Havering
LONDON BOROUGH

CABINET

22 JANUARY 2014

Subject Heading:	The Council's Financial Strategy
Cabinet Member:	Cllr Roger Ramsey
CMT Lead:	Andrew Blake-Herbert Group Director Finance & Commerce
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Policy context:	The Council is required to approve an annual budget and this report provides information to enable Cabinet to make recommendations to Council in February 2014
Financial summary:	There are no specific financial issues, this report deals with the overall budget position and associated issues
Is this a Key Decision?	No
Is this a Strategic Decision?	No
When should this matter be reviewed?	December 2014
Reviewing OSC:	Value

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

Ensuring a clean, safe and green borough	[X]
Championing education and learning for all	[X]
Providing economic, social and cultural activity in thriving towns and villages	[X]
Valuing and enhancing the lives of our residents	[X]
Delivering high customer satisfaction and a stable council tax	[X]

SUMMARY

Cabinet received reports in August and September that set out an update on national developments and information on the financial position within Havering.

This report updates Members on the progress of the corporate budget and the proposed financial strategy for the coming financial year, responding to the financial position facing the Council, and recognising the need to develop a new, long term strategy for approval by the Administration after the local elections in May.

This report sets out the additional proposals now identified for consideration by all the relevant Committees and for consultation with stakeholders.

The provisional Local Government Financial Settlement has now been announced, and relevant details are included in this report, together with a summary of the key elements of the Autumn Budget Statement.

RECOMMENDATIONS

Cabinet is asked to:

1. Note the progress made to date with the development of the Council's budget for 2014/15 and the Council's intention to freeze council tax for a further year - making use of the Government's Council Tax Freeze Grant.

2. Note the outcome of the Autumn Budget Statement and the likely impact on local authorities.

3. Note the outcome of the provisional local government financial settlement announcement, and that arising from the settlement, there are reductions in mainstream Government funding for 2014/15 and 2015/16 of around £7m and £9m respectively.

4. Note that a response to the consultation process will have been submitted by time Cabinet meets and that a meeting with the Minister has been requested.

5. Delegate approval of the Council's response to the consultation on the business rates appeals process to the Cabinet Member for Value.

6. Delegate authority to the Group Director for Children, Adults and Housing to agree inflation rates with social care providers for 2014/15.

7. Delegate authority to the Cabinet Members for Individuals and Value to approve an annual spend plan for the Public Health grant.

8. Note that it is proposed to undertake a one-off investment of £1m during 2014/15 as a result of surplus monies arising from the New Homes Bonus.

9. Expand the 2013/14 capital programme by £250,000 to enable the Council to jointly acquire the freehold interest in the former Ardleigh Green Baptist Church as 'Tenants in Common' in conjunction with the Trustees of the Ardleigh Green Family Centre.

10. Issue this report for consultation to Members, the unions and staff, local residents and other stakeholder groups.

11. Agree that a consultative presentation will be made to a joint meeting of the Overview & Scrutiny Committees.

12. Note the financial position of the Council in the current year.

13. Agree that any future underspends from the Corporate Contingency Fund, from the Transformation budget, and from any service revenue underspends, are allocated to the Strategic Reserve.

14. Approve the updated version of the Corporate Plan set out in Appendix F.

15. Note the summary of the GLA's consultation budget and the expected date for the publication of the final proposals.

REPORT DETAIL

1. INTRODUCTION

1.1. Cabinet has previously received two reports on progress with the Corporate Budget, in August and September. This report sets out the position with developing the Council's budget for the coming financial year, the announcement of the Autumn Budget Statement, and the subsequent announcement of the local government financial settlement.

1.2. The Council established a broad approach to stabilising its financial position in response to the incoming Government's austerity measures during 2010. This has seen a wide range of savings introduced designed to not only deliver a stable financial position, but also to ensure that as far as possible, these savings do not impact on those services which our community regards as highly important and highly regarded. The Administration has remained committed to this and the proposals contained in this report have been developed with that objective in mind.

1.3. The budget proposals set out in this report will freeze the council tax for the fourth year in succession, reflecting the determination of the Administration to stabilise council tax - as set out in the *Living Ambition* Goal for Value. The proposals support a series of priorities that have been defined through public consultation in recent years – both through the *Your Council, Your Say* and *Spring Clean* surveys. These priorities include: keeping Havering clean and safe; supporting those most in need; maintaining roads and pavements and protecting libraries and parks. There is also a clear need to promote and encourage new local businesses – both to bring employment to the Borough and to ensure that Havering benefits from the Government's new funding model for local authorities. The measures set out in this paper will allow the Council to support these priorities.

1.4. Specific budget proposals are included as part of this report where these have been developed and Cabinet is asked to approve these for consultation with the local community, other stakeholders, and committees, to inform the final consideration of proposals at the meeting of Cabinet in February. Comments about the Council's proposals will be invited online from members of the public and this will be publicised through various communications channels.

1.5. The reports submitted to Cabinet during the budget setting cycle for 2013/14 highlighted the extent of change to the funding of local authorities; the new funding regime included these elements:

- Rolled up and top-sliced grants
- New grants
- Localised business rates including tariffs/top-ups and levies/safety nets
- Localised Council Tax support (previously benefits)
- New formula and damping mechanisms
- A new Council Tax base calculation
- A new NNDR1 calculation.

1.6. These factors were covered at some length in those reports. The new system has now largely bedded down, and this report therefore updates Cabinet with the impact this has had, whether this was in line with expectation, and any relevant developments over the past year. The current system broadly freezes the way in which the main element of Government funding is allocated. However, there is still a consultation process around the settlement, and officers have been examining the new system to determine what scope, if any, exists as a basis to lobby Government. These aspects are covered in this report. It is fair to say the system remains complex and difficult to comprehend, even if the scope for change may now be limited.

1.7. Officers are continuing to analyse the settlement in consultation with colleagues elsewhere, and this is likely to continue up to the point when the budget report to Council is finalised. There are continuing changes in funding for social care as well as amendments to the business rating system announced as part of the Autumn Budget Statement . The continued reduction in funding emphasises the degree of financial risk facing local authorities, aside from the impact of the specific proposals contained in the settlement. Cabinet is therefore asked to be mindful of this when considering this report.

2. THE AUTUMN BUDGET STATEMENT, THE SETTLEMENT AND GENERAL FINANCIAL PROSPECTS

Comprehensive Spending Review (CSR)

2.1. The Coalition Government published the outcome of its Comprehensive Spending Review in October 2010. Full details of the Review have been reported at some length in reports to Cabinet as part of the budget-setting cycle for previous years.

2.2. To remind Cabinet of the background, the Review set out at a high level spending plans for each Government department. The major effect was, as expected, a significant reduction in funding for the public sector over the four years covered by CSR. In anticipation of the cuts expected to be announced by the incoming Coalition Government, plans were put in place to assess the likely budget gap, and means of bridging it.

2.3. Cabinet agreed reports in July 2010 and July 2011, setting out a range of savings proposals designed to largely bridge the forecast budget gap between 2011/12 and 2014/15, as refined in the light of, firstly, the CSR announcement, and secondly, subsequent financial settlements. Subsequent announcements over prospective changes in the funding of local authorities, and in particular the localisation of both Council Tax support and business rates, added further to the element of uncertainty and the risks being faced and managed.

The Autumn Budget Statement (ABS)

2.5. The Chancellor of the Exchequer presented his Autumn Statement to the House of Commons on 5th December 2013. The ABS has had considerable national exposure since its announcement, through the national press and from various national organisations. The Chancellor told the House that the forecast for the general economic environment was improved, and this is reflected in forecasts from the Office for Budget Responsibility. A summary of the ABS is set out in Appendix A.

2.6. There were a number of announcements relating to business rates. As Cabinet will be aware, business rates was localised from 1 April, with the funding moving to local authorities, although in London, only 30% is actually retained locally. One of the key aspects is a cap on the rise in the business rates multiplier, which has in the past been driven by the rise in RPI, but for next year, will be capped at 2%.

2.7. These changes will impact on the level of business rates to be collected by, and therefore retained by, local authorities. The Secretary of State has announced that these changes will be funded in full, although it is not, as yet, clear how this funding will be provided. The likelihood is that this will be through a Section 31 grant, but the details are awaited. This, of course, is not without risk, as the withdrawal of this funding at some future point potentially leaves a funding gap, due to the cumulative effect of the non-application of the correct level of inflationary rises.

2.8. The key points of the ABS impacting on local government were as follows:

- Further reductions in public sector expenditure for 2014/15 and 2015/16
- Protection for local government to enable authorities to deliver a further Council Tax freeze
- Potential impact on grants allocated by government departments facing further reductions
- Removal of £70m from New Homes Bonus (NHB) from London authorities (but none elsewhere) to finance the London Local Enterprise Partnership (which will be overseen by the Mayor)
- Restrictions on public sector pay will inevitably be reflected in future funding levels
- Use of funds from asset disposals to finance the cost of reforming services (although this would clearly prevent those funds from being used for capital investment purposes)
- Free school lunches for all pupils in Reception, Year 1 and Year 2

2.9. The protection afforded to local authorities, given the scale of reductions already faced, being the highest area of funding cuts, is welcomed. There are risks arising over the changes to the business rates system, although these may not become an issue until beyond the next year or so. The “top-slice” of NHB, previously announced as a national change, will only now apply to London boroughs, which seems illogical, and reinforces the caution with which this particular funding stream needs to be treated.

2.10. The ABS has subsequently fed into the announcement of the Local Government Financial Settlement, which is addressed below.

Local Government Financial Settlement (LGFS)

2.11. Details of the provisional settlement were announced on 18th December, which was as expected but, as Cabinet has been made aware, is very late in the context of the Council’s budget-setting process, for the second year running. The settlement covers a two year period, for both 2014/15 and 2015/16. This second year is the last covered by the current Comprehensive Spending Review.

2.12. There were fundamental changes to the funding system introduced in April 2013. The new system is now bedding down, although there have been further changes, with those mainly affecting the new business rates system but also impacting on the way the basic RSG is determined. It has therefore again been necessary for officers to review the details, working in conjunction with colleagues elsewhere, to assess the impact of the settlement on the current budget strategy.

2.13. A summary of the settlement is set out in Appendix B. The main points affecting local government in general, and Havering in particular, are set out below; a fuller explanation of these key elements then follows:

- The settlement again covers a two year period, 2014/15 and 2015/16
- There is an average reduction in “spending power” of 2.9%
- Local authorities are exempt from the latest Government funding cuts
- Nationally, the spending control total is reducing by £5.6bn, or just over 22%
- Havering’s revenue support grant (RSG) will reduce by £15m over the two years
- The existing Council Tax freeze grants for 2011/12 and 2013.14 are being rolled up into mainstream funding (the grant for 2012/13 has ceased).

Settlement Periods and Final Announcement

2.14. The consultation period for the LGFS runs until 15th January, a week prior to the Cabinet meeting where this report is being considered. It is anticipated that the final settlement will be announced around 2 weeks after consultation closes, in common with earlier years, though a definitive date has yet to be confirmed. This is potentially too late for inclusion in the February Cabinet report. It will therefore be necessary to update Cabinet at that meeting if there are any material changes to Havering’s settlement, or simply to confirm the position as set out in the provisional settlement.

National Position

2.15. In a similar manner to the previous two years, the Government’s headlines focus on comparative figures concerning a local authority’s “revenue spending power”. Local authorities will face an average reduction in spending power of 2.9%; and that no authority would experience a decrease of more than 6.9%. Havering’s comparable reduction in 2014/15 is 0.85%, but with an increase in 2015/16 of 1.2%. These figures mask the actual change in mainstream revenue support grant, as they includes changes in New Homes Bonus and social care funding, as set out later in this report; hence the apparent increase in the second year. In real terms, there is a continued reduction in mainstream grant funding.

2.16. The Local Government control total for 2013/14 has been adjusted to £26.3bn, down from £27.2bn. This will reduce over subsequent years to £23.8bn in 2014/15, and then £20.8bn in 2015/16. This equates to an overall reduction of 22.5%. These figures reflect Government announcements as part of the 2012 and 2013 Autumn Budget Statements, but also the further review undertaken during the Summer months of 2013.

Havering’s Grant Funding

2.17. The provisional funding allocation is used to determine both Havering’s Revenue Support Grant (RSG) and Business Rate Baseline (BRB). This comprises of the current four-block formula grant model which has been frozen since last year's settlement and incorporates £31.2m of rolled in grants. This equates to a provisional Settlement Funding Assessment (SFA) for 2014/15 of £69.658m (£60.753m for 2015/16) compared to a 2013/14 equivalent of £75.569m.

2.18. These figures as stated included both RSG and BRB. The equivalent figures for RSG alone, which forms the core mainstream grant to the Council, shows a reduction from £45.4m in 2013/14 to £38.9m in 2014/15, and then £29.1m in 2015/15. These equate to successive reductions of around £6.5m and £9.8m respectively. The reduction in core RSG grant is mainly due to the reductions placed on local authorities through the Autumn Statement in 2012 and the Spending Round in 2013. Due to the formula being locked in and the 2% increase in business rates, each authority's core RSG allocation is being scaled by 33%. The funding figures now include the rolling in of Council Tax freeze grants for 2011/12 and 2013/14, adjustments relating to the treatment of New Homes Bonus, and further reductions to the element of RSG relating to Early Intervention Grant.

2.19. Havering's grant funding remains one of the lowest grant-per-head allocations despite being one of the largest boroughs in London with the highest proportion of elderly population. With the basis of calculation of RSG now effectively frozen, there would seem to be little prospect of any significant change in this position. This issue is addressed later in this report.

2.20. Compared to the previous assessment of the likely levels of grant funding, the settlement for 2014/15 is exactly in line with previous forecasts. As such, there is no major impact on the budget strategy for the remaining year of the current cycle. This is reflected in the proposed approach to budget setting for that year, with just a small handful of minor items set out later in this report

2.21. However, the subsequent reduction for 2015/16 is around £2m higher than anticipated a year ago, and over £1m higher from the revised position over the Summer. Cabinet were advised in September that the reduction in funding in that year could be as high as £9m, although the report did indicate that there were considerable uncertainties over the treatment of NHS support for social care funding. The report went to restate the likelihood of significant funding cuts in 2015/16, and almost certainly 2016/17, and that the Council's long term strategy would have to be developed with those reductions in mind.

2.22. Whether this means the forecast gap for the coming four year period will now be higher, or whether this simply means that the phasing of the gap is different, with a bigger peak in the first year, is speculative, and this is unlikely to become clear until the next Comprehensive Spending Review is published, which is likely to be some time after the 2015 General Election.

2.23. What this does, however, mean, is that the budget gap being addressed in 2015/16 will be even higher than had originally been expected, possibly as much as £20m. This underpins the need to develop proposals to bridge this gap over the coming months, for consideration by Cabinet, as there will clearly be a lead-in time necessary to implement a new budget strategy and deliver a new savings plan.

2.24. One consequence of changes in the make-up of overall funding is the treatment of Council Tax Support (CTS, previously benefits). Cabinet will recall that this was localised with effect from April 2013, with local authorities responsible for setting their own schemes, and with specific funding being allocated (with a commensurate adjustment to the Council Tax base calculation).

2.25. As part of the 2014/15 calculation, the CTS grant which was introduced in 2013/14 has now been completely rolled up into the formula grant and has been scaled using the same methodology as the core grant, as set out in Appendix B. The Government has maintained that this funding (which had already been subject to a 10% reduction at the point of localisation) has been preserved in full as part of formula grant. However, it is officers' view that this has, in fact, been subject to the same methodology applied to formula grant, with the result being that it has effectively been reduced, and by a significant level over the next two years. This means a bigger burden now falls on local authorities, and thus their local taxpayers. It is intended to highlight this at the imminent meeting with the Minister.

Business Rates

2.26. As Cabinet will be aware, the new funding system incorporates the localisation of business rates. However, London local authorities only retain 30% of their local taxation yield; the remainder is split between the Government (50%) and the GLA (20%). There is also a detailed assessment of projected business rates figures as part of the new system. Authorities are classed as either tariff (pay in to Government) or top-up (receive payment from Government). The base figures for Havering for 2014/15, and comparative figures, are as follows:

	2013/14 £m	2014/15 £m
Funding Baseline	30.2	30.8
Business Rates Baseline	21.2	21.6
Top-up	9.0	9.2

2.27. As previously reported to Cabinet, the new system allows authorities to pool their business rates. .On 31st October 2013, Havering (as part of the proposed pool) submitted an application to pool its business rates with Thurrock, Basildon and Barking & Dagenham. As part of the settlement announcement, our application has been approved and from April 2014, Havering will be able to share in the growth expected in the South Essex region. Pooling provides the opportunity to retain growth generated in other local authorities by the removal of the additional levy some authorities are required to pay over to the Department of Communities and Local Government. This saving from the reduction or removal of the levy can be shared between all four pool members.

2.28. From initial estimates provided, the pool may be able to generate in excess of £11m over the next four years dependent on Government policy surrounding Small Business Rates Relief. There are a large number of potential developments within South Essex for the pool to benefit including the expansion to Lakeside and the creation of the deep sea port in Thurrock which could provide significant growth. Based on the terms of the agreed Memorandum of Understanding (MoU), Havering will be able to keep between 18% / 19% (around £2m) of the reduced levy from Thurrock or Basildon whilst keeping any growth in Havering's local share in full.

2.29. In addition, the MoU sets the key principles that "No Authority will be receive from business rates retention a lower level of funding than they would have received without the pool". The risks associated with the pooling arrangement are limited as the pool would need to see large scale reduction in business rates in order for any financial risk to come into effect. However, it is highly unlikely that any authority will see such a reduction in business rates within the terms of the pool; a safety net along the same lines of the Government's proposals is currently available.

2.30. The full benefits from pooling will take time to come to fruition, so at this stage, it is proposed that no account will be taken within the 2014/15 budget, in part, due to the scale of future budget gap beyond that year. This will therefore be reflected as part of the budget setting process for 2015/16 and beyond.

2.31. As indicated above, as part of the ABS, a package of measures was announced relating to business rates; this included a cap on the annual rise, with the limit being set at 2%, rather than applying the increase in RPI, which stood at 3.2%. The Government has set the provisional small business and main non-domestic multipliers for 2014/15 as 47.1p and 48.2p (these are currently 46.2p and 47.1p respectively). Havering has no influence on the multiplier used to determine the business rate charge as this is based on September's RPI figure, or as is now the case, the cap set by Government.

2.32. Mindful of the impact of appeals on business rates yield, which is now much more relevant to local authorities, the Government has also commenced a consultation process on reforms to the business rates appeal process. This consultation is open until 3rd March 2014. Cabinet is asked to delegate approval of the Council's response to the Cabinet Member for Value.

Council Tax Base

2.33. The new funding system also saw a change in the basis of calculation of the Council Tax base. This is the estimated number of equivalent band D properties. The calculation has been affected by the changes relating to Council Tax support, as well as a general rise in the number of properties within the borough, which in turn reflects the number of new developments in housing in Havering. The estimated base for next year has been set at 80,183. Historic increases have been quite small, reflecting the static position with properties within the borough, but the latest figure reflects recent rises in property numbers.

Specific Grants

2.34. As previously reported to Cabinet during recent budget cycles, there have been major changes to the system of specific grants. This resulted in either the merger of, or in most case, cessation of, funding streams. This has been reflected in the Council's budget for the last three years. This trend continued with the migration to the new funding regime, examples of these were set out in the previous report to Cabinet.

2.35. All remaining specific grants – where funding details have so far been announced – have been listed, alongside their current year equivalents, to quantify how the changes in the funding system impact on the various funding streams. These are set out in Appendix C. This list contains a number of gaps, as further announcements are awaited, and a more up-to-date version will be included in the February report.

2.36. One area where there has been a reduction in funding is the funding for the administration of the Housing Benefits system. Havering is expected to see an overall reduction in funding of over £150k in 2014/5; the reason for this reduction is summarised below.

- All authorities would have experienced a reduction of 2.9% due to the £10.5m reduction in total grant.
- Due to the floors / ceilings / damping / capping effect, those authorities who have a perceived higher need will not see any reduction at the expense of other authorities.
- The reason why Havering loses out compared to other neighbouring boroughs is the make-up of our caseloads and the weightings behind it. (i.e. 50% of Havering's caseload is in regards to LA council tenant - Social Rented Sector which only picks up the smallest weighting. This compared to Merton (who has less overall caseload than ourselves) has only 0.4% under the same category. Therefore despite a lower caseload, Merton receives a greater grant allocation than ourselves due to the higher weightings placed on those categories.

2.37. Assuming DWP will pass on any further departmental cuts through this grant, there are likely to be further reductions that continue to disproportionately affect Havering (though probably not as great as the ones we have seen in 2014/15). There is also a risk that the Council Tax Support element will be rolled into the formula grant which could face further reductions in the coming years. Inner London Boroughs are protected – due to the large weighting associated to their area and labour cost adjustments – and amongst the Outer London Boroughs, our caseload has a higher proportion of Council Tenants than others.

Dedicated Schools Grant & Schools Funding

2.38. The Government's school funding reforms were introduced in 2013-14 to address inconsistencies in the formula used by the DFE (Department for

Education) to allocate funding to LAs for schools and the formula used by LAs to allocate funding to schools and academies. The arrangements for the two year period 2013-2015 are intended as a step towards a national funding formula which will ensure that similar pupils will attract similar amounts of funding no matter where they go to school in the country.

2.39. The funding for schools and some central provision is funded through the Dedicated Schools Grant (DSG) in four "blocks". These are Early Years, High Needs, Schools and Additions (additional funding for 2 year old provision).

2.40. The DSG allocations to LAs were announced on 19th December 2013. Havering's allocation is £193.117m compared to £189.595 in 2013-14. The increase reflects an increase in pupil numbers. The funding for each block is set out below.

Year	**Schools Block**		**Early Years Block**		**High Needs Block**	**Additions and cash floor**	**Total DSG**
	GUF per pupil (£)	**Allocation (£m)**	**GUF per pupil (£)**	**Allocation (£m)**	**Allocation (£m)**	**Allocation (£m)**	**Allocation (£m)**
2014-15	4,726.54	163.122	3,979.94	8.513	18.328	3.154	193.117
2013-14	4,726.54	160.641	3,979.94	8.513	18.038	2.403	189.595

Notes:
Early Years allocations will be updated for 2013-14 and 2014-15 based on revised data from January 2014 and 2015 censuses respectively to reflect actual participation during the year.

The High Needs allocation is subject to the outcome of a data submission to the DFE.

The £3.154m of additions is as follows:

	£m
Funding for increased target for 2 year old free entitlement	2.985
2 year old trajectory funding	0.351
Newly Qualified teacher Funding	0.052
Deduction for Carbon Reduction Credit Scheme	-0.235
Total	3.154

2.41. The majority of the Schools Block is allocated through a funding formula to schools for the financial year April to March and is used to calculate the amount that is recouped by the DFE for academies which are funded direct from the EFA for their financial year September to August. The formula is based on a limited number of factors prescribed by the DFE. Any reductions in the funding to schools through this formula are protected at -1.5% per pupil against 2013-14 funding.

2.42. The amount available for allocation to schools through the formula is after deducting an amount that is centrally retained for LA responsibilities such as: a contingency for supporting pupil growth and schools with falling rolls, school admissions administration and the servicing of the schools funding forum.

After consultation with schools the total amount has been agreed for central retention is £3.855m. The process of agreeing all funding allocations follows a consultation process with all schools and with the Schools Funding Forum.

2.43. In addition to the funding provided to schools from the DSG, they receive additional funding through the Pupil Premium to address low attainment of pupils from low income families and areas of high deprivation. For financial year 2014-15, the Pupil Premium the rates are as follows:

Primary age pupils:	£1,300
Secondary age pupils:	£935
Looked After Children:	£1,900

The criteria for the £1,900 has been extended to children who:

- Have been looked after for 1 day or more
- Are adopted after leaving care
- Leave care under a Special Guardianship Order or a Residence Order.

Public Health

2.44. This function transferred to local authorities with effect from 1st April 2013, as had previously been separately reported to Cabinet. Havering's allocation is £8,833,400 for 2013/14 and £9,716,700 for 2014/15. The funding allocated is a specific, ringfenced grant, and therefore these funds can only be expended for the purposes of public health services. The 2014/15 figure has a higher opening baseline, based on the formula applied.

2.45. The terms and conditions relating to the grant have recently been issued for financial year 2014/15. These have been under review by officers as the extent to which this grant funding can be applied is now becoming more apparent. This process has included discussions with other authorities over the approach they are now taking with this funding.

2.46. With this in mind, it is proposed to develop a draft spending plan for this grant for 2014/15, for consultation with the Health & Wellbeing Board, with authority to approve the final plan being delegated to the Cabinet Members for Individuals and Value. Cabinet is therefore asked to agree this approach.

Overall Impact on Havering

2.47. The new funding system introduced with effect from April 2013 has, as Cabinet is aware, proved to be extremely complex, difficult to understand and interpret, and the fact that the announcement and the associated documentation were released extremely late in the budget-setting process for 2013/14 made that a much more difficult process than in previous years. Whilst the new system is gradually bedding down, there have already been changes in the way business rates will be determined, and a further change in the treatment of New Homes Bonus. All of which continue to emphasise the volatility of the system for funding local authorities, and the need for final prudence and cautious planning.

2.48. In broad terms, the settlement indicates a funding reduction of £6.5m in 2014/15 and a further £9.8m in 2015/16. The former is in line with previous expectations; however, the latter is higher than previous figures indicated, as set out earlier in the report. There is therefore no immediate impact on the current budget strategy for the coming year, although the reduction for future years is higher than had been expected. In addition, there is a further reduction in equivalent EIG funding, following the expected trend from the current year. A small number of proposals have been drawn up and these are considered in the remainder of this report, alongside a number of other factors.

2.49. The Council is in the process of considering its formal response to the settlement consultation and a copy of the response will be issued as a supplementary paper to this report. A meeting with the Local Government Minister to discuss the settlement and its impact on Havering has been requested, and this has been scheduled for Monday 13th January. As this report will have been finalised by then, the outcome will be reported verbally at the Cabinet meeting, and reflected in the subsequent report to Cabinet.

2.50. Finally, and to underpin the depth of the national financial issues, the Chancellor of the Exchequer made an announcement on Monday 6th January. As part of his announcement, he indicated that it was the intention of the Conservative Party, should it be re-elected in 2015, to implement an additional level of savings, rising to £25 billion by 2017/18. Although it has been stated that £12 billion of these savings would fall on welfare, the remainder would have to be achieved through further reductions in departmental spending. This strongly suggests even further funding reductions could be expected, and that in turn emphasises the importance of developing a new budget strategy.

Review of Funding Drivers

2.51. Prior to the release of the Local Government Finance Settlement, LG Futures were commissioned to review the key funding drivers affecting Havering's revenue funding and to consider the scope for potential lobbying. With the numerous changes affecting local government finance, the system of allocating funding has become more opaque and highly technical. In addition, a number of large scale reforms are due to be announced over the coming years and the need to apportion funding to cover these costs are yet to be decided. Currently there are a number of avenues for Havering to lobby and this report is designed to summarise these options.

2.52. The Local Government Financial Settlement is a highly technical method of allocating funding which in recent years have been more opaque with the introduction of localisation of business rates and the freezing of the settlement formulae. Based on the current methodology, Havering has one of the lowest total funding per capita then nearly all its competitors or neighbouring authorities. Although Havering's ability to lobby in this area is limited due to

Government’s stated intention to freeze formula funding until 2020/21, there is still the possibility that this could be reopened. In addition, the Relative Needs Formula (RNF) in relation to Adult Social Care is currently being reviewed outside of the settlement process in order to compare the need against actual allocations as well as being used for other specific grants. The RNF is also currently being used to allocate new grant to the authority which gives added incentive to lobby for a fairer funding system.

2.53. Although the current formula grant is frozen until 2020, any changes to the indicators used in the formula funding model would be worthless given the current flooring methodology. Currently based on the 2013/14 formula, Havering’s undamped grant is reduced by £4m due to the current flooring methodology. Any changes to the indicators up to the £4m would not result in any additional funding to Havering’s formula grant allocation. For any changes in formula grant to become worthwhile (once the system is reopened or for indicators used in the 2020 formula grant allocation) the damping methodology would need to be changed. This is a core area in regards to the formula grant for lobbying, without this any changes in indicators would not be beneficial to Havering’s formula funding. There is still some uncertainty on how the flooring methodology will be incorporated into future funding allocation as there is the possibility that this will be loss in amongst the calculations. The current methodology penalises authorities who have had to increase council tax to compensate for low level of grant funding. This is basically, a “catch 22” scenario as without the grant funding, authorities have had to self-fund increases in revenue spend through increases in council tax which impacts Havering’s grant funding allocation through the floor calculation.

2.54. There are a number of new burdens which are due to be transferred over to Local Government over the next few years. The allocation for these grants will be significant to Havering’s frontline services and the methodology in distribution will be crucial. In the past, Havering has received grant allocation comparable with other authorities and provide a significant better allocation then would have through the formula grant. Currently although the formula grant is frozen, the relative needs formula is being used to allocate grant a number of new funding streams as opposed to other datasets previously used. Generally, the indicators used in the formula grant are out of date and do not reflect the large demographics shift seen in the borough. There are a number of new bills working their way through parliament and the funding attributable to those have as of yet not been confirmed. Changing or updating the indicators used in allocating these grant could potentially have significant financial benefit.

2.55. Below are a number of areas where Havering’s could lobby:

- Work and income benefit indicators are a major determinant of Havering’s Formula. Havering’s share of funding could be increased through an adjustment to work and income benefit statistics to reflect low take up rates in London. This is a case for regional adjustments using “informed judgement” which are currently used in sparsity indicators

- Lobbying for changes to the Area Cost Adjustment (ACA) and Labour cost Adjustments (LCA) has the potential to benefit the authority. The removal of the lower limit and increased labour cost adjustment weights which could be promoted through pan-London lobbying
- In the longer term, Havering would benefit from changes to certain parameters of the formula funding model including: reducing the level of the funding floor and decrease the relative size of the needs block. This would increase's Havering's undamped grant by £1.7m
- A number of indicators use benefit take-up in allocating funding which Havering currently has a low proportion of its population taking up benefits compared to other authorities. The reasons behind this is unclear but worth reviewing. The increase in claimant for Government funded benefits could increase Havering deprivation indicators and provide Havering with a higher grant allocation
- As announced in the 2013 Spending Round, the New Homes Bonus was due to reduce by £400m across the country, however, since the 2013 Autumn Statement it was decided only to top-slice the grant from London authorities to the London Enterprise Partnership (LEP). There is London wide support of the removal of this decision which will potentially cost Havering in excess of £1.3m
- The formula grant is locked-in until 2020/21 and for any changes in the indicators to be financial beneficial to Havering's formula grant funding, the current funding methodology would need to be changed. The current damping methodology has become out of date with some authorities receiving millions of pounds of funding more than their relative needs. This has also contributed to huge cliff edges between neighbouring authorities which sees some authorities receiving 3 times the amount of funding than Havering just by a change in postcode.

2.56. There are a number of potential options to lobby. Some of which can shared through a pan-London approach and some directly linked to Havering at the detriment of other London authorities. Havering has constantly received a better funding allocation through specific grants than through the formula grant system however with the increase use of the relative need formula for new grants; the gap is beginning to close. Lobbying for some of the points above is not only key to increasing Havering's funding in line with the needs of the borough but also to keep to the same equivalent funding as we see today.

3. PROPOSALS – REVENUE BUDGET

3.1. In broad terms, the approach adopted by the Council provides for an assessment of the Council's *Living Ambition* priorities in relation to its Medium Term Financial Strategy and corporate goals, and for resources to be allocated to those areas of the highest priority. Whilst the general economic climate and financial outlook have remained highly challenging, the focus of the Council's budget will need to be on significant levels of savings and only any material unavoidable pressures, with little scope for any additional investment. The efficiency savings already identified have the prime objectives of allowing the redirection of resources to areas of higher priority, the preservation of priority services, and the minimisation of the impact of Council Tax on our local community.

Progress with Proposals Already Agreed

3.2. As stated earlier in this report, Cabinet previously agreed reports in July 2010 and July 2011, set out a series of proposals designed to bridge the forecast budget gap. These set out proposals totalling around £35m (excluding the Council Tax base effect, which is accounted for separately), spread over financial years as follows:

	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m
Cumulative Savings	9.5	19.2	32.0	34.3	34.8

3.3. Detailed schedules of these proposals were included in the respective Cabinet reports and were subject to formal consultation, including consideration at joint meetings of all Overview & Scrutiny meetings. The more significant items, and progress generally in delivering these savings, are set out in the following paragraphs. This includes a review of progress with savings in the current year.

3.4. Cabinet also agreed a small schedule of pressures and savings items as part of the 2013/14 budget setting process, that impact on 2014/15. Set out in the table below is a summary of which services these savings relate to, from both the July 2011 and February 2013 reports:

	Jul-11 £000	Feb-13 £000	Total £000
Culture, Community & Economic Development	436	0	436
Children, Adults & Housing	2,225	0	2,225
Resources	31	500	531
Corporate Services	0	770	770
Total	2,692	1,270	3,962

3.5. There were five significant items included within the savings proposals that impact on the 2014/15 budget; these are shown in the table below, together with their current progress:

Savings Item	Cabinet Report	Value of 2014/15 Savings £000	Progress
Learning disability services	July 2011	700	This is the second phase of total savings over 2013/14 and 2014/15 of £1.3 million. Delivery of both years savings is through the Adult Social Care MTFS Learning Disabilities workstream. Key activities underway/planned include: (i) commissioning of specialist Review agency to look at high cost placements; (ii) participation in the LGA ASCE programme – achieving efficiencies in learning disabilities commissioning; re-commissioning of block contracts and individual VFM contract negotiations across all service areas, including LD
Older People residential care	July 2011	600	This is the second phase of total savings over 2013/14 and 2014/15 of £1 million. Delivery of both years savings is through the Adult Social Care MTFS Residential workstream. Key activities planned/underway include: (i) commissioning of iMPOWER to deliver improved information/signposting across health and social care system, to shift the care setting of first resort from residential care to community based solutions, including improved access to assistive technology; (ii) redesigning 'front door' between contact centre and ASC, to ensure timely assessments and right information / right time (e.g. about financial assessment); and, (iii) review of admissions (to residential care) pathway also underway, looking at critical points where people can be diverted away from residential care. Planning for implementation of Care Bill, Better Care Fund, and

			analysis of future demographic pressures underway, including impact on delivery of this savings line.
Traded services	July 2011	450	This saving has already been delivered early and no further actions are therefore needed
Shared services/collaboration	February 2013	500	A shared service arrangement with LB Newham has been formally agreed by Cabinet and Council and that will deliver the first element of this saving during 2014/15
New Homes Bonus	February 2013	600	This is covered separately in this report, in section 5

3.6. As previously reported to Cabinet, and as set out in the revenue monitoring reports, progress with the delivery of savings is kept under close scrutiny, and any shortfalls or slippage are also highlighted as part of the revenue monitoring process, and as such, will appear in the revenue monitor report. The majority of the savings are being delivered through service restructures, all of which are either well underway or have been concluded. Both the ISS and CST programmes are very complex, and in the case of the both these programmes, there has been a slippage in delivery of savings in the current year; these are addressed later in the report.

3.7. There is clearly a risk that it will not be possible to deliver the full level of savings already approved by Cabinet. Circumstances are changing all the time and alongside this, so are demand for services and their associated costs. Whilst the budget contains a significant contingency sum, this is designed to address in-year issues, and the sheer scale of the savings proposals and the lengthy period over which they are being implemented – nearly £36m over a 4 year period – mean that some slippage or shortfall has always been a risk.

Revenue Proposals

3.8. The revenue items proposed for the 2014/15 budget, and the subsequent year, are set out in Appendix D. These fall broadly into the following categories:

- Shortfall in savings that can no longer be delivered, mainly due to change in environment
- Reductions in income that have become permanent
- Impact of new legislation
- Funding changes from external organisations (excluding levies)
- Unavoidable growth arising from external factors.

3.9. Whilst this is a relatively short list of items, it does reflect the degree of risk over the delivery of savings proposals on such a scale, as well as the impact of factors outside the Council's control. A prudent approach has been taken in assessing the potential budget gap, and this has enabled the Council to weather the impact of the substantial cuts in grant funding it has been faced with.

3.10. At this stage, it is not considered necessary to identify any additional savings, beyond those already approved by Cabinet There are, however, two major contracts, street lighting and waste collection, which are expected to give rise to a modest level of revenue savings. The latter is dependent on a concurrent report being submitted to this Cabinet meeting, the former is currently being analysed on the basis of the decision previously taken by Cabinet. This will be reflected in the report to Cabinet in February.

4. CURRENT FINANCIAL POSITION

4.1. As part of its standard business processes, a robust system of budget monitoring is in place to ensure the Council's financial stability. As part of this process, both variances and potential risks are identified and action plans developed to counteract any adverse variances. Reports are considered up the management chain, from cost centre managers through to Heads of Service, and then CMT, individually and collectively, as well as Cabinet Members. Monthly reports appear on the Council's intranet site. Full reviews of the financial position are undertaken quarterly, with high risk areas being reviewed monthly. Reports are on an exception basis.

4.2. The most recent forecast for period 6, which is a full quarterly budget review, indicates that the overall revenue position was broadly balanced, with an overall net overspend of £573k. The main elements of this are:

Service	Issue	Variance £000
Streetcare	Overspend of £475k on parking, due to income shortfalls, offset by a number of underspends across difference services	226
Customer Services	Delayed delivery of savings from transformation programme	289
Regulatory	Overspend of £300k due to shortfall in income from building control	364
Adults	Older People's residential and nursing placements £396k and Learning Disabilities £175k, offset by various underspends	419
Learning & Achievement	Overspend on Special Educational Needs of £512k, offset by range of underspends	13
Children's	Mainly due to overspends in Placements £202k and Leaving Care Services £242k	710
Asset Management	Income from commercial properties transferred from the HRA £597k, offset by £239k overspend across various transport accounts	-375

Exchequer	Underspend of £300k from housing subsidy plus underspend of £253k on emergency assistance scheme	-551

4.3. A further update, setting out the updated position as at period 7, will be included as part of the February Cabinet report. This will include an assessment of whether any of the current variances are likely to have a sustained impact beyond the current year, although there is one such item included in the table above, and this has therefore been included in the schedule of budget items for 2014/15:

Item	Value £000
Shortfall of income from Regulatory Services, in particular from building control	300

4.4. A full review is also being undertaken of Corporate Provisions. Cabinet will recall that base budget provisions have been established, with the scale of change in the funding system in mind. As these changes are now bedding down, it is now possible to determine the robustness of the transition to the new system, and the impact this has had, set in the context of the last year of the current savings plan. The outcome of this review will be set out in the February Cabinet report.

4.5. As Cabinet will be aware, the budget includes a Contingency Fund. This is to ensure the Council's budget is robust, and to provide financial stability to enable adverse in-year variances to be overcome. The level of the Fund is re-assessed annually as part of the budget-setting process. Allocations from the Fund are generally only made once other measures have been considered, and during the latter part of the year. This is in accordance with practice of previous years. Allocations made later in the year cover those items that cannot be contained within departmental spend, and are generally beyond their local control. The Fund is designed to enable the Council to resolve any in-year issues that cannot otherwise be contained within approved budgets. It is not however available to fund permanent, ongoing changes; these need to be resolved as part of the formal budget-setting process.

5. OTHER KEY MATTERS

Impact of Inflation

5.1. As Cabinet will be aware, inflation levels have remained at their lowest point in many years. The 2009 local government pay award saw a rise of around 1%, and further restraint in pay rises, given the economic climate, has continued, with no pay rise at all for 2010, 2011 and 2012. A rise of 1% has been agreed for 2013 and it has been made clear the Government expects similar restraint in future years. With this in mind, further provision for a 1% rise has been made in the 2014/15 budget.

5.2. Provision is being made for increases in major contracted services. The proposed increases for contracted services – which mainly relate to contracts based on an RPI index – are broadly in line with that level, but subject to the specific circumstances applicable to each individual contract. For social care, negotiations are underway with providers, within the broad parameters set for the overall budget, and these are likely to be agreed prior to the start of the financial year. To enable these negotiations to progress, it is recommended that Cabinet delegates authority to the Group Director for Children, Adults and Housing to agree inflation rates with social care providers.

5.3. A review of fees & charges has been undertaken as part of the budget setting process and any rises being proposed will be reflected in the schedule submitted to Cabinet in February. However, it is not proposed to increase fees & charges in a number of areas, where these are set by the Council. This includes parking services, in accordance with the Administration's previous commitments. There are a number of other areas where it is not felt appropriate to introduce any rise, and this will be reflected in the detailed budget.

Interest Levels

5.4. Interest rates have remained at historic lows for some considerable time. The Council's budget strategy originally assumed that there would be a recovery in interest levels during 2010/11. This has not happened, and therefore the originally planned increase was delayed until 2013/14.

5.5. There is no immediate sign of rates rising, although economic factors have continued to improve, suggesting there will inevitably at some point be a change in this position. As historic investments come to an end, the overall level of interest generated has fallen. Returns are now even lower than 12 months previously, although paradoxically, the level of cash holdings has increased, the main reason being the changes brought about by the new funding system (this trend can be seen across all Councils, certainly in London, if not elsewhere). Speculation around when interest rates will rise has continued, but in the wake of the Chancellor's recent announcements, a majority of economists are now predicting a rate rise during 2015. The Council's current treasury advisors have indicated that, in their view, rates will remain static until 2016, but have also advised that the probability of an earlier move has risen significantly.

5.6. The financial strategy assumed an increase in rates in both 2013/14 and 2014/15; this is still felt to be deliverable through prudent financial management of the Council's cash flow position, although not in full. It is therefore proposed to retain this, but at a lower level, for 2014/15, with the full amount included in the strategy being achieved the following year. This is not without a degree of risk, but given the scale of the budget gap projected for the coming four year period, this level of risk is felt to be acceptable.

Concessionary Fares and Taxicard Scheme

5.7. This item has been a major factor in previous years. Havering's contribution to the freedom pass scheme currently stands at £7.661m. An increase in the 2014/15 TfL element for Havering of 2.71% , thereby increasing the contribution to £7.869m. This equates to an additional £208k budget being required, which is within the sum anticipated in our financial strategy. This area remains a financial risk to all London boroughs as future rises could well be at a similar level to those provided for in the financial strategy, and therefore continues to be covered in the Council's longer term planning.

5.8. The Council's contribution to the London Taxicard scheme, which is also funded through London Councils, has been set at £150k for 2014/15, the same level as currently.

Pension Fund

5.9. The difficulties experienced nationally by pension funds in general, and the Local Government Pension Fund in particular, have been well publicised. A variety of changes to the local government pension scheme are due to be implemented in April 2014.

5.10. Havering's Pension Fund has, like most if not all others in the public sector, been adversely affected by not only the level of liabilities, but also the impact of gilts on the assessment of those liabilities. So, whilst the value of investments has continued to see an increase, this has been counter-balanced by the rise in liabilities owing to historically low gilt returns. Clearly, the Council cannot influence how gilts impact on the Fund, but it does have a responsibility to deal with this as part of its prudent financial management.

5.11. A review of the investment strategy has taken place over the past year, and amongst other things, the strategy now encompasses potential investment in infrastructure, with the proviso that an appropriate return is realised on any such investment. The 2013 actuarial review of the Pension Fund is also now well underway and initial discussions on the potential outcome have already taken place. The previous budget made provision for an incremental rise of £500k, and this was increased to £1.5m with effect from 2013/14. For financial planning purposes, a similar sum has been allowed for in future years.

5.12. The actuary has advised that the Council will need to make additional investments into the pension fund over coming years, almost certainly at a higher level than the sum currently provided for. His advice is that, if the Council were able to make a one-off cash investment, this would provide a suitable level of investment, and allow the Council to scale back on annual contributions for several years.

5.13. As part of the closedown of accounts process for 2012/13, a sum was earmarked for investment in the pension fund as part of the strategic reserve. As part of the current review of corporate provisions, it is now proposed to make a one-off investment into the Pension Fund. Details of the proposed investment will be included in the report to Cabinet in February, seeking Cabinet's approval for that investment.

5.14. Any such investment will clearly carry a degree of risk. Although the value of the Pension Fund has risen slowly over recent years, market values do rise and fall. However, should the Council choose not to proceed, higher annual contributions would need to be made, and over a period of time, at least to the same overall value. It is also probably true that the level of return potentially realisable from the Pension Fund is far higher than what could be achieved through the Council's treasury management activities.

Levying Bodies

5.15. The levies are part of the Settlement and therefore need to be taken into account when setting the Havering element of the Council Tax. There are a number of levies, but the predominant levy relates to ELWA. The current overall levy budget is around £12.4 million, of which ELWA accounts for £11.7 million. At this stage, no account has been taken of any changes in the distribution of levies arising from the changes in Council Tax base referred to earlier in this report.

ELWA

5.16. Provision has broadly been made within the council's financial strategy for increases in the ELWA levy of around £1m per annum over the budget window the Council now operates. The Authority considered a report on its financial prospects at its meeting in December. Whilst the final budget will reflect more recent tonnage information and updated financial information, the report indicated that the provisional levy proposals over the coming three years will now be lower than previously allowed for.

5.17. At this stage, whilst officers are awaiting the final budget report, which is subject to deliberations by ELWA, the reduced forecast levy has been included as part of the overall budget build process. At the point at which ELWA approves its final budget, due account will need to be taken of this in the Council's own budget setting process.

Other Bodies

5.18. Of the remaining levying bodies, for planning purposes, a prudent approach has been taken to the level of increase that might be expected, pending notification of the planned rises.

London Councils Subscription and London Boroughs Grants Scheme (LBGS)

5.19. The core subscriptions are to be held at existing levels for 2014/15, being £143k, with a one off rebate for all contributing authorities, at a level of £38k for Havering. The contribution to the LBGS is marginally reduced by £1k to £259k. This scheme has also released a one off rebate at £23k. As indicated, the reductions are a one-off and therefore it is recommended that the base budget is not adjusted as these funds will no doubt be required in the 2015/16 budget cycle.

Transformation Funding

5.20. Cabinet will recall that, as part of the Council's approach to delivering its transformation programme, a reserve was established to finance a wide range of activity, for example the Internal Shared Services programme. These reserve funds supplemented a base budget sum created several years ago of £1m. It was originally planned that this sum would be removed from the budget in 2013/14. However, given the inevitable continuation of the Government's austerity programme, it is highly likely that local authorities will be engaged in transformation activity for a considerably extended period, possibly for the remainder of the decade. As part of the last budget-setting process, Cabinet agreed to retain this budget.

5.21. Whilst activity has continued with most of the original transformation programmes during 2013/14, these are now effectively winding down. The shared service programme with Newham, alongside the One Oracle programme, has been running for some time, and Cabinet approved a report on the shared service arrangement in November.

5.22. As part of the report to Cabinet in September, the financial prospects for the four year period, starting in 2015/16, were set out. Cabinet were advised that, based on officers' assessment of the impact of further funding cuts, coupled with the potential impact of demographic growth and inflation, the forecast budget gap was in the region of £60m. Delivering further savings will therefore require a considerable level of support, with the financial consequences this would give rise to.

5.23. Alongside the base budget sum, it is also likely that additional, one-off funds will be needed. This will enable the Council to finance any further projects and to ensure funds are available for any further redundancy costs, should these arise, beyond the current programme. With this in mind, it is proposed that any underspends from the Corporate Contingency Fund, from the retained base budget sum of £1m, and from any service revenue underspends, are allocated to the Strategic Reserve. Cabinet is asked to endorse this approach.

5.24. As previously advised to Cabinet, it is intended to develop a four year budget strategy over the coming months. This will be brought to Cabinet for approval and onward recommendation to Council during the Summer of 2014. This will include an assessment of the resources – financial and otherwise – needed to deliver a new programme of savings and service transformation.

New Homes Bonus (NHB)

5.25. This funding stream was created for financial year 2011/12. Although it has been classed as a new funding stream, it is effectively money top-sliced from the overall funding "pot". As the national NHB pot grows, the overall pot for revenue support grant reduces. The current budget assumes an approximate base sum of £1.8m in 2013/14, rising to an estimated £2.4m in 2014/15, and this sum has been built into the budget build process for next year.

5.26. The updated figures for 2014/15 have recently been released. These are in line with officers' estimates. The forecast figure is now £3.4m, expected to rise to around £4.1m in 2015/16. This is due to a bigger than originally forecast rise in property numbers, which form the basis for the NHB calculation. However, as pointed out in the September Cabinet report, there is a national adjustment to the overall NHB pot, which would reduce the Havering allocation. In addition, there is a further top-slice within London arising from the Autumn Budget Statement and subsequent announcements.

5.27. The impact of these adjustments is that the level of NHB in Havering is expected to fall by around £1.3m to £1.4m, leaving a base sum of around £2.7m to £2.8m. With this degree of uncertainty in mind, it is not felt prudent to increase the base budget sum beyond the level originally allowed for. Once the position becomes clearer for 2015/16, then the base budget can be reviewed and adjusted accordingly.

5.28. This leaves around £1m in NHB which is available for future one-off investment in 2014/15. It is therefore proposed that this sum should be allocated to a small number of one-off projects in 2014/15, as follows:

- Harrow Lodge Park; clearance works to the lake to remove silt, re-invigorate the lake, and to deal with rodent infestation. Estimated cost £300k
- StreetCare; additional investment of £500k in footpaths, carriageways, etc
- Broxhill Park; development of all-weather sports pitch to complement the overall park design, estimated cost £500k, part funded from grant monies, leaving a residual revenue contribution of £200k.

5.29. There is an alternative, which is to increase the base budget for 2014/15 and take the additional £1m as a budget saving. However, should the expected change then occur in 2015/16, this would create an immediate budget pressure of around £600k to £700k. Given the scale of the gap from that year onwards, this course of action is not recommended.

Better Care Funding

5.30. The Better Care Fund (BCF), formerly known as the Integration Transformation Fund, and before that NHS support for social care, will come into effect from 2015/16. This will underpin health and social care integration, providing opportunity to transform local services leading to better outcomes. The fund will also help manage pressures to enable longer term sustainability. The June 2013 spending round set out that £3.8 billion is to be deployed in 2015/16, to be spent locally on health and care.

5.31. In recent years Health funding to support social care has transferred to Local Authorities under section 256 agreements. Havering's 2013/14 allocation was £3.599m. Plans to utilise this funding were signed off by the Health and Well Being Board and submitted to NHS England.

5.32. In 2014/15, in addition to the £900m transfer already planned from the NHS to adult social care, a further £200m will transfer to enable localities to prepare for the BCF in 2015/16. NHS England will only pay out the additional £200m to councils that have jointly agreed and signed off two-year plans for the BCF. Havering's allocation using the social care relative needs formula (RNF) is expected to be £4.609m. This will be subject to the same conditions attached to the existing transfer. This sum has been arrived at as follows:

	National Budget £m	Havering Allocation £m
2013/14	859	3.599
2014/15 – base sum	900	3.771
2014/15 – additional sum	200	0.838
2014/15 – TOTAL		**4.609**

5.33. The £3.8bn BCF fund will be created from:

- £1.9bn of NHS funding
- £1.9bn based on existing funding in 2014/15 that is allocated across the health

and the wider care system. This will comprise:

- £1.1bn existing transfer from health to adult social care.
- £130m Carers' Break funding
- £300m CCG reablement funding
- £354m capital funding (including £220m Disabled Facilities Grant).

5.34. Havering's 2015/16 BCF allocation is expected to be £15.5m, which will include the Disabilities Facilities Grant (£829k) and social care capital (£560k). The Fund will be put into a pooled budget under Section 75, there will be a joint governance arrangement between the Clinical Commissioning Group and Local Authority. A condition of accessing the funding is that there must be joint spending plans and these plans must meet certain requirements.

5.35. The spending round indicated that £1bn of the £3.8bn will be linked to achieving outcomes, both national and local. Half of the funding is expected to be released in April 2015. £250m of this will depend on progress against four of the national conditions, and £250m will relate to performance against a number of national and locally determined metrics during 2014/15. The remainder (£500m) will be released in October 2015, and will relate to further progress against the national and locally determined metrics.

5.36. It was announced as part of the Spending Round that the BCF would include funding for costs to councils resulting from care and support reform (£50m capital and £135m revenue). This money is not ring-fenced, but local plans should show how the new duties are being met.

5.37. Health and Wellbeing Boards have to provide a first cut of their better care plan template by 14 February 2014, with revised versions by 4 April 2014. Funding will be routed through NHS England to protect the overall level of health spending and ensure a process that works coherently with wider NHS funding arrangements.

Education Services Grant

5.38. Commencing in 2013-14 there are new Government funding arrangements for education services provided by local authorities and academies. This is through an Education Services Grant (ESG) calculated on a per pupil basis according to the number of pupils for whom a local authority or academy is responsible.

5.39. The ESG is intended to fund both LAs and academies for the provision of a range of services and statutory functions including education welfare, school improvement, music services, asset management, determination of terms and conditions of service of staff, early retirement and redundancy costs, producing financial accounts and internal auditing.

5.40. The grant is allocated to local authorities on the basis of £113.17 per pupil (£116.46 in 2013-14) in maintained primary and secondary schools, £480.97 (£494.96) for pupils attending maintained special schools and £424.38 (£436.73) for those in alternative provision. £15 (unchanged from 2013-14) is allocated to LAs for all pupils regardless of whether they attend academies.

5.41. The initial allocation for Havering for 2014-15 is £3,326,218 compared to an initial allocation of £3,510,598 in 2013-14. The reduction is due to an increase in the number of schools that became academies during the year and a reduction in the per pupil rate (see the paragraph above).

5.42. The number of academies and maintained schools in Havering as at January 2014 is as follows:

	Primary	Secondary	Special	Total
Maintained	55	4	3	62
Academies	4	14	0	18
Total	59	18	3	80

5.43. In addition, an academy order has been received from the Secretary of State for Education for another primary school with an expected transfer date of 1st April 2014.

5.44. A complication of the grant is that it is recalculated on a quarterly basis to reflect the number of pupils that attend academies; it therefore reduces during the year each time a school becomes an academy. Whilst this may necessitate further savings, it will be difficult to anticipate these and they will take time to develop and implement. There is also an issue over the point at which the critical mass of the service means that it is not feasible to deliver any further savings and still deliver the council's statutory responsibilities in this area.

5.45. The costs in delivering statutory services fall mainly, although not exclusively within the Learning and Achievement Service. Grant reductions will also affect asset management services and central services recharged to Learning and Achievement. To meet cost grant reductions in 2013-14 there was a significant restructure within Learning and Achievement saving approximately £1.3m and further savings to meet 2014-15 grant reductions are being considered.

Social Care Legislation

5.46. There are fundamental changes imminent to social care functions, aside from those considered above. In particular, the Care & Support Bill and the Children & Families Bill, both of which are expected to receive Royal Assent some during early 2014, will impact on the provision of services, and the development of the future budget strategy. The background to this legislation is set out below; at this stage, it is extremely difficult to assess what impact these changes will have, financially or otherwise. Given the likely demographic demand for social care services in the future, this area will need to be kept under close scrutiny, and once a clearer picture has emerged, Cabinet will be updated accordingly. The potential financial risks arising from this legislation will need to be borne in mind as part of the budget-setting process, and this has been factored into the risk assessment, which is currently being undertaken. Any updated financial information will be included in the February Cabinet report.

Care & Support Bill

5.47. The Care and Support Bill is a major piece of legislation related to Adult Social Care, which is looking to consolidate exiting legislation and rewrite stature which dates back to 1948. As such it is far reaching and the implications are large. London Councils have raised concerns that levels of funding to support the changes proposed by the bill may not be sufficient to cover the additional cost that Local Authorities will have to bear, particularly in London. Whilst the principles endorsed within the bill are supported there will be significant cost implications.

5.48. The Bill is in three parts; Care and Support, Care Standards, Establishing non-departmental public bodies. The main implications that carry a financial implication are:

- All local authorities will have to provide a universal information and advice service to the local population, including advice about how to access independent financial advice.
- Everyone with care and support needs who is assessed will be informed of support available to prevent or reduce care needs and support whether or not they meet the eligibility threshold.
- A cap will be set at £72,000 for the maximum contribution anyone will make to adult social care. People in residential care will pay a contribution of around £12,000 yearly towards general living expenses. The upper capital threshold for means-tested support will rise to £118,000 from 2016/17. There will be a zero cap for people who turn 18 with eligible care and support needs.
- A national minimum eligibility threshold will be introduced.
- Local authorities will be required to provide, review and update an ‘independent personal budget’ for people who have eligible care needs but do not meet financial criteria. This notional budget will allow the individual to progress towards the care cap. It will be based on the amount that the local authority would pay for care – not the amount the self funder might choose to pay.
- The ‘deferred payments’ scheme, whereby the cost of care is offset by the future sale of the client’s home, will be cost neutral to local authorities and therefore interest and administrative fees will be allowed.
- Where a client receives care outside the home borough, the second borough will be required to take the original care and support plan into account and to provide a written explanation if it differs.
- The duty to prevent, delay or reduce the need for care and support will apply to both carers and people with care needs.

5.49. It should be noted that young carers are not included in the bill – this has raised concern that young carers may fall into the gap between the Children and Families Bill and the Care Bill.

5.50. The Council is currently modelling the potential financial implications and risks arising as a result of the new legislation, and will continue to do so as the bill passes through parliament. Local implications will be largely driven by demography in the borough. Part one of the Care Bill provisions (excluding funding reform) is due to come into force from April 2015, with the funding reform provisions coming into force from April 2016.

Children & Families Bill

5.51. The intention of the legislation is to create a more family friendly SEND (Special Educational Needs and Disabilities) process which draws together the support a child requires across education, health and care (EHC). Statements of Special Educational Needs, which are mainly education documents, will be replaced by a single plan called an Education, Health and Care plan. The draft regulations and Code of Practice (COP) have now been published and have a September 2014 implementation date. The following address some of the financial implications arising from the Bill.

5.52. Local Authorities must publish a **Local Offer** to enable parents to understand what is available and how it can be accessed. By publishing core entitlements and making it clear how the services can be accessed, the uptake of services is likely to increase. It is critical that universal services are well publicised through the Local Offer in order to ensure that families utilise these services and do not migrate to tier two and three services when they are not essential. This may require training and support for services like Children's Centres but this would prove cost effective in the medium term. On the plus side having a good comprehensive and well publicised Local Offer may mean that out of borough services are not requested. A good Local Offer may mean that parents do not request personal budgets to purchase private sector services.

5.53. There must be a means by which to offer **personal budgets** to families which includes direct payments for health and education as well as social care. This is a flagship proposal by the Government and it is clear that they will be pushing for the development of a private market so that parents can purchase services which are not readily available through the Local Offer. It is not yet clear whether parents will have to be offered what the service costs to purchase or the equivalent of what is spent at the moment but given the lack of sufficient therapy provision this could prove costly for health unless sufficient service can be provided through the Local Offer.

5.54. In Pathfinder areas there have been issues with the viability of block contracts as parents have chosen to purchase services themselves. This has lead in some cases to the need for double funding for example providing a direct payment for a family to purchase a therapy service but not reducing the cost of the block contract.

5.55. On the plus side some Pathfinders have found that when parents understand the cost of the services provided for their children they can bring about better value for money. For example on discovering the cost of a therapy service, which was provided at best intermittently, parents chose to forgo the service in favour of some additional short break hours. Additionally funding a home education programme through a direct payment gives the LA more control over the service than would otherwise be possible.

5.56. The Bill requires the setting up of an **independent mediation service** for when agreement cannot be reached. The providers of this service must not be employed by the local authority. Parents must be offered the service where there is a disagreement about the content of the plan although if the disagreement is purely about the school parents can opt for tribunal.

5.57. There must be **joint commissioning arrangements** between education, health and social care in order to ensure that sufficient resources are provided to assess children and then provide for their needs. There must also be a formal mechanism for resolving complaints and difficulties between the agencies.

5.58. There is currently no joint commissioning for SEND children's services. The therapy services provided by NELFT are not sufficient for the needs of the SEND children. It is essential that the most senior officers in the LA and Health Commissioners work together to improve the level of therapy services. Entering into joint commissioning arrangements and pooling budgets whilst essential also has the potential to be costly for the LA. Whilst the Bill is fairly robust in insisting that health must provide the services required by the child to implement the EHC plan it will still ultimately be the responsibility of the LA to ensure that those services for example speech therapy required to implement a child's education programme are provided.

5.59. On the plus side once a joint commissioning system is in place it may indicate areas of service in which there is duplication or where inefficient commissioning has led to poor value for money both in the LA, health and voluntary sector.

5.60. The draft Code of Practice (COP) says that there must be a **single assessment procedure** (involving parents and children) on which health, social care and education agree so that families do not have to repeat their story and appointments are kept to a minimum. It is the LA's responsibility to provide this support through key workers or similar a similar mechanism. A single Education, Health and Care (EHC) plan document draws together the support and resources required across education, health and social care as well as leisure and voluntary sector activities as appropriate. The plan lasts from 0-25.

5.61. The Pathfinders have used multi agency meetings to draw up the plan but have found this very costly in staff time. Some Pathfinders have used staff already working with the child as key workers but have found especially for very young children that the work is very emotionally draining as well as time consuming and cannot always form part of a wider role. Finally the plan can last until a young person reaches 25 and here the issue is the raising of expectation that young people who would not previously have received a service once they reach adulthood will now have an entitlement. This does not appear to be the case as the entitlement only continues to 25 if the young person remains in education or training. There are enormous implications for the funding of higher level educational needs up to 25 when currently many young people cease education at 19 and almost all at 23.

Parking

5.62. The Government announced the launch of a consultation on current local authority parking strategies and on options the Government is considering to change the balance of how parking is enforced with the aim of ensuring that parking strategies complement and enhance the attractiveness of our high streets and town centres. This consultation runs until 14th February. The Government is now inviting views on amending significant elements of local authority parking policy including:

- Stopping the use of CCTV for on–street parking enforcement
- Giving local communities and businesses new rights to require authorities to review aspects of their parking strategies such as the level of parking charges and whether all double-yellow lines are appropriate and necessary at particular locations
- Introducing limited “grace periods” where a driver has stayed in a parking place for a short period before issuing a parking ticket
- Updating statutory guidance to local authorities to emphasise a less heavy-handed approach to parking enforcement, and re-emphasise that parking charges and fines cannot be used to as a means to raise revenues.

5.63. Potentially, this could lead to a freeze in increases in parking charges alongside a number of other possible changes. At this stage, it is far from clear whether the financial consequences of this on local authorities would be compensated for, or whether authorities would be expected to cover this from within existing resources. This therefore represents an additional risk, as the outcome will clearly not be known until after the Council has formally approved its 2014/15 budget.

Changes in Demography

5.64. Cabinet will be aware from previous reports that social care services in particular have been impacted by changes in demography. In particular, the aging population demographic is expected to lead to an increase in demand for adult social care. This issue has been reflected in the Council’s budget for the past two years, and due to the fluid nature and high risk will continue to be closely monitored. This financial provision has been based on a detailed financial model, however, with continuing changes in demand, the increased financial pressures facing local authorities, changes in funding streams referred to elsewhere, and shifts in population as well as properties, this issue now potentially has a broader impact.

5.65. Elsewhere in this report, changes in the Council’s property base – as measured through the Council Tax base and the New Homes Bonus – are highlighted. This needs to be considered in the context of increased demand for schools places, as set out in the report to Cabinet in November.

5.66. These factors, taken together, suggest a significant change in demography within Havering. What is extremely difficult to assess is what impact this change will have on demand for services, and thus in turn, the associated resources and costs. As a guide, the potential consequences are set out in the table below:

Factor	Impact	Financial Impact
Properties	Increase in waste produced by households Increased traffic leading to more road/footway damage	Higher costs for refuse collection, street cleaning, waste disposal Higher costs for highways maintenance
School places	Increase in demand for places leading to need for more classrooms	Capital investment in additional classrooms Revenue impact falls directly on schools budgets
General population	Increase in special educational needs Increase in residents requiring learning or mental disability support Increase in demand for parks, leisure, arts, culture, etc Change in population mix, eg nature and make up of families	Increase in resource needs and thus service costs As above As above Potential capital investment, eg new facilities, vehicles As above

5.67. At this stage, it is not possible to determine with any reliability the financial impact of potential changes. Clearly, there will be an increase in Council Tax receipts, and this is factored into the base calculation. What is much more difficult to assess is the cost impact these changes might have, as this depends on the actual nature of the shift in demand, rather than any notional model. It will therefore be necessary to review any available information as part of the development of the new financial strategy, to ensure that, as far as possible, the latest information is reflected, but also that this is kept under review and the strategy is updated accordingly. It is however a fact that such changes now represent a significant area of risk, both financial and otherwise.

5.68. With that in mind, it is proposed to review and potentially increase the overall budget provision for growth. The overall sum stands at £2m and has been assessed on the basis of demographic changes in demand for social care services. The marked shift in the property base will clearly now have other impacts and this will need to be given due consideration as part of the budget setting process. A broad assessment is currently underway and this will be reflected in the final budget proposals to be presented to Cabinet in February. It is however highly likely that the existing budget provision for demographic growth in social care for 2013/14 will not be required, as the combined impact of savings proposals, demand changes and general demographic growth have been absorbed within existing service budgets.

Members Allowances

5.69. As is customary, a report on the proposed Members Allowances scheme will be considered at the same time as the budget. The Administration proposes to reduce the cost of Allowances, in line with reductions in spend within the Council, and an additional saving of £100k in 2014/15 was included accordingly in the budget schedules last year.

Corporate Plan

5.70. The Corporate Plan 2011-14 sets out the Council's Living Ambition and how this will be delivered through five goals for the Environment, Learning, Towns and Communities, Individuals and Value. These goals, along with the strategic outcomes, key activities and measures/targets, are summarised in the 'Plan on a Page'.

5.71. The 'Plan on a Page' has been refreshed, in light of the progress made on the Corporate Plan over the past year and publication of the Annual Report in September – this is set out in Appendix F. The refresh captures the Council's goals and strategic objectives as follows:

- Environment – community responsibility and enhanced community participation
- Learning – strategic commissioning and strengthened partnership working between learning providers
- Towns and Communities – resilient/self-supporting communities and an enterprising economy
- Individuals –prevention/early intervention, joint commissioning/integrated services and access to the 'early help offer' for children and young people at risk
- Value – evidence-led commissioning and a commitment to sharing services with partners.

5.72. The measures/targets have been reviewed and, where required, new targets have been proposed for next year. The updated 'Plan on a Page' will be used to inform service planning, ensuring all activities are linked back to the goals, strategic objectives and strategic outcomes of the Corporate Plan. Cabinet is asked to formally approve the revised 'Plan on a Page' as set out in Appendix F.

6. EXPENDITURE RESTRICTIONS AND BUDGET ROBUSTNESS

Expenditure Restriction by Government

6.1. The Government has previously stated that it will use its capping powers where necessary. As part of the settlement announcement last year, following on from previous announcements, a referendum process was introduced. The broad level at which this would be triggered was set at 2%, although there was a potential loophole around the impact of levies set by external bodies and how these are factored into the calculation.

6.2. However, as part of the settlement announcement, and in contrast to previous years, DCLG are not publishing council tax referendum principles as part of the provisional settlement. The view of London Councils is that this is probably because the Local Audit and Accountability Bill has yet to complete the legislative process. The Bill proposes that levies should be included in council tax referendum calculations and had its third reading and report stage in the House of Commons on 17th December. It is now going back to the House of Lords for consideration of amendments with royal ascent expected in "early 2014". DCLG are also seeking views on the referendum levels themselves, this suggests a potential lowering of the current level.

6.3. Clearly, those Councils choosing to avail themselves of the Council Tax freeze grant on offer for 2014/15 will not be affected by this. It will however make it potentially quite difficult for those choosing not to do so to set a budget, when they could then be faced with the need to undertake a referendum.

6.4. The Government has indicated that the referendum process is likely to remain in place for future years, although they have not committed to the actual percentage levels. There does however appear little prospect for a rise beyond the current limit of 2%, and local authorities would need to be mindful of the potential cost of undertaking a referendum should they wish to consider triggering one, especially with the potential cost of a further billing process to be undertaken, should the local community reject a proposed rise, whatever level is to be applied.

Budget Robustness/Reserves Position

6.5. The Local Government Act 2003 sets out requirements in respect of Financial Administration, and in particular to the robustness of the budget and the adequacy of reserves. The Act requires the Chief Finance Officer (CFO) to report to an authority when it is making the statutory calculations required to determine its council tax or precept.

6.6. In line with the requirements of the Act, the formal report of the CFO on budget robustness will be included in the February Cabinet report. The authority is required to take the report into account when making the calculations.

6.7. The General Fund Balance at 31 March 2013 was £11.8m. Prior to making a final recommendation to Council, there will also be a need to further consider the current financial position for 2013/14. The revenue budget strategy statement, as agreed by Council, sets out that the minimum level of reserves held will be £10m. There is an opportunity cost of holding reserves, in particular the alternative use that these balances could be put to and the benefits that might accrue as a result. Equally, the importance of retaining sufficient reserves has been emphasised by the position within social care services during previous financial years, and particularly so now, with the Council suffering an ongoing reduction in grant funding from Government.

6.8. The Council's revenue budget strategy statement requires that:

- While addressing its priorities and setting a balanced and prudent budget, the Council will seek to keep any increase in the Council Tax to the lowest possible level and in line with its stated aspirations whilst maintaining reserves at the minimum level of £10m

- And as part of that process, the Council will not utilise those reserves, or any reserves earmarked for specified purposes, to subsidise its budget and reduce Council Tax levels as this is neither a sustainable nor a robust approach.

6.9. In addition to its general reserves, the Council also holds a number of earmarked reserves. At 31 March 2013, the total value of reserves stood at £48.7m. Of this, a significant element had been earmarked for the corporate transformation programme, which is delivering much of the savings target agreed by the Council. The majority of these funds have now been allocated to programmes and it is anticipated that a considerable element of this will have been expended by the end of 2013/14 in funding programme resources and IT investment, and over an extended period of time, redundancy costs. A further element relates to strategic projects, whilst the remaining reserves cover a variety of purposes, including the Insurance Fund. The final element relates to a reserve created for grant funds for NHS support for social care. Any reserves utilised as part of the budget-setting process can only be applied once; thereafter equivalent reductions – or increases in Council Tax – would still need to be found.

6.10. The current advice of the Group Director Resources is that the existing level of general reserves can be considered to be adequate. However, the recent and expected future reductions in grant funding, coupled with the need to resource major change programmes, emphasise the need for prudence with the management of reserves. Without a sufficient level of reserves, such investment would only be possible from base service budgets.

6.11. The Council's external auditor has in the past emphasised the need for the Council to strengthen its financial health and to build in protection against unforeseen circumstances and to seek advice from the Chief Finance Officer on the adequacy of its working balance level. The advice of CIPFA also needs to be borne in mind, as they have emphasised that it is important to stress the risks which arise should councils decide to draw down reserves to help fund their budgets. This is due to the fact that most council services require recurring funding to meet staff and other running costs year after year. Reserves are however a one-off, finite source of funding; they can cover a shortfall in recurring funding for a specific period but, after reserves are exhausted, the underlying shortfall will still be there. Due account is taken of this advice in assessing the need for reserves and their potential utilisation.

7. CAPITAL PROGRAMME

Background to Current Programme

7.1. The Council's overall approach to its Capital Programme has been based on a gradual move towards the use of prudential borrowing to finance it and provision for this has been reflected in the relevant budget proposals. In more recent years, the duration of the planned programme has been kept relatively short, in recognition of the need to maximise the use of receipts, and to avoid additional pressure on the revenue budget.

7.2. Since that time, there has been a continued hold on interest rates, so borrowing remains relatively inexpensive. However, it remains the case that the Council's ability to generate receipts has continued to reduce. It is therefore an increasing risk that receipts will continue to tail off, which means the Programme needs to be kept under constant review to respond to any material change in circumstances.

7.3. For the longer term, financing any form of capital programme will almost certainly be heavily reliant on borrowing, although external financing and Section 106 receipts, through either Section 106 or the new Community Infrastructure Levy (CIL) are expected to remain available, if unpredictable. This therefore potentially brings an additional revenue pressure.

7.4. For the immediate short term, borrowing will only be used as a last resort. The exception to this will be where a specific business case can be made to finance investment through borrowing, for example where savings or additional income can be generated. Longer term, the Council will be faced with an increasing dependence on borrowing, with the consequent revenue impact this has. Existing forms of external funding, such as TfL grants, are expected to continue, although their longer term existence is uncertain.

7.5. Given the ongoing need for austerity in the public sector, and the very real threat of future reductions in funding, it is not felt prudent to consider any expansion to the existing capital programme. The programme now proposed therefore covers a single year, 2014/15, for non-schools assets, but a two year programme, to reflect the need to expand school places in time for the commencement of the academic year in September 2015, and to reflect the recent grant announcement; the details of which are covered below.

7.6. A review of the longer term position is being undertaken in the context of the expected level of receipts still to be generated. Given the need to develop a longer term budget strategy, reflected in the Council's revenue budget strategy, it is proposed to bring a further report to Cabinet in due course, for adoption by the incoming Administration. This will set out the initial programme planned for the next 4 years, commencing in 2015/16. This will be developed in parallel with the revenue budget, so any revenue consequences that may arise are fully take into account.

Proposed Forward Programme

7.7. The Programme – and in particular that part of the Programme funded by the Council's own resources – has therefore been constructed with these factors in mind. A detailed Programme funded through Council resources has been compiled for 2014/15, and approval to this Programme will formally be sought from Cabinet in February. An outline Programme for elements funded through external resources has also been drawn together, for consideration by Cabinet but also to give some context to the Council's own funding. These programmes are summarised in Appendix E.

7.8. There is one proposed amendment to the current 2013/14 programme. This is to enable the Council to jointly acquire the freehold interest in the former Ardleigh Green Baptist Church as 'Tenants in Common' in conjunction with the Trustees of the Ardleigh Green Family Centre. The Council's contribution would be for £250,000. The property is used for educational and community purposes and over the first 5 years of operation has grown into invaluable facility catering for a wide cross section of uses including, Health Drop in, pregnancy advice/support, Community Policing, After School Provision, Adult education and Activities for elderly in the community. Funding is available from overall capital receipts.

7.9. The programme also includes the expansion of schools. A report was submitted to Cabinet on 20th November 2013 identifying a shortfall of 11 Forms of Entry (FE) for September 2015/16 and outlining proposals to address Primary Rising Rolls, with Phase 2 of an expansion programme being developed on a three-stranded approach to:

- Encourage potential new Free Schools into Havering coupled with consideration of new "all-through" provision potentially on existing secondary school sites;
- Expand current primary phase schools by using additional sites adjacent to existing school sites;
- Expand existing primary phase schools on their existing school sites.

7.10. Without detailed proposals it is difficult to estimate the costs of additional classrooms as the needs at each site will be different. However, previously officers have estimated costs at £250,000 per classroom (or £1,750,000 per Form of Entry).

7.11. Should the Council need to fund the provision of all required 11 FE (77 classrooms) then costs would be in the region of £19.25m. Clearly this could increase due to the requirements of individual sites but it is hoped that the pursuit of the 3 stranded approach to delivery will result in some free school provision (funded by the Education Funding Agency – EFA).

7.12. It is likely that some of the 2013/14 Capital Programme will be available towards the 2015/16 permanent expansion and in addition the Council have been awarded grants of £14.6m and £15.4m for 2015/16 and 2016/17 respectively; these details have recently been announced. Although the grants are for later years, in order to deliver the building works for September 2015 it will be necessary to add at least the 2015/16 grant to the 2014/15 Capital Programme. The Council will manage the cash flow implications of this, any loss of interest is expected to be minimal at this stage. It should be noted that the 2016/17 grant may be needed toward Phase 3 of the expansion programme. A detailed plan for phase 2 is currently being developed and if possible will be included in the February Cabinet report.

7.13. Alongside the Council funded element of the Programme, the Appendix also summarises the remainder of the Capital Programme, which includes spend which is financed through grant funding. It excludes the HRA Capital Programme as this is covered separately in the HRA budget report. It does however include the recently announced TfL funding streams for 2014/15, together with information on the allocation of grants for schools' works, the details of which were notified to the Council in parallel with the main settlement announcements.

7.14. At this point in time, further information on grant funding is awaited, or consideration is still being given to the potential deployment of grant funding. Pending further formal announcements by Government departments, further information on these will be included in the February report. This will appear alongside an overall summary of the whole Capital Programme.

7.15. The overall Programme is broadly balanced, although still heavily reliant on the generation of capital receipts at the appropriate level. This is therefore an area of risk as stated above, and is kept under review as disposals progress.

7.16. At this stage, no assumptions have been made regarding prudential borrowing to fund the Programme. Consideration has been given as part of previous budget-setting cycles to the inclusion of revenue provision to support capital spend, but judicious management of the Programme and the associated disposal programme has meant that the Council has been able to avoid the need to do so. Whilst the situation is being kept under review, however, it is likely that an alternative to the reliance on capital receipts to finance the Council's capital spend will be needed.

8. SUMMARY OF FINANCIAL POSITION

8.1. Based on the factors that are set out in this report, the Council is in a good position to take advantage of the additional Council Tax freeze grant offered by the Government for 2014/15, although this is not without some degree of risk. Assuming that there are no changes in the final settlement, and no other material factors come to light, the budget recommendations to Cabinet and

Council in February will reflect this position. This is based on the factors set out above.

8.2. As indicated elsewhere within this report, the Council has maintained a Contingency Fund and also has sums held in reserves and balances that could be deployed to address specific in-year issues, should the risks highlighted in this report materialise. These risks will be carefully monitored in parallel with the consultation process, but these funds would provide a cushion for the immediate future should the need arise. The final budget proposals will be drawn up in the light of responses to the consultation process, the developing position around the settlement, and the assessment of the risks facing the Council.

8.3. The assumption made at this stage is that the Council will seek to take advantage of the Council Tax freeze grant on offer for 2014/15; the final budget proposals presented to Cabinet are being developed with that objective in mind.

8.4. It is, however, recognised that this does bring a degree of risk; taking the grant does mean foregoing an increase in base Council Tax income which can only be recovered by compensating rises in subsequent years. The alternative would be to seek an additional level of savings at the appropriate time. Given the current financial climate, with the prospects for national growth shrinking, and with the Government extending its planned austerity period, holding Council Tax at the current level for a further year is felt to be the approach favoured by our residents. The Administration remains committed to maintaining the stability of the Council's finances and doing everything it can to keep Council Tax rises to a minimum, and wherever possible holding Council Tax to current levels.

8.5. As previously reported to Cabinet, and as set out elsewhere in this report, further reductions in Government funding are inevitable, and likely to be of a similar scale to those experienced over the last 4 years. Given the overall budget gap currently forecast, it is not felt prudent to consider any reduction in the level of Council Tax, not the least because the level of rises may well be subject to an even more rigid cap. There is an incremental loss of funding from holding Council Tax at the same level, which the freeze grant only partially compensates for, and this would be exacerbated by a reduction.

8.6. Adopting this approach would see Havering's Council Tax held at the same level for a fourth successive year, following a reduction in 2010/11. Owing to the prudent approach adopted and the focus on reducing back-office bureaucracy in order to protect frontline services, the Council is able to recognise the priorities indicated by our residents. This means that:

- The Council can maintain weekly waste collections
- No libraries have been closed or had their opening hours reduced
- The Council will continue to invest in roads and pavement repairs
- Social care support for vulnerable residents can be maintained

- The Council can continue to prioritise clean streets and a pleasant environment for all.

8.7. Work on the future financial strategy is continuing and detailed proposals will be drawn up over coming months. It is proposed to commence discussions with the Administration immediately after the May elections, with the aim of bring firm recommendations to Cabinet during the Summer. The scale of the future budget gap over the four year period commencing in 2015/16 is even larger than the current gap. It is therefore essential that plans are agreed sufficiently early to enable a further round of savings to be initiated and delivered from that financial year onwards.

9. HOUSING BUDGET

9.1. The HRA budget, together with the proposed housing rent levels, and the HRA capital programme, will be presented to Cabinet in February.

10. CONSULTATION

10.1. The proposals set out in this report will be publicised through the local media, on the Council's website and through other communication channels - and responses from residents will be encouraged. A further joint meeting of all Overview & Scrutiny Committees is being held on 23rd January to invite comments on the proposals now being released for consultation.

10.2. We will also write to the local Chamber of Commerce and Federation of Small Businesses to alert them to the budget report and ask for any feedback from the local business community

10.3. Beyond this statutory consultation, the Council is engaged in an ongoing effort to listen and respond to the views of residents. Three years ago, the Council undertook the highly successful *Your Council, Your Say* survey. Over 12,000 residents responded to the survey – making it one of the most productive public surveys in recent history. As part of Havering's commitment to better understand the priorities of local residents for the Borough – particularly at a time of reducing budgets - the *Your Council, Your Say* survey was repeated in March this year.

11. GREATER LONDON AUTHORITY (GLA)

11.1. The announcement of the Mayor's draft budget proposals were made on 20th December. This indicated an intention to make a slight reduction in the GLA's Council Tax level, from the current £303 to £299 – a reduction of £4, or around 1.3%. Consultation on the budget proposals ends on Wednesday 15th January. The final draft budget proposals will be considered by the London Assembly on 14th February and the budget is due to be approved by the end of February, although there does not appear to be a specific date as yet.

11.2. The Mayor's draft budget consists of – Mayor's Office for Policing and Crime, Transport for London, London Fire and Emergency Planning Authority, the

London Legacy Development Corporation and core Greater London Authority. The total budget (capital and revenue) is £17.3 billion.

11.3. The Mayor's 2014/15 draft net revenue spend is £5,206 million. Under the proposal the total GLA precept will be cut from £303 a year to £299 (for a Band D household). The Mayor's proposed council tax precept draft budget comprises of £218.88 to support the Mayor's Office for Policing & Crime (principally the Metropolitan Police), £49.76 for the London Fire Brigade, £20 for the 2012 Olympic and Paralympic Games and £10.36 for transport and other services.

REASONS AND OPTIONS

Reasons for the decision:

This enables the Council to develop its budget as set out in the constitution.

Other options considered:

None. The Constitution requires this as a step towards setting its budget.

IMPLICATIONS AND RISKS

Financial implications and risks:

The Council's budget-setting process will ensure that financial implications and risks are fully met. Any financial implications or risks are covered in this report as necessary. There are significant risks given the continuing degree of uncertainty over the outcome of the LGFS, the extensive changes to the funding system and the complexities associated with it, and the general economic environment, but the steps already taken by the Council should mitigate much of this. However, the degree of risk has risen and the Council needs to ensure it is taking a robust approach in its budget-setting process, both now and for the future. It will also be necessary to continually refine the financial forecasts underpinning the Council's budget to ensure that any necessary actions can be taken at the appropriate times, allowing for consultation as appropriate.

Legal implications and risks:

There are no direct legal implications or risks from this report. The corporate business planning process will need to take account of new and existing statutory duties and responsibilities that are imposed on the Council by central government even if there are inadequate or no commensurate increases in government funding to finance them. Failure to do so will put the Council at risk of legal challenge by affected residents or businesses.

Human Resources implications and risks:

There are no direct HR implications arising from this report, however, if proposals that require staffing reductions are to be considered, as a result of the budget position, these will be managed in accordance with Council policy and procedure

Equalities implications and risks:

Detailed equalities implications will be assessed as part of the corporate and service planning process. Equalities impact assessments are systematically carried out for any services, projects or other schemes that have the potential to impact on particular equality characteristics for either customers or staff, in line with the Council's Public Sector Equality Duty.

BACKGROUND PAPERS

Equalities Impact Assessments for savings proposals.
Revenue Monitoring Report Period 6 2013/14
Capital Monitoring Report Period 6 2013/14

APPENDICES

A AUTUMN BUDGET STATEMENT

B LOCAL GOVERNMENT FINANCIAL SETTLEMENT

C SCHEDULE OF GRANTS

D SCHEDULE OF REVENUE BUDGET ITEMS 2014/15

E CAPITAL PROGRAMME 2014/15

F CORPORATE PLAN – “PLAN ON A PAGE”

G RESPONSE TO CONSULTATION ON FINANCIAL SETTLEMENT