COUNCIL, 22 FEBRUARY 2017

REPORT OF CABINET

SUBJECT: THE COUNCIL'S BUDGET 2017/18

The purpose of this report is to enable the Council to calculate and set the Council Tax for 2017/18.

The Localism Act 2011 made significant changes to the Local Government Finance Act 1992 ("the Act"), and now requires the billing authority to calculate a Council Tax requirement for the year, not its budget requirement as previously.

The Council has to formally resolve that it calculates certain figures, which broadly are:

- its gross expenditure, including contingency and levies (but not precepts)
- its gross income from fees & charges and other sources, specific grants, external finance from the Government, and any surplus/deficit on the collection fund
- the difference between the two, being the amount which the Council needs for its own services to be paid from the collection fund, defined as the Council Tax requirement
- the basic amount of Council Tax for the net position of all these figures, including precepts, and
- the amount of Council Tax for each other category of dwelling.

The Council is also required to formally approve the management of the Council's proposed revenue budget for both the General Fund and schools' delegated budgets; and the capital programme.

Members are asked to bring their copy of the Cabinet reports including the appendices and supplementary paper with them to the meeting, as the recommendations before Council make specific reference to these reports.

Attached to this report are:

- a revised Council Tax statement, originally provided in the Cabinet report marked as **Appendix E**, amended following the final notification of the levies
- a revised Robustness of Estimates, Adequacy of Reserves and the Management of Risk statement marked as **Appendix H**, amended in respect of future MTFS planning assumptions.
- **Annex A** to this report which provides supporting information to the resolutions
- **Annex B** which are the draft minutes of the Cabinet meeting.
- The full budget report submitted to Cabinet on 8th February is also attached for reference.

The Treasury Management Strategy and related documents were reported to Cabinet separately but are being submitted to Council as part of this report (**Annex C**) for approval, as they are directly related to the budget. The Capital Programme was originally provided in the Cabinet report marked as **Appendix I**. A separate report also covers the proposed Members Allowances scheme for 2017/18 is being submitted for approval.

The HRA Capital and Revenue Budget for 2017/18 were also reported separately to Cabinet and approved at the meeting on 8 February 2017. It includes a detailed HRA capital programme for 2017/18.

In the light of the above **Cabinet recommends the Council to adopt the following resolutions as set out below.**

The effect of adopting these resolutions would be to set the Council Tax for a Band D property at £1,597.73

RECOMMENDATIONS

1. That the following as submitted in the report to Cabinet be approved:

   a) The General Fund revenue budget for 2017/18, as set out in the revised **Appendix E** attached to this report.

   b) The delegated schools' budget for 2017/18, as set out in **Appendix F** of the report to Cabinet.

   c) The Capital Programme for 2017/18, as set out in **Paragraph 3.28** and **Appendix I** of the report to Cabinet.

   d) The HRA Capital Programme 2017/18, as set out in the separate report to Cabinet on 8 February.

2. That, in accepting recommendation 1, Council is mindful of the advice of the Chief Finance Officer as set out in **Appendix H** of the report to Cabinet and a revised is appended to this report.

3. That it be noted that the Council Tax public engagement exercise carried out during January 2017 was considered by Cabinet when considering the draft financial strategy and is attached at **Annex D**.

4. That it be noted that the minutes of the Overview and Scrutiny Board that were considered at the Cabinet meeting of 8 February are included at **Annex E** for information.

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5. That it be noted that under delegated powers the Chief Finance Officer has calculated the amount of 86,821 (called T in the Act and Regulations) as its Council Tax base for the year 2017/18 in accordance with regulation 3 of the Local Authorities (Calculation of Council Tax Base) Regulations 1992 (as

amended) made under Section 31B of the Local Government Finance Act 1992 as amended.

6. That the amount of £ 114,404,900 be now calculated as the Council Tax requirement for the Council's own purposes for 2017/18, with £4,317,608 of that amount being ringfenced for Adult Social Care.

7. That the following amounts be now calculated by the Council for the year 2017/18 in accordance with Sections 31 to 36 of the Local Government Finance Act 1992 as amended:

(a)	£500,074,745	being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(2) of the Act.
(b)	(£385,669,845)	being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(3) of the Act.
(c)	£114,404,900	being the amount by which the aggregate at 7(a) above exceeds the aggregate at 7(b) above, calculated by the Council in accordance with Section 31A(4) of the Act as its Council Tax requirement for the year. (Item R in the formula in Section 31B of the Act).
(d)	£1,317.71	being the amount at 7(c) above (Item R), all divided by Item T (1(a) above), calculated by the Council, in accordance with Section 31B of the Act, as the basic amount of its Council Tax for the year.

8. That the Council, in accordance with Sections 30 and 36 of the Local Government Finance Act 1992, hereby sets the amounts shown in the table below as the amounts of Council Tax for 2017/18 for each of the categories of dwellings.

Valuation Bands London Borough of Havering			
	Havering	**Adult Social Care**	**Total**
	£ p	**£ p**	**£ p**
A	845.32	33.15	878.47
B	986.21	38.68	1,024.89
C	1,127.09	44.21	1,171.30
D	1,267.98	49.73	1,317.71
E	1,549.75	60.78	1,610.53
F	1,831.53	71.83	1,903.36
G	2,113.30	82.88	2,196.18
H	2,535.96	99.46	2,635.42

9. That it be noted for the year 2017/18 the major precepting authority (the GLA) has stated the following amounts in precepts issued to the Council, in

accordance with Section 40 of the Local Government Finance Act 1992, for each of the categories of the dwellings shown below as proposed by the Mayor and as due to be considered by the London Assembly at its meeting on 20 February 2017.

Valuation Bands Greater London Authority	
	£ p
A	186.68
B	217.79
C	248.91
D	280.02
E	342.24
F	404.47
G	466.70
H	560.04

10. That, having calculated the aggregate in each case of the amounts at 8 and 9 above, the Council, in accordance with Sections 30 and 36 of the Local Government Finance Act 1992, hereby sets the following amounts as the amounts of Council Tax for the year 2017/18 for each of the categories of dwellings shown below:

Valuation Bands	£ p
A	1,065.15
B	1,242.68
C	1,420.21
D	1,597.73
E	1,952.77
F	2,307.83
G	2,662.88
H	3,195.46

The effect of adopting this resolution would be to set the Council Tax for a Band D property at £1,597.73

11. That Council having considered the principles approved under the Local Government Finance Act 1992 by the Secretary of State for Communities and Local Government concludes that the Council's basic relevant amount of Council Tax for 2017/18 is not excessive.

12. That 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 Regulation 20(2) of the Council Tax (Administration and Enforcement) Regulations 1992 as amended 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% of and from the

estimated amount and such reduced amount shall be accepted in full settlement of that estimated amount.

13. That Council agrees that the Capital Programme be expanded for schemes during the year which are funded via additional external funding under the authority of the Cabinet Member for Finance and the relevant service area Cabinet Members.

14. That Council delegates to the Chief Financial Officer approval to amend the Corporate Risk Budget in order to account for any changes which arise as a consequence of the late approval by Parliament of the Local Government financial settlement.

REPORT DETAIL

As set out in the reports to Cabinet of the 8 February 2017 and the attached Annexes.

APPENDIX E

LONDON BOROUGH OF HAVERING
COUNCIL TAX STATEMENT – 2017/18 BUDGET

2016/17			2017/18	
£	**Havering's Expenditure**		£	
156,965,072	Service Expenditure		154,427,604	
2,000,000	General Contingency		2,000,000	
158,965,072	**Havering's Own Expenditure**	a	**156,427,604**	
	Levies			
13,670,000	East London Waste Authority		14,925,000	Final
180,403	Environment Agency (Thames)		182,971	Final
19,520	Environment Agency (Anglia)		20,341	Final
244,208	Lee Valley Regional Park Authority		228,007	Final
313,461	London Pensions Fund Authority (LPFA)		253,034	Provisional
14,427,592	**Sub Total – Levies**	b	**15,609,353**	
(10,247,850)	Unringfenced Grant	c	(9,669,228)	Provisional
163,144,814	**Sub Total – Total Expenditure**	d=a+b-c	**162,367,729**	
	External Finance			
(20,889,741)	Revenue Support Grant		(12,283,528)	Provisional
(9,462,167)	Business Rates Top-up		(9,231,836)	Provisional
(22,513,105)	National Non Domestic Rate		(24,099,835)	Final
(52,865,013)	**Sub Total – External Finance**	e	**(45,615,199)**	
(3,793,000)	Council Tax Deficit/(Surplus)	f	(2,201,000)	Final
1,863,460	Business Rates Deficit/(Surplus)	g	(146,631)	Final
108,350,261	**Havering's Precept on the Collection Fund**	h=d+e+f+g	**114,404,900**	

The Collection Fund

2016/17		**Expenditure**		2017/18	
£	£ p	**Precepts**		£	£ p
106,266,405	1,243.26	London Borough of Havering		110,087,792	1,267.98
2,083,856	24.38	Adult Social Care		4,317,608	49.73
108,350,261	1,267.64	**Total London Borough of Havering**	h	**114,404,900**	1,317.71
23,590,824	276.00	Greater London Authority (Provisional)		24,311,616	280.02
22,513,105	263.39	London Borough of Havering Retained Business Rates		24,099,835	277.58
15,008,737	175.39	Greater London Authority - Retained Business Rates		29,723,130	342.35
37,521,841	438.99	Central Government - Retained Business Rates		26,509,819	305.34
270,688	3.17	Cost of NNDR collection		268,121	3.09
207,255,456	2,424.78	**Total Expenditure**	i	**219,317,421**	2,526.09
		Total Income			
		National Non-Domestic Rate			
(75,314,371)	(881.14)	NNDR receivable (not updated yet)	j	(80,600,905)	(928.36)
131,941,085	**1,543.64**	**COUNCIL TAX per Band D property**	k=i-j	**138,716,516**	**1,597.73**
85,474		**Council Tax Base**		**86,821**	

Council Tax percentage change 3.5%

Council Taxes Per Property Band

Valuation as at 1/4/91	£ p		£ p	Change £ p
Under £40,000	1,029.09	Band A	1,065.15	36.06
£40,000 - £52,000	1,200.61	Band B	1,242.68	42.07
£52,001 - £68,000	1,372.12	Band C	1,420.21	48.09
£68,001 - £88,000	1,543.64	Band D	1,597.73	54.09
£88,001 - £120,000	1,886.67	Band E	1,952.77	66.10
£120,001 - £160,000	2,229.71	Band F	2,307.83	78.12
£160,001 - £320,000	2,572.73	Band G	2,662.88	90.15
Over £320,000	3,087.28	Band H	3,195.46	108.18

APPENDIX H

LOCAL GOVERNMENT ACT 2003
ROBUSTNESS OF ESTIMATES, ADEQUACY OF RESERVES AND THE MANAGEMENT OF RISK

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1. BACKGROUND

1.1 Section 25 of the Local Government Act 2003 requires Chief Financial Officers to report to their authorities about the robustness of estimates and the adequacy of reserves when determining their budget and level of council tax. Authorities are required to consider their Chief Financial Officer's report when setting the level of council tax.

1.2 Section 26 of the Local Government Act 2003 gives the Secretary of State power to set a minimum level of reserves for which an authority must provide in setting its budget. The minimum would apply to "controlled reserves", as defined in regulations. The intention in defining controlled reserves would be to exclude reserves that are not under the authority's control when setting its call on council tax, for example the balance on the Housing Revenue Account and schools balances. There may also be a case for excluding other types of reserve. Regulations to define controlled reserves would only be made in conjunction with regulations setting a minimum.

1.3 It was made clear throughout the Parliamentary consideration of these provisions that section 26 would only be used where there were grounds for serious concern about an authority. The Minister said in the Commons standing committee debate on 30 January 2003: "The provisions are a fall back against the circumstances in which an authority does not act prudently, disregards the advice of its Chief Finance Officer and is heading for serious financial difficulty. Only in such circumstances do we envisage any need for intervention." There is no intention to make permanent or blanket provision for minimum reserves under these provisions.

1.4 If the need to apply a minimum to an authority were identified, the minimum would be set after considering the advice of the CFO to the authority and any views expressed by the external auditor. The authority would be consulted on the level to be set.

1.5 Any minimum set under section 26 applies to the allowance to be made for reserves in the budget. There is nothing to prevent the reserves being used during the year even if as a result they fell below the minimum. However, if in preparing the following year's budget it was forecast that the current year's reserves would fall below the minimum the CFO would need to report to the authority under section 27.

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2. REPORT OF THE CHIEF FINANCIAL OFFICER

2.1 The Chief Financial Officer for the London Borough of Havering has provided the following assurance:

The London Borough of Havering prides itself on its record of creating balanced budgets, delivering challenging savings programmes and carefully managing its finances within each financial year. It is this track record which has helped to build the foundations for the 2017/18 budget and will need to continue via the MTFS through to 2019/20.

The confirmation of the four year financial settlement, whilst anticipated, is disappointing. It will result in substantial reductions to Havering's allocation of Government funding. The failure of the funding formula to acknowledge the significant financial pressures associated with rapid population growth particularly in relation to its impact on social care services for children and adults results in significant financial pressures for the Council to manage the delivery of services in the forthcoming years. This is exacerbated by the effects of the 2016/17 settlement introduction of the 'core spending power' calculation, which removes government funding from those authorities which are considered able to raise proportionately more council tax, without regard for the need to spend to meet escalating demand for services As a consequence, Havering continues to receive lower than the average level of funding for London despite having the highest proportion of older people within its population, which is a key driver of adult social care expenditure.

In light of the substantial savings made in recent years (£38.2m over the period 2014/15 to 2016/17), the challenge in preparing the budget for 2017/18 and the MTFS has been to identify proposals which minimise the impact of budget reductions upon delivering the Council's priority services

However, the future financial position for Havering is very challenging. Whilst the proposal contained within this report will achieve a balanced budget in 2017/18, a gap of £2.895m is forecast in 2018/19 and a further £6.325m in 2019/20. The Council will need to develop further savings and income generation plans during 2017/18 and to consider its future Council Tax strategy as part of developing the 2018/19 Medium Term Financial Strategy within the context of further pressures and funding opportunities that may arise during 2017/18.

Consequently, while I have assessed the proposals contained in this report for 2017/18 as robust, with a sufficient safety net for any savings that are ultimately non-deliverable, it is clear that further proposals for the MTFS will need to be developed to enable the s151 officer to sign off the budget as robust in future years.

All of the above comments are made in the context of a planning assumption that the Council will agree to a Council Tax increase of 3.95% including an Adult Social Care precept of 2% in 2017/18.

The budget reinforces the need for on-going robust financial management, strict budgetary control and the on-going monitoring of savings delivery plans with effective processes in place to promote these.

In assessing the robustness of estimates, I have drawn on the advice of service chief officers that the proposals presented for 2017/18 can be delivered within the available resources envelope.

In January, Cabinet approved my recommendation to establish a Business Risk Reserve with effect from 1 April 2017, into which the estimated underspend of £5.4m on the corporate risk budgets will be transferred as part of accounts closure. The Business Risk Reserve will provide a safety net against the risk of non-delivery of savings and/or over optimism with funding assumptions within 2017/18.

The projected levels of earmarked reserves as referred to in section 3 below have been established to meet planned projects or budgetary pressures and are considered adequate at this time. The sums earmarked for these purposes were agreed as part of the annual approval of accounts process and the use and application of those reserves are reviewed quarterly as part of the budget monitoring process. The General Fund Balance stood at £11.75m at 31 March 2016 and it is recommended that it be retained at this level.

In addition, the inclusion of a Corporate Risk Budget of £8.9m within the base budget for 2017/18 will further support the management of budgetary pressures through 2017/18. It should be noted that prior commitments of £5m have been made against this budget thereby protecting services from further budgetary reductions. The Corporate Risk Budget is forecast to reduce to approximately £3m by 2018/19 and therefore it will become more difficult for the Council to respond in a similar manner to future adverse financial pressures.

The Corporate Contingency budget remains at £2m which is adequate for the risks that it is expected to cover. Whilst it is currently planned to reduce to £1m in 2018/19, this will be kept under review during 2017/18 and in preparing the 2018/19 Strategy.

The budget does not provide specific funding for any unforeseeable, extraordinary items of major expenditure, for example, the implications of flooding. If such an event were to occur, it would need to be funding from the existing general reserves and balances, if the general contingency were exhausted.

Against such a challenging financial background, it will therefore be crucial that reserves, both general and earmarked, continue to be managed in the medium term in a way that gives due regard to the need to set a legally balanced budget.

Debbie Middleton BA(Hons), CPFA
Section 151 Officer

3 ROBUSTNESS OF ESTIMATES, RESERVES AND BALANCES

3.1 The budget has been prepared using the three year Financial Strategy agreed by Cabinet in September 2016 as its starting point. This Strategy has been developed through:

- The revenue and capital budget strategy statements, which are included as part of this report;
- The forecast position as set out in the Cabinet report of January 2017 and February 2017 and the proposals set out in those reports;
- The outcome and forecast impact on the Council of the Local Government Financial settlement as reported to Cabinet in January 2017;
- A variety of announcements concerning the new funding system;
- The Autumn Budget Statement 2016.

3.2 As the development of the budget for 2017/18 has progressed, the position has been the subject to review and challenge with Heads of Service, SLT, the Leader of the Council, Cabinet Members and the Lead Member for Financial Management. Due consideration has been given to the over-arching strategy above along with the delivery of corporate priorities in undertaking these reviews and this is reflected in the detailed budget proposals.

Budget proposals have been developed within the context of current and future service plans. Furthermore:

a) the Council has reviewed its pressures alongside those identified by the LGA and London Councils to provide a cross check/challenge;
b) In respect of savings, the proposals have been risk assessed against an agreed set of criteria which will ultimately inform in-year monitoring;
c) A review of legislation takes place on an ongoing basis as part of the budget development process to assess possible implications;
d) Financial modelling related to the new funding system and its impact on Havering's budget has been under periodic review and refinement, especially in light of the Autumn Budget Statement and the Provisional Local Government Financial Settlement announcements.

3.3 At a more detailed level, budgets have been built having due regard to:

- Staffing changes incorporating proposed restructures;
- Inflation;
- Contractual commitments
- Existing budgets;
- The proposals for budget adjustments and savings;
- The impact of changes to specific grants.

3.4 The budget includes a contingency that will provide a reasonable level for unforeseen issues that could arise during the year. This has had due regard to a risk assessment. Further information on the basis of this is set out later in this statement.

3.5 A review of the 2016/17 significant budget variances has taken place to assess any impact on the 2017/18 budget outside of the proposals in order to:

(a) Ensure action plans are in place where a possible adverse variance could occur;
(b) Ensure use of any possible additional favourable variance is considered in the context of the overall strategy;
(c) Inform the risk assessment of contingency and reserves.

3.6 The proposed budget provides a foundation from which to develop the financial strategy over the period to 2019/20 and work will continue during 2017.

4. THE ADEQUACY OF ESTIMATES, RESERVES AND BALANCES

4.1 As set out in section 1, local authorities are required to maintain adequate balances to deal with unforeseen demands upon financial resources. It is the responsibility of each authority to set its level of reserves based on local conditions, but taking into account national factors. Although a view can be sought from the external auditors it is not their responsibility to prescribe or recommend the appropriate level. In setting the level, the Authority should take into consideration the advice of their Chief Finance Officer (CFO), taking into account all local relevant circumstances.

4.2 The Strategy agreed by Council in July 2009 set out that the minimum level for of the General Fund Balance will be £10m. This Strategy has been maintained since that time. The General Fund Balance stood at £11.750m at 31 March 2016. An annual review of the balance has taken place as part of the budget setting process. The risk assessment is attached at Annex 1 and the CFO's advice is that the minimum level of reserves. Given the increasingly uncertain financial climate and financial pressures, it is recommended that the minimum General Fund Balance requirement should remain at its current level of £11.75m which represents 7.2% of the Council's net 2017/18 budget including levies.

4.3 After taking account of the most recent projection in the current year and more significantly the outcome of the Local Government Financial Settlement, it is anticipated that the Council's general reserves will remain at £11.75m as at 31 March 2017.

4.4 Members will be aware that the working balances provide protection against unforeseen events that could impact on the authority. Reserves must be used carefully and can be used only once. As reflected in the revenue budget strategy, the Council will not utilise General Fund Balances to subsidise its budget or suppress council tax increases. Further it will not use any specified or earmarked reserves to subsidise its budget or to suppress council tax increases on an on-going basis as this is neither financially sustainable nor prudent. It may, in exceptional circumstances, utilise appropriate specified or earmarked reserves to bridge short term forecast budget shortfalls to facilitate delivery and implementation of projects and service initiatives that will generate additional income or reduce on-going expenditure to achieve a balanced budget. Approval of decisions to utilise reserves in this manner will require the approval of a robust business case including implementation plan.

4.5 The Council maintains a number of earmarked funds for specific purposes and their use is planned and approved for these purposes. Often they are used to comply with accounting policies, manage arrangements across financial years, or to fund known future commitments. The most significant are for the following:

(a) Insurance Reserve (6.9m), which is part of the Insurance Self-Funding Arrangement to meet future liabilities incurred but not yet claimed.
(b) Strategic Reserve to support corporate transformation (£27.6m) – these funds are earmarked for the various transformation programmes across the Council – as well as priority projects and bridge funding for schemes such as the Property Strategy and the Leisure contract cash flow.

The sums established within earmarked reserves were agreed by SLT as at 1st April 2016 and were fully allocated to projects or liabilities. The balances will be reviewed again as at 31 March 2017.

4.6 Other reserves continue to be expended/planned in accordance with their specific approved purpose. A review has taken place of these as part of the budget finalisation.

4.7 The working balances of the HRA are also subject to a risk assessment; this will be included in the report to Cabinet on the HRA budget for 2017/18.

5. OPPORTUNITY COST OF RESERVES

5.1 Holding general reserves to meet unexpected events or emergencies is a necessary requirement. However, there are opportunity costs and benefits of holding cash balances, which can be measured in different ways, depending on what these resources were alternatively to be used for. For example, holding cash gives a financial benefit in contrast to using the cash to fund capital expenditure. The financial benefit would be the difference between the investment return and the total borrowing cost. At the current time due to low interest rates, these are in fact broadly neutral. However, a cost of around 4% will be incurred in respect of a requirement make revenue provision to repay debt.

5.2 On this basis, for every £1m of cash held, the purely financial benefit could be deemed to be £0.040m per annum or approximately £0.400m per year for balances of £10 million. This is dependent on prevailing money market conditions, which in the current economic climate can fluctuate significantly. Using the balances to repay debt earlier would not achieve a matching saving given the costs around early redemption and the similarity in short-term lending rates and long-term borrowing rates. For information, £1m equates very approximately to 1% on the level of Band D Council Tax.

5.3 If, however, this is considered in the context of using these balances to fund one off expenditure, then the opportunity cost is the improvements that would accrue from that expenditure. This might for example be improvements in services, increased performance or some other measure and would be assessed via a business case. Such items have been considered by officers during the course of developing the MTFS, but these have not generally been included within the final proposals or the detailed budget given the broad financial constraints within which Havering is operating.

5.4 Should these items be included within the budget, they would obviously provide a basis for additional and/or improve services; with the need to appreciate that reserves exist for various reasons, and once expended, either have to be replenished, or the funding terminated. This is the opportunity that is being potentially foregone by holding general reserves. However this is only relevant to the extent that such proposals align to Council's priorities and Medium Term Financial Strategy.

5.5 It is important that in considering the level of working balances that the issue of the opportunity costs and benefits of such an approach is also considered and that Members weigh up the potential benefits against the risks. The other important factor in making this judgement is to consider is that balances can as indicated only be spent once, and can realistically only be used to support one off expenditure, or to allow time for management action to be implemented to address ongoing expenditure requirements.

5.6 As stated above, the use of significant levels of balances to fund ongoing spending or reductions in Council Tax can pose material financial risks, especially given that the Council's ability to generate funds to replenish reserves through Council Tax is severely restricted by the Council Tax capping regime. Hence the level of reserves held overall requires a balance to be struck between the opportunity cost of holding balances against the unknown risks facing the Council and the need to safeguard the provision of local services if such risk were to crystalise.

6. REVIEW OF RESERVES AND CONTINGENCY

6.1 The assessment of the sums required for reserves and contingency purposes is reviewed regularly, taking into account the various risks facing the Council, the level of risk, the actions taken to mitigate risk, and the financial assessment of the risk. The review include consideration of the Corporate Risk Register, with the objective of ensuring that all such risks having a potential financial impact are covered in the reserves and contingency assessment.

6.2 The outcome of this review is set out in Annex 1 to this Appendix. This shows each risk and the detail associated with it, and includes a cross-reference to the Corporate Risk Register. Each risk is evaluated in term and a financial assessment is made of the potential costs arising and the degree of likelihood, which in turn drives the sum for which provision is being made.

6.3 The Corporate Risk Register is kept under review by the Senior Leadership Team, so any changes are then reflected when the reserves and contingency assessment is updated.

ANNEX 1

RISK ASSESSMENT FOR GENERAL BALANCE / CONTINGENCY 2017/18
REVIEWED AT 20 JANUARY 2017

Risk (incl Corporate Risk Register item)	Risk Owner	Risk Description	Assess-ment of Risk (counter measures in place)	Contingency		General Balance	
				Value of Assess-ment £000	Value Having Regard to Risk £000	Value of Assess-ment £000	Value Having Regard to Risk £000
1. Failure to Balance the MTFS over the period to 2019/20 CR4Failure to deliver a balanced budget	S151 SLT	4 year financial settlement includes a significant reduction in grant funding over the four year cycle to 2019/20. The impact has not yet addressed as part of MTFS development. A gap of £9.2m exists in the MTFS over 2018/19 and 2019/20 and represents a financial risk to the Council.	Medium to High			9,200	9,200
2. Failure to achieve in year budget balance in year overspending CR4Failure to deliver a balanced budget	S151 SLT	Mitigating action plans have been presented which to cover £7m overspend in 2016/17 (as reported to January Cabinet). If these are not brought into line it will place further risk on budget strategy. The Business Risk Reserve will provide a buffer of £5.5m approx. Latest forecast projections suggest that pressures may be closer to £7.5 m leaving a risk exposure of £2m	Medium	7,500	2,000		
3. Impact of changes in homelessness legislation CR4Failure to deliver a balanced budget	Director of Housing	The amount of Housing Benefit we claim for a unit of temporary accommodation has a £40 per week element called a management fee. This pays for managing the property, and the cost of managing the individual. That is ceasing from April 2017. In its place there will be a transitional lump sum payment and we are due to be notified in a letter by DCLG in January £0.5m provided for within Corporate Risk Budget although overall costs could be £1m to £2m	High			1,500	1,500
4. Reduction in ESG CR4Failure to deliver a balanced budget	Director of Children's Services	Reduction in ESG funding will require savings in 2016/17 and beyond. There is a gap of £0.7m to be found. There is a long term pressure of £0.2m which could potentially increase if short term measures are not converted into longer term savings.				700	700
5. Apprenticeship levy implementation CR4Failure to deliver a balanced budget	SLT	Cost of apprenticeship levy is factored into the MTFS although current estimates suggest that there is an under-provision of £0.250m.					250

Risk (incl Corporate Risk Register item)	Risk Owner	Risk Description	Assess-ment of Risk (counter measures in place)	Contingency		General Balance	
				Value of Assess-ment £000	Value Having Regard to Risk £000	Value of Assess-ment £000	Value Having Regard to Risk £000
ASSESSMENT HAVING REGARD TO RISK LIKELIHOOD – MINIMUM LEVEL REQUIRED			**Overall Medium Risk**	7,500	2,000	11,650	11,650

ANNEX A

BUDGET AND CORPORATE PLAN AND COUNCIL TAX 2017/18
SUPPLEMENTARY INFORMATION

A. THE GREATER LONDON AUTHORITY AND LEVIES

The Greater London Authority precept proposed by the Mayor was advised as being £280.02 per Band D property (1.46% increase). The London Assembly was due to consider this budget and precept on 20 February 2017. Confirmation of formal approval to the budget has now been received and the proposed Band D amount has been agreed.

Information on the other levies is as set out in the report to Cabinet or as subsequently advised to Council as part of this report, and is reflected accordingly in the revised **Appendix E**.

B. FINAL LOCAL GOVERNMENT FINANCIAL SETTLEMENT 2017/18

1. The provisional settlement was announced on 15 December 2016 and the implications for the Council's funding has been reflected in subsequent reports to Cabinet culminating in the approval of the draft budget by Cabinet on 8 February.

2. Exceptionally the settlement is not expected to be approved by Parliament until 20 February at the earliest and was not therefore capable of being reflected in the final budget papers. However, the final settlement is not expected to be materially different from the provisional settlement.

3. Cabinet will recall that 2017/18 is the second year of the four year financial settlement which has provided greater predictability in budgeting and forecasting. For that reason provisional settlement for 2017/18 is broadly in line with the announcements made during 2016/17.

4. It is recommended that Council delegate authority to the Chief Financial Officer to adjust the Corporate Risk Budget to account for any variations that may arise from the final settlement.

C. THE COUNCIL TAX (DEMAND NOTICES) (ENGLAND) REGULATIONS 2011 AND 2012

The Regulations set out the information which the billing authority must supply with the Council Tax Demand Notice, and the National Non-domestic Rate Notice as well as matters required to be contained in those Notices.

The 2011 Regulations require the following information to be provided within the Demand Notice:

Amounts of gross expenditure

The gross expenditure of—
(a) the billing authority,
(b) each relevant precepting authority, and
(c) each relevant levying body,
for the relevant year (i.e. the year for which the budget is being set) and the preceding year.

Amounts of council tax requirement
The council tax requirement of—
(a) the billing authority, and
(b) each relevant precepting authority,
for the relevant year and the preceding year.

Statements concerning gross expenditure and council tax requirement
The billing authority's reasons for any difference between the amounts stated in respect of the gross expenditure and council tax requirement for the billing authority and each precepting authority for the same year.
The billing authority's opinion of the effect that its gross expenditure has on the level of council tax set for the relevant year.
Each relevant precepting authority's opinion of the effect that its gross expenditure has on the level of its precept issued for the relevant year.

In accordance with these Regulations, these calculations are as follows:

		2016-17 £	2017-18 £
	Amounts of Gross Expenditure		
	Aggregate of the items which are attributable to the services administered by the Authority during the year	492,754,911	500,074,745
Excluding	allowances for contingencies;	2,000,000	2,000,000
	and contributions to/from financial reserves	-19,746,108	-20,628,797
	Gross Expenditure	**510,501,019**	**518,703,542**
	Amounts of Council Tax Requirement		
	LBH element of the Council Tax Band D for a Property	1,267.64	1,317.71
multiplied by	the Council Tax Base	85,474	86,821
	Council Tax Requirement	**108,350,261**	**114,404,900**
	Statements concerning Gross Expenditure and Council Tax Requirement		
	Gross Expenditure	510,501,019	518,703,542
Less	Council Tax Requirement	108,350,261	114,404,900
		402,150,758	**404,298,642**
	Reason for Difference		
	Gross income	329,610,097	337,707,016
	retained Business Rates	22,513,105	24,099,835
	Business Rate Baseline (Top-Up)	9,462,167	9,231,836
	Revenue Support Grant	20,889,741	12,283,528
	Council Tax (Deficit)/Surplus	3,793,000	2,201,000
	Business Rates (Deficit)/Surplus	-1,863,460	146,630
		384,404,650	385,669,845
	Less contingencies and contribution to reserves	17,746,108	18,628,797
		402,150,758	**404,298,642**

An additional calculation, setting out an explanatory breakdown of the statutory calculations, was required under the Local Government Finance Act 1992, but has been superseded by the changes brought about by the Localism Act 2011. Details of the calculation are as set out above.

The 2012 Regulations do not impact on the setting of the Council Tax but includes a requirement that:

- Demand notices refer to reductions and premiums through introduction of local council tax reduction schemes and local premiums for long term empty dwellings
- A statement should be included on a demand notice where a reduction under a local scheme or a local premium applies explaining the amount of the reduction or premium, the reasons for it and the possible consequences of failing to comply with duties to notify the billing authority of relevant changes in circumstance
- Demand notices include a statement of the procedure by which a person may request to pay their council tax in 12 monthly instalments and makes certain other consequential amendments
- Demand notices include another statement where the billing authority has published certain information which must be supplied with demand notices on

its website to explain that and to give the address where that information can be found.

D. CALCULATION OF CHANGE IN HAVERING'S EXPENDITURE

The following calculation was previously required under Council Tax (Demand Notice) Regulations, known as the budget requirement, and is included here to set out how the Council's expenditure, prior to taking into account Government funding, has changed. These figures reflect the significant changes caused by the new funding system and the impact of the localisation of Council Tax support.

Change in Council's Expenditure

	£m
2016/17 Budget	163.1
2017/18 Budget	162.4
Net Decrease	**-0.7**
Budget Pressures	8.2
Inflation	1.5
Increase in Levies	1.3
Provisions & Other Issues (including Grant & Funding Changes)	7.9
Sub Total	**18.9**
Efficiencies/Savings	-19.6
Net Total	**-0.7**

E. REFERENDUMS RELATING TO COUNCIL TAX RISES

Schedule 5 of the Localism Act 2011 makes provision for Council Tax referendums to be held if an authority increases its basic relevant amount of Council Tax in excess of principles determined by the Secretary of State and approved by the House of Commons.

A Council Tax referendum will be required in 2017/18 if the increase in the basic relevant amount of Council Tax set by an authority exceeds the Council Tax excessiveness principle which applies to that year. The Secretary of State has proposed that, for that year, an authority will be required to seek the approval of their local electorate if, compared with 2016/17, an increase in that amount exceeds 4.99% for local authorities (comprising 3% for expenditure on Adult Social Care and 1.99% for other expenditure).

As the Council's proposes a Council tax increase of 3.95%, taking into account of all levies, the level of increase cannot be considered as excessive under the provisions of the Act. In these circumstances the Council would not be required to hold a referendum.

ANNEX B

MINUTES OF A CABINET MEETING
Council Chamber - Town Hall
Wednesday, 8 February 2017
(7.30 - 8.50 pm)

Present:
Councillor Roger Ramsey (Leader of the Council), Chairman

	Cabinet Member responsibility:
Councillor Damian White	Housing
Councillor Robert Benham	Children & Learning
Councillor Wendy Brice-Thompson	Adult Social Services and Health
Councillor Osman Dervish	Environment, Regulatory Services and Community Safety
Councillor Melvin Wallace	Culture and Community Engagement
Councillor Clarence Barrett	Financial Management, ICT (Client) and Transformation
Councillor Ron Ower	Housing Company Development and OneSource Management
Councillor Joshua Chapman	Deputy Cabinet Member assisting Cabinet Member for Housing
Councillor Jason Frost	Deputy Cabinet Member assisting Cabinet Member for Environment, Regulatory Services & Community Safety

Councillors, Keith Dervill, David Durant David Johnson, Denis O’Flynn and Ray Morgon were also in attendance.

All decisions were agreed unanimously with no Member voting against

90 **ANNOUNCEMENTS**

Through the Chairman, an announcement was made explaining the evacuation procedures in the event of an emergency.

91 APOLOGIES FOR ABSENCE

There were no apologies for absence.

92 DISCLOSURES OF INTEREST

There were no declarations of interest.

93 MINUTES

The minutes of the meeting held on 18th January, 2017 were agreed as a correct record and signed by the Chairman.

94 THE COUNCIL'S BUDGET 2017/18

The Leader of the Council, Councillor Roger Ramsey presented the report to Cabinet detailing the Council's Budget 2017/18. Attention was drawn to two supplementary agendas and the reports therein which were deemed crucial for the budget setting process. Cabinet agreed to receive the late reports.

The report was the latest in a line of three, developing those considered at Cabinet in December, 2016 and January 2017 and it finalised the budget strategy and updated Members on outstanding matters including the Council Tax Base, Business Rates Yield, levies and precepts.

An increase of 1.95% in Council Tax and a precept of 2% for Adult Social Care are required to balance the budget.

The results of the public consultation exercise conducted in January, 2017 demonstrated that 60% of respondents agreed with the direction of the budget strategy. The top three priorities were highlighted as Schools and Education, Adult Social Care and Roads and Transport.

There are issues nationwide regarding the impact of a growing older population and these issues are at the forefront of the Councils decision making process at a time when resources are reducing.

The final confirmation of the GLA precept is expected at the meeting of the Greater London Assembly on 20th February, 2017 and any updates will be received thereafter.

Consideration was given to the report in detail. The Council's vision and corporate plan provides central focus and this will continue to ensure the Council fulfils its aspirations.

Havering continues to develop working partnerships especially with Newham and Bexley in which there are significant savings as a result.
Economic factors continue to impact. It was noted that Havering will continue to experience a rapid reduction in its Government grant settlement. Over the past year £17 million in savings have been secured and the coming year will also have a robust budget. Consideration was given to the Overview and Scrutiny Board note to Cabinet included in the first supplementary agenda.

It was acknowledged that difficult decisions will be needed in future years to balance the budget.

The Government Grant settlement results in Havering receiving a much lower level of grant funding than geographical neighbours. Specific grants were detailed in the report. The Education Services Grant has been greatly reduced showing a shortfall against the initial 2016/17 grant of at least £0.086 million. The Public Health Grant has been confirmed as per last year's provisional figures representing a £0.284 million reduction in funding.

The levy for ELWA is set to increase as the cost of waste increases nationwide.

Consideration was given to Appendix L detailing Fees and Charges and the tables representing the budget gap highlighted. The budget strategy accounts for the annual increase in council tax income. Forthcoming changes regarding temporary accommodation will impact and will need to be looked at further during 2017/18.

The Capital Programme was discussed in detail by Cabinet at the meeting in January and an extension of the Capital Strategy was approved. The Capital Programme was detailed fully at Appendix I.

Cabinet, agreed to receive the late reports set out in the two supplementary Agendas due to the need to balance the Council's policies, statutory requirements, government initiatives, inspection regimes and Council Tax levels and:

1. **Approved** the new Vision set out in **Appendix K** of the report which will be the framework for the Council's Corporate Plan, service planning and the context in which future financial strategies will be developed.

2. **Approved** the mitigating action plans referred to in paragraph 3.13 and Appendix A2.of the report.

3. **Approved** the income generation and savings proposals as set out in Appendix A1 of the report.

4. **Considered** the advice of the Chief Finance Officer as set out in Appendix H of the report in recommending the Council budget.

5. **Approved** 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. **Delegated** 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. **Agreed** that the Chief Financial Officer be authorised to allocate funding from the Capital Contingency included within the draft Capital Programme.

8. **Delegated** 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. **Agreed** that the relevant Cabinet Member, in consultation 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 the report.

10. **Agreed** 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. **Delegated** 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. **Approved** the schedule of proposed Fees and Charges set out in Appendix L of the report with any recommended changes in year being implemented under Cabinet Member delegation.

13. **Agreed** that if there are any changes to the GLA precept and/or levies, the Chief Financial Officer is authorised to amend the recommended resolutions accordingly and report these to Council on 22 February 2017.

14. **Cabinet will recommend 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. It was also **agreed** that **Cabinet will recommend to Council** that it pass a resolution as set out in section 3.29.5 of the report to enable Council Tax discounts to be given at the 2016/17 level.

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

95 **THE HOUSING REVENUE ACCOUNT (HRA) BUDGET FOR 2017/2018 AND HRA MAJOR WORKS CAPITAL PROGRAMME 2017/18 - 2020/21**

Councillor Damian White presented the report to Cabinet detailing the HRA and HRA Major Works Capital Programme. It was noted that the proposed budget will allow the Borough to manage the Council's Housing stock to a reasonable standard, maintain the existing stock and provide funding for a substantial new build and Estate Regeneration Programme.

Rents and services charges have been set and are outlined in the report. In accordance with government policy, rents are to be reduced by 1% from the week commencing 3rd April, 2017.

This will result in a year on year reduction in annual income to the HRA for four years. To mitigate this, significant steps have been taken to reduce the costs and improve the efficiency of the Housing Service across the board. It is important that those receiving services are those receiving them. Cabinet noted the table of service charges set out at paragraph 2.2.2 of the report. The proposals for support services were also detailed together with plans for improvements to support schemes.

There are proposals to increase the level of charges for garages in 2017/18 by 7.5%. It was noted that a significant investment programme will be needed to drive standards and promote better utilisation of this asset to increase revenue.

The HRA Budget was considered and detailed in Appendix 1 of the report. Cabinet noted the growth items referred to in the summary table.

There has been a temporary resource of 10 FTE personnel in the Internal Fraud Team. The impact of this work has been significant and has resulted in a £3.5 million saving for the Council. In addition, further funding has been approved for a temporary resource of 4 FTE's to reduce rent arrears. This will bring an additional saving of £0.360 million per annum.

Cabinet noted the addition of £1 million to secure a Tenants Incentive Scheme. Further funding opportunities will be explored to promote this. It will support residents who no longer require social housing and therefore free up housing for those in serious need.

£0.062 million has been allocated to assist in the removal of fly tipping on HRA land.

Cabinet noted the major works budget – HRA 2017/18 to 2019/20. Again there has been an impact given the four year rent reduction meaning that it is more difficult to plan the major works expenditure than previously.

A salient investment programme for sheltered housing has been planned as part of the regeneration and review of older peoples housing. There will be £4.7 million invested over the next two years.

Consideration was given to the 30 year Business Plan as regards the current budget setting. Officers will be reviewing the possibility of a new scheme to replace the "Pay to Stay" regime which is now a discretionary policy. Residents with an income over

£36,000 per year will be deemed to be able to make their own arrangements for housing and this initiative will in turn be linked to the development of low cost home ownership properties under the Estate Regeneration Programme.

The Council aspires to provide excellent quality homes which will encourage exceptional people to the Borough and maintain a stock of social housing which is well maintained and fit for purpose.

Cabinet:

1. **Approved** the Housing Revenue Account Budget as detailed in Appendix 1 of the report.

2. **Agreed** that the average rents chargeable for tenants in general needs Council properties owned by the London Borough of Havering be decreased by 1% from the w/c 3 April 2017 in line with the indicative figures contained in paragraph 2.1.4 of the report.

3. **Agreed** that the average rents chargeable for tenants in supported housing Council properties, such as sheltered housing and hostels, owned by the London Borough of Havering, be reduced by 1% from the w/c 3 April 2017 in line with the indicative figures contained in paragraph 2.1.4 and 2.1.5 of the report.

4. **Agreed** the four rent-free weeks for 2017/18 as being: w/c 21 August 2017, the two weeks commencing 18 and 25 December 2017, and the week commencing 26 March 2018.

5. **Agreed** that service charges and heating and hot water charges for 2017/18 are as detailed in paragraph 2.2.2 of the report.

6. **Agreed** that the service charges for homeless households accommodated in the Council's hostels 2017/18 are as detailed in paragraph 2.2.3 of the report.

7. **Agreed** that charges for garages should be increased by 7.5% in 2017/18 as detailed in paragraph 2.3.1 of the report.

8. **Agreed** that the service charge for the provision of security and support in sheltered housing for 2017/18 shall be as detailed in paragraph 2.4.1 of the report.

9. **Agreed** that the Careline support charge should be increased by 2% for 2017/18 as detailed in paragraph 2.5.1 of the report.

10. **Agreed** that the Telecare support charges should be increased by 2% for 2017/18 as detailed in paragraph 2.5.1 of the report.

11. **Agreed** the funding of the Tenant Incentive Scheme as identified in paragraph 3.2.9 of the report.

12. **Agreed** the funding to remove fly tipping on HRA land as detailed in paragraph 3.2.10 of the report.

13. **Approved** the HRA Major Works Capital Programme, detailed in Appendix 2 of this report and will **refer it to full Council** for final ratification.

14. **Agreed** the funding of additional posts as identified within paragraphs 3.2.2 to 3.2.8 of the report.

15. **Agreed** the initial funding requirements for the Estate Regeneration Programme, as identified within paragraphs 3.2.12 to 3.2.15.

96 **TREASURY MANAGEMENT STRATEGY STATEMENT, PRUDENTIAL INDICATORS AND MINIMUM REVENUE PROVISION STATEMENT FOR 2017/18**

Consideration was given to the report detailing the Treasury Management Strategy Statement, Prudential Indicators and Minimum Revenue Provision Statement for 2017/18.
Cabinet noted the first Treasury Management Strategy Statement noting that other reports will follow (minimum of three per year).

The Council is required to manage a balanced budget. The Treasury Management Strategy will ensure this is done, adequately planned, with funds available when and where needed. The Treasury Management Strategy will also ensure the adequate funding of the Council's Capital plans which provide a borrowing guide for the Council's needs. It was noted that as of the end of 2016 the Council had £210 million of long term borrowing and £235 million of investments. It is believed that the Council will need to undertake further borrowing of £46 million for 2018/19 to maintain forecast investments balances at £30 million. The Council's Borrowing Strategy is in place and was noted together with the Investment Strategy both of which are detailed and comprehensive.

For the reasons set out in the report and statutory codes **Cabinet:**

1. **Approved** the Treasury Management Strategy Statement (TMSS)

2. **Approved** the Prudential Indicators set out in appendix B of the report

3. **Approved** the Annual Minimum Revenue Provision statement for 2017/18 set out in appendix C of this report.

4. **Cabinet agreed to recommend** the annual TMSS and MRP statements 2017/18 to Council for approval.

Other Options Considered

The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer, having consulted with the Cabinet Member for Financial Management believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Alternative strategies, with their financial and risk management implications, were considered and are listed below:

Alternative	**Impact on income and expenditure**	**Impact on risk management**
Invest in a narrower range of counterparties	Interest income will vary depending on the counterparties used	Lower chance of losses from credit related defaults, but any such losses will be greater
Invest in a wider range of counterparties	Interest will again vary depending on the counterparties used.	Increased risk of losses from credit related defaults, but any such losses will be smaller
Invest in deposits with a longer duration	Interest income will be higher	Increased risk of losses from credit related defaults and a reduction in liquidity
Invest in deposits with a shorter duration	Interest income will be lower	Decreased risk of losses from credit related defaults and an increase in liquidity
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs will be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs will be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs will be less certain and there may be additional costs occurred from restructuring

Chairman