Havering LONDON BOROUGH

CABINET
20 JANUARY 2016

Subject Heading:	**The Council's Financial Strategy**
Cabinet Member:	**Cllr Roger Ramsey**
CMT Lead:	**Andrew Blake-Herbert** Deputy Chief Executive - Communities and Resources
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Policy context:	The Council is required to approve an annual budget and this report provides information relating to the Local Government Financial Settlement to enable Cabinet to make recommendations to Council in February 2016
Financial summary:	There are no specific financial issues; this report deals with the overall budget position and associated issues
Is this a Key Decision?	No
Is this a Strategic Decision?	No
When should this matter be reviewed?	February 2016
Reviewing OSC:	Scrutiny Board

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 reports on the 4th November 2015 and the 16th December 2015 that provided an update on developments at the national level and the consequential impact on local government funding and set out information on the financial position within Havering.

The November report set out the Council's financial strategy to manage the implications of funding reductions and cost pressures over the next three years. It contained specific proposals which would enable the Council to set a balanced budget for 2016/17 and 2017/18 but would leave a shortfall of £2.4 m in 2018/19.

The December report provided some initial feedback on the Governments Autumn Statement and in particular sought the Cabinet's views on the proposal to give Councils the power to raise an additional 2% in Council Tax precept for the sole purposes of funding Adult Social Care.

This report updates Members on the Local Government Financial Settlement and the significant implications for the corporate budget and the proposed financial strategy for the coming year, the latest in year financial monitor and the proposed capital programme. As well as updating members on the outcome of the original budget consultation.

The provisional Local Government Financial Settlement has now been announced, and relevant details are included in this report, together with a summary of the key elements of the Autumn Budget Statement. Havering's financial strategy included provision for an expected reduction in Revenue Support Grant (RSG) over the next three years; however, the proposed reductions in Havering's grant settlement are much deeper than expected. The estimated shortfall in the three year financial strategy has increased from £2.4m to approximately £12.5m. Further changes in the strategy are required and will be considered as part of this and subsequent reports.

The report also sets out the Council's capital spending position.

RECOMMENDATIONS

That Cabinet:

1. **Note** the progress made to date with the development of the Council's budget for 2016/17 and the Council's likely intention to increase council tax by 1.97%, although no decisions will be taken until the February cabinet meeting.
2. **Note** that an additional 2% increase in Council Tax precept may be levied for the sole purpose of funding Adult Social Care pressures.
3. **Note** the outcome of the Autumn Budget Statement and the likely impact on local authorities.
4. **Note** the provisional local government financial settlement announcement, and that arising from the settlement, there are reductions in mainstream Government funding in 2016/17 of £10.8 m for Havering.
5. **Delegate** authority to the Cabinet Member for Adult Social Services and Health and the Leader to approve an annual spend plan for the Public Health grant.

6. **Delegate** to the Deputy Chief Executive - Children Adults and Housing to agree inflation rates with social care providers for 2016/17.
7. **Note** the financial position of the Council in the current year.
8. **Agree** the adjustments to the budget assumptions as set out in the table at paragraph 8 which give rise to an increase in the funding gap over a three year period 2016/17 to 2018/19.
9. **Note** the implications for the draft Capital programme for 2016/17.
10. **Agree** that any underspends from the Corporate Contingency Fund, the Transformation budget, and from any service revenue underspends, are allocated to the Strategic Reserve
11. **Note** the summary of the GLA's consultation budget and the expected date for the publication of the final proposals.
12. **Note** the outcome of the public consultation on the budget process.
13. **Recommend to Full Council** that the CTS Scheme 2016 is approved. (appendices D, E, F apply)
14. **Note** the progress on delivering the Voluntary Grants reductions (appendix G)

REPORT DETAIL

1. INTRODUCTION

1.1. Cabinet has previously received two reports on progress with the Corporate Budget, in November and December 2015. This report sets out the position in respect of developing the Council's budget for the coming financial year, the announcement of the Autumn Budget Statement, and the subsequent announcement of the local government financial settlement.

1.2. At the November meeting, Cabinet agreed an approach for managing its financial position over three years and establishing specific proposals designed to balance the Council's budget over that timeframe.

1.3. The approved financial strategy assumes an increase of 1.97% in Council Tax, although no decisions about Council tax levels will be made until the February Cabinet meeting. This proposal should be seen in the context of the overall financial strategy and the pressures faced by the Council to reduce expenditure and the consequential pressure on service priorities.

1.4. As reported to Cabinet in December the 2016/17 settlement enables Council's to levy an additional 2% precept in Council Tax specifically for the purposes of funding the increasing cost pressures in Adult Social Care.

1.5. The feedback from the original budget consultation is included in this report and the second consultation on the adult social care precept exercise will be included in the report to Cabinet on 10th February 2016.

1.6. The draft settlement has resulted in the Council losing approximately £10.8m of Central Government funding for 2016/17 which is approximately £5m more than that included within the draft budget. The impact on the strategy is discussed at paragraph 7 below.

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

Autumn Budget Statement (ABS)

2.1. The Chancellor of the Exchequer presented his Autumn Statement to the House of Commons on 25th November 2015. The ABS has had considerable national exposure since its announcement, through the national press and from various national organisations. The underlying message of deficit reduction continues; however the government plans of a surplus in its spending by 2019/20 still exists.

2.2. During the summer, the treasury consulted government departments on the ability to reduce department spend by up to 40%. It appears at this stage that savings around 29% will impact local government budgets. How this is distributed between local authorities for the rest of the parliament remains unclear. The announcement contained no details of cuts from 2016/17 however departmental spending for DCLG is estimated to drop from £11.5bn to £5.4bn. This directly affects the amount of RSG local authorities receive, however this excludes business rates which forms part of the Settlement Funding Allocation (SFA) and thus the 29% stated above. From face value, the reduction in funding appears to be more front-loaded than originally estimated however more will become known when further details are released.

2.3. The table below shows the extent of the cuts facing local government compared to other government departments.

	2015/16	2016/17	2017/18	2018/19	2019/20	%
Defence	27.2	27.8	28.5	29.2	30	10%
Home Office	10.3	10.7	10.6	10.6	10.6	3%
Health	111.6	115.6	118.7	121.3	124.1	11%
Work and Pensions	5.8	6.1	6.3	5.9	5.4	-7%
Education	53.6	54.5	55.5	56.4	57.1	7%
Business, Innovation & Skills	12.9	13.4	12.3	11.7	11.5	-11%
Justice	6.2	6.5	6.3	5.8	5.6	-10%
DCLG Local Government(1)	11.5	9.6	7.4	6.1	5.4	-53%

(1) Figures include new money in relation to BCF

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

- A new Adult Social Care precept of 2%
- Changes to the New Homes Bonus Scheme.

- Reductions in Public Health funding.
- Extension of small business rate reliefs
- The transfer of un-ringfenced grants to the Settlement Funding Allocation
- Further funding for the Better Care fund
- A new apprenticeship levy.
- A new national funding formula for schools

Local Government Financial Settlement (LGFS)

2.5. Details of the provisional settlement were announced on 17th December 2015 with revised figures provided on the 23rd of December. The announcement provided authorities with a four year settlement however this does not include the change in business rates which will be consulted upon in the summer. Cabinet has been made aware, that the announcement is very late in the context of the Council's budget-setting process, for the fourth year running.

2.6. One significant change compared to previous years is the method of apportioning cuts. From 2016/17, the grant reduction will not only be based on a local authority's Settlement Funding Allocation, but also the amount of council tax it can generate. As a result those authorities who are more self-funded have seen a significant increase in cuts compared to those who are grant funded.

2.7. In a similar manner to the previous two years, the Government's headlines focus on comparative figures concerning a local authority's "revenue spending power" and as stated this is being used to base local authority cuts. Local authorities will face an average reduction in spending power of 2.8% (Havering's comparable is a decrease of 1.7%). These figures mask the actual change in mainstream revenue support grant, as they include assumptions of council taxbase increase, business rate yield, and inclusion of the 2% adult social care precept, and a 1.75% council tax increase.

2.8. The Local Government settlement funding for 2016/17 has been adjusted to £18,601bn, down from £21.249bn. This decreases to £14.5bn by 2019/20 thus only leaving £2.1bn left in RSG. With departments such as Education and Health protected the large majority of the cuts have hit local Government which can be seen in appendix A.

2.9. The consultation period for the LGFS runs until 15th January, a week prior to the Cabinet meeting where this report is being considered. It is anticipated that the final settlement will be announced around 2 weeks after consultation closes, in common with earlier years, though a definitive date has yet to be confirmed. This will potentially be too late for inclusion in the 11th February Cabinet report.

Havering's Settlement Funding Allocation

2.10. The provisional funding allocation is used to determine both Havering's Revenue Support Grant (RSG) and Business Rate Baseline (BRB). Havering's provisional allocation for 2016/17 is £52.52m compared to a 2015/16 equivalent of £63.33m. This is a reduction of £10.8m, although this is assuming Havering's business rates increase in line with government expectations. Appendix B shows the reduction in Settlement Funding Allocation (SFA).

Table 1

	2015/16 £m's	2016/17 £m's	2017/18 £m's	2018/19 £m's	2019/20 £m's
Havering	63.3	52.5	44.5	40.0	35.6

2.11. The equivalent figures for RSG alone, which forms the core mainstream grant to the Council, shows a reduction from £32m in 2015/16 to £20.9m in 2016/17. The extent of the cuts increase further as by 2019/20, Havering's core grant will reduce to £1.3m. Any further reduction could result in Havering paying locally driven income back to government. Table 2 shows the reduction in RSG for Havering. Although in 17/18 onwards, it is estimated that Havering will receive £1.4m in RSG, it is highly likely once the business rates moves further to 100% retention that this will be completely removed and in later years, Havering having to pay funding over to central government.

Table 2

	2015/16 £m's	2016/17 £m's	2017/18 £m's	2018/19 £m's	2019/20 £m's
Havering	32.0	20.9	12.3	6.8	1.4

2.12. The reduction in core RSG grant is mainly due to the reductions placed on local authorities through the Autumn Statement; however there is a significant change to the apportionment of the cuts from 16/17. DCLG has changed the methodology in apportioning cuts that now includes an authority's ability to raise local income and as such, any authority who are self-funded are seeing a greater share of the cuts. Appendix B shows the distribution of cuts within London.

2.13. Havering's grant funding remains one of the lowest grant-per-head allocations despite being one of the largest boroughs in London with the highest proportion of elderly population, the fastest growing Children's population and the only London Borough which has seen an increase in the levels of deprivation. With the basis of calculation of RSG now effectively frozen until 2021, there is little prospect of any significant change in this position at least not in the short-term.

Business Rates

2.14. The local Government Financial Settlement also released details of Havering's Funding and Business Rate Baseline (BRB). The table below shows Havering's figures.

	2015/16 £m	2016/17 £m
Funding Baseline	31.365	31.627
Business Rates Baseline (BRB)	21.981	22.165
Top-up	9.384	9.462

2.15. Havering's actual yield will not be known until late January however it's expected that Havering's yield will be in line with the Business Rate Baseline

(BRB). Havering's assessment of business rates, verses its actual share of what is collected means that Havering receives a top up of approximately £9.4m.

2.16. There is still a large amount of uncertainty over the impact of appeals. Currently there are still several hundred outstanding appeals left with the valuation office which can date back to the last revaluation in 2010. Again, Havering has no influence on the valuation appeals process.

2.17. Within the announcements, government has reiterated its drive to promote 100% of business rates retention and as a result a consultation will commence on how this will be implemented in the summer of 2016. This will increase our retained yield but also have the following impact:

- Removal of RSG.
- Reduction or removal of our top-up grant thus making business rate pooling unviable.
- Additional burdens such as attendance allowance being transferred to local government.

Council Tax Base

2.18. The estimated base for next year has been set at 85,474. The calculation includes a reduction in the provision for bad debt and a significant increase in new properties since last year's tax base calculation. Further reduction in the number of people claiming council tax support has also contributed.

2.19. This is higher than previously assumed, and gives an increase of 2.8% in the tax base compared with the assumed level of 1%. This should result in an additional approximate £1.9m of income.

Unringfenced Grants

2.20. On the 17th of December, Government announced the provisional New Homes Bonus allocation which allocates Havering £6.9m. Along with this announcement, a technical consultation was released with regards to the long term future of the grant. It is proposed to cut the New Homes Bonus by £800m in order to partially fund increases in the Better Care Fund. As a result, Havering will not receive the same equivalent funding if and when the transfer occurs, as funding for the Better Care Fund is based on perceived deprivation indicators which do not allocate funding favourably to Havering. Although Havering is the only London borough with an increase in its deprivation factors, we would still be staring from a lower base. In addition the following other amendment to the New Homes Bonus are being proposed:

- Reduce the cumulative grant from 6 to 4 years.
- Only making payments for delivery above a baseline representing deadweight.
- Reducing payments for homes built on appeal.
- Link the grant to the Local Plan with the view to withhold funding if no plan is in place.

2.21. As mentioned above, further funding has been made available for the Better Care Fund from 18/19, however only £700m of this will be new funding with the remainder coming from a reduction in New Homes Bonus. This mechanism of how this funding has been allocated has not been provided in detail, however it is based on perceived deprivation figures which again penalises Havering.

2.22. Other grants are seeing further reductions such as the Education Service Grant (ESG) and the housing benefit admin grant. The combined reduction from these grants creates additional pressure of approximately 380k; however it is expected that further announcements in grant allocations and reductions will follow in the coming weeks and some from April.

Overall Impact on Havering

2.23. The current funding system introduced with effect from April 2013 has, as Cabinet is aware, proved to be extremely complex, difficult to understand and interpret, and the fact that the announcement and the associated documentation were again released extremely late in the budget-setting process means setting a budget is becoming extremely difficult. This complexity is likely to continue over the next few years especially given the drive to localise 100% of business rates to local government along with an increase in responsibilities.

2.24. In broad terms, the settlement indicates a funding reduction of £10.8m in 2016/17 as reflected in Appendix B. This is higher than expected due to the change in how funding reductions are profiled and the impact this has on authorities who are significantly self-funded.

2.25. Although indicative settlement figures have been produced up until 2019/20, this is likely to change significantly over the next few years given the changes in business rates. When government first implemented retained business rates, Havering lost 410k in funding due to the mechanism that was used. Given the changes we have seen in funding methodology, apportionment of cuts, retention of business rates and potentially the 2017 revaluation we should be mindful of further reductions and lack of transparency moving forward.

2.26. It can be expected over the next few years, with the further drive towards the concept of authorities becoming self-funding that we should also expect that for any authority who gains to much in locally generated income against a government perceived target will be penalised via the redistribution of funding via business rates top-up and tariffs.

2.27. Havering's overall position compared with that of others can be seen in Appendix B, and a presentation on the changes will be given at the Overview and Scrutiny Board on the 4th February.

Dedicated Schools Grant & Schools Funding

2.29. Schools receive their delegated funding through a limited number of nationally prescribed formula factors. These factors include a basic amount per pupil, deprivation, special educational needs, English as an additional language and a lump sum per school. Although the factors are nationally prescribed, local authorities apply their own values to the factors in consultation with their Schools Forums. In Havering, the balance of funding allocated through each factor is designed to provide as much stability as possible to school budgets. Any reductions to individual schools' budgets are limited to -1.5% per pupil by a national minimum funding guarantee. The Government announced in its Autumn Statement that a consultation would be launched in the new year on a national funding formula for implementation in 2017-18. The intention is to remove the inconsistencies in current per pupil funding between different local authorities.

2.30 The funding for schools and some central provision is funded through the Dedicated Schools Grant (DSG) in three main "blocks". These are Early Years, High Needs and Schools. There is a small additions block for the training of Newly Qualified Teachers.

2.31 The DSG allocations to LAs were announced on 17th December 2015. Havering's allocation is £198.249m compared to £196.164 in 2015-16. The increase is due to an increase in pupil numbers. The funding for each block compared with 2015-16 is set out below.

Year	Schools Block		Early Years Block		High Needs Block	Additions and cash floor	Total DSG
	GUF per pupil (£)	**Allocation (£m)**	**GUF per pupil (£)**	**Allocation (£m)**	**Allocation (£m)**	**Allocation (£m)**	**Allocation (£m)**
16-7	4,728.70	168.030	3,979.94	10.850	19.318	0.051	198.249
15-6	4,726.54	166.100	3,979.94	10.850	19.161	0.052	196.163

Notes:

1. All of the above figures are before recoupment by the DfE for pupils attending academies, non maintained special schools and post 16 special educational need provision.
2. The Early Years block will be recalculated based on the January 2016 and 2017 early years census.
3. The only funding remaining in the Additions block in 2016-17 is for the training of Newly Qualified Teachers.

2.32 Although the overall DSG is ring-fenced the blocks within it are not. Because of increasing demand and a funding model that does not keep pace with increasing costs, it is forecast that the High Needs Block will overspend by £1.4m in 2016-17. Following consultation with schools and the Schools Funding Forum it has been agreed to transfer £100k from the Early Years block and £1.3m from the Schools block into the High Needs block to mitigate the overspend.

2.33 The amount available for allocation to schools through the formula is after deducting an amount that is centrally retained for LA responsibilities such as: a contingency for supporting pupil growth and schools with falling rolls, school admissions administration, national licensing arrangements and the servicing of the schools funding forum. After consultation with schools the total amount agreed for central retention is £4.215m. The values to be applied to the formula factors for 2016-17 follow consultation with all schools and with the Schools Funding Forum and to fund the transfer of funding to the High Needs block it has been agreed to reduce the basic per pupil funding factor by 0.5% per pupil. Since the last Schools Funding Forum meeting, however, there have been some late data changes received from the DfE in the reclassification of deprivation through the Income Deprivation Affecting Income Index (which is a factor used in the schools funding formula). This will require some remodelling of the formula distribution to schools and consultation with the Schools Funding Forum at their January meeting.

2.34 In addition to the funding provided to schools from the DSG, they receive additional funding through the Pupil Premium to address low attainment of pupils from low income families and areas of high deprivation. For financial year 2016-17, the Pupil Premium the rates are as follows:

Primary age pupils:	£1,320
Secondary age pupils:	£935
Looked After Children:	£1,900

and children who:

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

Public Health

2.35 This function transferred to local authorities with effect from 1st April 2013. Havering's final funding allocation for 2015/16 was £10.3m and included an in year cut of £0.7m. A further cut is expected for 2016/17 although we are still awaiting confirmation of the final settlement. The funding allocated is a specific, ringfenced grant, and therefore these funds can only be expended for the purposes of public health services.

2.36 With this in mind, the draft spending plan will need be developed based upon the final 2016/17 grant allocation, subject to consultation with the Health & Wellbeing Board, with authority to approve the final plan being delegated to the Cabinet Member for Adult Social Services and Health and Value. Cabinet is therefore asked to agree this approach.

3 CONSULTATION

3.1 A budget consultation was launched following the approval of the financial strategy by Cabinet on 4 November 2015. Cabinet considered a further report on 16th December 2015 at which point it was agreed to expand the consultation in order to seek feedback on the possibility of increasing Council Tax by up to 2% for the potential Adult Social Care precept.

3.2 The first consultation has closed and the overall response is as follows, and more detail can be seen at Appendix C, five questions were asked:

- 69% of respondents believe in the overall direction of the budget strategy.
- 68% agree with limiting general household waste to 3 sacks, to protect weekly bin collection.

- Respondents top 3 or as it was joint top 4 service areas, are as follows in order:
    - Crime Reduction and Public Safety
    - Cleaning and Streets
    - Road and Pavement Repairs
    - Rubbish and Recycling
- Only 40% of respondents wanted to increase Council Tax further, although this will be considered further in the additional consultation.
- Analysis of the additional comments will follow in the February report

3.3 The consultation on the adult social care precept remains open at this time but the results will be known in time for the February Council Tax setting cycle.

4. CURRENT FINANCIAL POSITION

4.1 The previous reports to Cabinet included an update on the current financial position. The latest budget monitoring position for 2015-16 for period 7 is set out in the table below.

Directorate	Revised Budget £'000	Forecast Outturn £'000	Forecast Outturn Variance £'000
Communities & Resources	62,572	61,782	(791)
Public Health	(1,648)	(1,648)	0
Childrens, Adults & Housing	98,039	104,119	6,080
oneSource Non-Shared	343	(359)	(702)
Sub total	159,306	163,893	4,587
Contingency	1,865	1,865	0
Revenue Total	161,172	165,759	4,587
Dedicated Schools Budget	0	(0)	(0)
oneSource shared	4,678	4,678	0
Grand Total	165,849	170,436	4,587

4.2 As reported to Cabinet in November the forecast budget variance reflects significant and growing pressures in both Children's and Adult Social Care, and we are beginning to see an increase in homelessness in the Borough too. Over the course of the financial year, it has become increasingly clear that these pressures are on-going in nature, reflecting the scale of demographic change. These increased cost pressures will need to be funded from corporate contingencies and provisions in order to achieve a balanced budget for the current financial year and their on-going impact will need to be reflected in the future financial strategy.

4.3 These budgetary pressures are indicative of the increasing but unpredictable level of demand on services faced by the Council. Other Councils are facing similar pressures and there are increasing concerns at a national level regarding the adequacy of funding. Further consideration of the future funding requirements are discussed at paragraph 7 below.

5. OTHER KEY MATTERS

Impact of Inflation

5.1. As Cabinet will be aware, inflation levels have remained at their lowest point in many years. Pay increases in the public sector has been subject to a high level of scrutiny and restraint in recent years and it is clear that the Government expects a similar level of restraint in the future. With that in mind a provision for a 1% rise was included in the 2016/17 budget.

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

5.3. Fees & charges are to be increased in line with the draft financial strategy and a schedule of revised charges will be submitted to Cabinet in February as part of the budget setting cycle.

Interest Levels

5.4. Interest rates have remained at historic lows for some considerable time. The Council's budget strategy originally assumed that there would be a recovery in interest levels during 2016/17. The expectation of an increase in rates has receded and therefore the increase will be delayed until 2017/18.

5.5. There is no immediate sign of rates rising, although economic factors have continued to improve, suggesting there will inevitably at some point be a change in this position. As historic investments come to an end, the overall level of interest generated has fallen. Income targets have been achieved through prudent financial management of the Council's cash flow position rather than an increase in rates.

Concessionary Fares and Taxicard Scheme

5.6. This item has been a major factor in previous years. Havering's contribution to the freedom pass scheme currently stands at £8.053m. We are currently awaiting confirmation of the Council's contribution for 2016/17 and the final figures will be included in the Budget report. This area remains a financial risk to all London Boroughs as future rises could well be at a similar level, and therefore continues to be covered in the Council's longer term planning.

5.7. The Council's contribution to the London Taxicard scheme, which is also funded through London Councils, currently stands at £150k. The 2016/17 contribution level will be reflected in the final budget report.

Pension Fund

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

5.9. The level of contribution rates included in the financial strategy are those which were agreed with the actuary following the last triennial review. The next review will take place in 2016 with an implementation date of April 2017.

Levying Bodies

5.10. The levies are part of the Settlement and therefore need to be taken into account when setting the Havering element of the Council Tax. There are a number of levies, but the predominant levy relates to ELWA. The current overall levy budget is around £13.8 million, of which ELWA accounts for £13 million. At this stage, no account has been taken of any changes in the distribution of levies arising from the changes in Council Tax base referred to earlier in this report.

<u>ELWA</u>

5.11. Provision has broadly been made within the council's financial strategy for increases in the ELWA levy of £800k in 2016/17and £1m per annum thereafter over the budget window the Council now operates.

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

<u>Other Bodies</u>

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

London Councils Subscription and London Boroughs Grants Scheme (LBGS)

5.14. The core subscriptions have reduced for 2016/17, being £113k, which includes a one off rebate for all contributing authorities, at a level of £49k for Havering. The contribution to the LBGS has reduced by £14k to £245k due to a share of a one off payment.

Transformation Funding

5.15. Cabinet will recall that, as part of the Council's approach to delivering its transformation programme, a reserve was established to finance a wide range of activity, for example the development of Internal Shared Services programme. However, given the continuation of the Government's austerity programme and consequential impact on the Local government financial Settlement it is highly likely that local authorities will be engaged in transformation activity for a considerably extended period. The Strategic Reserve therefore remains a crucial source of funding for the delivery of transformational change.

5.16. As part of the report to Cabinet in November, a financial strategy for the three year period, starting in 2016/17 was approved. However, the impact of the Local Government Financial Settlement is to significantly increase the savings gap to in the region of £12.5m. Delivering further savings will therefore require a considerable level of investment and support, with the financial consequences this would give rise to.

5.17. In previous years, Cabinet agreed that any underspends are allocated to the Strategic Reserve with a view to supporting further transformation spending. Cabinet is asked to endorse this approach once again, although it is recognised that the potential for generating further surpluses may be limited by the impact of demographic growth pressures on the revenue budget.

Changes in Demography

5.42 Cabinet will be aware from previous reports that social care services in particular have been impacted by changes in demography. These demographic pressures have already resulted in increased cost pressures in Adult Social Care during 2015/16 (as discussed in paragraph 4). This issue has been also been considered in developing the Council's financial strategy, and due to the fluid nature and high risk will continue to be closely monitored. This financial requirement is difficult to predict, however, with continuing changes in demand, the increased financial pressures facing local authorities, changes in funding streams referred to elsewhere, and shifts in population as well as properties, this issue now potentially has a broader impact.

5.43 Elsewhere in this report, changes in the Council's property base – as measured through the Council Tax base and the New Homes Bonus – are highlighted. This also needs to be considered in the context of increased demand for schools places.

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

Factor	Impact	Financial Impact
Properties	Increase in waste produced by households Increased traffic leading to more road/footway damage	Higher costs for refuse collection, street cleaning, waste disposal Higher costs for highways maintenance
School places	Increase in demand for places leading to need for more classrooms	Capital investment in additional classrooms Revenue impact falls directly on schools

		budgets
General population	Increase in special educational needs Increase in residents requiring learning or mental disability support Increase in demand for parks, leisure, arts, culture, etc Change in population mix, e.g. nature and make up of families	Increase in resource needs and thus service costs As above As above Potential capital investment, e.g. new facilities, vehicles As above

5.45 At this stage, it is not possible to determine the financial impact of potential changes. Clearly, there will be an increase in Council Tax receipts, and this is factored into the base calculation. What is much more difficult to assess is the cost impact these changes might have, as this depends on the actual nature of the shift in demand, rather than any notional model. It is however a fact that such changes represent a significant area of risk, both financial and otherwise. This has been mitigated by including a central provision for demographic growth within the financial strategy. This central provision has and will, continue to be held corporately until the case has been made to release budgets to service areas.

Local Council Tax Support Scheme

5.51 The Local Council Tax Support Scheme (CTS) was revised with effect from April 2015 as a result of reductions in the settlement funding for 2015/16 which included the rolled-in CTS scheme grant.

5.52 It is the intention to maintain the same CTS Scheme in 2016/17 as for 2015/16 however a challenge was made to the Court seeking a review of the scheme. In June 2015, permission was given for a Judicial Review of the CTS Scheme which was heard at the High Court in September 2015.

5.53 The CTS claimant who challenged the scheme at Judicial Review was an individual with disabilities who received maximum CTS in 2015/16 which discharged 85% of their council tax bill. The remaining 15% of council tax was discharged by a discretionary payment made under S13 (A)(1)(c) of the Local Government Finance Act 1992 therefore, the CTS claimant had no council tax to pay in 2015/16.

5.54 The issues in the Judicial Review centred on equalities, age and disability discrimination. These matters were considered in detail by the High Court in September 2015.

5.55 The outcome of the Judicial Review has now been released and the High Court Judge concluded that:

- There was no discrimination on the grounds of age or disability.
- While the Equalities Impact Assessment was not defective, there was insufficient evidence to conclude that due regard was given to the Public Sector Equalities Duty.

5.56 In accordance with Schedule 1A of the Local Government Finance Act 1992, Council is asked to consider the current CTS scheme and agree its continuation through to 2016/17.

5.57 A summary of the draft CTS Scheme 2016 which is the same as the current CTS Scheme is appended to this report at Appendix E. A full version of the draft CTS scheme 2016 can also be found online at:

www.havering.gov.uk/Pages/Category/Council-tax-support.aspx

5.58 The Equalities Impact Assessment (EIA) for 2015 has been reviewed and is attached at Appendix D. While the CTS Scheme was revised in 2015 to make all working age claimants liable for 15% of their Council Tax, there does not appear to be an adverse inference on this group. Council Tax collection rates remain comparable to 2014/15 which implies that working age CTS claimants are paying their Council Tax. However, an EIA for 2016 has also been prepared and is attached at Appendix F for Members' perusal.

5.59 While the CTS Scheme is designed to assist people on low income pay their Council Tax, further discretionary assistance can be considered for those who cannot pay the remaining balance of their council tax bill.

Equalities Implications:

5.60 The existing Council Tax Support (CTS) Scheme 2015 assists many people on low income pay their Council Tax bills and it is proposed that the same Scheme continues to be used in 2016/17.

5.61 Equalities Impact Assessments for 2015 and 2016 along with the Council Tax Support 2016 Summary are attached at Appendix D, E and F for consideration. A number of actions have been identified and taken to mitigate the impact of the Scheme which are contained within these Assessments.

5.62 While the CTS Scheme is designed to assist people on low income pay their Council Tax, further discretionary assistance can be considered for those who cannot pay the remaining balance of their council tax bill.

Voluntary Grants and Commissioning Review

5.63 An update on the review of Voluntary Grants including an update on the savings to be achieved is included at Appendix G.

6. EXPENDITURE RESTRICTIONS AND BUDGET ROBUSTNESS

Expenditure Restriction by Government

6.1 The Government has previously stated that it will use its capping powers where necessary. As part of the settlement announcement last year, and following on from previous announcements, a referendum process would be triggered if the Council set a Council Tax increase of 2% or higher.

6.2 The latest settlement enables an additional increase of up to 2% to be levied for Adult Social Care precept. This does not require a referendum.

Budget Robustness/Reserves Position

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

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

7.3 The General Fund Balance at 31 March 2015 was £11.8m. Prior to making a final recommendation to Council, there will also be a need to further consider the current financial position for 2015/16. The revenue budget strategy statement, as agreed by Council, sets out that the minimum level of reserves held will be £10m. There is an opportunity cost of holding reserves, in particular the alternative use that these balances could be put to and the benefits that might accrue as a result. Equally, the importance of retaining sufficient reserves has been emphasised by the position within social care services during previous financial years, and particularly so now, with the Council suffering an on-going reduction in grant funding from Government. A reduction of up to £1.8m in the General Reserve is therefore permissible under the existing budget policy. However, it should be stressed that the use of reserves provides only a one off funding source for budgetary purposes. Any further use of reserves would require amendment to the Council's approved budget policy.

7.4 The Council's revenue budget strategy statement requires that:

- While addressing its priorities and setting a balanced and prudent budget, the Council will seek to keep any increase in the Council Tax to the lowest possible level and in line with its stated aspirations whilst maintaining reserves at the minimum level of £10m.
- And as part of that process, the Council will not utilise those reserves, or any reserves earmarked for specified purposes, to subsidise its budget and reduce Council Tax levels as this is neither a sustainable nor a robust approach.

7.5 In addition to its general reserves, the Council also holds a number of earmarked reserves. At 31 March 2015, the total value of these reserves stood at £48.6m. This sum includes:

a) £5.7m relating to previous NHS and social care integration funds not fully spent. Given the level of financial and operational risk associated with the Care Act and SEND legislation and in particular assessing all who apply and are eligible for services, these funds are being held to support this implementation of new legislation and integration with the NHS.
b) £23.2m earmarked for the corporate transformation programme, which is required to support the delivery of savings agreed by the Council.
Over the last four years, over £21m has been spent on delivering transformation including £5m on severance payments. Given the level of redundancies contained within the proposals currently under consideration, significant budget provision is likely to be required for further severance payments.
c) £8.9 m being sums earmarked towards the funding of capital schemes included within the approved capital programme.
d) £4.7 m set aside for the Insurance reserve to meet potential claims and the cost of self insurance based upon actuarial advice.

7.6 The current advice of the Deputy Chief Executive Communities and Resources is that by retaining the minimum level of general reserve at £10m can be considered to be adequate. However, the recent and expected future reductions in grant funding, coupled with the need to resource major change programmes, emphasise the need for prudence with the management of reserves. Without a sufficient level of reserves, such investment would only be possible from base service budgets. A full assessment will be brought in the February Council Tax setting report.

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

8 FINANCIAL STRATEGY

8.1 At the meeting of 4th November 2015 Cabinet approved its long term financial strategy for the three year period commencing 2016/2017. The revised financial model is set out below and incorporates a number of significant changes which have arisen since that time.

	16/17 £000's	17/18 £000's	18/19 £000's	Total £000's
	£'m	£'m	£'m	£'m
Original Budget Gap	0	0	2.4	2.4
Pressures				
RSG Reduction	**4.7**	2.4	-0.6	6.4
Apprenticeships		0.5		0.5
Housing Pressures - homelessness	**1.3**	0.9	0.9	3.0
Adults - demographic pressures	**3.0**	2.0	2.0	7.0
Additional Pressures	**0.4**			0.4
Unachievable Savings:				0.0
Private sector leasing and other housing	**0.2**	**0.2**	**0.2**	0.5
Loss in Grants:				
ESG reduction	**0.3**			0.3
Re-phasing Previous savings items				0.0
Interest on borrowing delay 1 year	**0.9**	-0.9		0.0
delay reduction in Contingency	**1.0**		-1.0	0.0
Additional Income:				0.0
Adult Social Care (2%) precept	**-2.1**	-2.0	-2.0	-6.1
Council Tax Base	**-2.0**	0.0	0.0	-2.0
New Homes Bonus	**-2.1**		2.1	0.0
				0.0
Revised Budget Gap	**5.6**	**2.9**	**4.0**	**12.5**

8.2 RSG

8.2.1 The outcome of the Local Government Financial Settlement is discussed at some length in paragraph 2. The changes made by the Government to the methodology for apportioning the funding reductions has resulted in deeper cuts in Havering's RSG than forecast. Havering's RSG will reduce from £31.2m in 2015-16 to £20.89m in 2016/17 and will fall to £1.38m by 2019-20. This represents an additional reduction of £5.93m over and above the level of cuts already forecast and reflected in the three year strategy. The lateness of the change in methodology has created an additional pressure in 2016/17 which will need to be addressed as part of the budget development cycle.

8.3 Other Pressures

8.3.1 The impact of demographic changes has led to increased cost pressures, principally in the area of Adult Social Care. There has been an increase in demand for Homecare and supported living, partly due to early discharges from hospital or due to needs of the older population changing. This had led to demand increasing in both hours per customer and a market that is struggling, with external drivers due to increased regulations and the new national minimum wage. The number of clients has steadily increased, coupled with the increasing size (and complexity) of care packages, this has meant the actual cost of packages has increased significantly. As a consequence of these pressures an additional £3m provision has been included in the strategy.

8.3.1 The number of people presenting themselves as homeless is increasing. This is expected to give rise to further cost pressures for the homeless service. It is proposed to increase the budget in this area by £3m over the three year cycle.

8.3.2 In July 2015 the Government announced proposals to introduce a levy on larger employers from April 2017 to fund an apprenticeship scheme. The cost to Havering is estimated to be £0.45m at this time.

8.3.3 The Education Services Grant for 2016/17 has been announced at £2.336m representing a cut of £0.25m.

8.4 Review of savings items

8.4.1 The saving previously submitted in respect of private sector leasing is no longer considered achievable given the pressures on the homeless service.

8.4.2 The likelihood of an early increase in interest rates has diminished and with it the expectation of additional income from Treasury Management activity. The proposed change has been deferred by a year.

8.4.3 The proposed reduction in the budgetary contingency form £2m to £1m is deferred by one year to retain some flexibility in managing budget pressures

Additional Income

8.4.4 As explained in the December report to Cabinet the Council may increase Council Tax by an additional 2% precept to meet the growing cost of Adult Social care. The Government have also built an assumed increase of 2% per annum in their assessment of the Council's spending powers; used to calculate the level of cuts. Given this assumption and the pressures faced by the Council the precept has been built into the model although the final decision will rest with full Council.

8.4.5 The increase in Council Tax base reflects the growth in the number of properties in the borough.

8.4.6 As discussed in paragraph 2 above the government have announced the New Homes Bonus for 2016/17 as £6.9m. The additional grant will be included in the draft budget although this is expected to reduce in future years.

8.5 Bridging the Gap

8.5.1 The budget gap has increased from £2.4m to £12.5m over three year cycle. More significantly, it includes a gap of £5.6m in 2016/17 which has arisen principally as a consequence of the change in the Government's methodology for allocating cuts in RSG. However, this gap will need to bridged in time for the Council Tax setting report due in February 2016. It is recommended that further savings be brought forward for consideration by Cabinet as part of that report. This may include savings proposals already agreed for implementation in 2017/18 which may reasonably be brought forward to 2016/17.

8.5.2 Given the short timescale and the scale of the savings required there is a significant risk that the funding gap will not be fully met. Cabinet will also be mindful of the timescales required to carry out any consultation which might be required in relation to proposals affecting services to its residents. Consideration may therefore need to be given to the use of reserves as a short term measure. It should be remembered that reserves can only be used once and will only serve to buy time until a permanent solution can be achieve.

8.5.3 The general fund reserve currently stands at £11.8m which is £1.8m above the minimum level recommended within the Council's budget strategy. It would therefore be permissible to utilise £1.8m as a one of funding source for budget setting purposes in 2016/17. It would not be possible to plan to use any more than this sum without first carrying out a review of the council's budget strategy.

8.5.4 It is recommended that consideration of further savings proposals and the possible use of reserves be included in the February Council Tax report.

9. CAPITAL PROGRAMME

Background to Current Programme

9.1 The Council's overall approach to its Capital Programme has been based on an assumption that a gradual move towards the use of prudential borrowing will be required to meet long term capital spending need. In more recent years, the duration of the planned programme has been kept relatively short, in recognition of the need to maximise the use of receipts, and to avoid additional pressure on the revenue budget.

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

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

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

9.5 An indicative programme for 2016/17 was approved as part of a two year programme in 2015/16. An amended table setting out the proposed core programme is produced below based upon a prudent view of available capital receipts.

	2016/17 £000's
Parks, Libraries, Leisure & Cemeteries	1,500
Street Environment	2,000
Protection of Assets and Health and Safety	500
IT Infrastructure	1,000
Regeneration	100
Disabled Facilities Grant (Council element)	300
Capital Contingency	3,000
Total	8,400

9.6 An expansion of the programme beyond this level will almost certainly increase the Council's borrowing requirement. There are already a number of additional capital expenditure demands which will need to be addressed as part of the final budget report to Cabinet in February. The issues are discussed below.

9.7 The financial strategy approved by Cabinet on 4 November included the following income generation proposals.

Service	**Saving Details:**	**Value of Saving and Year(s):**			**Total**
		16/17 £000s	**17/18 £000s**	**18/19 £000s**	**£000s**
Corporate	Interest linked to Council Housing Co. [1]		(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)**
Sub Total			**(1,800)**	**(2,000)**	**(3,800)**

In order to achieve these objectives the Council will need to make a significant capital investment to develop the programme and produce the required revenue stream for the Council. Approval has already been given to the creation of a Housing Development Company (Mercury Land Holdings), and further projects will be brought to members for consideration over time. However, it is now appropriate to identify a significant capital programme allocation to enable these and other schemes to be developed. This matter will be considered further in the February Budget report and Treasury Strategy.

9.8 Cabinet received a report on 4 November 2015 which identified the cost of the phase 4 Schools expansion programme to be £67m of which £61m relates to 2017/18 and beyond. The funding streams beyond the financial year 2016/17 have yet to be identified. If members are minded to progress all or part of this programme it will carry the risk that any shortfall in funding will fall back on the Council. The gap could be met by increased borrowing although the resulting revenue implications have not been factored into the financial strategy. Further consideration of the financial implications will be made in more detail as part of the Budget report. The draft Treasury Management Strategy to be considered at Council in February will reflect the estimated impact of these capital spending plans on borrowing and cashflow.

10. SUMMARY OF FINANCIAL POSITION

10.1 Based on the factors that are set out in this report, the Council will need to make additional savings of approximately £12.5m in order to balance its financial strategy over the next three years. Of this sum £5.6m will need to be found as part of the budget setting process for 2016/17.

10.2 The financial strategy included an assumption that the Council will increase Council Tax by 1.97% in 2016/17. The budget is being developed with that assumption in mind. The Government have also allowed Councils to increase Council Tax by a further 2% precept in order to meet the growing costs of Adult Social Care. This increase has also been assumed within the updated model and by the government in allocating funding cuts. Final decisions about Council Tax increases will not be made until the February Cabinet meeting.

10.3 As indicated elsewhere within this report, there are significant pressures and risks associated with the revision of the three year strategy. In particular there is a risk that further savings options will not be developed in sufficient time to bridge the funding gap for 2016/17 and in these circumstances it may be necessary to make a one off contribution from reserves. These matters will be considered in greater depth as part of the final Council Tax report.

11. HOUSING BUDGET

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

12. GREATER LONDON AUTHORITY (GLA)

12.1 The announcement of the Mayor's draft budget proposals were made on 21st December. This indicated an intention to make a slight reduction in the GLA's Council Tax level, from the current £295 to £276 – a reduction of £19, or around 6.44%. Consultation on the budget proposals ends on 12th January. The final draft budget proposals will be considered by the London Assembly on 27th January and the budget is due to be approved by 28th February.

12.2 The Mayor's draft budget consists of – Mayor's Office for Policing and Crime, Transport for London, London Fire and Emergency Planning Authority, the London Legacy Development Corporation and core Greater London Authority. The total budget (capital and revenue) is £16.2 billion.

12.3 The Mayor's 2016/17 draft net revenue expenditure budget is £4,755 million. Under the proposal the total GLA precept will be cut from £295 a year to £276 (for a Band D household). The Mayor's proposed council tax precept draft budget comprises of £206.79 to support the Mayor's Office for Policing & Crime (principally the Metropolitan Police), £50.35 for the London Fire Brigade, £14.63 for the Mayor and GLA assembly and £4.23 for transport and other services.

12.4 The Mayor's 2015/16 budget assumptions assumed the removal of the Olympic Levy (£12 for Band D equivalent) and this is included in the proposed reduction of £19 for 2016/17.

REASONS AND OPTIONS

Reasons for the decision:

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

Other options considered:

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

IMPLICATIONS AND RISKS

Financial implications and risks:

The Council's budget-setting process will ensure that financial implications and risks are fully met. Any financial implications or risks are covered in this report as necessary. There are significant risks associated with the delivery of the three year financial strategy and with the continuing degree of uncertainty over the future of local Government funding, and the general economic environment, but the steps already taken by the Council should mitigate much of this. However, it will also be necessary to continually refine the financial forecasts underpinning the Council's financial strategy to ensure that any necessary actions can be taken at the appropriate times, allowing for consultation as appropriate.

Legal implications and risks:

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

Human Resources implications and risks:

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

Equalities implications and risks:

Detailed proposals will need to be assessed as part of the business and service planning process. Equalities impact assessments are produced as standard as part of the detailed budget process.

BACKGROUND PAPERS

The Financial Strategy reports to Cabinet 4 November 2015 and 16th December 2015

APPENDICES

A AUTUMN BUDGET STATEMENT (Reductions in Government Departments from 2010 to 2015 and 2015 – 2020)

B LOCAL GOVERNMENT FINANCIAL SETTLEMENT (Reduction in funding from 2015-16 – 2019-20)

C CONSULTATION FEEDBACK

D LOCAL CTS SCHEME EIA 2015

E SUMMARY OF THE DRAFT CTS SCHEME 2016-17

F LOCAL CTS SCHEME EIA 2016

G SCHEDULE OF GRANTS