



## CABINET

3 September 2014

---

**Subject Heading:**

**BACKGROUND TO THE COUNCIL'S  
FINANCIAL STRATEGY**

**Cabinet Member:**

Cllr Roger Ramsey

**CMT Lead:**

Andrew Blake-Herbert  
Group Director Resources

**Report Author and contact details:**

Mike Stringer  
Head of Finance & Procurement  
01708 432101  
[mike.stringer@havering.gov.uk](mailto:mike.stringer@havering.gov.uk)

**Policy context:**

The Council is required to approve an annual budget and to establish a financial strategy and this report sets out the background to the development of that strategy

**Financial summary:**

This report sets out the financial background to the Council's current financial position as part of the development of a long term financial strategy for the Council

**Is this a Key Decision?**

No

**Is this a Strategic Decision?**

No

**When should this matter be reviewed?**

February 2015

**Reviewing OSC:**

Value

<b>SUMMARY</b>
----------------

The current financial strategy, which addresses a range of national and local issues, comes to an end during 2014/15. This strategy has already enabled the Council to address a significant budget gap, resulting from reduced Government funding as well

as a range of pressures. As previous reports to Cabinet have highlighted, there is likely to be a further significant budget gap in the years following, and although this assessment may depend on the outcome of next year's General Election, the likelihood is that existing austerity measures will continue. The sheer scale of this gap means that it is essential for a new strategy to be put into place as early as practicable.

This report sets out relevant background from the current strategy, together with an update on national developments including the March Budget. It also includes background information on funding for local authorities and the overall scale of the Council's budget, as context to the development of a new budget strategy. Proposals for the Council's future strategy are set out in the accompanying report and these will be referred initially to a joint meeting of Overview & Scrutiny Committees before formal consultation with the public.

Whilst accepting that any forecasts that run to the end of the current decade are open to change, the need for the development of a strategy is quite clear. This report provides Cabinet with background information on the current financial position as a precursor to setting out the Administration's proposed budget strategy.

## **RECOMMENDATIONS**

Cabinet is asked to:

1. Note the impact of the March 2014 budget on the Council's financial position.
2. Note the background to the Council's current financial position and how this has impacted on the development of the future budget strategy.
3. Note the projected budget gap on which the development of the budget strategy has been based.
4. Approve and recommend to Council the adoption of the revenue budget strategy statement set out in Appendix C.

## **REPORT DETAIL**

### **1. BACKGROUND**

- 1.1 The general financial climate has been widely reported nationally during the life of the last Administration and has been reflected in a number of reports to Cabinet previously. This has included both the 2013 National Budget, announced in March, and the subsequent Comprehensive Spending Review (CSR), which followed in late June 2013.

1.2 The current budget strategy ends in the current financial year, 2014/15. The initial assessment of the budget gap for the four period leading up to the current year indicated an overall gap in the region of £40m. This comprised a major reduction in Government funding together with pressures arising from the impact of inflation and service demand; the key elements of this gap were as follows:

- Major reductions in Government funding for both the public sector and particularly for local government,
- With the reduction in mainstream grant of nearly £22m over 4 years
- Removal and reduction of a range of specific grants funding specific services
- Impact of inflation on pay and prices
- Demographic growth particularly amongst the older population.

1.3 The Council chose to take a very pro-active approach to tackling the forecast budget gap. An initial savings plan was agreed by Cabinet in July 2010, with a further range of savings agreed the following July. These savings totalled around £35m, with the remainder of the gap to be found subsequently. Through judicious financial management and some minor changes in the position, it has been possible to not only deal with a very major budget gap, but also rises in Council Tax have been avoided, and the vast majority of savings have not impacted on the services that are important to our local community. One key factor to bear in mind is that there were changes in virtually every element of the final composition of the £40m gap projected in 2010, although the overall bottom line remained the same. This illustrates the need for a long term approach, given the scale of the gap, but also to monitor changes and ensure that their impact is fully assessed, and reflected in subsequent budgets.

1.4 Over this period of time, there have also been substantial changes in the way in which local authorities are funded. Aside from the funding reductions mentioned above – which have affected both mainstream revenue support grant (RSG) and also specific grants – there have been a number of other changes to funding arrangements:

- Localisation of business rates – previously collected nationally then funded through RSG, since April 2013 retained locally – though only 30% is actually retained by the Council
- Localisation of Council Tax benefits – funded nationally but since April 2013, decided and funded locally – though overall funding was reduced by 10% at the point of localisation
- “Rolling up” of various grants into RSG – aside from grant reduction, some grants are now included as part of RSG, though these have been subject to reductions as part of that process
- Introduction of Council Tax freeze grants – though some of these have in fact either ceased or been rolled up
- New Homes Bonus, which is effectively top-sliced out of overall funding, so although this is a new funding source, RSG is lower as a result

## Cabinet, 3 September 2014

- Impact of “damping”, which reduces the equivalent funding some authorities receive.
- 1.5 Local authorities are now funded through a number of funding streams; these include Government grants, income, Council Tax and business rates. This makes the Council’s budgets very complex to understand. The Council’s general revenue fund budget, which is the area most affected by changes in government funding regimes and the rising costs of providing services to a growing community, comprises two main elements:
- The General Fund, which covers the day to day running costs of the Council, which we call revenue costs, which is in turn funded by Council Tax and business rates as well as Government grant, £167.6m for 2014/15
  - The Capital programme, which covers major projects and “one-off” spend, and which is funded by Government grant and capital receipts, £37.4m for 2014/15 (grant £33.5m, receipts £3.9m).
- 1.6 The General Fund (or revenue budget), includes income from both specific grants and from fees and charges:
- Specific Grants, these are funds given to the Council for a specific National Government policy that have to be spent on the required service area, such as Housing Benefits (£75.6m) and Public Health (£9.1m), total £110.5m for 2014/15
  - Fees and Charges, which is income raised by the Council where we have the ability to charge residents for services, some charges set nationally, such as planning, some we cannot make a profit on, such as parking income and some we have local discretion around, although we may be competing with the private sector, such as Crematoria. Total fees and charges £49.7m for 2014/15.
- 1.7 In addition to the General Fund (revenue budget), the Council’s overall budget responsibilities also include separate funding streams for housing and schools, together with a specific grant for the Public Health function, comprising:
- The Housing Revenue Account (HRA), which covers the running costs of the Council’s housing stock, £55m for 2014/15, broadly funded by rent payments and service charges from tenants, and for which there is a separate capital programme, £46.1m 2014/15 (including Decent Homes funding £23.6m).
  - Dedicated Schools Grant (DSG), which funds the running costs of schools plus central Council costs of supporting schools, £123.1m for 2014/15 (after academy recoupment), this is largely passported directly on to schools, although we are still responsible for school place provision.
  - Public Health Grant of £9.7m which funds a range of mandated and non-mandated services set out within the terms of the Grant.

## Cabinet, 3 September 2014

- 1.8 The overall General Fund budget for Havering for 2014/15 is summarised in the table below:

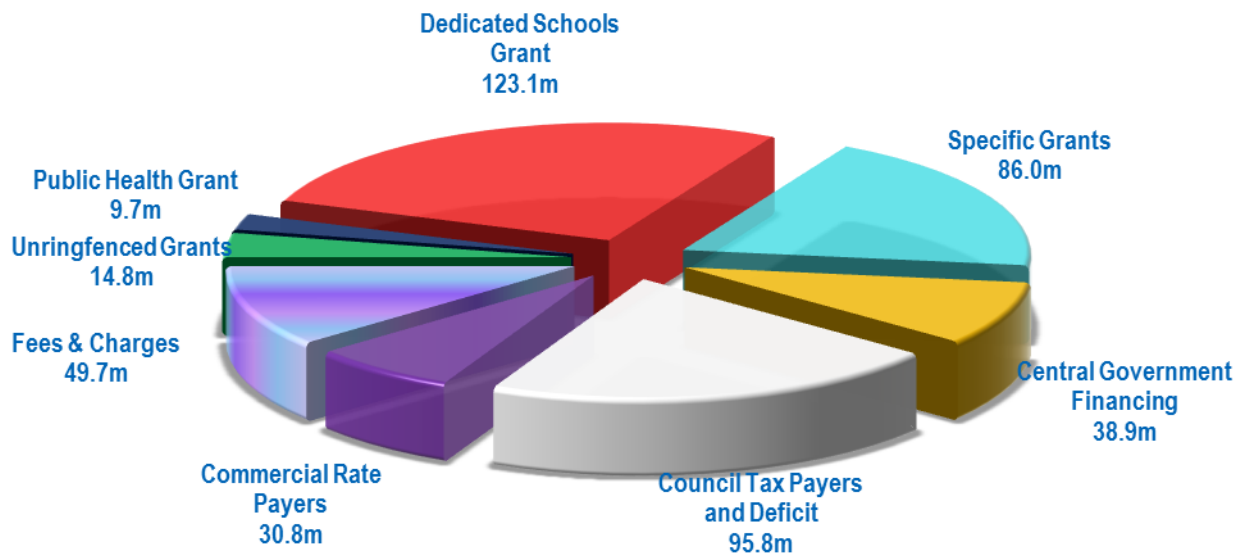
Element	£m
Net Spend on Council Services	167.6
Levies from External Bodies	12.7
Unringfenced Specific Grants from Government	(14.8)
Revenue Support Grant from Government	(38.9)
Business Rates including top-up payment	(30.8)
Collection Fund payments for Council Tax	(95.8)

- 1.9 This can be further broken down to indicate how the Council's own spend is made up, this is set out in the table below:

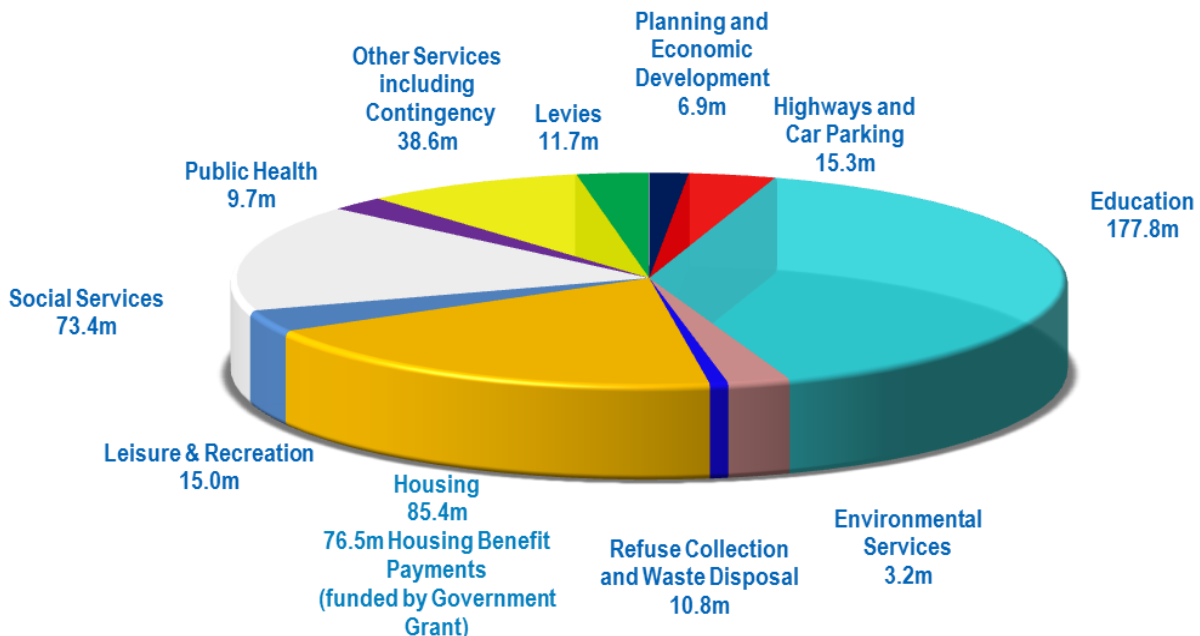
Service Area	Net Spend £m	% Spend
Culture, Community & Economic Development	42.0	23.7
Public Health	9.7	5.5
Children's, Adults & Housing	103.5	58.3
Resources	5.0	2.8
Corporate Financial Matters including Contingency	17.1	9.6
Sub Total	177.3	100.0
Less Public Health specific grant	(9.7)	
Net Spend	167.6	

- 1.10 Further information on the detailed composition of the Council's budget are shown in the pie charts below. The first chart shows the flows of money into the Council. As can be seen, the overall scale of the Council's finances is nearly £450m. In addition, the pie chart does not show the Housing Revenue Account which is the trading account bringing in rents and leaseholder charges and spending it each year on managing the Council's housing stock. Taken all together the Council is a half a billion pound business, which helps explain the complexity of our financial arrangements and the estimates that the budget strategy needs to contain in respect of managing cashflow, contingencies, interest, inflation, and so on.

**Cabinet, 3 September 2014**



1.11 The second pie chart shows what the Council spend its money on. The chart demonstrates graphically the great variation in costs and expenditure on the different services the Council provides. It can be seen, for example, that social care costs at £73.4m dwarf expenditure on some universal services such as refuse and waste collection, planning and highways. The housing item is for housing benefits, as the chart indicates, these are currently fully funded by the Government through grant funding.



1.12 Havering is generally a low spending local authority, and receives a low level of grant funding from Government; comparative figures are shown in the table below, with a full list of all London boroughs shown in Appendix B. That said, as can be seen from the pie charts, Government grant is becoming a small proportion of the Council's overall income and is expected to halve over the next four years, to around £23m. There is every prospect that grant funding will

disappear completely by the end of the current decade, leaving local authorities entirely dependent on Council Tax, business rates, and fees & charges – with possibly some specific grants – as their sources of funding.

<b>Authority</b>	<b>Grant Per Head £s</b>
Barking and Dagenham	611.48
Bexley	315.63
Bromley	246.57
Harrow	326.13
Havering	293.63
Newham	709.56
Redbridge	378.66
Richmond Upon Thames	245.38
Sutton	389.86
Outer London Average	418.86
All London Average	532.84

- 1.13 This gives Cabinet some idea how complex the funding system for local authorities is, and both the overall scale of the Council's budget and where the spending on individual services lies. In addition, there are numerous changes occurring virtually every year to the funding system and some of these have major impacts on local authorities and, in turn, their financial planning and budget strategies. The Council is the largest employer in the borough and thus has a major impact on the area, not just through the services we provide to our local community and a wide range of individuals, but also with a substantial workforce and a major relationship with a wide range of providers of goods and services.

## **2. GOVERNMENT FUNDING AND THE LIKELY FUTURE IMPACT**

- 2.1 Previous reports to Cabinet during the last budget setting cycle considered both the annual National Budget for 2013 and the Comprehensive Spending Review. Briefly, the key elements of these were as follows:
- A 1% spending reduction for most Government departments for 2 years
  - An exemption for local government from this, with the impact only being felt in 2014/15
  - A 10% spending cut for the Department for Communities & Local Government in 2015/16
  - The likelihood of additional funding cuts for Havering in that year, with potentially a further reduction arising from changes in the treatment of New Homes Bonus
  - Extension of the Council Tax freeze grant for a further two years, based on a 1% rise, together with a continued "cap" on rises at 2%.

## Cabinet, 3 September 2014

- 2.2 The Chancellor announced his fifth budget to the House of Commons on 19<sup>th</sup> March 2014, stating improvements to the growth forecasts for the current and forthcoming years. Although very little was announced in terms of local government, growth forecasts and net borrowing figures have improved considerably since last year's Spending Round.
- 2.3 Despite the improved national picture, the amount of spending reduction is set to continue for the foreseeable future. It has been widely communicated that further public sector spending restraints will continue to the end of the decade with the view that Departmental Expenditure Limits (DEL) will reduce considerably after the next elections. These reductions based on the Government spending projections could possibly see some of the biggest reductions in spending since austerity began. In addition, it was also announced that some departments will continue to be ring-fenced resulting in further reductions to unprotected departments. Assuming the next Government continue to ring-fence the NHS and Education, local government could be a target for significant spending reductions up to 2020. The table below shows the potential reduction in DEL excluding any departmental protection:

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Resource AME		2.50%	2.70%	2.90%	2.90%	2.00%
Resource DEL		-3.20%	-2.50%	-4.50%	-5.30%	-2.90%
Public Sector Current Expenditure	0.00%	-0.70%	0.20%	-1.60%	-2.40%	-0.90%

- 2.4 More detail of the Budget announcements is set out in Appendix A. From this announcement, it is possible to speculate on the potential impact on Government funding in broad terms, and how this relates to any future possible budget gap. This is not without a degree of variation, as future funding will be determined by the incoming Government, after the 2015 General Election. However, the sheer scale of continued funding cuts means taking action at an early stage is essential.
- 2.5 The current level of mainstream Government funding, Revenue Support Grant (RSG) for Havering for 2014/15 stands at just below £39m. This reflects not only ongoing funding cuts, but significant changes in funding mechanisms, with the localisation of both business rates and Council Tax support in April 2013. For the purposes of budget planning, an assessment of the likely further reduction over the next 4 years, starting in 2015/16, has been undertaken, and this has been assessed as around £22.5m. This would see Havering's RSG fall to around £16m by 2018/19. It is likely that the funding reduction will be higher in the earlier years, with the brunt falling in 2015/16 and 2016/17, and the budget strategy has been developed with this in mind.
- 2.6 It is essential to bear in mind that this is an assessment based on national figures, with a degree of localised knowledge. The actual funding gap could be higher or lower. However, the current assessment is felt to be a reasonable one upon which the Council's future strategy should be built.



- 2.7 There are added uncertainties around other elements of the funding system. Further major changes are taking place, with pooled budgets with the NHS being created as part of the Better Care Funding (BCF). The Council also receives New Homes Bonus (NHB), but the long-term future of that funding stream beyond 2015/16 is currently unclear, and a reduction resulting from a top-slice of the overall grant sum is expected for next year. There is also a ring-fenced, specific grant for Public Health and it is understood that the ring-fencing will currently apply until 2015/16. Additionally, the budget currently includes Council Tax freeze grant, which is guaranteed until 2015/16, but not currently beyond. Should the treatment of these funding streams change, it will impact on the overall distribution model. It will therefore be necessary to assess the proposed grant funds for 2015/16 once details of the financial settlement are announced.
- 2.8 It is likely that a further Council Tax freeze grant will be offered for 2015/16. The current grant for 2014/15 stands at 1%, which in Havering equates to around £1.1m (this differs from a 1% tax rise owing to the basis of calculation of the grant), although the level at which a referendum would have to be held has remained at 2%. There are no guarantees that the grant for this year and next will survive future years, or they could be rolled up with the resultant risk that Havering would not receive an equivalent amount, owing to the impact of damping. There is also the loss of the cumulative effect of successive tax rises, which does not happen with the freeze grant. By way of example, four successive rises of 2% (which for the first year equates to around £1.9m) would generate nearly £8m in Council Tax.
- 2.9 Aside from these issues, the incoming Government could decide either to extend protection of funding for what are seen as key areas, education and the NHS, or even to increase their funding. This might lead to larger reductions in other spending areas, and in the past, local government has been more badly affected than any other departments. Should this prove to be the case, then the funding reduction will inevitably be bigger than the one currently projected.
- 2.10 Accepting the degree of risk, it is felt that the current assessment of funding reduction is sufficiently robust on which to build a new budget strategy. It will be necessary to monitor developments and determine the impact of any subsequent announcements. Should the position change materially, further reports will be brought to Cabinet as necessary.

### **3. REVIEW OF FINANCIAL PROSPECTS**

- 3.1 The projected budget gap for the current four year period, ending in 2014/15, was assessed as £40m, as Cabinet will be aware. Given an expectation that Government funding will fall at the rate identified above, it would be reasonable to assume a reduction of at least £22m in funding. This in turn would need to be fed into the overall budget position over the coming four years. This suggests a budget gap at least equivalent – but more likely higher than – the one currently being met through the Council's financial strategy.

3.2 On that basis, for planning purposes, a broad assessment had been undertaken as part of the development of the 2014/15 budget, of the likely budget gap over the subsequent 4 year period. This quantified that, based on the funding reduction set out above, the overall projected budget gap was expected to be in the region of £60m. This sum was based on the following elements:

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	TOTAL £m
Demographic growth	2.0	2.0	2.0	2.0	8.0
Inflation (net)	3.5	3.5	3.5	3.5	14.0
Freedom pass	0.4	0.4	0.4	0.4	1.6
Pensions Fund	1.5	1.5	1.5	1.5	6.0
Levies	1.1	1.1	1.1	1.1	4.4
Interest	-0.9				-0.9
Government grant reductions	10.0	4.5	4.0	4.0	22.5
Transformation costs	1.0	1.0	1.0	1.0	4.0
<b>TOTAL</b>	<b>18.6</b>	<b>14.0</b>	<b>13.5</b>	<b>13.5</b>	<b>59.6</b>

3.3 A short explanation for each of these items is shown in the table below:

Element	Explanation
Demographic growth	Estimated cost arising from changes in demography; population mix and make-up especially the age profile, demand for services, increase in population and number of households
Inflation (net)	Allowance for inflationary rises in pay (2%), goods and services (3%), other costs (1.5%), with a corresponding increase in fees & charges (2%)
Freedom pass	Estimated annual rise in contribution to scheme, to reflect rises in numbers and fare levels – covered further in report below
Pensions Fund	Provision for annual increase in contributions to fund, based on most recent actuarial review, to bridge historic funding deficit – covered further in report below
Levies	Estimated increase in levy levels, largest being ELWA – covered further in report below
Interest	Anticipated rise in interest rates leading to higher level of interest earned
Government grant reductions	Projected impact of ongoing reductions in mainstream grant funding resulting from Government austerity programme and assessments of impact on local funding levels
Transformation costs	Initial assessment of funding needed to deliver a further, extensive programme of services changes and savings plans, including sufficient provision to corporately fund any redundancy costs

- 3.4 In very broad terms, the approach historically has been to align budget savings with reductions in Government funding. It is proposed that this principle will be enshrined in this budget strategy, on the basis that the Government expects authorities to reduce their spending to reflect national funding levels. Over the four years, therefore, a similar level of savings to the grant reduction of £22m would be covered by the strategy.
- 3.5 As previously advised to Cabinet, Government projections over this period currently assume rises of 2% in Council Tax and 3% in business rates. Should these not be achieved, then there is a risk that the budget gap could potentially increase even further. However, the initial assessment of an overall gap of £60m was felt to be a sufficiently robust starting point from which a new four year budget strategy should be developed. The accompanying report sets out the Administration's proposed approach and the planned budget strategy.

#### **4. BUDGET STRATEGY FOR 2015/16 ONWARDS**

- 4.1 As part of the previous budget cycle, the overall assessment of the financial position across the next four years was set out. It was proposed that officers would commence work on a new financial strategy, designed to accommodate the projected budget gap, with the intention of bringing these proposals to Cabinet during the second half of 2014. This was to enable sufficient time for robust proposals to be developed, but also to allow for the fact that the funding gap alone for the next financial year would require early action, allowing sufficient time to consult and implement. Financial planning for the period commencing in 2015/16 has therefore been progressed with that scale of gap in mind.
- 4.2 In developing these proposals, it has been borne in mind that the projected gap does carry some degree of risk. However, officers feel that it is inevitable that the gap for the coming four years will be higher than that already dealt with since 2010. With an expected significant funding gap in the first two years, whilst the different elements may change, the scale is not likely to. The strategy has been developed with this in mind. Clearly, with a General Election imminent, there may be shifts in policy and funding; one example being the continued existence of the Council Tax freeze grant. The strategy will therefore inevitably need to be refined as time rolls out, but the basic thrust, i.e. continued austerity and funding cuts, clearly require a further programme of spending reductions within local authorities. The alternative would be Council Tax rises at levels not seen since the early 1990s, which are likely to be completely unacceptable to our local community, let alone affordable in the ongoing economic climate.
- 4.3 There will be some uncertainty until the local government financial settlement for 2015/16 is announced; this will almost certainly not be until Christmas. It is unlikely, given provisional figures were announced as part of the last settlement, and this is the last year under the current CSR, there will be any material shift in funding. It will be necessary to review the position around Council Tax freeze grant, and especially if there is any indication of the long-

term treatment of this funding source. However, what is abundantly clear is that local authorities will continue to become ever more reliant on Council Tax and business rates for the majority of their funding. Given that business rates are set nationally, the only scope afforded councils is their ability to grow their business rates base. As has previously been pointed out to Cabinet, this is extremely difficult, given Havering's historic base.

4.4 Havering has mounted a long campaign over the lack of fairness of the funding system for local authorities, including detailed responses to the various settlements and meetings with Ministers. None of these has seen any material change in the system. Havering has therefore remained a low-funded council, as the table earlier in the report illustrates quite clearly. But with the continual reduction in mainstream grant funding, the Council's focus needs to shift to lobbying where this is still important – in particular, new burdens arising under the Care Act. The Council is also looking to ensure that other income sources are being maximised, in particular:

- Collection rates on Council Tax and business rates are as high as possible
- Economic development activities to assist local businesses, to attract in new businesses where possible, and to get our fair share of the LEP funding.

4.5 Given the potential scale of the budget gap identified during the latter stages of the last budget cycle, officers have been working on a range of proposals, alongside the review of the gap itself. The aim was to establish a series of measures to bridge the gap, for discussion with the incoming Administration post the May 2015 election, and to present these proposals to Cabinet after the Summer break. These proposals are now set out in the accompanying report to Cabinet.

4.6 The Council's revenue budget strategy statement has been amended to reflect this approach. This is attached at Appendix C for Cabinet to recommend for adoption to Council.

## **5. SCHOOLS AND EDUCATION**

### **Education Services Grant**

5.1 The Education Services Grant (ESG) is allocated per pupil to LAs and academies according to the number of pupils on the roll. The grant is intended to fund a range of LA statutory responsibilities which transfer to academies when they convert. Following a consultation by the DfE the grant will reduce in 2015-16. In 2014-15 LAs receive £113.17 per pupil (reduced from £116.46 per pupil in 2013-14) for the number of pupils attending maintained schools and £15 per pupil for all pupils regardless of the whether they attend maintained schools or academies. Academies receive £140 per pupil which includes £27 transitional protection.

In 2015-16 the grant will reduce to £87 per pupil although academies will receive transitional protection to ensure their overall funding does not reduce by more than either 1% or 3% depending on previous ESG payments.

- 5.2 The grant to LBH for 2014-15 is £3,219,159 but on the basis of current pupil numbers will reduce to £2,603,243, a reduction of £615,917 (19%). The final allocation for 2015-16 will be recalculated based on the increased pupil numbers attending LA maintained schools but will also take into account three primary schools that became academies during 2014-15. The net effect will be a further reduction in grant.

### **DSG**

- 5.3 In 2015-16, schools and school related expenditure including Early Years Education and High Needs provision will continue to be funded through a ring-fenced Dedicated Schools Grant. The DfE has decided not to introduce a national funding formula in 2015-16 as previously announced, delaying this until it is able to provide some certainty on schools funding for at least a three year period. The DfE has, however, moved towards a national formula by leveling up the funding that LAs allocate to schools through their funding formulae. Having already funds schools above the newly introduced minimum funding levels so receives no additional funding. DSG funding for 2015-16 will therefore be at the same amount per pupil as in 2014-15 and the previous two years with no increase of inflation. There are likely to be additional pressures on the DSG in 2015-16 particularly in funding in-year growth and meeting increasing costs of High Needs provision.

## **REASONS AND OPTIONS**

### **Reasons for the decision:**

It is essential that the Council's financial strategy takes due account of Government plans, and any other material factors where these are likely to have an impact on the Council's financial position. This report sets out the background to the Council's financial position and the initial budget gap projection, as a precursor to the development of a long term budget strategy. This report is intended to ensure that Cabinet is appropriately aware of the context in which that strategy has been developed.

### **Other options considered:**

None. The Constitution requires this as a step towards setting the Council's budget.

## IMPLICATIONS AND RISKS

### **Financial implications and risks:**

The Council's budget process will ensure that financial implications and risks are fully met. There are continuing risks with the potential impact on funding arising from both the Budget and CSR announcements, as highlighted in both this and the previous report to Cabinet. The steps already taken by the Council should mitigate this, but it is evident that a longer term approach now needs to be considered, as the potential scale of the future budget gap could prove to be even bigger than the gap the Council is currently addressing.

As part of this process, Members need to be suitably aware of the background to the Council's current financial position, and the context within which the budget strategy has been developed.

### **Legal implications and risks:**

The Council is subject to a number of duties in relation to revenue, capital and procurement. For instance, as a Best Value Authority the Council is under a duty to "make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness." s 3 Local Government Finance Act 1999. The Council is also under an implied duty to set a balanced budget. Otherwise there are no apparent specific legal risks in adopting the Recommendations set out in the Report.

### **Human Resources implications and risks:**

The Council continues to work closely with its staff and with Trades Unions to ensure that the effects on staff of the savings required have been managed in an efficient and compassionate manner.

### **Equalities implications and risks:**

As this report merely sets the background and context to the Council's Financial Strategy, there are no specific equalities implications or risks at this stage. However any savings that need to be considered following publication of details of the Local Government Financial Settlement may carry equalities implications and risks and accordingly, these will need to be analysed to ensure that mitigating action can be taken to reduce any disproportionate impact on protected characteristics set out in the Equality Act.

**Other Risks:**

There are no particular other risks arising, but Cabinet is asked to be mindful of the risks inherent with forecasting as well as the general economic background and its volatility over the last 5 or 6 years.

**BACKGROUND PAPERS**

There are none.

**BUDGET 2014**

**Headlines**

- Forecast growth for 2013 rises to 1.4% from 0.6%
- Improved net borrowing forecasts
- Further cuts in departmental expenditure required after 2015/16
- Increases to the personal allowance and tax bands

**Detail**

The Chancellor of the Exchequer presented his budget to the House of Commons on 19th March 2014. This briefing is to highlight the key announcements from the budget as well as how this affects Local Government.

The Office for Budget Responsibility (OBR) has increased its forecasts for GDP growth this year and next. Britain's economy is now expected to grow by 2.7% for 2014, an increase of 0.3% predicted in the 2013 Autumn Statement. Table 1 shows the revisions to the growth forecast as stated in the Autumn Statement.

**Table 1 – GDP growth forecasts for the UK**

<b>Announcement</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Budget 2014	0.9%	0.2%	1.4%	2.7%	2.3%	2.6%	2.6%
Autumn Statement 2013	0.9%	0.2%	1.4%	2.4%	2.2%	2.6%	2.7%
Budget 2013	0.9%	0.2%	0.6%	1.8%	2.3%	2.7%	2.8%
Emergency Budget 2010	2.3%	2.8%	2.9%	2.7%	2.7%	-	-

In addition to the increase in growth, the Chancellor, based on the OBR's forecasts, predicts the budget to run into a small surplus in 2018/19, however a large majority of the cuts required to reduce the deficit have as yet, not fed through into departmental spend. Table 2 below shows the changes in Public Sector Net Borrowing forecast since the last Autumn Statement and the delay in balancing public sector debt.

**Table 2 – Public Sector Net Borrowing forecast for the UK**

<b>Announcement</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>
Budget 2014	£108bn	£95bn	£75bn	£44bn	£17bn	(£5bn)
CSR 2013	£120bn	£108bn	£96bn	£67bn	£43bn	No Forecast
Autumn Statement 2012	£112bn	£99bn	£81bn	£56bn	No Forecast	No Forecast
Emergency Budget	£60bn	£37bn	£20bn	No Forecast	No Forecast	No Forecast



## **Austerity**

Further austerity is set to last until the end of the decade with further indications from Government that the NHS and Education will be protected for the foreseeable future.

The Chief Secretary to the Treasury has asked the Ministers to set out an “ambitious new efficiency programme to deliver savings” from 2016-17 and across the next Parliament, in time for Autumn Statement 2014. Table 3 below shows the real term reduction in Departmental Expenditure Limits (DEL). As can be seen, the 2016-17 and 2017-18 financial years show the biggest reduction in Departmental Expenditure Limits and with Education and NHS protected, unprotected departments could face the biggest reduction in funding seen to date.

**Table 3 – Real terms % change on previous year**

	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>
Resource AME		2.50%	2.70%	2.90%	2.90%	2.00%
Resource DEL		-3.20%	-2.50%	-4.50%	-5.30%	-2.90%
Public Sector Current Expenditure	0.00%	-0.70%	0.20%	-1.60%	-2.40%	-0.90%

Source: Budget 2014 (Table 2.3)

## **Income tax / National Insurance**

The personal allowance (the amount free from income tax) will rise to £10,500 on 6th April 2014. It had been scheduled to rise from £10,000.

The higher rate tax band will rise to £42,285 next year (£41,825 in 2013/14, a 1% increase in threshold)

The planned increase in National Insurance is set to be rolled out in 2016 which will significantly increase employees and employers contributions and raise £5.4bn to the treasury.

## **Potholes**

£200 million will be available for local authorities to fix potholes in their roads. Local Authorities will be able to bid for the funding.

## **Other announcements**

- From 1st July 2014, cash ISAs and stocks and shares ISA limits will be merged into a single New ISA (NISA) limit that will be raised to £15,000 a year.
- The limit that you can hold in Premium Bonds has been extended to £40,000 from June this year and will rise to £50,000 in 2015. The number of premium bond £1million winners will also be doubled.
- Tax on alcohol will rise in line with inflation except for spirits and cider which will be frozen and Beer duty which will be cut by 1p.
- The escalator on tobacco duty at 2% above inflation will be extended until 2015.
- Fuel duty will remain frozen.

## **Cabinet, 3 September 2014**

- A £7billion package has been announced to cut energy bills for businesses and households. Potential saving to consumers of £15 a year.
- A cap of £119billion in 2015/16 has been set on welfare spending, rising to £127billion in 2018/19 and then will only rise in line with inflation. It will include housing benefit and disability allowance, but exclude pensions and job-seekers allowance.
- The tax-break available under the new child-care system will be extended. From Autumn 2015, for every 80p parents spend on childcare the Government will add another 20p, up to £10,000 a year for each child - up from the £8,000 previously outlined.

**2014/15 SETTLEMENT FUNDING PER HEAD OF POPULATION**

<b>Authority</b>	<b>Grant Per Head £s</b>
City of London	4,364.91
Barking and Dagenham	611.48
Barnet	329.80
Bexley	315.63
Brent	559.11
Bromley	246.57
Camden	812.40
Croydon	402.97
Ealing	450.42
Enfield	468.91
Greenwich	645.29
Hackney	881.38
Hammersmith and Fulham	663.73
Haringey	632.34
Harrow	326.13
Havering	293.63
Hillingdon	343.37
Hounslow	385.40
Islington	812.38
Kensington and Chelsea	650.77
Kingston Upon Thames	271.89
Lambeth	723.15
Lewisham	675.73
Merton	359.33
Newham	709.56
Redbridge	378.66
Richmond Upon Thames	245.38
Southwark	788.96
Sutton	389.86
Tower Hamlets	856.22
Waltham Forest	536.47
Wandsworth	469.90
Westminster	805.64
Average Outer London boroughs	418.86
Average all London boroughs	532.84

## **REVENUE BUDGET STRATEGY**

The Council will ensure that there is an effective Medium Term Financial Strategy in place to drive forward the financial planning process and resource allocation.

The Council recognises the pressures on its budget, and while seeking to protect and enhance front-line services as far as possible, will aim to contain these pressures within existing resources. Cabinet Members will examine all budget pressures and seek reductions where possible.

The Council will wherever possible seek new funding and explore new ways of working. The Council will continue to look at new methods of service delivery to improve services to the public and the value for money that they provide, including working in connection with a range of other organisations and groups.

By becoming an increasingly 'connected council', Havering will continue to seek to improve efficiency and deliver better value for money. In particular, the Council will aim to identify efficiencies that will not impact on the delivery of key services to local people. Its focus will be on identifying ways to reduce the cost to tax payers of running those services.

The Council will ensure that, given the severe financial pressures it has already faced and is continuing to face, growth will only be supported in priority areas, and only where these are unavoidable. However, the Council will expect the Government to ensure that adequate funding is made available to fund any additional costs arising from new burdens placed on Havering, or from services transferred to it.

The Council will ensure that the most vulnerable members of its community are protected, will continue to lead in the development of social cohesion, and will ensure that the services provided and resources allocated reflect the diverse nature and needs of our local community and our responsibilities to the local environment.

The Council will lobby to ensure that the Government provides adequate funding to take on any new responsibilities and to illustrate the impact of the low funding basis for Havering and its residents. However, it will ensure that, in broad terms, its spending is in line with the basis on which the Government allocates grant funding, and that spending levels will be realigned against any reductions in funding. The Council will therefore continue to reduce its spending where the Government removes funding, in line with the relevant level of reduction.

The Council will engage with its local community, its partners and individual stakeholders in developing financial plans, and will reflect on the outcome of its consultation process in the identification of priorities and the allocation of resources.

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.

## **Cabinet, 3 September 2014**

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.

The Council will seek to ensure that sufficient financial resources are available to enable it to deliver a long-term savings plan within the constraints of funding available to it from both local taxpayers and the Government, and will seek to utilise any unallocated funds with that purpose in mind.

The Council will adopt a prudent capital programme designed to maintain and, where possible, enhance its assets, in line with the Living Ambition.

The Council will finance capital expenditure through a combination of external funding and receipts from the sale of assets that are deemed surplus to requirements, and will only apply prudential borrowing as a last resort, unless a business case can be made to finance investment through borrowing, or where there is an income or savings stream arising from the investment.

The overarching objective of the Council's financial strategy remains to deliver high quality, value for money services to our community, whilst ensuring that the cost of those services is compatible with the level of funding provided to it by the Government.