

CABINET

8 February 2017

Subject Heading:

Cabinet Member:

SLT Leads:

Report Author and contact details:

Policy context:

Financial summary:

Is this a Key Decision?

Is this a Strategic Decision?

When should this matter be reviewed?

Reviewing OSC:

THE COUNCIL'S BUDGET 2017/18

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This report presents the Council's new Vision, overall policy direction, statutory duties and Medium Term Financial Strategy for agreement by Cabinet and recommendation on to Council for consideration and approval.

The Council is required to set an annual budget for 2017/18 and MTFS for the three year period ending 2019/20. The report includes recommendations to Council for the formal budget-setting process and setting a Council Tax increase of 1.95% (plus a 2.00% Adult Social Care precept) for the Havering element of Council Tax and recommends to Council the Council Tax level at band D as £1,317.71, before inclusion of the GLA precept.

No

Yes

Annually

Overview and Scrutiny Board

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

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| 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] |

**ALL MEMBERS ARE ASKED TO RETAIN THIS REPORT AND ITS
APPENDICES FOR REFERENCE AT THE COUNCIL TAX MEETING
ON 22nd FEBRUARY 2017**

SUMMARY

This report outlines the context within which the 2017/18 budget is being set and identifies the Council's new Vision, overall policy direction, statutory duties and financial strategy.

The Council's budget needs to reflect the level of funding allocated to it by the Government. Cabinet received reports in December 2016 and January 2017 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 four year financial settlement covering the period 2016/17 to 2019/20 provides greater clarity over the reduced funding stream and is reflected in the draft MTFS.

The Cabinet report of 18 January 2017 updated Members on the Local Government Financial Settlement, the impact on the proposed financial strategy for the coming financial year and the latest in year financial monitor. This report provides Cabinet with the latest forecast three year funding gap of £13.567m of which £4.347m relates to 2017/18. This report provides an update of the financial strategy and a number of recommendations which are intended to balance the budget for 2017/18. Further reports will be made to Cabinet during the course of 2017/18 to consider the options for balancing the budget in the financial year 2018/19 and 2019/20.

In finalising the budget strategy this report also updates members on any matters which were outstanding at the time of presenting the January report. This includes the Council Tax Base and Business Rate yield as well as the updated position on levies and precepts.

The current position is that an increase in the Havering element of the Council Tax of 1.95% plus a 2.00% precept for Adult Social Care is required to balance the budget.

Final confirmation of the Greater London Authority (GLA) precept is expected at the meeting of the London Assembly on 20 February 2017. The Mayor has proposed an increase in the current precept, as previously advised to Cabinet, and this has been the subject of a similar consultation process. Any changes to the GLA position will be reported at the Cabinet meeting if known, and an update will be provided for the Council meeting.

On the assumption that this is approved by the London Assembly, the combined band D figure would increase to £1,597.73 an increase of 3.5%.

This report provides details of the various components of the budget with appendices.

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| RECOMMENDATIONS |
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That Cabinet, in view of the need to balance the Council's policies, statutory requirements, government initiatives, inspection regimes and Council Tax levels:

1. **Approves** the new Vision set out in **Appendix K** that will be the framework for the Council's Corporate Plan, service planning and the context in which future financial strategies will be developed.
2. **Approves** the mitigating action plans referred to in paragraph 3.13 of this report and set out in **Appendix A2**.
3. **Approves** the income generation and savings proposals as set out in **Appendix A1**.
4. **Considers** the advice of the Chief Finance Officer as set out in **Appendix H** when recommending the Council budget.
5. **Approves** the following budgets for 2017/18:
 - The Council's General Fund budget as set out in **Appendix E**.
 - The Delegated Schools' draft budget set out in **Appendix F**
 - The Capital Programme as set out in Paragraph 3.25 and **Appendix I**,
6. **Delegates** to the Chief Financial Officer the implementation of the 2017/18 capital and revenue proposals once approved by Council unless further reports or Cabinet Member authorities are required.
7. **Agrees** that the Chief Financial Officer be authorised to allocate funding from the Capital Contingency included within the draft Capital Programme.
8. **Delegate** authority to the Chief Financial Officer in consultation with the Cabinet Member for Financial Management to determine the projects that will be included in the proposed £5m efficiency programme contained within the Capital Programme.
9. **Agree** that the relevant Cabinet Member, together with the Cabinet Member for Financial Management, be delegated authority to commence tender processes and accept tenders for capital schemes included within the approved under the block programme allocations or delegation arrangements set out in this report.

10. **Agrees** that to facilitate the usage of unringfenced resources, the Chief Financial Officer in consultation with Service Directors will review any such new funds allocated to Havering; make proposals for their use; and obtain approval by the Cabinet Member for Financial Management.
11. **Delegates** to the Chief Financial Officer in consultation with Service Directors the authority to make any necessary changes to service and the associated budgets relating to any subsequent specific grant funding announcements, where delays may otherwise adversely impact on service delivery and/or budgetary control, subject to consultation with Cabinet Members as appropriate.
12. **Approves** the schedule of proposed Fees and Charges set out in **Appendix L**, with any recommended changes in year being implemented under Cabinet Member delegation.
13. **Agrees** that if there are any changes to the GLA precept and/or levies, the Chief Financial Officer authorised to amend the recommended resolutions accordingly and report these to Council on 22 February 2017.

That in addition,:

14. **Cabinet Recommends to Council for consideration and approval:**
 - The General Fund budget for 2017/18
 - The Council Tax for Band D properties and for other Bands of properties, all as set out in **Appendix E**, as revised and circulated for the Greater London Authority (GLA) Council Tax.
 - The Delegated Schools' budget for 2017/18, as set out in **Appendix F**.
 - The Capital Programme for 2017/18 as set out in paragraph 3.25 and supported by Annexes 2, 3 and 4 of **Appendix I**.
15. That it pass a resolution as set out in section 3.29.5 of this report to enable Council Tax discounts to be given at the 2016/17 level.

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| REPORT DETAIL |
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This report is split into the following parts:

1. Overall Policy Direction and Strategy.
2. Consultation and the Overview and Scrutiny Committees.
3. Havering's Revenue Budget and Council Tax.
4. Capital Programme.
5. Treasury Management Strategy.
6. GLA Budget.

7. Overall Council Tax Impact.
8. Other Matters.
9. Housing Revenue Account.

Appendices provide more information in certain areas and are cross referenced to the relevant text below.

1. Overall Policy Direction and Strategy

- 1.1 The Council's budget is a reflection of the Council's Strategy expressed in financial terms. The Council's strategy reflects the main priorities of residents, as expressed in successive consultation exercises – principally, keeping the Borough clean and safe and promoting a high quality of life for local people.
- 1.2 The Council has recently carried out review of its vision which is now expressed as – **Making a Greater London**. The vision is focused around four cross-cutting priorities: Communities, Places, Opportunities and Connections. Underpinning these themes will be outcomes that the Council will seek to deliver and success will be measured and reported through performance processes. These key themes and outcomes will provide the basis for the new Corporate Plan, service plans and future financial strategies. Further information is included at **Appendix K**.
- 1.3 The proposals in these papers build on the draft financial strategy agreed by Cabinet in September 2016 and updated in December 2016 and January 2017. A public engagement exercise on the proposed budget strategy was carried out during January 2017. The exercise was not concluded at the time of preparing this report. However, the results will be made available for Cabinet prior to the meeting.
- 1.4 It is important to note that the Council's financial strategy and budget development process is an iterative one, taking on board a wide variety of issues and enabling forward planning. These include:
 - Responding to the difficult and volatile financial climate;
 - Ensuring that the Council's policy priorities drive resource allocations;
 - Ensuring there remain clear links between revenue and capital budgets;
 - Continuing to ensure that all budgets have defined outputs;
 - Continuing to seek greater efficiencies – including through working in partnership and prioritising effectively;
 - Seeking funding from external agencies and/or partners;
 - Continuing to benchmark and deliver value for money.
- 1.5 There will continue to be difficult decisions to make in future years in order to balance the budget. However, the overall planning process will ensure these decisions will take place in an informed manner to ensure resource allocation reflects policy and service priorities.
- 1.6 The Council's revenue and capital budget strategies have previously been approved by Cabinet. These set out the key principles around the budget, and are reflected in this report. The updated statements are set out in **Appendix B**, as they underpin the approach taken to setting the Council's revenue and capital budgets.

- 1.7 It is important for the Council that its financial strategy continues the success achieved in recent years. The strategies will be reviewed and developed during 2017/18 to ensure that they integrate with the Council's Vision and the Corporate Plan as it is developed. The focus will continue to ensure that it:

- Reflects the economic climate and the need for financial prudence;
- Ensures the level of reserves are adequate;
- Links service planning with financial planning;
- Identifies service delivery trends, changes in legislation etc. that will have a financial impact;
- Accurately predicts levels of spend in the future to avoid further overspends;
- Identifies revenue costs resulting from capital expenditure;
- Matches resources to priorities;
- Costs areas of new or increased priority;
- Provides savings to balance the budget;
- Provides savings to fund new investment and areas of increased priority;
- Costs new investment and estimates any subsequent payback;
- Increases value for money;
- Manages risk and uses risk assessment to inform decision making;
- Ensures all projects are adequately funded and resourced;
- Manages risk and uses risk assessment to inform decision making;
- Ensures all projects are adequately funded and resourced.
- Uses Business Intelligence to support service modelling

Partnership Working

- 1.8 Partnership working is strong in Havering and the Council continues to work with public, private and community groups to develop the Borough.
- 1.9 The Council works in partnership with Bexley and Newham Councils through oneSource, a joint committee designed to provide back office services and functions more efficiently. Significant levels of savings are expected to be achieved through shared Management, ICT and Procurement. These savings are reflected in the Council's financial strategy.

Economic Climate

- 1.10 Cabinet will be aware of the general economic climate and in particular the consequential impact on Government spending plans for local government. Markets remain sensitive to global economic and political events which have contributed to increased economic uncertainty. Interest rates have remained at an unprecedented low level for some time although there appears to be an increasing likelihood of rate rises over the medium term. The scale of the national budget deficit, and the actions that would inevitably be needed to be taken to address this, have been the subject of much discussion, and have been addressed in reports to Cabinet since July 2010.
- 1.11 In setting the budget for 2017/18, it is essential to bear these general economic factors in mind. The Government's Autumn Budget Statement and the subsequent Local Government Financial Settlement were addressed in

the reports to Cabinet in December 2016 and January 2017.

Conclusions

- 1.12 Havering will experience a rapid reduction in its Government grant settlement over the period of the four year settlement ending in 2019/20. In particular RSG will have fallen from £20.9m in 2016/17 to £1.4m in 2019/20. This will inevitably place severe pressure upon the resources available for services and the Council's ability to balance its financial strategy over that period.
- 1.13 The proposals in this report will enable the Council to balance its budget for 2017/18. Additional steps will be required to close the funding gap in 2018/19 and beyond and will be the subject of further reports to Cabinet.
- 1.14 Significant financial pressures are being experienced in 2016/17 reported in previous Cabinet. This report includes details of the further management actions proposed to mitigate the potential overspend and to maintain spending in line with budget for 2016/17. Cabinet is asked to approve the detailed actions plans as set out at **Appendix A2** and the income generation and savings proposals at **Appendix A1** to this report.
- 1.15 The successful implementation of measures presented for approval in this budget report, aim to achieve a balanced revenue budget for 2017/18 and provide the basis from which to further develop the Council's financial strategy to balance its finances over the medium term.
- 1.16 The proposed budget reflects the views of the local community on the impact of budgetary pressures upon service delivery and Council Tax increases subject to changes in national priorities that are outside the Council's control. The Council can demonstrate that it is prioritising financial resources according to its business objectives and in the context of the general financial climate.

2. Public Engagement and Overview and Scrutiny Board

2.1 Public Engagement

- 2.1.1 A public engagement exercise is being carried out during January 2017 seeking feedback on the Council's financial strategy. Views are being sought on service priorities and Council Tax levels, including the level of Adult Social Care precept.
- 2.1.2 The results of the consultation were not available at the time of preparing this report but will be circulated prior to the meeting.

2.2 Overview and Scrutiny Board

- 2.2.1 The budget proposals for 2017/18 were considered by Overview and Scrutiny Board on 1 February 2017. As this agenda was published before that date, an update will be given at the Cabinet meeting on any matters raised by the Board.

3. Havering's Revenue Budget and Council Tax

3.1 Introduction

- 3.1.1 The key factors taken into account in finalising the 2017/18 budget are set out in the remainder of this report. As well as the results of the public engagement and budget finalisation, it is important to note that, if the final position on levies and the Greater London Authority (GLA) precept is significantly different from the provisional sums, the final level of the Havering Council Tax may be affected.
- 3.1.2 The impact of the Greater London Authority precept is covered separately in section 3.27.
- 3.1.3 This section of the report summarises a number of points covered in greater depth in the previous report to Cabinet. These have been updated where relevant to reflect changing circumstances and more up to date information included where this has subsequently become available.

3.2 Government Grant

- 3.2.1 As set out in the previous report to Cabinet, the provisional settlement was announced on 15 December 2016. The key elements of the provisional settlement, and a comparison against the current funding level are summarised below:
- There were only minor adjustments to the four year settlement announced in December 2015.
 - There is an average increase in “spending power” nationally of 0.4% by 2019/20 assuming all authorities increase council tax, take up the adult social care precept and see significant growth in the tax base of local authorities;
 - Excluding the assumptions on Council Tax, there is a 21.8% reduction in core funding which includes a reduction in RSG of over 70% nationally since 2015/16;
 - Havering's financial settlement including RSG has fallen by £8.61m (or 41%) for 2017/18 and by £19.51m (94%) by 2019/20. This would leave Havering with only £1.38m in RSG by 2019/20.
 - It is highly likely that once business rates are localised further, Havering's RSG will be removed and/or Havering would be required to receive a lower top-up grant or pay a tariff over to Government to compensate.
 - There have been significant changes to the New Homes Bonus methodology to not only fund the improved Better Care Fund but also to fund the one-off adult social care grant.
- 3.2.2 The final settlement is expected during the first half of February, so this is likely to be too late for this report. If it is announced in time for the meeting a supplementary paper will be issued. Otherwise the relevant information will be included in the report to Council.
- 3.2.3 The Council submitted a written response to the consultation on the provisional financial settlement and this response is included as part of **Appendix C**.

- 3.2.4 As a result of the settlement, Havering continues to receive a much lower level of grant funding than our neighbours, which reflects the position over a number of years previously.

3.3 Specific Grants

- 3.3.1 The Council receives a reducing number of specific grants outside of the general grant. These are for specific purposes and many have been subject to external audit verification prior to claim submission. They are not for mainstream funding and, hence, increased levels of specific grants have not assisted in reducing the overall Council Tax level, as they reflect a similar level of spend by the Council. These have historically changed year on year and in some cases the details have not been known until after Council Tax setting.
- 3.3.2 Assumptions are made in setting the budget on what those grant levels will be, unless specific announcements have already been made. The actual announcements may lead to differing amounts of grant funding being available, and may in fact identify new, or increased, levels of funding.
- 3.3.3 To facilitate the usage of these un-ringfenced resources, it is proposed that the Chief Financial Officer in consultation with Service Directors review any such funds allocated to Havering and make proposals for their use for approval by the Cabinet Member for Financial Management. Cabinet is asked to approve this. In addition, Cabinet is being recommended to delegate to the Chief Financial Officer authority to make any necessary changes to service and the associated budgets relating to any subsequent grant announcements where delays may otherwise adversely impact on service delivery and/or budgetary control, subject to consultation as appropriate.

3.4 Dedicated Schools Grant and Schools Funding Dedicated Schools Budget

- 3.4.1 Details of the DSG funding for 2017-18 were set out in the previous report to cabinet. In brief, the allocations are as follows:

Table 1

| 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) |
| 2017-18 | 4,712.65 | 169.92 | 4,626.50 | 14.845 | 22.70 | 0 | 207.46 |
| 2016-17 | 4,728.70 | 168.03 | 3,979.94 | 11.61 | 19.49 | 0.05 | 198.17 |
| Diff | -16.05 | 1.89 | 646.56 | 3.24 | 3.21 | -.05 | 8.29 |

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 2017 and 2018 early years censuses.

3. The reduction in the GUF per pupil follows a £1.3m transfer from the Schools block to the High Needs block.
 4. The increase in the Schools block includes £589k Education Support Services Grant previously allocated to the LA and also for growth in pupil numbers.
 5. The increase in the Early Years block will allow increases in the hourly rate paid to providers following the introduction of a national funding formula for early years education and also for the implementation of 30 hours of free entitlement to childcare for working families from September 2017..
 6. The increase in the High Needs block includes a transfer of funding responsibilities from the EFA for post 16 SEN and also for population growth.
 7. The Additions block in 2016-17 is now included in the Schools Block.
- 3.4.2 New school funding arrangements were introduced by the DFE in 2013-14 in advance of implementation of a national funding formula which, following a one year delay will be introduced from 2018-19. The intention is to achieve greater transparency on funding through a system where every pupil will attract the same basic level of funding wherever they are in the country with additional sums reflecting additional need, deprivation and area costs.
- 3.4.3 As the details of the DSG announcement for 2017/18 were included in the previous report to Cabinet, and as these have not changed subsequently, no further update is required.
- 3.4.4 **Appendix F** summarises the allocation of the DSG across school sectors and other education provision and is recommended for approval.

Education Services Grant

- 3.4.5 The Education Services Grant (ESG) was introduced by the DFE in 2013/14. The grant is calculated on a per pupil basis according to the number of pupils for whom a local authority or academy is responsible. The ESG funding rate has been reduced from £116.46 per pupil in 2013-14 to £77 per pupil in 2016-17. An additional £15 per pupil is allocated to LAs regardless of whether they are on the roll of a school or an academy. In the Government Spending Review and Autumn Statement 2015 a phasing out of the ESG was announced to save £600 million. The grant ceases from September 2017 with a reduced transitional rate of £66 per pupil for the period April to August. The initial allocation to Havering is £0.606m which will reduce each time a school converts to an academy. Further detail was included in the previous report. Since then, the Schools Funding Forum has agreed that the additional £0.589m of ESG now included in the DSG can be allocated to meet the costs of LA statutory functions. Service level savings of £0.590m have been identified and a provisional one-off contribution of £0.465m. There will, however, be a shortfall against the 2016/17 initial grant of £2.336m of at least £0.086m.
- 3.4.6 To address this grant reduction, particularly from 2018/19 once the transitional funding has ceased, significant work continues across Learning and Achievement Teams to promote Havering's Education Traded Services to schools and academies within and beyond the authority and to explore options on funding remaining statutory functions

3.5 Public Health

- 3.5.1 In 2016/17, Havering was issued with a 2-year grant allocation for Public Health. It has been confirmed that the allocation for 2017/18 will be as per last year's provisional figures of £11.224m. This is a £0.284m reduction in funding.

3.6 Council Tax Referendum

- 3.6.1 For 2017/18, referendum limits remain the same as in previous years (i.e. an increase of 2% or more will trigger a referendum). In addition the Council may levy an Adult Social Care Precept of up to 3% as discussed elsewhere in the report.

3.7 New Homes Bonus (NHB)

- 3.7.1 On the 17 December 2015, DCLG released a consultation on the changes to the New Homes Bonus with no further details until the 15 December 2016. The aim of the changes to the New Homes Bonus is to “sharpen the incentive” as well as to save £800m in order to partially fund the improved Better Care Fund (BCF) and one-off adult social care funding in 2017/18.

- 3.7.2 Havering’s allocation for 2017/18 has been provisionally announced as £6.939m which is comparable to last year however this is likely to reduce to approximately £3.3m by 2020/21. This is assuming Havering’s increase in new properties continues at its current rate. The reason for the reduction is solely due to the changes brought about by the revised scheme. In summary these changes are set out below.

- Reduce the number of years the grant is payable from 6 years to 4 years.
- A national baseline or deadweight has been set at 0.40%. Therefore local authorities need to grow their taxbase by at least 0.40% to see any funding in NHB.

- 3.7.3 The saving made by the Government from the New Homes Bonus, has enabled them to introduce a new one-off Adult Social Care Grant. Details of the grant are yet to be released however Havering’s indicative allocation is £1.010m. Clarification is being sought as to how this grant can be deployed. The grant will be held in the Business Risk Reserve as a contingency against slippage in the savings delivery plan or to support the Integrated Care Partnership.

3.8 General Inflation

- 3.8.1 The previous report to Cabinet set out the broad approach to budgeting for inflation. In summary, provision will be made for pay awards in line with Government announcements at 1% per annum. Contract inflation is budgeted at 2% per annum and income at 2%. The provision for supplies and services inflationary increases has not been provided.

3.9 Payments to External Bodies

- 3.9.1 Details of the proposed contributions for 2017/18 for concessionary fares and the Taxicard scheme were set out in the January report to Cabinet. The concessionary fares contribution is now confirmed as £8.313m, an increase of £0.09m from 2016/17. The contribution to the Taxicard scheme has not yet been finalised although it is expected to be released prior to the Council Tax

report to Council on 22 February and will be provisionally budgeted at £0.150m.

- 3.9.2 The Council's payments for the London Councils Subscription and London Boroughs Grants Scheme were reported to January Cabinet and the contributions are confirmed as £0.117m and £0.220m respectively.

3.10 Demographic Growth

- 3.10.1 Cabinet will be aware from previous reports that of the impact of changes in demography on the level of demand for Council services. The ageing population demographic has led to an increase in demand for adult social care; a trend which is expected to continue over the coming years. However, the impact of change is far reaching and other services such as homelessness and Children's services are also experiencing unprecedented growth in demand for services.
- 3.10.2 In response to growth in demand and budgetary pressures the draft financial strategy includes provision to increase the budget by a further £2m for Adults Social Care, £2m for Children's Services and £0.75m for general fund Housing Services. As discussed elsewhere in the report, the Government has gone some way in recognising these pressures at a national level by enabling Councils to levy an additional Council Tax precept for Adult Social Care.

3.11 Levying Bodies

- 3.11.1 The levies are part of the local government settlement and therefore are taken into account when setting the Havering element of the Council Tax. The latest information in respect of levies is set out in **Appendix D**; at this stage the figures are shown as either provisional or estimated, with final figures expected shortly.
- 3.11.2 The ELWA budget report is due to be approved at its board meeting on 6th February 2017.
- 3.11.3 Havering's estimated levy for 2017/18 is £15.101m. If confirmed, it will represent an increase of 10.47%, or £1.431m and £0.400m more than originally provided in the budget model. The increase is in relation to the projected increase in levy of £1.18m and increase in reserves of £0.250m to cover costs arising out of the post 2027 waste disposal arrangements. Subject to final notification by the Authority, the approved sum will be reflected in the draft budget for 2017/18.
- 3.11.4 The ELWA levy is based upon the weight of rubbish disposed of. Residents can make a contribution to reducing the levy by contributing to effective waste management and recycling measures.
- 3.11.5 For planning purposes, a nominal increase of £0.050m for the remaining levies (Lea Valley Regional Park Authority, London Pension Fund Authority, and the Environment Agency) has been anticipated. The final figures are dependent upon the Council Tax base for each funding authority being confirmed, so the final levies for 2017/18 are currently awaited. The figures included in the Council Tax statement are therefore provisional or estimated.

3.12 Financial Strategy – Budget Finalisation

3.12.1 Cabinet received reports on its financial strategy on 28 September 2016 and 14 December 2016. A further report was considered by Cabinet on 18 January 2017 which considered the impact of additional budget pressures and the Local Government Financial Settlement. At that time, a budget gap of £12.896m was forecast in the MTFS covering the three year period to 2019/20. This included a gap of £3.680m in 2017/18. The latest forecast is included in the table at para 3.21 below.

3.12.2 The outcome of the Local Government Financial Settlement was set out in the previous report of 18 January 2017 and is summarised in section 3.2 below.

3.12.3 Since the January report a number of matters have now been confirmed and are included in the revised strategy. These are summarised below and explained in further detail subsequently:

- Council Tax Base
- Business Rate Yield
- Levies and Precepts
- One-off Social Care Grant
- New Homes Bonus

3.12.4 The updated financial model indicates a deficit of £13.567m over the three year period to 2019/20 of which £4.347m relates to 2017/18. The level of Council Tax increase required to balance the budget is 3.95% including an Adult Social Care Precept of 2.0%.

3.13 Current Financial Position – Revenue

3.13.1 The development of the financial strategy and detailed budget needs to take account of the financial position in the current year 2016/17. The January 2017 Cabinet report sets out a summary of the position at period 7 (October 2016) and this indicated a forecast overspend of around £6.970m subject to management actions required to mitigate and manage the outturn within the approved budget.

3.13.2 Directorates have produced action plans which will contribute to controlling the over spend within 2016/17 and returning to a balanced budget position by the end of 2017/18. The Children's directorate will return to a balanced position by 2018/19. These action plans are included at **Appendix A2**.

3.13.3 The approved contingency budget for 2016/17 is £2m. Of this sum, £0.900m has already been allocated to support service pressures, leaving £1.1m of contingency uncommitted. As shown in the table below, it is proposed to utilise the remaining £1.1m as part of the plan to manage the final 2016/17 outturn within the Council's approved budget. The directorate action plans will not bridge the £6.970m gap in 2016/17 and will also require the support of the corporate risk budgets (formerly corporate provisions). The following table summarises the impact of the planned management action over 2016/17 to 2018/19 and covers a range of options including:

- **Neighbourhoods:** Management actions taken during 2016/17 will mitigate £0.400m of the £0.800m overspend. A further £0.5m will be saved by the additional measures to be introduced in 2017/18. These include proposals to increase the parking tariff for short stay parking whilst retaining the 30 minute free parking option, increasing the green waste and bulky waste fees by £10 and increasing the fees of resident parking permits by £10 a year.
- **Housing:** Includes demand management options designed to reduce the number of B&B placements required. Management actions will reduce the forecast overspend by £0.400m from £1.040m result in an over spend of £0.600m in 2016/17. However, the actions taken to reduce B&B placements will be effective immediately in 2017/18 and so the remaining £0.600m pressure will be fully mitigated from the start of the 2017/18 financial year.
- **Adults:** demand management and renegotiations with service providers. Management actions will reduce the over spend in 2016/17 by £0.700m from £1.59m to £0.9m by the year end. The remaining £0.900m will be mitigated during 2017/18
- **Children's:** A broad range of options, as set out in the detailed action plan which combined with demographic growth allowances in the budget allocations will aim to bring the budget back into balance by the end of 2018/19.

Table 2

| Summary of Recover Plans to address financial pressures | <i>Pressure s £m</i> | 2016/17 £m | 2017/18 £m | 2018/19 £m |
|---|------------------------------|---------------|---------------|---------------|
| Current Outturn Projection | | 7.0 | 5.5 | 0.7 |
| Action Plan – Neighbourhoods | 0.80 | (0.4) | (0.5) | |
| Action Plan - Adults | 1.59 | (0.7) | (0.9) | |
| Action Plan - Housing | 1.04 | (0.4) | (0.6) | |
| Action Plan – Children's | 3.58 | 0.0 | (1.7) | (0.7) |
| Release of Contingency | | (1.1) | | |
| Projected Overspend | 7.0 | 4.4 | 1.8 | 0.0 |

Note to table 2

The current outturn projection is reduced by savings or income generation proposals as set out in the action plans and shown in brackets in the table reducing the projected overspend accordingly. These overspends are planned to be funded from the Corporate Risk Budget set out in table 3 below.

- 3.13.4 A summary of the current position on the corporate risk budget is set out in the table below. A further £4.4m is proposed to be utilised from the Corporate Risk Budget to offset the projected 2016/17 overspend as reflected in the table below.

Table 3a

Corporate Risk Budget

| | 2016/17 | 2017/18 |
|----------------------------|-------------|------------|
| | £m | £m |
| Base Budget | 17.1 | 9.2 |
| Permanent In Year Releases | (3.2) | |
| One Off In Year Releases | (4.0) | (5.0) |
| One Off Mitigating Release | (0.1) | |
| Projected Overspend | (4.4) | (1.8) |
| Projected Outturn | 5.4 | 2.4 |

Table 3b

The change in Base Budget position of the Corporate Risk Budget from 2016/17 to 2017/18 is also set out below.

| Corporate Risk Budgets | £m |
|-----------------------------------|-------------|
| Base Budget 2016/17 | 17.1 |
| Permanent In Year Releases | (3.2) |
| Allocation of New Homes Bonus | (3.8) |
| Re-phased use of budget | (0.8) |
| Additional 1% in fees and charges | 0.3 |
| Other minor | (0.4) |
| Base Budget 2017/18 | 9.2 |

- 3.13.5 After making the planned contributions set out in table 3a to support service pressures, it is anticipated that the corporate risk budget for 2016/17 will be under spent by approximately £5.4m. Any final underspend after balancing the outturn within approved budget will be transferred to the Business Risk Reserve as part of 2016/17 accounts closure. This funding will then be utilised to manage the risk inherent in Directorate savings plans over 2017/18 and 2018/19.

3.13.6 The anticipated corporate risk budget in 2017/18 is £9.2m. This is reduced from the 2016/17 level due to a number of 'one off budgets' ceasing and previous decisions to reduce this budget to support service budget pressures elsewhere. It is planned to utilise £5m in 2017/18 to avoid the need to make further service reductions in other directorates and £1.8m to offset the transitional period of delivery of recovery plans. This will result in a forecast balance of £2.4m available to support the Organisation through the transitional period pending the delivery of directorate action plans during 2017/18 to bring spending within the approved base budget by the end of 2018/19.

3.13.7 By 2018/19, the base budget for the corporate risk budget will have fallen to £3.5m. This should be viewed in the context of the size of the estimated budget gap in 2018/19 of £2.895m and of £6.325m in 2019/20. It will be essential for Service Directors to successfully implement their mitigating action plans to deliver for the remainder of 2016/17 and through 2017/18. In addition, Service Directors will need to ensure delivery of the new budget proposals contained within the proposed budget to manage overall expenditure and keep the Council's financial plan on track.

3.14 Fees & Charges

3.14.1 Fees and charges have been reviewed in order to deliver an increase in income of 2%, though in some areas these fees are set by Central Government and are outside the Council's control. A complete Schedule of Fees and Charges is set out in **Appendix L** and is presented to Cabinet for approval as part of the 2017/18 budget.

3.14.2 Fees and Charges continue to be reviewed and amendments made in line with strategic priorities and the results of the consultation process for services to be paid for at the point of delivery, rather than through Council Tax increases. A key objective is to ensure that fees and charges recover the full cost of service delivery where possible.

3.15 Members Allowances Scheme

3.15.1 The proposed Scheme for 2017/18 is being prepared concurrently with this budget report for consideration and approval by Council on 22 February.

3.16 Contingency Budget

3.16.1 The level of the corporate contingency budget has been reviewed in the context of the budget set out for Cabinet. The Chief Financial Officer (CFO) has set this by having due regard to:

- The budget as proposed;
- An assessment of unquantifiable pressures and unforeseen events that could arise during the 2017/18 financial year;
- The experience in previous years;
- The degree of uncertainty as well as known impact of changes to funding streams;

- The potential effect of changes to both the Business Rates system and Council Tax support payments, though these are now becoming clearer and there has yet to be any material adverse impact;
- The overall budget strategy.

3.16.2 A risk assessment is set out for Members within **Appendix H** as part of the CFO's statement on budget robustness, having due regard to the controls in place that will mitigate both the severity and likelihood of the risk happening. In arriving at the risks included, consideration has also been given to such factors as the:

- Financial risks in any significant new funding partnership arrangements;
- The ongoing economic climate;
- The potential withdrawal of and/or reduction to grant funding;
- Treatment and delivery of savings;
- Level and timing of capital receipts;
- Arrangements for budget and financial management;
- Adequacy of the Authority's insurance arrangements;
- Impact of the loss of both general and specific grant;
- Overall financial standing of the authority;
- Capacity to manage in-year budget pressures.

3.16.3 The result of the assessment is that it is the view of the CFO that a Contingency Budget of £2m continues to be required in the base budget to provide a sufficient revenue contingency to deal with any issues arising during the course of 2017/18.

3.16.4 Any new issues arising that have a longer term impact will need to be considered as part of the budget setting process for 2018/19. The purpose of the Contingency budget is to provide funds to address unforeseen issues that impact within the financial year. Whilst the draft financial strategy assumes that the contingency will reduce to £1m in 2018/19 in line with decisions made in setting the financial strategy in February 2016, this assumption will be kept under review during 2017/18 and in preparing the 2018/19 financial strategy.

3.16.5 The Constitution of the Council incorporates specific requirements in respect of budget virements and use of the contingency; full details are set out in **Appendix G** for Members to note.

3.17 Budget Robustness/Reserves Position and Opportunity Cost

3.17.1 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. The Act also gives the Secretary of State the power to specify a minimum level of reserves that an authority must provide for when setting its budget, although there have been no indications that the Secretary of State will use this power.

- 3.17.2 In line with the requirements of the Act, the formal report of the CFO is appended as **Appendix H**. The Council is required to take the report into account when making the calculations.
- 3.17.3 The Council's financial strategy sets out that the minimum level of the General Fund Balance held will be £10m. The General Fund Balance currently stands at £11.75m and the CFO's advice is to maintain it at this level given the level of risk associated with the current financial position. Prior to making a final recommendation to Council, there is a need to further consider the current financial position for 2016/17 and its potential impact on reserves. Equally, the importance of retaining sufficient reserves has been emphasised by the variances that have arisen in service areas with large and volatile budgets and service demands, and with the impact of the economic climate within recent years.
- 3.17.4 After having regard to the consideration of the impact on reserves on the 2016/17 outturn, the existing reserves are likely to be sufficient to maintain this level. For information, this provides a level of reserves which gives limited cover for unforeseen circumstances that may have financial consequences, either one-off or across financial years.
- 3.17.5 The more detailed advice of the CFO in respect of reserves is also set out in **Appendix H**. This covers both the assessment of the level of reserves needed, and the opportunity cost arising from holding reserves.

3.18 Balance Sheet Position

- 3.18.1 The focus of the revenue budget strategy is on the Council's income and expenditure. However, regard also needs to be given to key balances included in the Council's Balance Sheet. The Council faces a number of risks and uncertainties which can be mitigated by:
- Ensuring that it maintains an appropriate level of liquid resources, and
 - Maintaining an adequate level of general fund reserves and balances.

3.19 Liquidity

- 3.19.1 The Council held approximately £237m in cash on average during the course of the financial year. This represents the value of the Council's revenue reserves, net current assets, unapplied grants and unapplied capital reserves. Other than reserves, this is money that is committed and is being held pending such expenditure. Given that gross expenditure is the region of £600m, this represents around three months of expenditure.
- 3.19.2 The level of return achieved on these cash deposits is low by historic standards and the likelihood of an increase in interest rates in the short term is now receding.
- 3.19.3 The Council is required to approve its annual Treasury Management Strategy Statement at its annual budget setting meeting. The TMSS report is included elsewhere on this agenda and sets out the parameters for investment of this cash and includes the measures to be taken to ensure the creditworthiness of the Council's counterparties. The draft prudential indicators included in the

Strategy also set out the limit for investments on terms of more than one year. In practice longer term lending is minimised to ensure that a high level of liquidity is maintained.

3.20 Earmarked Reserves

- 3.20.1 An earmarked reserve is a sum set aside to fund planned items of anticipated expenditure for which the liability is not chargeable to the current year's accounts. The Council holds a number of these, the most significant of which is the Corporate Transformation programme reserve. Other funds are earmarked to meet the anticipated costs of strategic projects, insurance claims, capital bridge funding and invest to save resources.
- 3.20.2 The earmarked reserves are reviewed on a quarterly basis to ensure that they are still required. As a one off resource, any funds deemed to be surplus would be reallocated to support one off projects such as support to the capital programme, contributions to the pension fund or service initiative pump priming.
- 3.20.3 The Council's financial strategy precludes the use of earmarked reserves to finance known and ongoing financial liabilities, as this is the financially prudent approach required to ensure a stable financial position is achieved. Reserves can only be used once, and the Council's reserves have been established for specific purposes; their use as a one-off means of financing the Council's ongoing revenue budget falls outside the strategy previously approved by Council, and is not therefore recommended.
- 3.20.4 It is not proposed to use earmarked reserves to support the Council's revenue budget on an on-going basis, as this is not considered to be prudent and not in line with the Council's revenue budget strategy. As stated in the January report, the current advice of the Chief Financial Officer is that a general fund balance of £11.75m is considered to be adequate. However, service pressures in both childrens and adult social care in particular, and the recent major reductions in grant funding and potential for further changes to the funding system, emphasise the need for prudence with the management of earmarked reserves.
- 3.20.5 At its meeting of 18 January Cabinet approved the creation of a Business Risk Reserve in 2017/18. The unused balance of the Corporate Risk Budget will be transferred into this reserve as at 31 March 2017 and will be available to mitigate against budgetary pressures arising in 2017/18 and beyond. Discussion of the Corporate Risk Budget is included at paragraph 3.13.

3.21 Draft General Fund Budget 2017/18

- 3.21.1 The January report to Cabinet set out a revised financial strategy for the period from 2017/18 to 2019/20 identifying a funding gap which has been revised to £13.567m including a gap of £4.347m in 2017/18. The financial model has been updated to reflect movement since the January report in order to provide the position for council Tax setting purposes.

3.21.2 The following options were included in the draft Financial Strategy approved by Cabinet 18 January. Details are included at **Appendix A1**.

Table 4a

| Lead Officer | Subject | 17/18 £m | 18/19 £m |
|----------------------------|------------------------------------|--------------|--------------|
| Director of Neighbourhoods | Moving Traffic Contravention | 0.250 | |
| Director of Neighbourhoods | Business Vehicles Charging | | 0.500 |
| Director of Neighbourhoods | Resident Parking Permits | 0.055 | |
| Director of Neighbourhoods | On/Off Street Parking Charges | 0.150 | |
| Chief Operating Officer | Leisure contract additional income | 0.150 | 0.250 |
| oneSource Non-shared | Commercial Income | 0.108 | 0.104 |
| | Total | 0.713 | 0.854 |

3.21.3 The table 4b below reproduces the information provided to Cabinet in the report of 18 January. Table 4c summarises the changes to the model since the report to Cabinet on 18 January. Further explanation is set out in the following paragraphs.

Table 4b

| | 17/18 | 18/19 | Two Year Total | 19/20 | Three Year Total |
|--|--------------|--------------|-------------------|----------------|------------------------|
| | £m | £m | £m | £m | £m |
| Budget Gap As reported on 14 December | 3.350 | 2.250 | 5.600 | 6.800 | 12.400 |
| CL7 My place efficiencies | 0.050 | (0.050) | 0 | 0 | 0 |
| SC5 Public realm transformation Review | 0.250 | (0.250) | 0 | 0 | 0 |
| SC7 Waste minimisation | 0.500 | 0 | 0.500 | (0.500) | 0 |
| Re-phasing of corporate risk budget | (0.800) | 0.800 | 0 | 0 | 0 |
| Total of Re-phased Savings | 0 | 0.500 | 0.500 | (0.500) | 0 |
| Increased cost of utilities | 0.170 | 0 | 0.170 | 0 | 0.170 |
| Business Rate Revaluation | 0.230 | 0.145 | 0.375 | 0.025 | 0.400 |
| Adjustments to proposals for income generation | 0.045 | 0 | 0.045 | 0 | 0.045 |
| Revised Budget gap | 3.795 | 2.895 | 6.690 | 6.325 | 13.015 |

Table 4c

| | 17/18 £'m | 18/19 £'m | 19/20 £'m | Total £'m |
|--|----------------|--------------|--------------|----------------|
| Budget Gap as reported at 18 January Cabinet | 3.795 | 2.895 | 6.325 | 13.015 |
| Adjustments to Budget Strategy Post January Cabinet | | | | |
| Increase in Tax base above forecast | (0.728) | | | (0.728) |
| CL | | | | |
| 7 Reinstate MyPlace Efficiencies Saving | (0.050) | 0.050 | | 0.000 |
| Re-phasing of corporate risk budget | 0.050 | (0.050) | | 0.000 |
| Provision for Temporary Accommodation | 1.132 | | | 1.132 |
| Additional 1% Income | (0.322) | (0.585) | (0.585) | (1.492) |
| Increase in Corporate Risk Budget | 0.322 | 0.585 | 0.585 | 1.492 |
| ELWA – Levy | 0.181 | | | 0.181 |
| ELWA - Reserve | 0.250 | | | 0.250 |
| Reduction in CSSA recovery | 0.425 | | | 0.425 |
| Freedom Pass | (0.209) | | | (0.209) |
| Removal of Other 1% Inflation Provision | (0.499) | | | (0.499) |
| Remaining Budget Gap | 4.347 | 2.895 | 6.325 | 13.567 |
| 3.95% Council Tax increase in 17//18 | (4.347) | | | (4.347) |
| Adjusted Budget Gap | 0 | 2.895 | 6.325 | 9.220 |

3.21.4 The changes included in the above table are explained below.

3.21.5 **Annual Increase in Council Taxbase** – The Budget Strategy accounts for the annual increase in council tax income arising from the growth in the number of properties. For 2017/18 the Strategy included a £0.980m increase and the actual increase due to growth in the number of properties has been calculated to be £1.7m. The difference has now been included in the table.

3.21.6 **Reinstatement and re-phasing of savings** – The saving proposals for My Place was agreed to be deferred by one year at the Cabinet meeting of 18 January. However, this saving is now considered achievable in 2017/18 and therefore the compensating adjustment to the corporate risk budget has also been reversed.

3.21.7 **Homelessness** - A provision of £1.132m is included in the corporate risk budget although further work will need to be carried out during 2017/18 to determine the full extent of the costs which could far exceed this estimate and relate to the following:

- **Temporary Accommodation** –The amount of Housing Benefit we claim for a unit of temporary accommodation will cease from April 2017. In its place there will be a transitional lump sum payment. This is likely to generate significant additional pressure in 2017/18 and beyond. The potential costs in 2017/18 could range between £1m - £2m although further information is required to determine a more robust forecast.

- **Homelessness Reduction Bill** - The Homelessness Reduction Bill is currently passing through Parliament. It is going to place additional duties on LAs to help prevent homelessness for all residents rather than just those who are vulnerable. This will include help and advice and help to procure properties. It is estimated that the net cost will be somewhere between £0.750m to £1m per year. However the Bill is currently delayed making it difficult to determine the impact in 2017/18.

3.21.8 **ELWA Levy and Reserve** – ELWA is projecting a levy increase of 10.47% in 2017/18 with projected flatter increases in the future years to 2021/22. The second strand to their Strategy is the establishment of a Strategy Reserve to cover costs arising out of the post 2027 waste disposal arrangements. The Strategy Reserve will be used for revenue costs including feasibility works relating to site options and appraisals, pre-planning work and elements of the planning approval process (procurement of design, build and operate contract). The Strategy is to build reserves up over five years leading to a total of £9.4m after five years.

3.21.9 **Central Support Services Apportionment (CSSA)** - The Council has established oneSource; a joint committee with Bexley and Newham Councils which is a designed to provide back office functions more efficiently. Significant levels of savings are expected to be achieved through shared Management, ICT and Procurement. These savings are reflected in the Council's financial strategy and as a consequence the sums to be recovered from other ringfenced accounts such as the HRA and DSG through CSSA recharges will also fall. This reduction has been calculated to be £0.425m more than expected.

3.21.10 **Freedom Pass Annual increase in Cost** – The Budget Strategy allows for the increase of the annual cost of providing freedom passes to the elderly at £0.300m a year. For 2017/18 the increase in the service provision is only £0.091m, a change in forecast of £0.209m.

3.21.11 **General Inflation Provision** – It is proposed to remove the provision for general inflationary increases relating to supplies and services as a savings option. These pressures would have to be absorbed within service budgets.

3.21.12 Based on the detailed budget proposals and other factors set out above, the Council's General Fund budget for 2017/18 will be as set out in **Appendix E**. This is summarised as follows:

Table 5

| | 16/17 £m | 17/18 £m |
|---|----------------|----------------|
| Havering's Services | 158.965 | 154.579 |
| Levies | 14.428 | 15.858 |
| Un-ringfenced Grants | -10.248 | -9.669 |
| Total Expenditure | 163.145 | 160.768 |
| External Finance inc. Collection Fund | -54.795 | -46.363 |
| Havering Precept (Council Tax Requirement) | 108.350 | 114.405 |

3.21.13 The budget has been produced on the basis of the factors set out in this report. The movement between this year and next is analysed as follows:

Table 6

| | £m |
|--|---------------|
| Pressures, demographic growth | 6.595 |
| Inflation | 1.470 |
| Levies | 1.481 |
| Savings | -11.060 |
| Net change in provisions and other adjustments | -2.719 |
| Net reduction in Government funding/Collection Fund movement | 8.610 |
| NET TOTAL | 4.347 |
| Met by changes in Council Tax | -4.347 |

Note to Table 5 and 6

Figures are provisional and will be finalised as part of the Council Tax Setting Report

3.22 Draft Schools' Budget 2017/18

3.22.1 The DSG for 2017/18 is considered earlier in this report and the draft Schools budget is now included at **Appendix F** to this report.

3.23 Havering Council Tax Precept for 2017/18

3.23.1 On the basis of the information set out in this report, including the levies being those as set out in **Appendix D**, **Havering's band D figure would increase to £1,317.71.**

3.23.2 A summary statement, along with further information to support the setting of Council Tax, is set out in **Appendix E**.

3.24 Expenditure Restriction by Government

3.24.1 As set out in the previous report to Cabinet, the Government has made it clear that they intend to ensure that council tax payers are protected against Councils that impose what they consider to be "excessive" council tax rises.

3.24.2 As part of previous settlement announcements, a requirement was introduced for Local Authorities to undertake referenda should their proposed Council Tax rise exceed a pre-determined level. Any proposed rise in Council Tax at or above these levels would trigger a local referendum. The outcome is based on a simple majority of those voting, either in favour or against.

- 3.24.3 The trigger level relating to the general increase in Council Tax is once again confirmed to be 2% or above.
- 3.24.4 Announced as part of the 2017/18 LGFS the Government will allow Council's to levy an additional 3% Council Tax increase for the purposes of funding the increasing costs of Adult Social Care. The overall level of this precept is limited to 6% over the three years to 2019/20. Authorities levying the additional 1% will be required to set out how the money will be spent on improving adult social care.
- 3.24.5 The overall referendum limit will be 5% or above for those authorities intending to levy the 3% Adult Social Care precept.

3.25 Capital Programme

- 3.25.1 Cabinet at the meeting of 18 January 2017 approved a further extension of the Capital Strategy originally established in 2015/16. The core programme remains reliant upon funding through the generation of capital receipts, although it was accepted that a move towards the use of prudential borrowing will be required to meet the investment requirements associated with regeneration and development projects aimed at generating income and improving infrastructure in the borough.
- 3.25.2 The proposed core programme for 2017/18 was submitted as part of the report to the previous Cabinet meeting in January and is reflected in the table below. It is recommended that Cabinet approve the following core programme and delegate responsibility to officers for the development of detailed schemes. Detailed schemes to be included in the core programme must comply with the relevant service strategies or plans (e.g. Asset management plan). Schemes to be funded from the Capital Contingency or Efficiency Programme will require approval of a business case under the relevant delegation arrangements.

Table 7

| Description | £m |
|---|---------------|
| Cemeteries | 0.160 |
| Parks, | 0.510 |
| Libraries | 0.145 |
| Leisure | 0.185 |
| Street Environment | 2.000 |
| Protection of Assets and Health and Safety | 0.500 |
| IT Infrastructure | 1.000 |
| Regeneration | 0.100 |
| Disabled Facilities Grant (Council element) | 0.300 |
| Sub total | 4.900 |
| Efficiency Programme | 5.000 |
| Contingency | 2.000 |
| Grand total | 11.900 |

- 3.25.3 There are also some other areas where grant funding has already been announced, or where a level of funding for 2017/18 could reasonably be assumed. The largest area of capital grant funding is from Transport for London (TfL), where the Council has been awarded an overall sum of around £3.381m for 2017/18. Although these grants are allocated by individual Government departments, with a clear indication how they would expect these funds to be utilised, with the exception of the TfL funding these funds are normally non-ringfenced.
- 3.25.4 Cabinet received a report on 12 October 2016 which identified the cost of the phase 4 Schools expansion programme to be £63m of which £49m relates to 2017/18 and beyond. A funding stream of £65m has been identified and includes an estimate of the 2019/20 Basic Needs Allocation of £5m. Given that £2.2m of funding is unallocated this will mitigate against the risk of a reduced grant allocation or increased costs.
- 3.25.5 Cabinet is asked to approve the Capital Programme as set out in Annex 1 of **Appendix I** for 2017/18.
- 3.25.6 It is proposed, to enable any specific schemes to proceed in timely manner, that the relevant service area Cabinet Member, together with the Cabinet member for Financial Management, be delegated authority to commence tender processes and accept tenders for capital schemes that previously were agreed by Cabinet. Cabinet is asked to approve this as part of this report.
- 3.25.7 The release of funds from the Capital Contingency, of £2m, is recommended to be delegated to the Chief Financial Officer.
- 3.25.8 There is also increasing pressure to fund essential capital expenditure bids not covered by the core programme. For that reason its proposed to include an allocation of £5m for an efficiency programme for schemes which meet the following criteria:
- Schemes will generate ongoing revenue savings
 - Schemes which will prevent or mitigate future growth pressures in revenue expenditure. i.e. cost avoidance.

Further work to develop the Council's longer term Capital Strategy will take place during 2017 to align with the development of the new Corporate Plan. As part of this process, it is recommended that individual schemes be evaluated by the Capital Asset Management Team with the final scheme approval being delegated to the Chief Financial Officer in consultation with the Leader of the Council and Cabinet Member for Financial Management. All schemes would require a clear business case demonstrating the link between investment and revenue savings.

- 3.25.10 The 2016/17 programme included a budget allocation of £100m for regeneration and development projects to be funded from prudential borrowing. The capital cashflows are likely to be spread over a number of years dependent upon scheme requirements and the refinement of the capital strategy to integrate with economic development and regeneration plans

during 2017 will enable more comprehensive planning. In the short term it is anticipated that this increase in the borrowing requirement will be met internally, i.e. by utilising internal cash balances by reducing the level of Council investments. However, it is expected that it will be necessary to borrow externally within the term of this MTFS to fund capital expenditure of this level. Further consideration will be given to the borrowing requirement during the course of the year taking account of market conditions and the advice of the Council's Treasury Advisors. Further information is included at **Appendix I and the Treasury Management Strategy Statement** included elsewhere on the agenda.

- 3.25.11 At present the Council is committed to two projects, Mercury Land Holdings Oldchurch development (£17m) and Havering College (£10m) totalling £27m to be met from the £100m regeneration and development budget. It is expected that further projects associated with Mercury Land Holdings will be brought forward for consideration during 2017/18 which would increase the level of commitments to approximately £50m. Development of the Capital Strategy will provide a comprehensive framework within which to evaluate and prioritise further investment.

3.26 Treasury Management Strategy

- 3.26.1 The Council is required to agree annually a Treasury Management Strategy Statement including the setting of borrowing limits, and to reaffirm the Council's Treasury Management Policy. The draft TMSS is included elsewhere on this agenda.

- 3.26.2 Given the importance of the Investment Policy, this is repeated below:

"The Council will have regard to the (then) ODPM's Guidance on Local Government Investments ("the Guidance") issued in March 2004 and CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities are: -

- (a) The security of capital and*
- (b) The liquidity of its investments.*

The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity."

- 3.26.3 The Council's Strategy for investment of funds prior to use or held for contingencies is agreed by the Council as part of the budget-setting process. The Treasury Management Strategy Statement, Minimum Revenue Provision Strategy and Annual Investment Strategy are set out in a separate report to Cabinet that appears elsewhere on this agenda.

- 3.26.4 The draft strategy takes account of the prudential borrowing requirements associated with the regeneration and development budget. The actual timing of any increase in external borrowing will be dependent upon cashflow obligations and prevailing market rates and borrowing opportunities.

3.27 Greater London Authority

- 3.27.1 The Greater London Authority (GLA) precept covers services of the Metropolitan Police, the London Fire and Emergency Planning Authority, the London Development Agency, as well as the core functions of the GLA and Transport for London.
- 3.27.2 This precept is outside of the control of the Council and as such does not form part of the strategy of the Council. The Council is concerned with the budget and level of Council Tax and of course lobbied to ensure any precept increases are reasonable and add value to the community of Havering.
- 3.27.3 The announcement of the Mayor's draft budget proposals was made on 21 December 2016. This indicated that the Mayor is proposing to increase the police element of the GLA precept by £4.02 or 1.99% (from £202.11 to £206.13). The general precept remains unchanged at £73.89 – resulting in a total precept of £280.02 or 1.5% increase overall. The GLA have confirmed that they intend not to reduce the general precept by the remaining £8 of the Olympic Levy. Consultation on the budget proposals ended on 13 January 2017. The final draft budget proposals will be considered by the London Assembly on 25 January and the budget is due to be approved by 20 February 2017.
- 3.27.4 As this meeting falls two weeks after this Cabinet meeting, any change from the Mayor's proposals will be advised to Members accordingly at Full Council.

3.28 Overall Council Tax for 2017/18

- 3.28.1 The table below summarises the position:

Table 8

| | Band D Council Tax £ | % Increase/ (Decrease) |
|-------------------------------|-------------------------------------|---------------------------------------|
| General Requirement | 1,267.98 | |
| Adult Social Care Precept | 49.73 | |
| Total Havering Precept | 1,317.71 | 3.95% |
| GLA Precept | 280.02 | 1.46% |
| Total | 1,597.73 | 3.50% |

3.29 Other Matters

3.29.1 Council Tax Bill

The Council Tax bill will show the charges for Council services and the Greater London Authority. It must be served on or as soon as practicable after the day the Council Tax is set, and at least 14 days before the first

instalment is due where the bill requires payment of instalments. Council Tax payers can now elect to pay by 12 monthly instalments, rather than the current 10. In addition, the detail supporting information can be provided online, rather than by default having to supply it in hard copy to taxpayers (although they can request a hard copy).

3.29.2 Restriction on Voting

Any questions arising regarding the ability of Members to vote on matters within this report having reference to any personal or prejudicial interests will be addressed at the beginning of the Council meeting.

3.29.3 Effect of Council Procedure Rules

A Member wishing to move an amendment to this report of Cabinet which is recommending the Council Tax to the Council must be mindful of the provisions in Council Procedure Rules:

Rule 11.9(a)

"An amendment to a motion/report at the annual Council tax setting must be submitted to the Chief Executive no later than 6 clear days before the Council tax setting meeting, and must be such that the amendment would, if passed, in the view of the Chief Finance Officer enable a robust budget to be set".

This means that **Midnight on Monday 13 February 2017** is the deadline for amendments to the Council Tax Setting and Budget Report.

Rule 11.9(b)

"Upon receipt of such amendment, the Chief Finance Officer shall consider whether it meets the "robust budget" test, and:

- (i) If it does meet the test, the Proper Officer shall include it on the agenda for the meeting.
- (ii) If it does not meet the test but the Chief Finance Officer considers that, duly altered, it will do so, that officer shall consult the proposers and, if they accept the alteration(s), the Proper Officer shall include it, as altered, on the agenda for the meeting.
- (iii) If it does not meet the test and the Chief Finance Officer considers that, whether or not altered, it will not do so, that officer shall refer the amendment to the Proper Officer who shall proceed with it as an improper amendment under Rule 11(4)(b)."

3.29.4 Discount for Council Tax Payers Paying in Full

The Council has agreed in the past, to offer a discount to Council Tax payers who pay their Council Tax in full. It is necessary for Cabinet to recommend Council to agree a specific resolution for this purpose or for any change proposed as the current assumption is that the discount remains at 1.5%. There are currently around 2,500 Tax payers who take advantage of the

discount. Cabinet should note that a similar discount is not permitted under business rate regulations.

3.29.5 Resolution

“Any Council Tax payer who is liable to pay an amount of Council Tax to the authority in respect to the year ending on 31 March 2018, who is served with a demand notice under Article 20(2) of the Council Tax (Administration and Enforcement) Regulations 1992 and who makes payment to the authority of the full balance of the estimated amount shown on that demand by 1 April 2017, may deduct a sum equivalent to 1.5% from the estimated amount and such reduced amount shall be accepted in full settlement of that estimated amount”.

3.29.6 Resolution for Council Tax

The Council meeting in February will receive a resolution in the form required reflecting the recommendations of Cabinet.

3.30 Housing Revenue Account

- 3.30.1 The report on the HRA budget for 2017/18 appears elsewhere on the agenda. This includes both the revenue budget and the associated capital programme.

REASONS & OPTIONS

Reasons for the Decision

The Council is required to set a budget for 2017/18 and, as part of that process, undertake relevant consultation in respect of the proposals included within the budget.

Alternative Options Considered

There are no alternative options in so far as setting a budget is concerned. However, there are options in respect of the various elements of the budget. These are considered in preparing the budget and cover such things as alternative savings proposals, the totality of budgetary pressures and different levels of Council Tax.

IMPLICATIONS & RISKS

Financial Implications and Risks

The Council's budget-setting process assesses the financial risks and implications facing the Council in delivering services within a complex and challenging environment. There are significant risks associated with increasing demographic pressures, the recent four-year LGFS and the continuing uncertainty over the future level of Local Government funding. The Council consistently works to mitigate these risks. It will however be necessary to continually refine the financial forecasts

underpinning the Council's budget to ensure that any necessary actions can be taken at the appropriate times, in order to respond to changing circumstances and new challenges, allowing for consultation as appropriate.

The latest financial forecast includes a forecast budget gap of £13.567m over the three year period to 2019/20. Assuming that the measures in this report address the 2017/18 position, a gap of £9.22m will still need to be met by 2019/20. The Council will therefore need to be mindful of the lead in time required to deliver a further savings programme when considering its financial strategy. Additionally, there are risks associated with the delivery of savings and income generation agreed as part of this and previous budget reports. This may increase the potential for in year budget variances requiring corrective measures to be implemented and the strategy refined on an ongoing basis.

Legal Implications and Risks

Under the Local Government Act 2003 calculation of the Council Tax to be levied and adoption of an annual budget must be carried out by full Council on the recommendation of the Leader and Cabinet.

When considering decisions on the budget and the level of Council Tax, Members should have regard to the legal framework for such decisions which is shown at **Appendix J**.

When considering the budget, Council must take into account this report from the Chief Financial Officer on the robustness of the estimates and the adequacy of the proposals for reserves. The Council has a statutory duty to set a lawfully balanced budget and adoption of the recommendations in this report would fulfil its obligations in this regard.

Human Resource Implications and Risks

Any HR issues which occur as part of any change processes will be dealt with according to the Council's HR procedures and employment legislation, and will be subject to consultation with staff and their union representatives, as appropriate.

Equalities and Social Inclusion Implications and Risks

Havering has a diverse community made up of many different groups and individuals. The Council values diversity and believes it essential to try to understand the different contributions, perspectives and experience that people from different backgrounds bring to our community.

Background Papers

Revenue monitoring report period 7 2016/17

Financial Strategy report to Cabinet 18 January 2017

Financial Strategy report to Cabinet 14 December 2016

Financial Strategy report to Cabinet 21 September 2016