

Financial Outlook - update to Cabinet included within August OFP Report in October 2025

Here is an extract from the August OFP report to Cabinet on 27th October which reviewed the assumptions in the Council's Medium Term Financial Plan.

“2.14 Financial Outlook

2.14.1 The table below shows the budget gap of £51m as set out in the Medium Term Financial Plan (MTFP), and then deducts the savings agreed in and outside of the Council's Policy Framework, and the Target Operating Model savings. So the current financial forecast for the period 2026-27 to 2028-29 is shown below.

	2026-27 £m	2027-28 £m	2028-29 £m
Budget Gap after Transformation	31.739	42.728	51.002
Less July Cabinet Savings	(7.300)	(13.265)	(15.992)
Less September Savings (Cumulative)	(8.139)	(16.859)	(20.638)
Revised Budget Gap (Cumulative)	16.300	12.604	14.372

2.14.2 However, there are additional cost pressures that will increase this gap. These include: - increased costs of the pay award; additional interest charges following increased borrowing to fund the expanding capital programme; increased NLWA levy costs; increased business rates costs on council owned properties following the recent revaluation; and additional insurance charges. Against this, there may be increases in income in certain areas over and above the assumptions made in the MTFP, to mitigate these pressures including: - council tax and business rates income, and the Packaging Extended Producer Responsibility grant (PePR)

2.14.3 A significant risk to the council's financial position is the financial impact of the Fair Funding Review 2.0. Work by London Councils, the Institute for Fiscal Studies and Pixel all suggest that Inner London boroughs, including LBH will be disadvantaged by the Funding Review. Even if the Government introduces a cash floor, using projected increases in council tax income to fund the floor grant, means that LBH is still likely to face significant losses compared to our Medium-Term Financial Plan (MTFP) income estimates: - £7m in 2026-27, £14m in 2027-28 and £21m in 2028-29. Because of the prudent assumptions we made about the Recovery Grant and Localised Business Rates surplus in 2026/27, it is likely that our losses in 2026/27 will be lower than £7m in 2026/27, c. £3m. However, they are likely to be more significant in 2027-28 and 2028-29. It must be stressed that because of the uncertainties regarding the final form of the new funding system, these estimates must be regarded as illustrative only. We will have to wait until the 2026-27 Provisional Settlement is published in the third week of December 2025 before we find out our final external funding allocation.

2.14.5 The revised budget gaps shown in the table above and any net increase due to the factors listed in the second paragraph, together with the impact of Fair Funding, will have a detrimental impact on our reserves position. This will be worsened by any overspend on the General Fund in 2025-26 and by any non-achievement of the total of capital receipts needed to fund the Transformation project.

2.14.6 In table below, we show the estimated position on earmarked reserves as at 1 April 2027 which takes account of all of the pressures noted above

ESTIMATED EARMARKED RESERVES (AUGUST DATA)

	£m
Overall General Fund Reserves as at 31 March 2025	111.6
Less: General Fund Balance	-19.0
Less: Schools balances	-5.9
GF Reserves (excl GF balance & Schools Balances)	86.7
Less Forecast Net Reserves usage 2025/26 (note, this is an estimated figure which is subject to change depending on variations to the current year forecast)	-19.0
Less Committed Reserves (main elements are the PFI, the Insurance Fund & elections reserves)	-12.5
Less Third Party Agreement (S256 agreements with health and other joint balances)	-7.6
Less Grant reserves (Adult Education, Homes For Ukraine, and other grants)	-4.0
Other Earmarked reserves	43.6
Less Budget 2025-26 Overspend	-10.0
Less unachieved capital receipts (Transformation)	-3.0
Less 2026-27 Budget Gap as noted in 2.14.1	-16.3
Less Adjustments to the current MTFP as noted in 2.14.2	-2.1
Less Impact of Fair Funding	-3.0
Estimated Total Earmarked Reserves at 1 April 2027	9.2

2.14.7 The table above shows that our reserves will be close to exhaustion by 1 April 2027 unless we devise and implement a coordinated, council-wide plan for spending reductions, which is pursued in tandem with transformation and the delivery of agreed savings to secure our long-term financial stability.

2.14.8 Individual measures that we may consider include: -

- (a) Review wider savings and transformation programme to identify if savings can be delivered earlier to reduce the pressures.
- (b) Expanding savings from transformation (stretched targets).

- (c) Partly reduce £12m growth assumption in 26/27 (£32m across the MTFP period). The IMPOWER initiative is forecast to deliver a minimum of £7.4m which could rise to £13.1m.
- (d) The budget gap forecast assumes £1m each year (£3m across the MTFP) of increased borrowing. A smaller capital programme will reduce this requirement.
- (e) Strategic review of agency placements (a 200 FTE reduction at a £50k average would have a £10m Full Year Effect).
- (e) Ensure the scale of the Transformation investment is strategically prioritised to deliver the maximum return on investment (ROI), whilst completing key change requirements.
- (f) Scale up planned capital disposals.”