

APPENDIX 5

GENERAL FUND REVISED MEDIUM TERM FINANCIAL PLAN (MTFP) 2026/27 to 2028/29

1.0 INTRODUCTION

- 1.1 This MTFP updates the Council's budget strategy for the financial years 2025/26 to 2028/29. 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, taking account of the Chancellor's 30th October 2024 budget, the 2025-26 Provisional and Final Local Government Finance Settlements and the worsening in year financial position as set out in the December 2024 OFP report to Cabinet.
- 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. Following the Corporate Peer Challenge (CPC) and in recognition of the significant financial challenge the Council faces, the Transformation Programme is being scaled up. We will work with a transformation consultancy to develop our future vision and the smaller, more efficient operating model we need to move towards to deliver our vision within our available financial resources. The contract will utilise the specialist knowledge, capacity and benchmarking data of a private provider to undertake a diagnostic exercise to identify business cases which deliver significant

financial savings. We will also work with a provider to undertake demand and cost analysis, developing models for demand management and business cases across our key demand-led services. There will be a focus on knowledge transfer so that we build our transformation capacity in-house. We will be investing in increased resources for transformation, both in staffing capacity and developing an invest to save innovation fund to identify further efficiency opportunities. The planned increased investment is to be funded from capital receipts and is expected to generate a greater level of return in terms of savings to the Council's budgets as well as non-financial benefits. Capital receipts will be generated by the identification and disposal of non-core assets after appropriate review and governance.

- 1.6 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. In making these decisions we will need to take a more profound look at the nature and extent of services that the Council provides.
- 1.7 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 37% between 2010/11 and 2024/25 if we exclude Council Tax income. 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 2021, 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.
- 2.1.2 The 2025-26 Provisional Local Government Finance Settlement (discussed in detail below) increased LBH's core spending power (the Government's estimate of our resources) by £21.4m if Council Tax income is excluded. This increases to £24.1m if we include the new pEPR grant. Changes to the Provisional Settlement allocations were introduced in the Final Settlement published on 3rd February 2025 which are also considered below.

2.2 2025-26 Provisional and Final Local Government Finance Settlements and Previous Announcements

2.2.1 The main elements of the 2025-26 Provisional Local Government Finance are set out below.

2.2.2 On 18th December 2024, the Government published the Provisional 2025-26 Local Government Finance Settlement. The main points are as follows: -

- Core Spending Power (CSP) will increase by 6.0% across England and 5.7% for London boroughs in 2025-26; a real terms increase of 3.5% and 3.3%, respectively. Hackney's increases were 7.8% and 4.5% respectively
- The Council Tax referendum threshold will remain at 3%. Eligible local authorities can also set an additional adult social care precept of up to 2% without a referendum.
- The Settlement Funding Assessment will increase by 1.7% to £16.8bn in 2025-26
- Compensation for under-indexation of the business rates multiplier will total £2.7bn in 2025-26, an increase of £278m from 2024-25.
- NICs Increase Compensation: £515m of additional funding will be allocated in England to mitigate the impact of the increase in employer National Insurance Contributions (NICs) on local authority budgets.
- Homeless (Homelessness Prevention Grant) & rough sleeping funding will increase by £233m to £920m (nationally). The increase in Homeless Prevention Grant is £192m and Hackney will receive an additional £3.4m.
- Just under half (49%) of Homelessness Prevention Grant will be ring fenced for prevention (i.e. cannot be used to fund Temporary Accommodation Pressures).
- The Rural Services Grant and Services Grant have been cut completely.
- The total Social Care Grant was increased by £880m (£200m more than set out at the LGF Policy statement). Hackney's grant has increased by £6.6m
- The Improved Better Care Fund and Discharge Fund have been combined into one grant (the Local Authority Better Care Grant), with overall funding remaining the same as 2024-25.

- The new Children's Social Care Prevention Grant is worth £250m (England) and £40m (London). Hackney's entitlement is £2.4m
- The Government introduced a new Recovery Grant – targeted at the most deprived areas using the Index of Multiple Deprivation and tax bases. 15 London boroughs received an allocation, including Hackney which received £9.7m.

2.2.3 In the Final Local Government Finance Settlement published on 3rd February 2025, the following changes were made to the Provisional Settlement.

- CSP for 2025-26 will increase by £4.4bn (or 6.8%) in cash terms. This is higher than the 6.0% which was announced in the provisional settlement. This is a result of including the grant funding for increase in Employers' National Insurance Contributions within CSP. The increase in Hackney's CSP is 8.8% compared to 7.8% in the provisional settlement. If we exclude council tax from CSP and include the pEPR grant, the increase in LBH's core spending power is £27.4m
- The Children's Prevention Grant total has increased to £270m from the £250m announced in the Provisional Settlement. Hackney's Grant has increased from £2.42m to £2.59m
- As noted above, a fund of £515m was made available in the provisional settlement to compensate for the introduction of the increased employer NI contributions in 2025/26. The actual allocations have now been provided in the final settlement and Hackney's grant is £3.2m.

2.2.4 Whilst this overall increase in funding is welcome, it falls well short of what we need to fund increasing cost pressures on our services (especially in adult social care, children's social care and homelessness prevention) and as a result we plan to use £10m of reserves to balance our budget in 2025-26. Further, as is detailed in the Risk section below, the financial outlook for local government is not encouraging and our financial position will remain very challenging going forward.

2.2.5 The Government also set out its plans on the 2025-26 Funding Review and Business Rates Reset and issued a Consultation Paper which set out the principles which will govern the Review. The Government emphasises that its proposals are a continuation of the previous governments' proposals. They will be using the same principles as the previous government in the 2018 Consultation, and many of the same building blocks will be used within the new funding formulas. We expect though that the new Government will have a different view of what a "fair" distribution of funding looks like, and how funding distribution should be prioritised. There are statements throughout the

consultation that indicate where ministers might depart from the 2018 consultation. Ministers will look to “re-test” the evidence now that it is over six years old and there has been significant changes since then (e.g. COVID). And they will use their judgement about the weighting of deprivation funding.

- 2.2.6 The funding reforms will include the Settlement Funding Assessment (Needs and Resources assessments), the Business Rates Retention System (BRRS) (a “reset” to update rateable values to 2023 or 2024 values), and a replacement to the New Homes Bonus (NHB) Grant. It is likely that the formulae changes will also be applied to the specific grants within Core Spending Power such as the Social Care Grant.
- 2.2.7 The proposals outlined in the Consultation Paper – and in the previous 2018 consultation – indicate very substantial changes in funding, and some very significant losses for some authorities. Some form of transitional support (damping) will be essential so that funding losses (and gains) are introduced over several years. The Government wants funding changes to be introduced in an “orderly and efficient manner”. The consultation paper makes clear that some form of transitional support will be in place, and it provides some details about its coverage. This will be good news to those authorities who are likely to be relying on the damping scheme in 2026-27 and later years. But there are some important choices that ministers will have to make about its design that will have consequences for the extent of support that the damping scheme will provide. It appears that transitional support will have a wide coverage, and will include both changes in Core Spending Power (CSP) and the effects of the business rates baseline reset.
- 2.2.8 The 2025-26 Provisional Settlement added no further information on the previous announcements on the forthcoming Spending Review and multi-year Settlements. These were covered in the revised Medium Term Financial Plan included in the September 2024 OFP.

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. In 2024/25, significant growth was allocated to Children’s and Adults Social Care (£12m) alongside additional social care grants (£8.2m). In 2025-26 we will allocate a further £22.3m growth to both services and the 2025-26 Social Care grant increased by £6.6m from 2024-25 and a further £2.4m was allocated to the Council from the new Children’s Prevention Grant. 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 (£2.9m) alongside the increase in Homelessness Prevention Grant (£1.5m) cognisant of this as a potential future cost pressures. In 2025-26, we will allocate a further £21.3m growth and the service will receive £3.4m of additional Homeless Prevention Grant.

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. 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 £74m in for these high risk pressures over the period 2025/26 to 2028/29 with £44m front loaded into 2025/26. We have also set aside limited growth of £3.5m 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 high 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. We have also made provision for the increase in employers' national insurance costs. Whilst we have received funding to compensate for the direct cost of this in the Final 2025-26 Local Government Finance Settlement, this does not cover the full direct cost (i.e. our own staff only) and will not cover any knock-on impact from third party providers.
- 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 2028/29.
- 3.2 Because so little information is known on the likely outcome of the funding reforms in the Funding Reform Consultation Paper issued with the 2025-26 Provisional LGFS, 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. In constructing the MTFP forecast, we have kept all the existing grants (other than the Recovery Grant which is a one-off grant) and rolled them forward in line with inflation or in line with our best assessment of likely increases. However, when details of the new funding system emerge we will produce a revised version of the Plan.
- 3.3 In the previous version of the MTFP, we have assumed that a Labour Government will not introduce any funding reform that will disadvantage Hackney. We have taken a similar view in this version of the Plan.
- 3.4 The MTFP also takes account of the significant overspend recorded for the General Fund in the December OFP and the increase from May. The overall December overspend after reserves was £17.1m higher than overspend in May. This primarily reflects increased cost pressures in Homeless Prevention, adult social services and children's services as shown below.

	2024/25 Overspend after reserves May OFP £m	2024/25 Overspend after reserves December OFP £m	Increase £m
Homelessness Prevention	7,424	19,500	12,076
Adult, Health & Integration	14,817	19,383	4,566
Children's and Education	5,358	8,612	3,254

We have reflected the potential impact of this in the revised MTFP by increasing the growth allocation made to budgets. 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.

- 3.5 The MTFP also takes account of the impact of capital expenditure on the revenue forecast. The capital programme significantly affects our Medium-Term Financial Plan (MTFP), especially in terms of the provisions we allocate for debt repayment and financing, as well as any revenue contributions to capital expenditure we make. 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 programme.
- 3.6 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 2025/26, regarding a major capital project may not translate into a revenue charge on the general fund until 2027/28 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.
- 3.7 In the MTFP we have estimated that the estimated MRP adds the following amounts to general fund expenditure: - 2026-27 £13.534m, 2027-28 £15.828m and 2028-29 £16.170m

3.8 Medium Term Financial Plan 2026-27 to 2028-29: Underlying Assumptions

3.8.1 The underlying assumptions are as follows:-

Income

- (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. From 2026-27 to 2028-29, we have assumed 2% in each year. The Recovery Grant introduced in 2025-26 is a one-off grant and so we have assumed that it will not continue beyond 2025-26
- (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 will receive, in all years, 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 £5m in each year of the Plan (in line with the trend in 2024). Retail Hospitality Reliefs are set at 40% (following the October 2024 budget) in all years 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 and in 2028-29
- (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 4.99% in all years of the Plan. We also assume that the taxbase will increase by 700 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 and 2028/29.
- (g) We assume that we will not receive any Services Grant nor New Homes Bonus Grant in all years of the Plan. It is possible though that we may get some funding from the New Homes Bonus Grant when a new system is introduced.

- (h) Public Health Grants are set equal to the 2025-26 actual grant
- (i) Total Social Services Grants are assumed to increase by £8.963m (including the new Children Prevention Grant) from their 2024/25 levels in 2025/26, then by a further £2.6m in each of the following three years.
- (j) The Homelessness Prevention Grant (HPG) is increased by £3.4m in 2025-26 and then by £1m in each year thereafter

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 £22.3m growth has been included in the plan to manage adult social care and children's services cost pressures in 2025-26, which rises to £30m in 2026-27, to £35m in 2027-28 and £40m in 2028/29. These are cumulative estimates which take into account the assumptions around increases in the social care grants set out above.
- (c) We have also included £21.3m growth for Temporary Accommodation in 2025-26 which rises to £33.75m in 2028-29. which takes into account the assumptions around the increases in HPG set out above. Finally we have included £2m for Other Services Growth in 2025-26 which rises to £3.5m in 2028-29. Again these are cumulative estimates.
- (e) Provision for Energy costs of £6.220m is made in all years.
- (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) We have estimated that the estimated MRP adds the following amounts to general fund expenditure: - 2026-27 £13.534m, 2027-28 £15.828m and 2028-29 £16.170m

3.8.2 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.

Medium Term Financial Forecast 2026/27 to 2028/29

RESOURCES	2026-27 £m	2027-28 £m	2028-29 £m
External Core Funding incl RSG, Top Up & S31 Top Up Grant, Recovery Grant & New Homes Bonus	135.231	137.779	140.348
NI Employer Contribution Grant, pEPR Grant and Pool Surplus	4.800	4.250	3.950
Business Rates Income including S31 grants and 2024-25 collection fund surplus c/fwd	78.426	80.816	83.300
Council Tax including 2024-25 collection fund surplus - 2.99% Tax Increase	118.525	123.144	127.268
Council Tax Increase + 2%	4.648	7.314	10.178
Improved Better Care Fund & Better Care Fund	21.837	21.837	21.837
Public Health Grant	40.651	40.651	40.651
TOTAL	404.119	415.792	427.532
EXPENDITURE	2026-27	2027-28	2028-29
Directorate Cash Limits after HRA Recharge	353.760	352.349	352.349
Social Care growth	7.660	12.690	17.720
Homelessness Prevention growth	4.000	8.000	12.450
Other Growth	0.500	1.000	1.500
General Finance (Corporate) Account			
Superannuation	13.251	13.551	13.851
Capital (Minimum Revenue Provision & Interest)	17.434	19.728	20.070
Pay Award	13.383	20.363	27.343
NLWA Levy	12.105	16.087	17.500
Concessionary Fares Levy	12.900	14.000	15.000
Provision for increased Energy Costs	6.220	6.220	6.220
Provision for increased Building Maintenance Costs	3.200	3.200	3.200
Other Corporate Items	-3.145	-2.663	-2.663
Phase 3 Savings	-3.080	-3.335	-3.335
Transformation	-14.000	-21.000	-21.000
Additional Savings	-2.331	-2.671	-2.671
TOTAL	421.857	437.519	457.534
BUDGET GAP/RESERVE REQUIREMENT	-17.739	-21.728	-30.002

Forecast Budget Gaps/Reserve Requirements 2026-27 to 2028-29

3.8.3 The table below sets out cumulative budget gaps before and after transformation savings. This figure is an estimate based on an assumed return on investment and is not made up of specific proposals. £7m of this is profiled to be achieved in 2025/26. This is high risk given the likely lead in time for any proposals. We have therefore included a one-off provision of £4.5m in 2025/26 as mitigation should these savings not be delivered as profiled in the MTFP. As can be seen the gaps will rise markedly over the period if the Transformation savings are not delivered and it will be necessary to update these figures as the programme progresses.

Forecast Budget Gaps before Transformation

BUDGET GAPS	2026-27 £m	2027-28 £m	2028-29 £m
Budget Gap/Reserve Requirements before Transformation Savings	-31.739	-42.728	-51.002
Transformation Savings	-14.000	-21.000	-21.000
Budget Gaps after Transformation	-17.739	-21.728	-30.002

3.8.4 As can be seen, the cumulative budget gap in 2028-29 without the Transformation savings is £51m.

3.8.5 The cumulative budget gaps after applying the Transformation savings are £17.739m in 2026/27, £21.728m in 2027/28 and £30.002m in 2028/29 respectively. The primary reasons for the large budget gaps in all years are:- the budget added to cash limits to address cost pressures and growth in adult social care, children’s services and homeless prevention; the pay award; provisions for the cost of the employer contribution (both direct and indirect); and increases in the Minimum Revenue Provision (MRP).

3.8.5 It is emphasised that this is an interim update of the MTFP and it will be revisited once we have received some details on the funding reforms which will be introduced in 2026/27.

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

4.0 Risks

4.1 External Funding

The Autumn Budget projects real-terms increases in day-to-day spending over the Parliament of 2% in real terms. This is an upgrade in future spending plans (from 1% to 2% real terms growth) but most of this additional funding is likely to go to Protected Departments such as the NHS, Defence and Schools which may leave very little for the unprotected departments such as Local Government. 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, little is known about the impact of the reforms on individual councils. It is possible that there will be very substantial changes in funding, and some very significant losses for some authorities. Some form of transitional support (damping) will be introduced so that funding losses (and gains) are introduced over several years.

4.2 Increased Cost Pressures over and above the assumptions made in the MTFP

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

(a) A total of £22.3m growth has been included in the plan to manage adult social care and children's services cost pressures in 2025-26, which rises to £30m in 2026-27, to £35m in 2027-28 and £40m in 2028/29. These are cumulative estimates which take into account the assumptions around increases in the social care grants set out above.

(b) We have also included £21.3m growth for Temporary Accommodation in 2025-26 which rises to £33.75m in 2028-29. which takes into account the assumptions around the increases in HPG set out above. Finally we have included £2m for Other Services Growth in 2025-26 which rises to £3.5m in 2028-29. Again these are cumulative estimates.

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. We will assess this again when we update the MTFP in summer 2025.

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 process will continue for savings agreed for 2025/26 This allows Cabinet and senior officers to focus on any potential non-achievement and plan for mitigations. It is also of note that £21m of savings have been assumed from the scaled up and accelerated Transformation Programme. This figure is an estimate based

on an assumed return on investment and is not made up of specific proposals. £7m of this is profiled to be achieved in 2025/26. This is high risk given the likely lead in time for any proposals. We have therefore included a one-off provision of £4.5m in 2025/26 as mitigation should these savings not be delivered as profiled in the MTFP. The estimate and profiling will be revisited when we update the MTFP in the summer.

4.4 Energy Prices

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

4.5 SEND

The brought forward SEND deficit in 2024/25 was circa £19.1m. 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 costs in the period to meet redundancy and deficit costs of school closures. This is factored into our forecast flexible use of receipts. If these receipts do not materialise, this will be a direct hit on our reserves position. This could increase over the MTFP period.

4.7 Unforeseen Events

Recent unforeseen events like the Covid-19 pandemic, the cyber attack 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 Looking Forward

5.1 While we come to the closing stages of agreeing the budget for 2025/26, work continues on the considerable challenge we face and closing the £51m gap.

5.2 We look to achieve a large element of this through transformation. However, there are some further tough decisions ahead and this is likely to take the form of a more profound look at the nature and extent of services that the Council provides.

5.3 Officers have been asked to provide appropriate contextual information to facilitate our considerations and there will be a report back on this process and the timetable shortly, including further reporting to Scrutiny and Group - the aim being to identify the more difficult areas as soon as practical. The process will be worked up in more detail in the coming month.

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.

6.0 GENERAL FUND RESERVES

6.1 The tables below set out the forecast position as at the end of 2024/25 taking on board forecast reserves movements in 2024/25 and shows an acceleration of the decline in our reserves as a result of the significant increase in the cost pressures the Council is facing.

	£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)	16.6
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 set aside for capital (can be used for revenue purposes)	22.7
Other Usable Reserves	66.2

6.2 The final overspend position for 2024/25 will reduce this balance as will the 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	66.2
Assumed use of reserves to fund 2024/25 overspend	(37.0)
Assumed in budget for 2025/26	(10)
Add back capital reserves	22.8
Comprehensive review of credit balances and provisions	9.0
Use of capital receipts for transformation 2024/25	7.3
Other Usable Reserves as at the end of March 2026 (excluding General Fund Balance)	58.3

- 6.3 The above assumes the approval of the strategy to fund transformation and invest to save expenditure through the flexible use of capital receipts (Appendix 10 to this report). It also assumes that we can generate the level of receipts required to fund the strategy. We have a programme of asset reviews to generate these receipts which will be kept under review to ensure that any slippage or shortfalls are factored into our spend plans and our reserves position. 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 within 2 years. Faster, 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.
- 6.4 Therefore, the Council is in a challenging position financially particularly given the risks set out above. Whilst it is assessed by the Interim Group Director of Finance & Resources in her section 25 statement that the reserves give us sufficient mitigation against risk for 2025/26 we will need to review this on an ongoing basis (and particularly when we have a clear view of the forecast for 2025/26 and possibly the indication of the outcome of the spending and funding reviews) to determine if we need to take further action in preparation for setting the 2026/27 budget including considering if we need to approach Government for exceptional financial support - noting that under the current arrangements this would come in the form of the ability to capitalise revenue costs and would not be a sustainable position.
- 6.5 It is therefore critical in order to avoid the requirement to make short-term decisions which will adversely impact on our residents, for the Mayor, Cabinet and the Corporate Leadership Team to continue the work we have already begun to close the estimated Medium Term Financial Plan gap of £51m (2026/27 to 2028/29) and deliver a year on year balanced position, and seek

to build in increases to our revenue reserves to improve our financial resilience over the medium term where possible.

7.0 CONCLUSION

- 7.1 The revised MTFP demonstrates the significant financial challenge the Council faces over the period 2026-27 to 2028-29. Against a potential background of very small increases in external funding, 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. A failure to do this will almost certainly require an unsustainable call on reserves to balance the budget within 2 years
- 7.2 The most significant issue that we faced in formulating this plan was the ongoing uncertainty regarding external funding arrangements post 2025-26. Once we have some idea of the direction of funding in 2026-27 and beyond, we will produce a further iteration of the Plan. This will also take account of early revenue forecasts in 2025/26.