October 2024 and Previous Announcements

2.2.1 On 29th July 2024, the Chancellor made a Statement on the Public Spending Audit carried out by HMT. Included in this was a commitment that a multiyear spending review will begin and conclude by Spring 2025, which will set spending plans for a minimum of three years. Thereafter, Spending Reviews will happen every 2 years. This is welcome and will give us a broad trajectory of the Government's plans for local government resources and spending but it will not give us the detail to produce a robust estimate of our future funding entitlements.

2.2.2 At a subsequent announcement Jim McMahon MP (Minister for Local Government) stated that “We will provide more stability for councils through multi-year funding settlements, ending the competitive bidding process and reforming the broken audit system. Future local authority funding decisions are of course a matter for the spending review and the local government finance settlement”. No firm indication was given about when authorities might get their multi-year settlements, although we expect the first to be in 2026-27. At the LGA Conference in October, he further added that the current funding formula meant funding is not going to the right places. In particular, he mentioned how the current formula does not pay enough attention to deprivation, need or the health of a local Council Tax base.

2.2.3 The main elements of the Autumn Budget that will impact on Local Government are as follows: -

- Core Spending Power will increase by an estimated 3.2% in real-terms in 2025-26.
- This includes £1.3bn of new grant funding – with £600m earmarked for social care, and £700m for general services (the distribution of both remains to be confirmed).
- Additional funding of £233m for homelessness prevention in 2025-26 (the distribution is to be confirmed)
- An increase of £1bn for SEND and alternative provision in 2025-26.
- The Small business rates multiplier will be frozen and retail, hospitality and leisure (RHL) businesses will receive a 40% business rates relief in 2025-26. Councils will be compensated.
- Business rates will be reformed from 2026-27 to include lower multipliers for high-street RHL businesses from 2026-27, funded by increases for properties valued over £0.5m.
- The Affordable Homes Programme will increase by £500m in 2025-26.
- Right-to-buy discounts will be reduced by the government, and local authorities will be able to retain 100% of the receipts from right-to-buy purchases.
- The government will consult on a new long-term social housing rent settlement of CPI+1% for 5 years as well as the option on further potential measures such as a 10-year settlement.
- Employer National Insurance Contributions will increase by 1.2% in 2025-26 - public sector organisations are expected to be compensated for this (details for local government remain to be confirmed)
- The UKSPF will continue for one more year at a reduced level of £900m across England.
- The English Devolution White Paper will include exploring how an integrated settlement could apply to the GLA from 2026-27.
- Local roads maintenance funding will increase by £500m in 2025-26.
- TfL will receive £485m for its capital renewals programme in 2025-26
- The household support fund and discretionary housing payments have been extended with an additional £1bn in funding to 2025-26.

2.2.4 There is a great deal of uncertainty with regards to exactly how the Budget will impact on local government funding. In particular, no details have been given on how the additional £700m additional grant will be allocated. There are various options.

(i) Index in line with CPI, each authorities': - Settlement Funding Assessment (Local Authority calculated Needs estimate); Baseline Funding (Notional rating income estimated by the Govt, including the top up); and Revenue Support Grant (RSG). This would give all councils an increase in funding.

But if the Government wished to target funding it would set the Settlement Funding Assessment (SFA) increase at a level which effectively freezes RSG so that the whole £700m would remain for a targeted allocation.

Another option would be to fully index the total SFA etc. by CPI but allocate it out to councils by some kind of targeted allocation method.

If the Government does fully index the SFA etc. this would cost c. £270m and reduce the balance to £430m.

We have assumed that the Government will fully index each council's SFA in line with CPI (an approach which has been followed by the Government since 2020-21). If the Government does this, Hackney will gain c. £1.7m, which is in line with the assumption made in the original MTFP. The total available for distribution for general services will reduce by £270m from £700m to £430m.

(ii) We expect that the Government will compensate local authorities for the NI increase which means that it should have a neutral impact on our finances. However, it is not clear whether the compensation will come from within or be outside the £700m. Officials were vague about this in their meetings with LG representatives in their discussions following the publication of the Budget. We have prudently assumed it will come out of the £700m which will reduce the amount available for distribution by a further £200m to £230m.

(iii) With regards to the remaining £230m, the Government has said that it will direct funding towards authorities with higher needs, taking local revenues (business rates and council tax) into account. We have assumed our share of this will be 0.9% (in line with our share of other deprivation/needs measures) which is c. £2m. (Note, if the National Insurance contribution compensation is additional to the £700m, then the general services grant will increase back to £430m and our allocation will increase by c.£1.8m over the £2m assumed).

(c) It must be stressed that at this point in time, we have no real certainty how much funding will be available for targeted allocations - it could be anything from £230m to £700m.

(d) The Budget announced that the Social Care Grant will increase by £600m in 2025-26. If we take our share of the current social care grant and apply this to the £600m this will generate c. £4m additional income. This assumes therefore that the 2024-25 allocation methodology will continue in 2025-26 so this is not a firm allocation. On a related matter, the current MSIF Workforce Fund grant was announced as a 2 year grant only (£325m in 2023-24 and £205m in 2024-25). There is a risk therefore that the Workforce Fund may not continue into 2025-26.

Nothing was said on the future of this grant in the Budget. We have assumed that the grant will be deleted and have prudently assumed that net social care funding will increase by £3m in 2025-26.

(e) The additional Homeless Prevention Grant of £233m is in addition to the £1.3bn. We have assumed based on the current allocation methods that we will receive £3.2m.

(f) Overall, we have increased our estimated 2025-26 income by an estimated £8.2m as a result of the Budget (£2m increase in core funding, £3m increase in social care grant and a £3.2m increase in homeless prevention funding). Clearly, the Budget cannot solve all of our financial problems but it is very welcome.

(g) The Government will issue a Policy Document in mid to end November, which will set out its plans for LG Funding in 2025-26. The document could set out the council tax referendum criteria, and a steer on how it will allocate out the £700m. It will not, though, present local authority grant entitlements.

(h) On future funding levels, the Budget projects real-terms increases in day-to-day spending over the Parliament of 1.5% in real terms. This is an upgrade in future spending plans (from 0.9% to 1.5% real terms growth) but most of this additional funding is likely to go to Protected Departments such as the NHS, Defence and Schools. So Hackney, in common with other councils can still expect to have to make some very tough financial choices over the next four years. The IFS will shortly produce an analysis of the funding that will be available for Unprotected Departments, such as Local Government, in future years.

(i) The Budget confirms that the Government is planning to implement funding reforms in 2026-27. There is very much a focus on directing funding towards authorities with higher needs, and also taking local revenues (business rates and council tax) into account:

"Reforming the approach to funding allocations within the Local Government Finance Settlement by redistributing funding to ensure that it reflects an up- to-date assessment of need and local revenues."

This may be good news for Hackney but it must be remembered that our relative assessed needs (and population) are lower than those calculated in 2013 on which the current funding system is based and our business rates income is significantly higher (following the two rate revaluations). So it is not clear if we will make any significant gain.

Timescales are very tight for changes to be implemented in 2026-27. The government "will set out further details through an upcoming local government finance policy statement.", and we would anticipate that this will mean a consultation paper on funding principles alongside the provisional settlement in December, followed by a full consultation in the Spring (or potentially before the Summer Recess).

2.3 Cost Pressures

2.3.1. The Council is experiencing considerable pressures across its demand-led services. Specifically in social care and in homelessness prevention. Over the period 2022/23 to 2024/25 significant growth was allocated to Children's and Adults Social Care (£18m) alongside additional social care grants (£33m). At the point that we set the budget for 2024/25, significant cost pressures had not yet emerged in temporary accommodation although we did set aside some budget growth (£2.3m) alongside the increase in Homelessness Prevention Grant (£1.5m) cognisant of this as a potential future cost pressures.

2.3.2 These demand-led cost pressures are driven by:

- Children's services - placements, especially residential and high cost supported, and disabled children's services)

  The main areas of pressure in Children's Services have consistently been within Corporate Parenting. Since 2019/20, we have monitored unit costs in different placements types and have seen them significantly increase during this period. The increase in unit costs has been coupled with a relative increase in the profile of placements linked to the complexity of care for children and young people coming into the service. For example children with very complex mental health needs, which can carry a constant risk of self harm and require round the clock supervision. In addition restricted supply nationally coupled with higher demand results in an extremely competitive market for placements, which drives up costs. Depending on the complexity of the arrangement new clients can add a considerable cost and holiday periods during the summer and winter have historically experienced spikes in demand and pressure on the budget due to care arrangements breaking down. Within the Disabled Children Service increasing costs are primarily linked to complexity of care and the demand for home care services.

- Adult Social Care - demographic factors and the increasing complexity of client needs;

  The ASC budget continues to face significant challenges, primarily driven by increased numbers of clients, rising care complexity, and inflationary pressures. Since 2019/20, the number of individuals receiving care and support has grown by 40%, with homecare alone experiencing a 73% rise. This increased demand has been further compounded by escalating unit costs due to inflation, including the

London Living Wage (LLW), and the complexity of care packages. Despite an additional £22 million allocated for provider inflation adjustments and demographic growth—along with a £24 million increase in Social Care grant funding over the past six years—the budget remains under considerable strain.

- Temporary Accommodation - increased numbers, shortage in supply, increased rates and reliance on nightly paid accommodation.

  The significant financial pressure is largely due to a substantial increase in placements and rising unit costs for temporary accommodation. In response to growing demand and a shortage of alternative options, we have been compelled to place individuals in nightly paid temporary accommodation and bed and breakfast facilities. These types of accommodation have seen steep rent increases, with costs now averaging 127% to 325% more than in April 2023. This issue is further compounded by renegotiations on expired hostel leases, which have led to higher costs, and rent reviews reflecting increases in the Local Housing Allowance (LHA) rate. This allows landlords to charge higher rents, while current Housing Benefit subsidy rules prevent us from fully recovering these costs.

2.3.3 Overall, in the revised MTFP we have factored in £77m in for these high risk pressures over the period 2025/26 to 2027/28 with £47m front loaded into 2025/26. We have also set aside limited growth of £3m across the period to meet other cost pressures, including where there is a reduction in commercial rents billable due to disposal of assets.

2.3.4 We still maintain provision against increasing energy costs but the requirement is lower than that previously included as prices have reduced but the direction of travel is unclear given the instability in the Middle East. Provision is also made for increased Buildings Maintenance costs but again the direction of travel is unclear.

2.3.5 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. Medium Term Financial Plan

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

3.2 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, there is very limited information on which to base our estimates.

3.3 In previous versions of the MTFP, our assessment of the impact of Funding Reform was to assume a substantial loss based on: - the initial work carried out by the then Government; the fact that Hackney's is now less relatively deprived than it was in 2013 (when there was the last major update to the funding arrangements); and the fact that its population, according to the last census, has increased by less than the London average. However, we have now removed this loss from the MTFP as we do not believe that a Labour Government will introduce any reform that will disadvantage Hackney and other similar London and Metropolitan districts. We have taken a similar view on the Business Rates Reset.

3.4 It follows that we can expect a reform of the funding system to take place but it is not wholly certain, although likely, that the funding reform will be implemented in 2026-27. Further, we do not know what the impact of these will be.

3.5 Given that departmental spending plans post 2025-26 will not be available until 2026-27, and we do not know the Government's plans for future funding reform, it follows that we can only make (very) indicative estimates of our external funding levels post 2025-26 in the forecast. Moreover, these estimates may change if more clarification is issued on any of these matters.

3.6 The MTFP also takes account of the significant overspend recorded for the General Fund in the September OFP and the increase from May. The overall September overspend after reserves was £17.8m higher than overspend in May. This primarily reflects increased cost pressures in Homeless Prevention, adult social services and children's services.

	2024/25 Overspend after reserves May OFP £m	2024/25 Overspend after reserves September OFP £m	Increase £m
Homeless Prevention	7,424	19,500	**12,076**
Adult, Health & Integration	14,817	18,497	**3,680**
Children's and Education	5,358	9,024	**3,666**

We have reflected the potential impact of this in the revised MTFP by increasing the growth allocation. This has been limited to demand-led pressures such as commissioning costs for packages of care for adults, looked after children placements and temporary accommodation costs. No additional growth has been allocated for staffing pressures (including over-establishment posts and agency premiums) which services are expected to address directly. In addition, whilst growth covers the forecast overspends in the current year and further increases it also assumes some slowing down. This is because the increase in spend in these areas has risen faster than they historically have and we expect management actions to have an impact, particularly on temporary accommodation costs where the pipeline of actions could significantly slow down the rate of increase.

3.7 The MTFP also takes account of the impact of capital expenditure on the revenue forecast. The capital programme 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.

3.8 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.

3.9 In the MTFP we have estimated that the estimated MRP adds the following amounts to general fund expenditure: - 2025-26 £10.114m, 2026-27 £13.069m and 2027-28 £15.426m.

3.10 Medium Term Financial Plan - Underlying Assumptions

3.10.1 The underlying assumptions are as follows:-

<u>Income</u>

(a) We assume that the Funding Reform and Business Rates Reset will not impact on our funding allocations.

(b) Revenue Support Grant is increased in each year of the Plan in line with forecast inflation levels (1.7% in 2025-26 and 2% thereafter).

(c) The business rates multiplier is assumed to increase by inflation 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 are assumed to increase by £6.7m in 2025-26 and by £5m thereafter (in line with the trend in 2024). Retail Hospitality Reliefs are set at 40% (following the October budget) in 2025/26 but all other reliefs are assumed to increase by the forecast inflation in each year. A provision against income losses from appeals of £7m 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 600 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) Total Social Services Grants are assumed to increase by £3m from their 2024/25 levels in 2025/26 (after netting off the loss of MSIF Workforce Fund Grant), then by a further £1m in each of the following two years.

(j) The increase in Homeless Prevention Grant (HPG) announced in the Budget is assumed to increase our overall HPG by £3.2m in 2025-26.

Expenditure

(a) It is assumed that all of the 12 Area Savings for 2025-26 and 2026-27 and other agreed savings are achieved. This is being closely tracked and reported in the monthly OFP.

(b) A total of £25.5m growth has been included in the plan to manage adult social care and children's services cost pressures in 2025-26, which rises to £37.5m in 2026-27 and to £45.5m in 2027-28. These are cumulative estimates which take into account the assumptions around increases in the social care grants set out above. This provision has increased from the estimates in the original MTFP reflecting the significant increase in the two services' cost pressures which has occurred since then.

(c) We have also included £21.3m growth for Temporary Accommodation in 2025-26 which rises to £31.3m in 2027-28. which takes into account the assumptions around increases HPG set out above. Finally we have included £2m for Other Services Growth in 2025-26 which rises to £3m in 2027-28. Again these are cumulative estimates.

(e) Provision for Energy costs of £6.220m as applied in 2025-26 and any unused funds will be rolled forward into 2026-27 and 2027-28. This 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 (based on the agreed pay award which equates to an overall 4% increase in Hackney) into 2025-26 and a then further sum equal to 3% p.a. thereafter.

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

(g) The Minimum Revenue Provision is £10.1m in 2025/26, then £13.1m in 2026/27 and £15.4m in 2027/28. Interest charges are set at £2.9m, £3.9m and £3.9m respectively.

3.10.2 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 Budget Gap 2025-26 to 2027-28 after application of Approved Savings

RESOURCES	2025-26	2026-27	2027-28
External Core Funding incl RSG, Top Up & S31 Top Up Grant	134.527	136.864	139.229
Local Pool Surplus	2.600	2.600	2.600
Business Rates Income including S31 & deficit c/fwd	81.370	79.577	82.385
Council Tax incl deficit c/fwd & support netted off	112.995	117.161	121.505
Improved Better Care Fund & Better Care Fund	21.837	21.837	21.837
Public Health	37.845	37.845	37.845
New Homes Bonus/Services Grant	0.000	0.000	0.000
TOTAL	**391.175**	**395.884**	**405.400**
EXPENDITURE	**2025-26**	**2026-27**	**2027-28**
Directorate Cash Limits after Savings and HRA Recharge	308.252	301.715	301.715
AH&I and C&E Cost Pressures and Growth	25.567	37.567	45.567
Homeless Prevention Cost Pressures and Growth	21.300	26.300	31.300
Other Directorates' Cost Pressures and Growth	2.000	2.500	3.000
General Finance (Corporate) Account			
Superannuation	12.951	13.251	13.551
Capital (Minimum Revenue Provision & Interest)	13.314	17.269	19.626
Pay Award	15.200	21.976	28.956
NLWA Levy	11.951	12.105	16.087
Concessionary Fares Levy	12.162	13.526	14.902
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) & Lifecycle Provisions	3.750	3.750	3.750
Other Corporate Items	1.297	0.477	0.482
TOTAL	**437.164**	**459.856**	**488.356**
BUDGET GAP BEFORE APPROVED SAVINGS	**45.989**	**63.972**	**82.955**
LESS PHASE 1 SAVINGS APPROVED OCTOBER CABINET			
Children's & Education'	0.000	0.400	0.400
Adults & Public Health	0.000	0.000	0.000
CHE	0.300	0.550	0.550
Chief Executive	1.068	1.086	1.086
Finance and Corporate (adjusted for RCCO & Lifecycle)	7.043	7.064	7.098
Transformation	0.439	2.660	3.660
Technical Finance	1.325	2.931	2.931
Total Phase 1 Savings approved at October 2025 Cabinet	**10.175**	**14.691**	**15.725**
BUDGET GAP AFTER APPROVED PHASE 1 SAVINGS	**35.814**	**49.281**	**67.230**

3.10.3 The cumulative forecast budget gaps are £35.814m, £49.281m and £67.230m respectively. The primary reasons for the large budget gaps in all years are the budget added to address cost pressures and growth in adult social care, children's services, homeless prevention and increases in the Minimum Revenue Provision (MRP).

3.10.4 It is emphasised that this is an interim update of the MTFP and it will be revisited once we have received the provisional local government settlement in December, extended out to 2028/29 and published with the annual budget report.

3.10.4 In section 5 below, further measures to close the gap are discussed.

4.0 Risks

4.1 <u>External Funding</u>

As noted above, the Budget projects real-terms increases in day-to-day spending over the Parliament of 1.5% in real terms. This is an upgrade in future spending plans (from 0.9% to 1.5% real terms growth) but most of this additional funding is likely to go to Protected Departments such as the NHS, Defence and Schools. The IFS will shortly produce an analysis of the funding that will be available for Unprotected Departments, such as Local Government, in future years

There is also significant uncertainty about the impact of the funding reforms and business rates reset. Whilst the Government is looking to implement the reform in 2026-27 with the associated multi-year grant settlements, the timescales are extremely tight and so it is not wholly certain that the reform will be introduced then.

The emphasis placed by the Minister for Local Government on directing funding towards authorities with higher needs, and also taking local revenues (business rates and council tax) into account may be good news for Hackney but as noted above, our relative assessed needs (and population) are lower than those calculated in 2013 (on which the current funding system is based) and our business rates base is much higher. So it is not clear if we will make any significant gain

4.2 <u>Increased Cost Pressures over and above the assumptions made in the MTFP</u>

This report has already noted cost pressures in various areas and we have built growth allocations into the forecast to reflect this.

We have looked at cost pressures in Adult Social Care Commissioning and Children's Services and included £25.5m growth in 2025/26, £37.5m in

2026/27 and £45.5m in 2027/28 (these are cumulative estimates and take account of the assumed increase in social care grants).

In Homelessness Prevention, we have assumed growth in the budget based on the recent increase in pressure in this area. The total current year pressure is £19.5m and growth is assumed at £21.3m for 2025/26, £26.3m in 2026/27 and £31.3m in 2027/28 (these are cumulative estimates and take account of assumed increases in HPG).

Whilst growth allocated in these demand-led areas covers the forecast overspends in the current year and further increases it also assumes some slowing down. This is because the increase in spend in these areas have risen faster than they historically have and we expect management actions to have an impact, particularly on temporary accommodation costs where the pipeline of actions could significantly slow down the rate of increase. However, if expenditure continues to grow at current levels there will be a further unsustainable call on reserves and an increase in the budget gap in future years.

4.3 Achievement of MTFP Savings

There is always a risk in any MTFP of non achievement or underachievement of savings which is probably greater in this Plan given the sheer size of the savings required. Also almost all of the straightforward savings have already been taken. The 2024-25 budgeted savings are being tracked on a monthly basis in the OFP in a savings tracker attached as an Appendix to the main report, Services are asked to review, RAG rate and comment on the performance of each of the savings approved for 2024-25. This allows Cabinet and senior officers to focus on any potential non-achievement

4.4 Energy Prices

We have made a provision for increased energy prices in the Plan but there is always a risk that the ongoing and growing international instability could result in a sharp rise energy costs such that our assumption is exceeded

4.5 SEND

The brought forward SEND deficit in 2024/25 was circa £19.1m and based on the current forecast this will increase to circa £20.3m at the end of 2024/25. The statutory override which allowed this deficit balance to be carried in the Council’s accounts has been extended from 31 March 2023 to 31 March 2026 by Government. However, this continues to remain a long term risk for Hackney in the event there is no further funding provided by the Department for Education (DfE) to mitigate this balance.

4.6 School closures

We have assumed a level of reserve usage in the period to meet redundancy and deficit costs of school closures. However, this could increase over the MTFP period.

4.7 Unforeseen Events

Recent unforeseen events like the Covid-19 pandemic and the cost of living crisis exemplify incidents that have resulted in unexpected financial burdens for the sector. There is always a possibility that another unforeseen event will occur and have a similar impact.

5.0 Closing the Budget Gap

5.1 Paragraph 3.10 above sets out the estimated budget gap after taking account of the budget proposals approved by Cabinet to date (Phase One). In addition to these savings we are also working on the assumption that council tax will increase by the maximum allowable (assumed to be 4.99%) in each of the following three years. It is emphasised that this is subject to change and approval at Full Council in each year of the budget. It is also assumed that Phase Two budget proposals currently going through Budget Scrutiny will go ahead in 2025/26 and the following two years. The table below sets the remaining budget gap.

	2025-26 £m	2026-27 £m	2027-28 £m
Revised budget gap after Phase 1 Savings	35.814	49.281	67.23
Phase 2 savings proposals currently going through Budget Scrutiny (subject to approval)	-2.744	-4.374	-4.374
4.99% increase in Council Tax	-2.194	-4.595	-7.217
BUDGET GAP AFTER PHASE 1 SAVINGS, COUNCIL TAX INCREASE AND PHASE 2 SAVINGS	**30.876**	**40.312**	**55.639**

5.2 As noted above, the main driver for this budget gap is the escalating in-year cost pressures in social care and in homelessness prevention which have exceeded budget growth included in the 2024/25 budget and necessitated significant additional budget growth to be included in this revised MTFP for the next three years. This has also meant that at a relatively late stage in the year we are still a long way off balancing the budget for the next financial year in a sustainable way. That being said, there are a number of initiatives underway which will reduce the budget gap. These are set out below with estimated overall impacts:

- Phase three budget proposals - these are a series of service remodelling and reductions due to go to Budget Scrutiny in late

November/early December 2025 (Estimated impact around £2-4m across 2025/26 to 2027/28).

- Increased investment in Transformation - the Transformation programme is being scaled up to escalate delivery of outcomes including savings delivery (Estimated impact around £21m across 2025/26 to 2027/28)

- Additional targeted review of spend/income - this includes review of contract spend, further reductions in non-essential spend lines and further increases to fees & charges (Estimated £1-£2m in 2025/26)

5.3 It is clear that these initiatives will not in themselves balance the budget either in 2025/26 or across the medium term period. It is therefore anticipated that we will need to utilise circa £15m-£20m of reserves to balance the budget for 2025/26. This is clearly not a sustainable position, and will have a significant impact on our financial resilience. We will therefore need to continue to challenge the level of services we provide and identify further options to reduce spending and increase income in order to move back to a position of balancing our budget year on year and rebuilding reserve levels.

5.4 As ever, this process is exacerbated by the lack of certainty over future funding levels. Notwithstanding that we expect to have a clearer idea next Spring given the scale of the challenge, escalating costs and our reliance on reserves, we are not in a position to assume that future funding levels will address the gap. ***The unequivocal advice of the S151 officer that any increases in funding that are indicated by the Provisional Local Government Finance Settlement (PLGFS) in December reduce the planned use of reserves and are not utilised to reverse or delay difficult decisions around services.***

6.0 GENERAL FUND RESERVES

6.1 The table below sets out the position on the Council reserves as at 1st April 2024 and the forecast position taking account of specific reserves that we plan on using in-year along with planned appropriations to reserves.

Forecast Reserves at 31st March 2024

	£m
Overall General Fund Reserves as at 31st March 2024*	**154.1**
Less: General Fund Balance	18.0
Less: Schools balances	9.7
GF Reserves (excl GF balance & Schools Balances)	**126.4**
Less Forecast Net Reserves usage 2024/25 (note, this is an estimated figure which is subject to change depending on variations to the current year forecast and the level of capital financed from reserves at year end)	9.9
Less Committed Reserves (main elements are the PFI, the Insurance Fund & elections reserves)	10.2
Less Third Party Agreement (S256 agreements with health and other joint balances)	10.9
Less Capital Commitments (Parking reserve for climate and transport projects £5m, Fleet replacement reserve £5.8m and Town Hall sinking fund £5.4m)	22.8
Other Usable Reserves	**72.6**

6.2 The final overspend position for 2024/25 will reduce this balance as will any planned use of reserves to balance the 2025/26 budget. The level of usable reserves is however increased if we either reduce capital commitments or where works are essential replace these with borrowing. The forecast position at the end of March 2026 is shown below

	£m
Other Usable Reserves	**72.6**
Assumed use of reserves to fund 2024/25 overspend	(37.0)
Assumed in budget for 2025/6	(20.0)
School closure impact	(5.0)
Add back capital reserves	22.8
Comprehensive review of credit balances and provisions	9.0

Other Usable Reserves as at the end of March 2026	42.4

6.3 In simple terms if we were to do nothing and we were to continue to overspend at the current rate our reserves will be exhausted in less than 3 years. Faster, if spend continues to grow and no containment action is taken and if no national resolution comes forward to the deficit balance on the Dedicated Schools Grant where the current statutory override in relation to holding this deficit balance expires in 2026. The above reserves position does not include General Balances of £18m.

6.4 Therefore, the Council is in a relatively precarious position financially particularly given the risks set out above. The materialisation of any one of these risks in the next 12-18 months, without significant additional funding, would require us to approach the Government for exceptional financial support. Under the current exceptional support framework this would likely mean increased borrowing and debt costs as well as increased Government oversight.

7.0 CONCLUSION

7.1 The revised MTFP demonstrates the significant financial challenge the Council faces over the period 2025-26 to 2027-28. Against a background of sustained real term reductions 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 Homeless Prevention. 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, alongside inevitable service reductions.

7.2 The most significant issue that we faced in formulating this plan was the ongoing uncertainty regarding external funding arrangements. Whilst we have factored in some prudent estimates of increases in funding for 2025/26 following the Autumn Budget, we will not be clear on the real impact of these until December when we receive the provisional local government settlement. Given the quantum of the sums announced, however, and the planned reliance on reserves to balance the budget for next year this will not have an impact on the decisions which need to be taken to reduce expenditure.

7.3 Between now and our next iteration of the MTFP (February 2025) we will have received the policy paper referred to above (para 2.2.4 (f)) and the final local government settlement and estimates will be updated accordingly. We are unlikely though, at that stage to have much further information in relation to future funding settlements.