



## **CABINET**

**4 NOVEMBER 2015**

**Subject Heading:**

**The Council's Financial Strategy**

**Cabinet Member:**

**Cllr Roger Ramsey**

**CMT Lead:**

**Andrew Blake-Herbert**

Deputy Chief Executive Communities & Resources

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**Policy context:**

The Council is required to approve an annual budget and to establish a financial strategy and this report forms the latest phase of that process.

**Financial summary:**

This report sets out the strategy for savings and income generation proposals designed to bridge the gap in the Council's medium term financial strategy

**Is this a Key Decision?**

No

**Is this a Strategic Decision?**

No

**When should this matter be reviewed?**

January 2016

**Reviewing OSC:**

Value

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

Havering will be clean and its environment will be cared for [x]

People will be safe, in their homes and in the community [x]

Residents will be proud to live in Havering [x]

## SUMMARY

Cabinet received a report on 9<sup>th</sup> September 2015 setting out the potential funding gap in the Councils financial strategy over the next three years.

This report now sets out a range of savings options and income generation proposals with the intention of bridging the gap in the financial strategy. If agreed, these proposals will be integrated within the financial model as part of the Council Tax setting report to be considered by Cabinet in January 2016 and for approval by Council in February 2016.

The outcome of the local government financial settlement (LGFS) for 2016/17 will not be known until early in 2016 and this report acknowledges the risks associated with the development of the financial strategy in the absence of any great certainty over the level of future funding.

All proposals will be subject to consultation, before any final decisions are made.

## RECOMMENDATIONS

That Cabinet:

1. **Note** the latest projection of budget gap and the assumptions upon which these have been based, and the risks associated with them.
2. **Note** the latest projection of the draft Medium Term Financial Strategy(MTFS), covering the period from 2016/17 to 2018/19, as set out in this report.
3. **Note** that a range of corporate strategies will be impacted by the budget strategy and these will need to be updated and approved accordingly.
4. **Agree** the final list of income generation and savings proposals as set out in Appendix A for engagement with the local community, stakeholders, other interested groups, staff and unions.
5. **Agree** to receive a further report in January 2016 which considers the impact of the Local Government Financial Settlement on the MTFS and the implications for Council Tax setting.
6. **Note** the advice of the Section 151 Officer in setting a robust budget.
7. **Approve** the demand management strategy as set out in Appendix B.
8. **Approve** that the freehold interest in the sites identified in this report be declared surplus and authorisation be given for their disposal (subject to obtaining any necessary planning permissions and other consents as appropriate) and that the Head of Property, oneSource in consultation with the

Director of Legal & Governance, oneSource be authorised to deal with all processes and matters arising and thereafter to complete the disposal.

**REPORT DETAIL**

**1. UPDATING THE FINANCIAL STRATEGY**

- 1.1 Cabinet are advised of a potential gap of £16.3m in the Council's financial strategy for the three year period ending in 2018/19.
- 1.2 This report also considers the impact of budget pressures arising in 2015/16 and their implications for setting the revised three year strategy.
- 1.3 A range of additional savings and income generation proposals totalling £24.1m (including new savings proposals of £14.9m) have been developed and are considered further at para 4 below.

**2. REVIEW OF 2015-16**

- 2.1 In establishing the starting point for the 2016-17 budget it is necessary to review the latest budget monitoring position for 2015-16 to determine whether the Council is on track to deliver its out-turn in line with budget.
- 2.2 The amended 2015/16 forecast outturn as reported for period 5 is set out in the table below.

Directorate	Revised Budget	Forecast Outturn	Forecast Outturn Variance	Previous Forecast Outturn Variance	Change in Outturn Variance
	£'000	£'000	£'000	£'000	£'000
<b>Communities &amp; Resources</b>	62,781	61,881	(900)	(760)	(140)
<b>Public Health</b>	(1,650)	(1,650)	0	0	0
<b>Childrens, Adults &amp; Housing</b>	97,589	103,146	5,557	8,539	(2,982)
<b>oneSource Non-Shared</b>	245	30	(215)	(198)	(17)
<b>Sub total</b>	<b>158,965</b>	<b>163,407</b>	<b>4,442</b>	<b>7,581</b>	<b>(3,139)</b>
<b>Contingency</b>	2,000	2,000	0	0	0
<b>Revenue Total</b>	<b>160,965</b>	<b>165,407</b>	<b>4,442</b>	<b>7,581</b>	<b>(3,139)</b>
<b>Dedicated Schools Budget</b>	0	0	0	0	0
<b>oneSource shared</b>	<b>4,768</b>	<b>4,768</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Grand Total</b>	<b>165,733</b>	<b>170,175</b>	<b>4,442</b>	<b>7,581</b>	<b>(3,139)</b>

- 2.3 The reduction in the main budget variance since the period 3 report reflects the allocation of £3m from the centrally held demographic growth provision into Children's and Adults services. Further steps are being taken to alleviate the remaining pressures in the current year.
- 2.4 As was reported to Cabinet in September the potential overspend could be covered from central budget provisions including the corporate contingency. However, CMT and the service have agreed a number of actions to be put in

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place that will help bring down the overspend and minimise the call on contingency. The position will continue to be reviewed as part of the budget development process and the updated position will be reported to Cabinet in January 2016. Whilst appreciating the heightened level of risk, CMT still expect the 2015-16 out-turn to be delivered in line with budget.

- 2.5 These budgetary pressures are indicative of the increasing but unpredictable level of demand on services faced by the Council. Whilst these pressures are likely to be contained within the 2015-16 budget the draft three year financial strategy needs to take account of whether any of these pressures have an on-going impact on the future years of the budget strategy. Two adjustments are to be made, firstly an additional £1m to meet the on-going costs of the 15/16 pressure, and secondly a change to the assumptions for the demographic growth provision in 16/17, raising it to £2m, in line with the assumptions for 17/18 and 18/19.

### **3. PROSPECTS FOR THE LOCAL GOVERNMENT FINANCIAL SETTLEMENT**

- 3.1 The Government is expected to announce the draft Local Government Financial Settlement in late December 2015 at which point the MTFs model will be updated to reflect the latest financial position. The impact of the settlement on the financial strategy will be reported to Cabinet in January 2016 and will also be reflected in the final budget report to Council in February 2016.

- 3.2 The Chancellor George Osborne recently announced major proposals affecting Local Government funding. These are summarised as follows.

- By 2020 councils will retain 100% of local taxes, including the £26bn from business rates.
- The uniform business rate will be abolished.
- The core grant from Westminster will be phased out.
- Directly-elected mayors will be able to add a premium to business rates for spending on infrastructure - probably set at 2p on the rate.
- The new powers will involve new responsibilities for councils.
- The reforms will be fiscally neutral.

- 3.3 As with all changes of this nature, the devil is in the detail. At this stage it is difficult to predict how these proposals will affect Havering. Whilst it is unlikely to impact upon the 2016/17 financial settlement it will almost certainly impact upon our MTFs forecast. We await further detailed information to determine the impact including answers to the following questions:

- What grants other than RSG are to be phased out?
- How and by whom will the level of Business Rates be set and to what extent will income be retained locally?
- What new powers and responsibilities will fall to local Councils and at what cost?
- Will any new burdens be fully funded?

- The current system applies a system of tariffs and top-ups to redistribute Business Rates nationally. How will this be amended or replaced under the proposed regime?

**4. THEMED BUDGET STRATEGY**

4.1 In February 2015 Cabinet approved a new four year financial strategy for the period ending 2018/19. The financial model underpinning the strategy identified an overall gap of £45m over four years. The strategy adopted by Cabinet balanced the budget for 2015-16 and 2016-17 leaving a gap of £5.8m in the final two years.

4.2 In September 2015 Cabinet received a further report on the financial strategy.

They were advised that the gap had grown by approximately £10m to £16m in the light of the latest projections of cuts in central government funding and of the impact of demographic growth on service budgets. Following some further analysis and cost re-profiling, including the adjustment for the pressures referred to in Paragraph 2.5, the overall gap is now forecast to be £16.3 million.

4.3 The table below sets out the revised model and incorporates the draft savings and income generation proposals to be considered at 4.4 below. The model also incorporates the impact of proposals which were agreed as part of the budget and council tax setting report for 2015-16 but have further implications for 2017/18 and 2018/19.

	<b>15/16</b>	<b>16/17</b>	<b>17/18</b>	<b>18/19</b>	<b>Total</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
Total pressures	17.1	14.6	12.4	12.7	56.8
Savings already approved	(17.1)	(13.2)	-	-	(30.3)
Savings c/f from 2015-16	-	-	(5.6)	(4.6)	(10.2)
Shortfall	0.0	1.4	6.8	8.1	16.3
New Savings proposals	0.0	(2.1)	(6.6)	(5.2)	(13.9)
Budget Gap	0.0	(0.7)	0.2	2.9	2.4

	<b>Total</b>
	<b>£000's</b>
<b>Savings to be approved</b>	
Savings carried forward from 2015/16 strategy	(10.2)
New savings proposals	(13.9)
<b>Total Savings for 2016/17 to 2018/19</b>	<b>(24.1)</b>

4.4 To summarise, the Council identified £56.8m of pressures over the four year cycle. Savings totalling £30.3m were approved as part of the 2015-16 budget strategy. Further savings totalling £24.1m are proposed which balance the strategy for the first three years and leave a gap of £2.4m by 2018/19.

4.5 The savings and income generation proposals at para 4.3 totalling £24.1m are set out in more detail at **Appendices A (i)-(vi)**. On the assumption that all of the proposals are accepted, there is a remaining gap of £2.4m in the

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three year strategy. The gap will be considered further when the final budget report is considered in the new year. Whilst it is expected that the 2016/17 budget can be set in accordance with statutory requirements a further range of savings may yet be required to deliver balanced budgets over the full MTFS cycle.

- 4.6 A number of schemes were approved in 2015/16 which have savings implications totalling £10.2m in 2017/18 and 2018/19 (see para 4.3 above). The templates produced for 2015/16 for these proposals are included at appendix (a) and are included under each of the savings themes below. However, there are five corporate savings options for which templates were not provided. These are listed below.

Saving Details:	Theme	Value of Saving and Year(s):			Total £000s
		16/17 £000s	17/18 £000s	18/19 £000s	
Interest linked to Council Housing Co. <sup>1</sup>	Efficiency		(300)		(300)
oneSource <sup>1</sup>	Efficiency		(252)	(338)	(590)
Adjustment to Internal Recharges (HRA) <sup>1</sup>	Efficiency		(25)	(25)	(50)
Council Tax Base Increase <sup>1</sup>	Income		(480)	(480)	(960)
2% CT rise each year <sup>1</sup>	Income		(1,915)	(1,915)	(3,830)

- 4.7 A range of proposals have been developed by Officers, in consultation with Members with a view to bridging the funding gap. These are contained under the following themes and a number of examples are used under each heading to put some of the savings into context:

- Managing Demand - by focusing on those most in need
- Public Realm
- Innovation
- Efficiency
- Income Generation
- Service Reduction / Other

### 4.8 **MANAGING DEMAND**

- 4.8.1 By implementing schemes and practices that give our residents the tools and ability to stay independent for longer, this not only better for their health and wellbeing, but it also affects Council spend. Adult social care remains one of the main areas that requires the most funding, and enabling our residents to live independently for longer will reduce the adult social care spend.

- 4.8.2 The Council recently opened Great Charter Close, a residential development for adults with learning disabilities or autism, the first of its kind in the borough. The development is made up of four self-contained bungalows and four flats. The premise is to allow adults with additional needs to live as independently as possible, with appropriate support.

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- 4.8.3 Previously, some residents had to be placed out-of-borough, so living at Great Charter Close is not only helping them to live happier, more independent lives, they are also closer to their families in the borough.
- 4.8.4 Encouraging channel shift, so residents deal with the Council on line, electronically, this enables us to provide them with a 24/7 service so they can access the council when it suits them.
- 4.8.5 On average, an online service is 20 times cheaper than a phone transaction, 30 times cheaper than by post and 50 times cheaper than face to face meetings. That's why we are taking steps to encourage residents to contact us online. From applying for a blue badge or a parking permit, renewing a garden waste service through to reporting a missed bin or paying council tax, we're making it digital. Using electronic web-based forms instead of more costly email or telephone contact is already delivering big savings, and greater focus on this very important area will continue to do so.
- 4.8.6 We will continue to provide services for those who cannot contract with us in this way.
- 4.8.7 The following options are included in this theme. (Note 1: In each instance these schemes were approved as part of the 2015-16 strategy but have on-going revenue savings implications).

Service	Saving Details:	Value of Saving and Year(s):			Total £000s
		16/17 £000s	17/18 £000s	18/19 £000s	
Corporate & Customer Transformation	Customer Services Channel Shift <sup>1</sup>		(250)		(250)
Culture & Leisure	SLM Contract Renegotiation <sup>1</sup>		(300)		(300)
Housing	Private Sector Leasing <sup>1</sup>		(125)	(125)	(250)
Adults	Learning Disability Commissioning <sup>1</sup>		(1,000)	(1,000)	(2,000)
Children's Services	Children Centres <sup>1</sup>		(300)		(300)
<b>Sub Total</b>			<b>(1,975)</b>	<b>(1,125)</b>	<b>(3,100)</b>

## **4.9 PUBLIC REALM IMPROVEMENTS**

- 4.9.1 Reducing waste and recycling and reusing more. We currently pay more than £13 million pounds a year to dispose of waste, with the cost going up each year. Although we now recycle more than a third of waste produced in the borough, we need to do more.
- 4.9.2 We are focussing our efforts on encouraging residents to reduce, reuse and recycle more, which will have significant benefits for the environment and reduce the amount of money we have to spend on disposing of waste.
- 4.9.3 We promote this heavily through a variety of community events and initiatives, such as the popular London Green Points Havering scheme, and events such as Love Food Hate Waste workshops, give and take days and recycling road shows. We already promote this heavily through a variety of community events and initiatives, such as the popular London Green Points Havering scheme, and events such as Love Food Hate Waste workshops, give and take days and recycling road shows.

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- 4.9.4 We are still committed to weekly rubbish collections but we need to reduce the amount of waste that's collected. As part of this budget, we want to encourage residents to limit the amount of general waste they leave for collection to three black bags per household each week, and there will be no restrictions on the amount or recycling waste that people can leave for us. This is expected to save the Council £1m over two years.
- 4.9.5 If we are not successful a fortnightly general waste collection service will be considered.
- 4.9.6 Introducing mobile technology in the form of an 'in-cab' system in our vehicles will deliver a more efficient, intelligence-led service that targets resources in the most effective way.
- 4.9.6 The system provides an interface between the Council's customer services system, CRM, and the vehicles. This will allow staff to record fly-tipping incidents in real time, reducing paperwork and producing more accurate data on the work we do. Better intelligence will allow officers to proactively allocate enforcement surveillance efforts, allowing us to bring more offenders to justice.
- 4.9.7 The past year has seen nearly 3,000 cases of rubbish being dumped on Havering's roads and open spaces, which amounts to almost eight fly-tips a day. These incidents have cost the taxpayer almost £137,000 to date, without including the cost of unreported fly-tips.
- 4.9.8 Arming magistrates with more and better intelligence is hoped to result in tougher penalties for perpetrators as well as act as a deterrent to would-be fly-tippers.
- 4.9.9 In addition, being able to record details from vehicles aids refuse collection staff to be the eyes and ears of the Council, with the ability to report incidents of concern, such as drug or alcohol misuse from associated litter, thereby alerting relevant service areas, such as Public Health.
- 4.9.10 The following savings are proposed for this theme.

Service	Saving Details:	Value of Saving and Year(s):			Total £000s
		16/17 £000s	17/18 £000s	18/19 £000s	
Streetcare	Public Realm Transformation Review		(500)		(500)
Streetcare	Introduction of further Controlled Parking Zones		(250)	(250)	(500)
Streetcare	Waste Minimisation (3 black sacks plus recycling)		(500)	(500)	(1,000)
<b>Sub Total</b>			<b>(1,250)</b>	<b>(750)</b>	<b>(2,000)</b>

## **4.10 INNOVATION**

- 4.10.1 We are looking at making a significant investment in renewable energy by creating wind turbines and solar parks. This would allow the Council to sell energy back to the National Grid generating an income to help protect public services.



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- 4.10.2 A project like this would generate a considerable long-term return for the Council. It would reduce energy costs for residents, provide a local energy supply and deliver enormous environmental benefits compared to traditional energy generators.
- 4.10.3 The rate of return on both is significant, and although the initial outlay is high, the cost of continuing as we are now would be far greater for future generations.
- 4.10.4 In May 2015, Cabinet Members signed off proposals to allow the Council to build new properties in the borough through a housing company.
- 4.10.5 The arms lengths firm will be owned by the Council but will create properties for market rent and some for sale, which will be aimed at those struggling to get on the housing ladder.
- 4.10.6 It is planned that the new homes will bring in extra revenue to the Council, protecting valuable front line services. This is going to be a real opportunity for us to deliver well located and well managed private rented or for sale local homes for local people. The company will be 100 per cent owned by the Council so we'll be able to make sure that any profits go towards looking after our borough and not to private investors.
- 4.10.7 The attached template identifies the Keswick Avenue Car park site and the former Nalگو office at North Street for transfer to the Housing Development Company. Cabinet are asked to approve disposal.
- 4.10.8 In addition, we are committed to providing more social housing and recently announced plans to build 1,000 new homes in the borough within 10 years. These will be for local people who have lived in Havering for five years, and for members of the armed forces. The homes will be funded from the housing revenue account, and will increase the number of council houses built to around 544 over the next three years.
- 4.10.9 The following savings are proposed under this theme. (Note 1: Interest linked to the Council Housing co was approved in 2015-16 but has implications in 2017/18)

Service	Saving Details:	Value of Saving and Year(s):			Total £000s
		16/17 £000s	17/18 £000s	18/19 £000s	
Corporate	Interest linked to Council Housing Co. <sup>1</sup>		(300)		(300)
Corporate	Housing Development Co.- interest payments			(2,000)	(2,000)
Policy & Performance	Solar Park and Wind Farm Income Generation		(1,500)		(1,500)
<b>Sub Total</b>			<b>(1,800)</b>	<b>(2,000)</b>	<b>(3,800)</b>

## **4.11 EFFICIENCY**

- 4.11.1 Maintaining our green spaces is an expensive business, however at the moment all of our green waste is taken from the parks and open spaces and moved through the East London Waste Authority (ELWA) waste contract.

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- 4.11.2 We have now acquired a machine that will take the waste and turns it into bedding material for use back in the parks. This saves costs within the waste contract as well as reducing fuel cost of transporting the green waste across the borough.
- 4.11.3 Through shared services, oneSource working with Newham Council, has been able to share a number of back-office services, such as finance, procurement, legal, and IT. This has allowed us to remove bureaucracy and share staff and resources, streamlining the services and saving millions of pounds. We are continuing to look at other areas within the council that could benefit from similar ways of working.
- 4.11.4 The following savings are proposed under this theme. (Note 1: schemes were approved in 2015-16 but have on going savings implications)

Service	Saving Details:	Value of Saving and Year(s):			Total £000s
		16/17 £000s	17/18 £000s	18/19 £000s	
oneSource	oneSource <sup>1</sup>		(252)	(338)	(590)
oneSource	oneSource down sizing <sup>1</sup>		(400)		(400)
HRA	Adjustment to Internal Recharges (HRA) <sup>1</sup>		(25)	(25)	(50)
Culture & Leisure	My Place Efficiencies <sup>1</sup>		(50)		(50)
Economic Development	Economic Development Reduction or Income Generation <sup>1</sup>		(50)	(150)	(200)
Streetcare	Parks Waste Minimisation (Green Waste)		(100)	(100)	(200)
Culture & Leisure	Grounds Maintenance Efficiencies		(200)		(200)
Corporate	CE Office Reductions	(140)			(140)
Corporate	Transformation Funding	(100)	(150)		(250)
oneSource	Additional down sizing or income generation			(500)	(500)
Adults	DFG Capitalisation; Lean Review; Review of Equipment Services	(237)	(100)	(100)	(437)
Childrens	Fostering; Navigators; Early Education Inclusion Team	(80)	(100)	(200)	(380)
HRA	HRA Transfer	(800)	(110)	(90)	(1,000)
<b>Sub Total</b>		<b>(1,357)</b>	<b>(1,537)</b>	<b>(1,503)</b>	<b>(4,397)</b>

## 4.12 INCOME GENERATION

- 4.12.1 The Council has the ability to raise income through many fees and charges across the services we run. Some of these are set nationally, such as planning fees, where we have no local discretion, and others can be set locally.
- 4.12.2 Where we do have local discretion we cannot make a profit but we can cover the full cost of service provision. There are many areas where this is not the currently the case and the Council is in effect subsidising the service delivery.
- 4.12.3 Where we do have local discretion we need to ensure that wherever possible we do recover full costs but we also need to ensure that we are being reasonable and benchmarking our services with other Councils, and if

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it is a service that the private sector can provide being aware of the competition and ensuring that we are competitive.

- 4.12.4 An example is the cemetery and crematorium, where we are currently charging less than other providers, and are not covering the full cost of the service provision. With burials we have a requirement to maintain the cemetery for 49 years after the burial, but no provision for this is made within the charge. The costs are currently covered by new burials happening in future years, but when burial space is full there will be an on-going cost with no income. If we bring our charges in line with others we can keep the currently level of custom and cover more of the costs of running the service.
- 4.12.5 The Council has a portfolio of commercial properties and a requirement to obtain market rental levels. When leases end they are renegotiated as necessary to ensure the correct income stream is achieved in line with any other Council asset.
- 4.12.6 The income generation proposals are set out below (Note 1: are schemes approved in 2015-16 which have on-going implications)

Service	Saving Details:	Value of Saving and Year(s):			Total £000s
		16/17 £000s	17/18 £000s	18/19 £000s	
Corporate	Council Tax Base Increase <sup>1</sup>		(480)	(480)	(960)
Asset Management	Stubbers <sup>1</sup>		(70)		(70)
Economic Development	Housing Company Profit <sup>1</sup>			(300)	(300)
Corporate	2% CT rise each year <sup>1</sup>		(1,915)	(1,915)	(3,830)
Communities & Resources	Income Generation (Cemeteries & Crematories)	(500)	(500)		(1,000)
Corporate	New Homes Bonus		(2,000)	(1,000)	(3,000)
Corporate	Council Tax Base- Further Increase		(500)	(500)	(1,000)
Childrens	Attendance Centre Places	(40)			(40)
Asset Management	Commercial Property Income		(100)		(100)
<b>Sub Total</b>		<b>(540)</b>	<b>(5,565)</b>	<b>(4,195)</b>	<b>(10,300)</b>

## 4.13 SERVICE REDUCTIONS

- 4.13.1 The remaining savings under this heading are as follow. (Note 1: includes schemes approved in 2015-16 which have on going implications)

Service	Saving Details:	Value of Saving and Year(s):			Total £000s
		16/17 £000s	17/18 £000s	18/19 £000s	
<b>Service Reduction</b>					
Communications	Communications: Staffing & Structure <sup>1</sup>			(240)	(240)
Culture & Leisure	Capital on Cemetery payoff	(167)			(167)
<b>Other</b>					
Culture & Leisure	Queens Theatre - Phased Saving <sup>1</sup>		(67)		(67)
<b>Sub Total</b>		<b>(167)</b>	<b>(67)</b>	<b>(240)</b>	<b>(474)</b>

## 4.14 BIG IDEAS PROGRAMME

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- 4.14.1 We asked council staff to put forward their ideas on how savings could be made, given that no one understands working processes better than them. Ideas, generated through the 'Big Idea' campaign, to find further savings to balance our books for the next three years, have been developed by four 'hothouse' teams.
- 4.14.2 Staff in the hothouses spent one day a week for six weeks developing business cases for the ideas, chosen from 170 submitted by staff, under the following themes:
- New technology
  - Commercialisation
  - Tackling digital exclusion
  - General efficiency.
- 4.14.3 Some of the ideas overlap with considerations already included in the savings, some have further work required to build a business case and therefore some further work to do, and two new items are included in the savings plan.
- 4.14.4 Firstly an audit of all subscriptions to printed material – newspapers, trade magazines – will be conducted to identify if savings can be made by moving to online publications or sharing of printed material, alongside an audit of council printed materials to assess if they can move to online delivery.
- 4.14.5 Secondly is further income generation from increased advertising and sponsorship opportunities using the Council's transport fleet, roundabouts, lampposts and other possible advertising sites.

## **5. IMPLICATIONS FOR COUNCIL TAX**

- 5.1 As reported to Cabinet in September it is assumed that increases of 1.99% per annum in Council Tax will be implemented over the life of the MTFS. The alternative to this approach is to identify further cost reductions. However, the final decision on the level of Council Tax for 2016-17 will be made as part of the budget setting report in February 2016. `
- 5.2 In considering the level of Council Tax increase Cabinet should be aware that a reduction in Council Tax levels in 2016/17 below the planned 1.99% will require additional savings in 2016-17 and in each year thereafter as it will reduce the level of Council Tax base assumed in the financial model.
- 5.3 Conversely by increasing Council Tax to a level above the planned 1.99% would generate additional income and reduce the level savings required or could be invested in services. However, Cabinet are also reminded that each year the Government sets a level of increase above which approval is required by way of a public referendum. The level was set at 2% or higher in 2015-16. We await confirmation of the level that applies to 2016-17. To date

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no authority has successfully increased Council Tax by way of a referendum.

- 5.4. The proceeds of a 1% increase (or cut) in Council Tax are approximately £1m per annum. The cost of a referendum has not been factored in but would also need to be borne by the General Fund.

## **6. ALTERNATIVE BUDGET PROPOSALS**

- 6.1 Only one alternative budget proposal was put forward before the 30<sup>th</sup> September deadline, although it was proposed as a suggestion rather than a formal alternative to the budget which was to include in the consultation a consideration of varying council tax rate increases. It is not possible to consider an increase beneath 2% as the budget currently assumes this level. As laid out in Paragraph 5.3 the rules for a referendum have not yet been set for next year but we could include the consultation a question about an increase above 2% if cabinet were inclined.

## **7. CONSULTATION**

- 7.1 The income generation and savings proposals set out in Appendix A (i) – (vi) will subsequently be considered by Overview & Scrutiny, prior to their inclusion in the draft MTFs and Council Tax setting report for 2016/17.
- 7.2 Unlike last year, there are no items within the savings proposal that require a level of statutory consultation, just normal budget engagement. Public engagement on the budget will take place via on line and via press releases and through the use of the Council's magazine "Living".
- 7.3 A draft of the proposed public engagement questionnaire is included at Appendix C.
- 7.3 Depending on the final Local Government Finance Settlement, referenced in paragraph 3.1, and given the overall scale of the budget gap should any of the proposals be rejected, either at the joint Overview and Scrutiny meeting or Cabinet meeting, alternative proposals will need to be put forward. These proposals will also need to be the subject of a robust review process, including, where appropriate equalities impact assessments.

## **8. MANAGING DEMAND**

- 8.1 The continued pressure on Local Government funding allied to growing demand for services require more innovative solutions. Bearing this in mind, officers have developed a strategy for demand management which is set out in Appendix B to this report. The policy, if approved should be at the heart of future service developments and will better manage our limited resources for the benefit of our residents.
- 8.2 The key points leading to the development of the policy are outlined below.
- **Demand for services will rise in the future, and at a greater rate than in previous years.** This is due to Havering's ageing population, the demographic profile of the Borough (highest percentage (19%) of older

people in London), and it being the biggest net importer of children and families in London.

- **Havering has one of the lowest funding settlements in London.** This is not only true of the Local Authority but for the NHS too. Traditional ways of saving will not meet the medium and long-term budgetary pressures (without causing significant unrest and pain for our residents).
- **Demand management is about saving money but in a very different way.** One that still involves cashable savings but also cost avoidance savings. When done properly these are much less painful, and almost always involves doing the right thing for our residents.
- **The biggest change will involve identifying, prioritising, tackling and mitigating the root causes of demand.** Our current operating models are predominately set up (and funded) to provide services that treat symptoms, rather than addressing the root causes that are the underlying triggers of demand. Budgets and resources need to be shifted to focus on at tackling these root causes which will help prevent residents from relying on traditional models of service delivery. Prevention is better (and cheaper) than cure.
- **Culture change and changing behaviours is key to the success of this.** We need to modernise and transform our operating models (e.g. less risk averse, more innovation, greater value for money, invest-to-save, and a focus on early help, positive interventions and prevention), and have clear service levels and standards that staff and politicians both understand and comply with. Failure to do so will lead to inconsistencies, inefficiency and mixed messages for our residents.
- **The ‘silver bullet’ of demand management is to strengthen our communities to become more resilient and self-reliant.** This means local solutions to local problems (one size does not always fit all), a vibrant and modern Voluntary Community Services (VCS), and mobilising the significant untapped social capital in Havering.
- **Local leadership is key.** Members are in a unique position to help deliver this as local community leaders. Given that demand management initiatives are ‘almost always the right thing to do’ for our residents, this is a positive message and we must use our experience and leadership to sponsor and drive this work.

## **9. BUDGET ROBUSTNESS**

- 9.1 Cabinet are reminded of the requirements for setting a robust budget. The Council is required to set a balanced budget, taking into account a range of factors, 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.
- 9.2 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.

- 9.3 The advice of the CFO was set out at some length in the report to Cabinet in February 2015, in Appendix H of that report. Cabinet is asked to be mindful of this advice in reviewing proposals as they are brought forward for consideration during the budget development process when these are subsequently scrutinised by the Overview & Scrutiny Committee, and in then considering any alternative proposals. In particular, the need to set a balanced budget within the context of a medium 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 represents a further significant step in developing the Council's budget strategy for the next three years and reflects the expected continued Government approach of reduced levels of funding.

### **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 Comprehensive Spending Review (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 burdens will be funded, it remains to be seen what effect these will have locally and

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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 further reductions in Government funding.

The Council is required to set a balanced budget and the proposals that are made as part of the budget development process will 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.

### **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 medium term financial strategy to manage the implications of funding reductions and cost pressures over the next three 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.

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



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appropriate before any final decisions are made. Where appropriate Equality Impact Assessment will also be provided at the point that decisions are made.

**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.