



CABINET

3 September 2014

Subject Heading:	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
Policy context:	The Council is required to approve an annual budget and to establish a financial strategy and this report forms the initial part of that process. It should be read in conjunction with the accompanying report on the financial background.
Financial summary:	This report sets out specific financial proposals 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

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

This report sets out the Council's long term financial strategy to manage the implications of funding reductions and cost pressures over the next four years.

It contains specific proposals to bridge the funding gap for the next two years, with further proposals that would move the Authority towards a balanced four-year budget.

It describes how the Council has developed these proposals, focusing first on organisational costs and new ways of managing the Authority; and then on preserving as many as possible of the most valued local services, and services that support people in need within our community.

Where possible, services will be run in a different and more efficient way in order to keep them available to the public, with more fundamental changes or closures being a last resort, in the absence of other alternatives.

All proposals will be subject to full and proper consultation, with Councillors, staff, service users and the general public before any final decisions are made.

RECOMMENDATIONS

Cabinet is asked to:

1. Note the original and currently projected budget gap and the assumptions upon which these have been based, and the risks associated with them.
2. Agree the long term financial strategy, covering the period from 2015/16 to 2018/19, set out in this report.
3. Note that there is a range of risks and assumptions made as part of the development of this strategy and that updates will be provided to Cabinet should these vary.
4. Note that any alternative proposals from Overview & Scrutiny or opposition groups will need to be subject to a robust review before they can be considered for inclusion in the Council's budget and therefore must be submitted prior to the next meeting of Cabinet on 24th September in order to be considered for inclusion in public consultation.
5. Consider the options available for the Local Council Tax Support Scheme and approve Option 1 (as set out in Appendix B) for consultation with the Greater London Authority, members of the public and other interested parties.

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6. Note that a range of corporate strategies will be impacted by the budget strategy and these will need to be updated and approved accordingly.
7. Review the initial proposal to maintain a core capital programme of around £4m a year subject to a detailed review of available receipts.
8. Issue the approved financial strategy and proposed areas for budget reduction to Overview and Scrutiny in order to initiate appropriate consultation.
9. Agree to receive a further report in late September where comments from Overview and Scrutiny will be considered prior to agreeing a final list of proposals for formal consultation with the local community, stakeholders, other interested groups, staff and unions.
10. Note the advice of the Section 151 Officer in setting a robust budget.

REPORT DETAIL

1. STRATEGIC APPROACH

- 1.1 As set out in the previous report, the Council has identified the impact of further funding reductions, cost inflation and service pressures over the next four years. As reported, the projected budget gap across the next four years amounted to approximately £60 million.
- 1.2 Faced with such an unprecedented budget gap, and given the increasing impact on the Council's budgets of demographic growth, and an ageing population, it is essential that the Council sets out a long-term strategy for tackling this. This report is the first step in that process.
- 1.3 The strategy to develop proposals that would resolve the initial £60 million budget requirement has been based on reducing the need for cuts to frontline public services as far as practicable. There have been a number of steps to the strategy.
- 1.4 The first step was to challenge robustly all of the corporate cost assumptions that underpinned the projected budget gap and work to reduce their impact on the Council's bottom line.
- 1.5 The second step was to feed into the budget the impact of decisions already taken to reduce the Council's overheads or implement new and more efficient ways of working. These include the oneSource partnership with the London Borough of Newham.

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- 1.6 That was followed by a thorough review of corporate provisions and financial matters – such as contingency levels – to ascertain whether these could be prudently revised to release more funding for frontline services.
- 1.7 The fourth step was to examine the scope for further efficiency savings – ie, cuts to the Council's bureaucracy that do not impact on frontline service delivery. Despite the very significant measures undertaken over the past four years, these proposals include a number of further initiatives to save money through reductions in back-office costs, smarter commissioning, merging management and staff teams and doing some things differently whilst continuing to deliver similar services.
- 1.8 Finally, once these options had been exhausted, the Cabinet have assessed the practicality of service reductions. Where possible, services have been re-designed to deliver savings through a different operating model – as an alternative to closure of the service. That way, more valued services can be kept available for customers.
- 1.9 Where service reductions have been considered, careful attention has been paid to the balance between maintaining key universal services – many of which are very popular with residents – and the Council's responsibility to the most vulnerable members of the community, who rely on targeted and personal social services in order to live a full and rewarding life.

2. RE-ASSESSING COST PROJECTIONS

- 2.1 Though it is essential to have a prudent budget strategy, it is also important that services are not reduced unless this is absolutely necessary, that being the case, the growth assumptions in the budget have been retested and scrutinised by the Cabinet. This has resulted in them being reduced by £15m over the 4 year period. The details are contained in the Appendix A and it is important to understand that these decisions and revised assumptions have not been taken lightly.
- 2.2 The largest adjustment is in assumptions about the amount of money the Council needs to build into its future budgets because of the pressure of a growing older population. The original assumptions contained pressure of £2m each year. These have been reduced from a total of £8m to £3m on the basis that they have not been completely called down from contingency over the last two years and that part of the organisational strategy in this area is to reduce demand where possible through focused efforts to intervene early with families in need and with older people on the cusp of needing expensive support services.
- 2.3 Reductions in assumptions for contracts and staff wage inflation have also been reduced along with assumptions about keeping levy costs as low as possible. These are set out in full in Appendix A.
- 2.4 There are a number of risks inherent in the adoption of this lower level as the basis on which to develop the future budget strategy. Pay awards are set

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nationally and there has been an almost blanket pay freeze since the commencement of the austerity drive, which is likely to lead to claims for rises being made by the unions. Inflation rises in contracts and for other products and services are driven by a number of factors and these cannot all be controlled locally. Demand for services, which reflect both need and demographic changes can be difficult to predict, with the needs of individuals having a potentially significant financial effect. The general economic conditions impact on returns made on investments and that affects not only interest rates, but also pension funds. Finally, with a General Election in 2015, Government spending plans are difficult to predict, although all the signs are that austerity will continue until the end of the current decade.

- 2.5 Therefore, whilst the lower sum on which the budget strategy has now been set is felt to be robust, circumstances may change. It will be necessary to monitor developments, for example, around pay negotiations, and should the forecast position change materially and not be containable, further reports will be brought back to Cabinet. In broad terms, a change for the worse would in all likelihood necessitate additional savings having to be found, or to seek to negotiate around pay levels, contract service levels, and so on, as an alternative. If there are material rises in service demand, for example due to rapid population growth in the borough, impacting on social care, freedom passes, and so on, then this would have to be reviewed to determine whether reductions in service availability or other savings would be required in the absence of other funding mechanisms.
- 2.6 It is evident that older people's demography and the Care Act can be seen to have a big influence on the Council's budget. As the borough with the most elderly population in London, we are carefully monitoring the new guidelines which are only now emerging on the Care Act and we will be strongly lobbying in order to try to ensure Havering gets a fair deal on any increased burdens that fall on the Council.
- 2.7 The immediate impact of this is that the gap on which the future budget strategy, and in particular the savings proposals and approach to Council Tax levels, is to be based has now been refined to be in the region of £45m, as set out in the revised table below.

	TOTAL £m
Demographic growth	3.0
Inflation (net)	10.4
Freedom pass	1.2
Pensions Fund	5.2
Levies	3.5
Interest	-0.9
Government grant reductions	22.5
Transformation costs	0.0
TOTAL	44.9
Note : the transformation item will be built up over 2 years and then removed from the base budget	

3. DECISIONS ALREADY TAKEN

3.1 As a result of decisions taken already, there are three areas where savings have effectively already been approved; these are:

- oneSource shared service with LB Newham; the business case for this was approved by Council in November 2013. The creation of the shared service was expected to generate savings in the region of £10m in total, of which around £4m would fall to Havering. The majority of this saving, around £3.4m, falls on the General Fund so can be taken as a budget saving. Clearly, there are risks around achieving this level of savings over a range of services and an extended period of time, but it is now believed a higher level of savings will be delivered as the services and processes they follow are harmonised across the two Councils, and to reflect the general reduction in the overall scale of operations across the Council. As a result of this, an additional £800k has been included within the budget strategy, spread equally over 2016/17 and the following year, making around £4.2m in total.
- CEME; as part of the corporate office property strategy, the Council's training facilities have been relocated to the Town Hall site from the CEME building in Rainham. A net saving of £100k arises from this relocation.
- Refuse contract; the award of the waste and recycling collection contract was agreed by Cabinet in January 2014. There are annual savings of around £180k arising as a result of this contract award.

3.2 In overall terms, these three items reduce the revised budget gap of £45m by around £4.5m over the four years, to just over £40m.

4. REVIEW OF COPORATE PROVISIONS AND FINANCIAL MATTERS

4.1 There are a small number of budget reductions now proposed that are not specifically service-related:

4.2 Contingency: the budget includes a risk-assessed contingency fund, which is subject to an annual review. The fund has stood at £2m for a number of years. There have been a significant number of budget risks, not the least being the scale of the current savings programme and the fundamental changes in local authority funding, but given these are now bedding in, a review of the contingency fund is appropriate. At this early stage, it is felt reasonable to allow for a reduction of £1m in the size of the fund, leaving £1m within the base budget, subject to a full review as part of the budget setting cycle.

4.3 Council Tax base: historically, a prudent approach has been taken to the calculation of the Council Tax base and the resultant impact on Council Tax revenue yield. There is strong evidence that the number of properties generating Council Tax within Havering is growing. It is therefore now felt

prudent to build this into the budget strategy and an annual increase of 0.5%, equating to around £500k a year, or £2m in total across the 4 years, is being reflected in the strategy.

- 4.4 Interest: it is anticipated that interest rates will finally start to rise again, although speculation has gone on for some time about when this will occur, and the extent to which rates will rise. An additional sum has already been included in the base budget gap calculation, and it is felt that further, smaller sums are achievable in 2015/16 and 2016/17, of £300k in each year, or £600k in total, to be achieved through the management of funds through a new treasury management strategy linked to a Council owned housing company.
- 4.5 Adjustment to Recharges: Where the Council's recharges are applied they normally have no impact unless applied to external bodies. The recharges to the Housing Revenue Account (HRA) have been reviewed in light of the service supplied following Homes in Housing coming back in house. An additional £465k needs to be applied to the HRA to ensure it is truly funding the service provided to it.
- 4.6 In overall terms, these items would deliver an overall reduction of around £4m over the four years, reducing the remaining budget gap of £40m to around £36.5m. This is the remaining gap that needs to be bridged by a range of savings proposals, or rises in Council Tax, or a combination of the two. The Council needs to set a balanced budget over the next two years and so the remainder of this budget strategy concentrates on the gap over 2015/16 and 16/17 which, after all of the adjustments taken above, remains at £22.5m.

5. FURTHER ORGANISATIONAL EFFICIENCIES

- 5.1 Over the last 4 years the Council has taken a range of actions to preserve front line services despite the twin pressures of government grant reduction and the pressures of dealing with a growing and ageing population. Considerable savings have been achieved while the community has noticed little if any differences in frontline services.
- 5.2 This has been delivered through a wide range of internal organisational changes such as:
- Better use of IT with many more automated systems
 - More efficient use of office space and IT-enabled remote working
 - Reductions in managerial levels
 - Reorganisations and staff savings
 - New 24/7 online payment and service request systems
 - Renegotiating contracts to save money.

Inside the Council this has meant that 250 staff have been made redundant.

- 5.3 Despite the wide-ranging nature of the Council's efficiency reforms to date, further back office efficiency savings are being proposed to the sum of an additional £4.4m, bringing the total reductions through efficiency and

organisational changes to £23.1m. The specific saving items are set out in more detail in Appendix B.

5.4 The further efficiencies fall into the broad categories of:

- restructuring to reduce staffing and management costs and reviews of terms and conditions;
- contractual renegotiation, revised commissioning arrangements or alternative use of assets.

5.5 A thorough review of how we deliver our front line services, including demand management strategies, revised assessment and commissioning arrangements has also taken place. Proposals are brought forward for consideration under these headings to the value of £6.5m. This is a significant number as it includes some changes in the way the Council delivers social care which is the Council's largest spending area. Savings are set out in the table in Section 8 below and more detail is given of all of the proposals in Appendix B. An explanation of the strategies to be adopted in older people's and younger adults' services is set out in the following paragraphs as they make up a substantial amount of the savings identified.

Older and Vulnerable People

5.6 The Council needs to retain capacity to help those most in need – it is a priority for the community that we do so. We also need to retain capacity to help people help themselves. We need to integrate our services with NHS services to offer more appropriate and joined up responses to local people's needs. We also need to respond to the requirements of the new Care Act. Our services must also be personalised to the individual's needs. The Council does not provide all of these services themselves and will be seeking to build a more resilient voluntary, community and private sector local market for personalised care.

5.7 The proposals in this area have therefore been reached after careful conversations and advice from the Council's professional officers about how we can make better use of the Better Care Fund, assess people more appropriately, give them support to help themselves and make savings by integration with health. The most vulnerable will be protected but some changes in the support services on offer and the level at which the Council will intervene are inevitable particularly given the new Care Act requirements, its new criteria and means test and the pressure on the Council's budget. All of these factors are very difficult to assess at present as the guidelines for the Care Act are still in consultation.

5.8 There are risks in the savings proposed because the Care Act has only just been passed and this is very new territory. However, the Cabinet believes that these reductions are possible and that they will safeguard the most vulnerable in our community.

Younger Adults

- 5.9 The Council spends a significant amount on younger adults, though the service quality and level of personalisation is not always as high as it should be as evidenced by a recent Health Watch report. The service is operating to a more traditional and old fashioned model than the majority of local authorities. The proposals here are to individually review the needs of all of the service users and establish revised care packages that are more tailored to those individual needs. We believe that once these reviews have been undertaken and the local market stimulated, individuals will receive much more appropriate and personalised services. However, it is recognised that some users and carers dislike changed arrangements and therefore these reviews will be undertaken with care and over time.
- 5.10 Taking all of the budget assumptions and organisational and back office and service efficiency reductions together Cabinet have been able to bridge approximately £34m of the original £60m budget gap and £12m of the two year gap.

6. PRIORITISATION OF KEY SERVICES

- 6.1 Having taken all possible savings from organisational and service efficiency proposals, the Cabinet have reluctantly turned to the options for making changes to the way in which services are provided, in order to be in a position of setting a legal budget.
- 6.2 In considering where to make further proposals, Cabinet has been mindful of a number of factors. First, the community of Havering has already been clear in its prioritisation of the services that they hold most dear. Having a safe, clean and well-maintained public realm has consistently been highlighted as top priorities in recent public consultation and surveys, including the two “*Your Council, Your Say*” surveys in 2011 and 2013 and the “Spring Clean” survey of 2012.
- 6.3 Bearing this in mind, the Cabinet is not making proposals that will alter the level of street cleansing currently in place or that will reduce the level of maintenance in our parks and open spaces, or our weekly refuse collections. The most recent “*Your Council Your Say*” survey in 2013 showed a marked improvement in public perception of cleanliness in Havering and it remains a clear priority of the Council.
- 6.4 The Council invests in CCTV to help combat crime and again, given the strength of public feeling about community safety, the Cabinet is not proposing any changes to reduce CCTV coverage in the Borough. Likewise, the schools crossing patrols are a very highly-valued service for parents across Havering and there are no proposals to change this service.
- 6.5 Refuse collection consistently returns satisfaction scores of around 85% in public surveys and the Cabinet wish to maintain high satisfaction levels. The Council has recently re-let the refuse collection contract and is committed to

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- maintaining weekly refuse collections for everyone and this is part of the new refuse collection contract.
- 6.6 Surveys have also shown us that local people do worry about how older people are treated and about health and hospital services and again, though the Council will need to change how it delivers these services because of the new Care Act, Cabinet have been mindful that we must target what resources we have on the most vulnerable in our community.
- 6.7 The complex nature of the Council's budget arrangements has been spelt out in the accompanying technical budget report. The way local services are delivered is not always clear to local people and the funding for schools is a case in point. The Council does receive a dedicated schools budget to provide education in Havering and passes the majority of that money straight out to our schools to deliver education. In agreement with the schools an element is retained to provide Local Authority support to the schools at their request. The Council will continue to pass funding direct to schools and there are no proposals that relate to any reduction in direct school funding. The Council will also continue to fulfil its statutory obligation to provide school places for Havering's children.
- 6.8 Cabinet has reviewed the Statutory Services that the Council is required to provide by law. However, the statutory requirement is not always explicitly spelt out in terms of level of service and so there is some room for interpretation. However, there are some services that the Council must provide and so cannot reduce funding too far. A good example of this is Children's Services, where the Council has an absolute duty to safeguard children and to look after children when their home environment becomes unsafe.
- 6.9 In considering statutory services however, Cabinet has also been mindful of the need to help people before they fall into a position of dependency. Good examples of this are the interventions the Council makes to troubled families and troubled teenagers. If the Council can provide an early intervention that assists a young person or their family get back on track, then it not only leads to a better quality of life for that child, but also saves the Council the costs of taking a child into care. Cabinet has therefore been minded to strike the right balance between the level of statutory services and the early intervention services that can lead to an enhanced quality of life for residents and reduce demand for statutory social services.
- 6.10 This balance is particularly challenging, given that targeted social services – largely children's and adults' social care, housing policy and homelessness, and help to children with special needs – represents around 60% of the Borough's revenue budget. For example: it costs £24,000 a year for an older person to be supported by the Council in a residential care home and we have 700 older people placed in care homes at the moment. The bill for their placements comes to £17m a year. By comparison, the cost of nearly all of the Council's universal services (parks, culture and leisure, refuse collection and disposal, highways maintenance and street lighting, and libraries) is around £31m. So spend on these residential placements alone is more than half of the

Council's spend on services that impact on every resident and business in the borough.

- 6.11 Cabinet is mindful both that the balance of potential savings presented must be fair for both the general population and for those in most need and has attempted to find the right balance in the savings that are proposed for consultation and set out below. In total, approximately £7.1m worth of savings relate to potential service reductions. Though Cabinet would rather not propose any such savings, these are proposed for consideration after all of the organisational and efficiency savings have been taken as set out in the report above.

7. PROPOSED REDUCTIONS TO UNIVERSAL SERVICES

- 7.1 Proposals are set out in detail within Appendix B and summarised in the table in Section 8, however the headlines are provided here.
- 7.2 StreetCare, highways and the parks services are preserved with only efficiency savings being taken. Cultural Services do provide popular universal services and therefore proposing reductions in this area is very challenging. However, options have been prepared which seek to preserve services as much as possible by taking a different and more cost-effective approach to their delivery.
- 7.3 Many councils are making decisions to close libraries. Having considered carefully both the value of the libraries themselves and the role they play as community facilities within neighbourhoods, the Cabinet is consulting on a proposition that all 10 libraries remain open, however their opening hours will be changed. The Council will consult on a proposition that the 4 core libraries of Romford, Hornchurch, Rainham and Harold Hill will remain open 6 days a week so there will always be a library open in each quadrant of the borough, with the remaining libraries operating on a reduced hours basis as set out in the relevant template. The consultation will also review the strong contribution that volunteers and communities make to the service and put forward an option for more volunteer involvement both during and outside the new core hours. This would facilitate libraries remaining open longer.
- 7.4 The Queens Theatre trust receives £400,000 a year from the Council, our highest voluntary sector grant. The trust gives enjoyment to thousands of people and is a much loved service. There have been a wide range of changes in the theatre sector and it is proposed that the theatre works with the Council to review its operating model and reduce its reliance on grant support over the next two years, whilst preserving its valuable contribution to the cultured life of the Borough.
- 7.5 Fairkytes Arts Centre is a well-used and respected arts centre. The proposition here is to move towards cost recovery with a range of increases in charges. The Arts service also provides limited grant support to a number of smaller arts organisations and this is being reviewed.

- 7.6 Parking services – there will be a review of the fees, charges and operational model for parking services and bring charging and business operation into line with new legislative requirement and services elsewhere. This will take due account of the outcome of the DCLG’s consultation on parking strategy that will lead to legislative changes. The impact of these changes is reflected in the proposals set out in the relevant template and these will in turn be reflected in a new Council parking strategy.
- 7.7 Our Regulatory Services are effective and innovative in their approach. They are a mixture of statutory and non-statutory provision. Nevertheless, our trading standards service operates above statutory minimum level and it is proposed to reduce the number of trading standards officers to better align with such levels. Consumer Advice is provided on line through national portals.

8. PROPOSED REDUCTIONS IN TARGETED SERVICES

Services for Children and Young People

- 8.1 Care needs to be taken in proposing savings for children’s services because of the statutory duties placed on Councils with respect to Safeguarding Children. However, the Government has withdrawn its funding for Children’s Centres and the Council must respond. Options being explored include income generation, co-location and improved partnership working, maximising the potential of the Troubled Families programme (which is grant-funded), increasing the number of volunteers, the possible closure of some children centres, splitting the service to under 12s and over 12s, and closer working with the voluntary sector and local communities (including the potential use of Community Interest Companies).
- 8.2 It is proposed to consult on a merger of the early intervention work undertaken by the Youth Service, to keep young people out of serious trouble, into the Early Help and Troubled Families service within Children’s Adults and Housing. The service will target vulnerable young people, to prevent growth of gang related activity, sexual exploitation, growth of extremism and diversion from drug and alcohol abuse. It is proposed that current users of the Youth Service would be directed to the wide range of alternative provision in the borough. A proposal has been put forward by a member of staff for an employee led mutual to take on aspects of the services work. This proposal will need to be worked through in detail during the budget consultation process to establish if it is viable.

9. LOCAL COUNCIL TAX SUPPORT SCHEME

- 9.1 At a Full Council meeting In January 2013, Council Members approved the Local Council Tax Support Scheme (CTS) which replaced the National Council Tax Benefit Scheme and came into effect on 1 April 2013.
- 9.2 In 2013/14 financial year, the CTS scheme received a 10% reduction in its funding from Central Government which was offset by savings from the Council Tax Reforms.

- 9.3 The CTS grant has since rolled into the Settlement Funding Allocation (SFA), which has been reduced in 14/15 in-line with the core funding reduction. For 14/15 budget no amendments were made to the CTS scheme; instead this was covered as part of the Council's financial strategy.
- 9.4 Indicative figures suggest further reduction in RSG for 15/16 and beyond which includes the rolled in CTS grant. The level of reduction will not be known until December 2014 at the earliest, however the precise figures may not be exemplified in full but grouped with the core funding. As a result, a review of the CTS scheme is now required as a consequence of these reductions.
- 9.5 The review has highlighted options for change in line with other surrounding Councils' existing schemes which have duly considered and protected claimants of pensionable age in accordance with law. Therefore the proposals for change only affect working age applicants.
- 9.6 After much consideration, eight options have been put forward which propose changes that will reduce expenditure by varying degrees. These options are set out in the relevant template in Appendix B and members are requested to approve one option.
- 9.7 Officers recommend Option 1 for consultation because it evenly distributes the 15% reduction in CTS and does not disproportionately impact any single vulnerable group. This option also proposes the removal of Second Adult Rebate which provides rebates of up to 25% of the Council tax liability for the second adult, where the taxpayer's income is too high to qualify for CTS. Finally Option 1 reduces the capital limit for working age applicants who would no longer qualify for Council Tax Support where their capital exceeds £6,000.
- 9.8 The net savings in each proposal assumes a bad debt provision of 10% and passes on 20% to the Greater London Authority.
- 9.9 Following Members' approval of an option to revise the CTS scheme in 2015, the Council will consult with the Greater London Authority in advance of members of the public and other interested parties. The consultation period is planned for six weeks commencing September 2014 in readiness for December 2014 Cabinet.

10. VOLUNTARY SECTOR

- 10.1 The Council is reviewing its strategic and funding relationship with the voluntary sector to ensure that the investments it makes into community projects and voluntary sector services address need, reduce demand and provide value for money. This will include reviewing the grants and contracts currently in place with community groups and voluntary sector organisations, including infrastructure services. The review will aim to save the Council at least £1m. It will also result in a new voluntary sector strategy being developed by March 2015. The review may also result in changes to the way infrastructure support is provided to the voluntary sector.

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10.2 In 2013/14, the Council spent approximately £8.7m funding services from the voluntary and community sector, including:

- Core funding grants to organisations (e.g. HAVCO and Citizens Advice Bureau)
- Small grants for community projects
- Larger contractual arrangements for specific commissioned services (mainly in social care).

10.3 Not all the £8.7m comes from the Council's general fund – £1.2m of this is external funding for specific purposes (eg. MOPAC grant) that it uses to commission voluntary sector providers to deliver specific services. As well as grants and other funding arrangements, historically, the Council has also provided subsidies to the voluntary sector, by way of:

- “equitable rents”, set at one-third of open market commercial rents, amounting to a subsidy of £300,000 per annum, to 19 community organisations renting Council premises.
- £223,802 in discretionary rate relief to 94 organisations with charitable status.

11. SUMMARY OF SAVINGS PROPOSALS FOR CONSULTATION

11.1 Appendix B provides more detail of each of the proposals. However this table lists them for ease of reference.

Summary Table	15/16	16/17	Total
Customer Services	(0.100)	(0.300)	(0.400)
Terms and Conditions	0.000	(0.500)	(0.500)
Street Care Efficiencies	(0.200)	(0.150)	(0.350)
SLM contract renegotiation	0.000	(0.250)	(0.250)
Youth Service	(0.250)	(0.616)	(0.866)
Regulatory Services	(0.160)	(0.010)	(0.170)
Corporate Policy & Community	(0.100)	0.000	(0.100)
Business and Performance	0.000	(0.250)	(0.250)
Communciations	(0.045)	(0.030)	(0.075)
Adults	(3.200)	(0.710)	(3.910)
Income Generation	(0.450)	(0.150)	(0.600)
Staffing Efficiencies	(0.610)	(0.500)	(1.110)
Adults Commissioning	(1.000)	(1.450)	(2.450)
Housing Commissioning	(0.561)	0.000	(0.561)
Council Tax Support	(1.244)	0.000	(1.244)
Culture and Leisure	(0.400)	(0.400)	(0.800)
Childrens Services	(0.300)	(0.300)	(0.600)
Parking	(1.000)	0.000	(1.000)
Libraries	0.000	(1.138)	(1.138)
Voluntary Sector	(0.045)	(1.100)	(1.145)
Total	(9.665)	(7.854)	(17.519)

12. PUBLIC HEALTH

- 12.1 The Council assumed responsibility for Public Health on 1 April 2013 when the Service and a Ring Fenced Grant of £8.8m for 2013/14 and £9.17m for 2014/15 were transferred to the Council.
- 12.2 On 12th February 2014, Cabinet considered a report on the Council's Budget Strategy 2014/15 and agreed the following priorities for Public Health funding:
- Children's health and wellbeing including reducing inequalities
 - Support for older people and people with long term conditions
 - Tackling lifestyle priorities that are fuelling poor health outcomes particularly for diabetes, cancer and COPD
 - Wider considerations.
- 12.3 The Integrated Care Joint Health and Social Care Coalition for Barking Havering and Redbridge has produced a draft 5 year Strategic Plan. This includes a section on Health Prevention and Promotion Priorities for the coalition which is reflected in the work programmes of all of the public health teams. The priorities in the strategy are in line with those agreed by Cabinet.
- 12.4 Areas covered by these priorities have been reviewed and where appropriate prioritised for spending from the Public Health Grant. The impact of these decisions taken together is that there is a high degree of confidence that the grant spend matches priorities and that as a consequence approximately £1.65m of General Fund has been released.
- 12.5 It had previously been agreed that the spending plan should be developed in conjunction with the Health and Wellbeing Board and delegated to the Cabinet Members for Value and Individuals to sign off and this is currently being progressed.
- 12.6 There is a guarantee that the grant will be ring-fenced until 2015/16. However, the future of the grant beyond that point is uncertain. If the functions remain with local authorities, then it is clear that the associated costs and service expectations do so as well. It is possible that the grant will become un-ring-fenced, or be rolled up into the mainstream funding system. There are risks that Havering would not then receive an equivalent sum, owing to the operation of current damping arrangements. This means this will need to be kept under review following the General Election and the subsequent CSR announcements.

13. IMPLICATIONS FOR COUNCIL TAX

- 13.1 The savings proposals in this report total £17.5m over the first two years. As can be seen, along with the other budget adjustments this still does not bridge the total funding gap and so further consideration may be required in respect of finding additional savings or raising Council Tax. Given the scale of reductions proposed in this report, at this stage Cabinet are minded to recommend an

increase in Council Tax of around 2% each year in order to balance the budget although this would be subject to the final settlement announcement. The alternative to this is to identify further reductions. Cabinet believe they have pushed the efficiency and organisational changes to the limit of its appetite for risk. However, this is a matter that will be further considered during discussions with Overview and Scrutiny and in the budget consultation period.

14. THE PACKAGE OF SAVINGS

14.1 Taken together, the Cabinet believe that this package of savings finds the right balance in these challenging financial times. Details of each proposal are set out in the Appendix at the end of this report. Cabinet proposals will:

- Challenge corporate assumptions by reducing projected increases in costs
- Take the maximum efficiencies we believe is prudent and possible
- Protect Havering's most vulnerable residents
- Preserve the services that residents consistently tell us they value most
- Seek to keep as many services open as possible, by doing things differently
- Make carefully considered reductions to services, based on an assessment of what are the least-worst options

15. CONSULTATION, ALTERNATIVE PROPOSALS AND LOBBYING

15.1 If agreed by Cabinet, these proposals will be issued for consultation to a specially-convened joint session of Overview & Scrutiny on 8th September. A Cabinet meeting on 24th September will then consider feedback from Overview & Scrutiny, before authorising public consultation on the final proposals.

15.2 Given the overall scale of the budget gap and the need to develop and implement proposals effective from 2015/16, should any of the proposals be rejected, either at the joint OSC meeting or the subsequent Cabinet meeting, alternative proposals will need to be put forward. The proposals currently before Cabinet have been through a thorough and robust review process, including, where appropriate equalities impact assessments, and it will be necessary to ensure that any alternatives are subject to a similar review. This will apply equally to any proposals submitted as part of the formal budget setting process in February 2015. This is now essential to ensure the detailed proposals included in the budget for 2015/16 have been properly evaluated, scrutinised and assessed. Officers are available to discuss the detailed proposals set out in this report and any alternatives that Members may wish to identify.

15.3 The public consultation programme will take a number of forms, including comprehensive communication of the proposals; public meetings; meetings with affected groups and individuals and significant online engagement. The individual strands of consultation, as they relate to specific service proposals, will be undertaken with due regard to legislation and best practice guidance and in accordance with our duties under the Equalities Act.

- 15.4 Reports to Cabinet over a number of years have highlighted the relatively low funding levels Havering receives as a result of the various national funding systems that have been in place. The same principles have also affected funding for both Public Health and the new Better Care Funding stream. The Administration intends to mount a campaign to lobby for a more proportionate level of funding, reflective of the needs of our community, in the coming months. However, the strategy now proposed can only reflect the funding Havering receives; any improvement in the position would obviously reduce the pressures on the Council's budget, but are unlikely to significantly impact on the proposals already before Cabinet.

16. SPECIFIC BUDGET ISSUES

- 16.1 There are a small number of specific issues which have a significant impact on the budget, which are addressed below. These have been highlighted in previous reports to Cabinet, but are raised here so Cabinet is aware of them in the context of the development of the future budget strategy.

Pension Fund

- 16.2 The position with the Pension Fund was covered at some length as part of the last budget setting cycle. Cabinet agreed to make a cash investment in the Fund in response to discussions with the Council's actuaries, and this took place prior to the previous year end. This was reflected in the outcome of their review. There remains a significant funding gap which the current budget strategy has sought to address and this is still the case.
- 16.3 The projected budget gap assumes an annual contribution of £1.5m a year over the next 4 years – although with a reduced contribution in the first year, 2015/16, resulting from the cash investment. Whilst the funding gap has reduced over the last year, there is still an historic deficit which the annual contribution is designed to reduce. This is part of the funding plan agreed with the Council's actuaries.

Freedom Pass

- 16.4 The Council's current contribution to the concessionary fares scheme stands at just below £8m. Havering has seen lower rises than other boroughs, due to our comparative usage figures, and this is reflected in the proposed future strategy. A sum of £300k per year is now being included, rather than the original £400k. There remains a risk that a significant rise in usage could affect Havering's contribution, but it is currently felt that this can be contained within the sum set out in the detailed schedule.

Levies

- 16.5 There are a number of levies raised on Havering, the largest of which is East London Waste Authority (ELWA). The overall levies budget is just under £13m, of which the biggest element, ELWA, is around £12m. The ELWA levy is

predominantly made up of the Shanks contract. The budget strategy is based on the most recent forward plan for the Authority and these figures are reflected in the schedules. There are risks associated with waste tonnages, as the levy reflects these, so a disproportionate rise will affect the distribution between the constituent Councils.

Impact on Council Strategies

- 16.6 The budget strategy and the savings proposals will impact on a number of strategies previously agreed by the Council, through either Cabinet or Cabinet member delegation, not the least because of the sheer scale of the budget gap to be bridged. On the assumption that Cabinet agrees the proposals, after considering the views of the joint Overview & Scrutiny Committees, these proposals will then be subject to a formal consultation process. It will be necessary to undertake a concurrent review of any strategies affected and to submit these for approval, and any necessary consultation process, over the coming months. Cabinet is asked to note this.

17. CAPITAL PROGRAMME

- 17.1 The report to Cabinet in February set out the programme for 2014/15, including detailed schemes, with the intention of revisiting long term plans as part of the broader development of the budget strategy. This would take into account any remaining capital receipts and the future priorities of the Council. The programme has historically relied on a mix of receipts and grant funding to finance expenditure, although it has always been expected that a transition to prudential borrowing as a means of funding capital investment would become necessary.
- 17.2 The core programme for 2014/15 comprises an overall programme of around £4m, made up of the following elements:

Programme Area	£000
Parks, Libraries, Leisure & Cemeteries	1,000
Street Environment	2,000
Protection of Assets and Health and Safety	500
Regeneration	100
Disabled Facilities Grant (Council element only)	300
Total	3,900

- 17.3 The current core programme is funded exclusively from capital receipts generated from the disposal of assets. The projected budget gap makes no allowance for any cost arising from prudential borrowing. Should there be insufficient receipts to finance capital spend, it would either need to be reduced to fit within the available receipts, or funded through borrowing; the latter measure would then need to be taken into account as part of the overall budget strategy, as it would increase the existing budget gap.
- 17.4 A further review of available receipts is currently underway and once completed, an assessment will be taken of the overall sum available. From

this, proposals for a long term core capital programme will be drawn up for consideration as part of the formal budget setting cycle during January and February. This will include detailed schemes within each element of the core programme. As part of this, the potential to generate additional receipts from the disposal of surplus properties will be identified, should this be needed to continue to deliver a similar programme in future years.

17.5 Aside from these core areas, there are two other areas that will require investment to enable the savings proposals within this report to be taken forward; these are:

- Street lighting – a report will be presented to the late September Cabinet meeting to approve going forward with Phase 2 of the LED street light replacement programme. It will also need to go to Full Council for approval, as it will require £2.1million capital expenditure, which will enable the Council to buy 8000 more energy saving streetlights. There is potentially grant funding available to finance this and any submission would need to be made in October. Should this not prove successful, it is likely the Council would seek a combination of Salix / TFL funding as it has done previously.
- Parking strategy; as part of the review of budget proposals and subsequent consultation, options will be identified and where these have capital implications, these will be assessed and costed accordingly. Once a final strategy has been developed, funding options will be determined and appropriate approvals sought accordingly.

17.6 The estimated costs for these are currently being determined in detail and this will form part of the detailed capital programme brought before Cabinet as part of the formal budget setting process. Funding for these will be reviewed as part of the overall assessment of available receipts.

17.7 At this stage, Cabinet is asked to agree the principle of an overall core annual programme of £4m a year, and to comment on the core elements set out in the table above. This will enable officers to draw up detailed schemes for later in the budget setting cycle.

18. BUDGET ROBUSTNESS

18.1 The Council is required to set a balanced budget, taking into account a range of factors, and including appropriate consultation and equality impact assessments. A key factor is to ensure that Cabinet are made aware of the advice of the Council's Chief Finance Officer (CFO) in making decisions relating to the Council's budget.

18.2 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 General Fund reserves. The Act requires the CFO to report to an authority when it is making the statutory calculations required to determine its Council tax or precept. The Act also suggests the advice should be given prior to the formal statutory calculation. This advice has therefore been given to both

Cabinet in formulating proposals and to members of Overview and Scrutiny in considering the proposals, as part of previous budget setting cycles.

- 18.3 The advice of the CFO was set out at some length in the report to Cabinet in February 2014, in Appendix H of that report. Cabinet is asked to be mindful of this advice in reviewing the proposals currently put forward by the Administration, and when these are subsequently scrutinised by the Overview & Scrutiny Committees, and in then considering any alternative proposals. In particular, the need to set a balanced budget within the context of a long term financial strategy is a prime responsibility for the CFO.

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 proposals for the Council's budget strategy for the next four years and reflects the expected continued Government approach of reduced levels of funding. The scale of these means consideration of detailed proposals, followed by consultation and implementation at an early stage following the local elections, is essential.

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.

There are considerable risks in the medium to longer term, with the continuing economic uncertainty as well as the likely impact of further funding changes. There are also considerable uncertainties stemming from the Care Act and the Children & Families Act, and although the Government has given an undertaking that new

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burdens will be funded, it remains to be seen what effect these will have locally and whether there will be any adverse financial impact. The Council therefore needs to maintain a prudent approach over its financial management and the budget setting process. It is essential that the Council puts a strategy in place to deal with the potential scale of gap facing it, especially with anticipated ongoing reductions in Government funding.

The Council is required to set a balanced budget and the proposals that are made as part of that process need to be robustly reviewed, challenged and scrutinised, and consulted on wherever appropriate. The advice of the Section 151 Officer must be taken due account of within the budget setting process and that applies to all budget proposals, whenever they are put forward. This will mean a much more robust process will have to be applied to any alternative proposals put forward to those being made by the Administration; this could potentially necessitate formal consultation with the local community. All such proposals will be reviewed by the Section 151 Officer before they can be considered by Cabinet and Council.

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, providing appropriate consultation is carried out at all stages, as referred to in recommendation 8.

Section 13 of this report outlines the proposed consultation on the budget process, and this is legally sound. There is no specific process or timescale for consulting on the Council's proposed budget, however the Cabinet wishes to provide opportunity for debate with the local community, stakeholders, other interested groups, staff and unions.

In addition to the general consultation on the budget proposals, some of the proposals included will require specific, statutory consultations, which will be the subject of separate reports and individual consultations, such as the changes required in respect of library provision. Following the specially convened joint meeting of the Overview and Scrutiny Committee on 8th September, there will be a further meeting of the Cabinet on 24th September 2014, at which a final list of proposals for formal consultation will be agreed. Once the final proposals are agreed the consultation requirements of any specific proposal can be finalised.

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.

All savings proposals or changes to the funding regime that impact on staff numbers, will be managed in accordance with both statutory requirements and the Council's Managing Organisational Change & Redundancy policy and associated guidance.

Equalities implications and risks:

This report sets out the Council's long term financial strategy to manage the implications of funding reductions and cost pressures over the next four years, so that it is able to operate with a balanced budget and ensure the continued running of the most valued, and statutory, public services.

The Council faces significant challenges in achieving a balanced budget, not only in terms of funding reductions, but also in terms of the rising demand for services, brought about by Havering's increasing older demographic, as well as major national policy pressures such as the implications of the Care Act.

This report sets out a commitment to retain capacity to help those most in need, and to improve the level of personalised services vulnerable people are able to access, which includes a new approach to working with the voluntary and community sector to build the capacity needed to do that.

Where possible, services will be run in a different and more efficient way in order to keep them available to the public, with more fundamental changes or closures being a last resort, in the absence of other alternatives.

Where proposals affect staff, service users, or indeed the wider population, they will be thoroughly analysed for disproportionate negative impact, with mitigating actions identified to minimise any negative impact. All proposals will be subject to full and proper consultation with Councillors, staff, service users and the general public before any final decisions are made.

Appended to this report are the Equality Impact Assessment (EIA) Check Lists for all the proposed savings outlined in this report that are likely to have an impact on people with "protected characteristics, as set out" in the Equality Act 2010. There are some saving proposals which are deemed to have no impact on the protected characteristics and the EIA Check Lists clearly state why a full EIA is not required.

Where relevant, full draft EIAs are being produced and will be completed for inclusion in the final Cabinet report on 24th September to support consultation and decision making. Those EIAs will be revised following consultation, before any proposals are finalised.

Other Risks:

There are no particular other risks arising, other than a very short timescale to properly analyse the LGFS announcements whenever they eventually occur. This is being planned for but much of the detail will have to await the final announcements and publication.

BACKGROUND PAPERS

There are none.

RE-ASSESSMENT OF COST PROJECTIONS

Element	Outcome of Review
Demographic growth	On a balance of risk, estimates have been reduced from £2m per year to £500k in the first 2 years and then £1m thereafter. The largest element of demographic growth is for growth in older people services. The reductions proposed are based on the fact that this provision has not been required in its entirety over the last 2 years. Adult services are managing increases in demand through a range of measures including early assistance, improved integrated working with health, and investment in proactive demand management strategies using the Better Care Fund. However, this reduced assumption will have to be carefully monitored because of the as yet unknown impact of the Care Act
Inflation (net)	Provision for pay award in the first two years capped at 1% in line with current Government policy, thereafter rising at 2% as previously allowed for. Provision for contracts held at 2% rather than 3%, to reflect recent inflation indices, and for all other costs, reduced from 2% to 1%
Freedom pass	Assumes a lower level of annual increase, as set out in the report
Pensions Fund	Small reduction following the recent cash investment into the Fund, as set out in the report
Levies	Small reduction in estimated levy increases, as set out in the report
Interest	Anticipated rise in interest rates leading to higher level of interest earned – also covered in this report
Government grant reductions	No change – figures are felt to be reasonably robust, though not without risk
Transformation costs	Provision to be built up in early years and then reduced in later years, no net overall impact