Havering
LONDON BOROUGH

CABINET

Subject Heading:	**2019/20 Budget and 2019-2023 Medium Term Financial Strategy**
Cabinet Member:	**Councillor Damian White, Leader of the Council**
SLT Lead:	**Jane West** Chief Financial Officer
Report Author and contact details:	Richard Tyler Finance Strategy Manager, oneSource 01708 433 957 Richard.Tyler@oneSource.co.uk
Policy context:	This report sets out the Council's revenue budget requirement for 2019/20 and MTFS for the following three years. It makes proposals regarding the level of Council Tax required to meet the budget requirement. The report also provides an update on the outcome of the 2019/20 local government financial settlement.
Financial summary:	This report includes: • the approach to setting the Council's 2019/20 budget and MTFS for the following three years • the outcome of the local government finance settlement • recommended Council Tax level for 2019/20.
Is this a Key Decision?	Yes
When should this matter be reviewed?	Annually
Reviewing OSC:	Overview and Scrutiny Board

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

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

The report sets out the Council's current financial situation and its approach to achieving financial balance over the period 2019/20 to 2022/23.

This report consists of the following sections:

- Policy and Strategic Context (Section 1)
- Background to the budget process and details of the local government finance settlement (Section 2)
- In-year financial position, consultation process, savings proposals and recommendations on Council Tax levels (Section 3)
- Update on the Medium Term Financial Strategy (Section 4)
- Impact of proposals on Council Tax levels (Section 5)
- Proposed Fees and Charges (Section 6)
- Contingencies and General Balances (Section 7)
- Update on the Capital Programme (Section 8)
- Budget risks and uncertainties (Section 9)
- Chief Financial Officer statement regarding the robustness of the budget (Section 10)

RECOMMENDATIONS

Cabinet is asked to:

- Agree the Corporate Plan set out in Appendix G.

- Agree the Council's General Fund Budget Requirement for 2019/20 to be set at £124.813m as set out in paragraph 5.3.2 and Appendix A of the report;

- The Delegated Schools' draft budget set out in section 2.5 of this report;

- Agree a 1.25% increase in Council Tax for 2019/20 as set out in paragraph 5.1;

- Agree an additional 2% Adult Social Care Precept as in paragraph 5.1;

- Note the Medium Term Financial Strategy position as set out in Section 4 and Appendix F

- Agree the fees and charges schedule as set out in Section 6 and Appendix C

- Note the budget and risks as set out in Section 9

- Approve the Council's approach to general balances as set out in paragraph 7.3

- Note the requirements of S106 of the LGA 1992 Act as set out in Section 1

- Agree that if there are any changes to the GLA precept and/or levies, the Chief Financial Officer be authorised to amend the recommended resolutions accordingly and report these to the next Council meeting as required.

- Agree 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, ICT (Client) & Transformation.

- Delegate 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.

Cabinet is asked to recommend to Council for consideration and approval:

- The Council's General Fund Budget Requirement for 2019/20 to be set at £124.813m as set out in paragraph 5.3.2 and Appendix A of the report;

- The Delegated Schools' draft budget set out in section 2.5 of this report;
- A 1.25% increase in Council Tax for 2019/20 as set out in paragraph 5.1;
- An additional 2% Adult Social Care Precept as in paragraph 5.1;
- That it pass a resolution as set out in section 11 of this report to enable Council Tax discounts to be given at the 2018/19 level.

REPORT DETAIL

1. Policy and Strategic context

1.1 This report presents the proposed 2019/20 budget and also an update of the Medium Term Financial Strategy (MTFS) between 2019/20 and 2022/23 that will support the delivery of the Council's objectives and priorities. The report includes a recommendation to increase Council Tax levels by 3.25% in order to meet the new budget requirement whilst maintaining tight financial control and ensuring prudent levels of reserves and balances are maintained.

Councillors are reminded that Section 106 of the Local Government Finance Act 1992 requires any Member who is two months or more in arrears on their Council Tax to declare their position and not to vote on any issue that could affect the calculation of the budget or the Council Tax. Any Member affected by Section 106 who fails to declare could be subject to prosecution.

1.2 A new Corporate Plan has been developed that sets out the Council's strategic direction for the next year. The new vision for the Council is Cleaner, Safer, Prouder, Together. The draft Corporate Plan is attached as Appendix G for approval.

1.3 The Council's Corporate Plan has four cross-cutting priorities: The Themes and strategic goals are listed below

Communities

Helping young and old fulfil their potential through high-achieving schools and by supporting people to live safe, healthy and independent lives.

- Healthy and active
- Best start to life

- Achievement at school
- Families and communities look after themselves and each other
- Supporting our most vulnerable

Places

Making sure that our neighbourhoods are great places to live by investing in them and keeping them clean, green and safe with access to quality parks and leisure facilities.

- Keeping Havering clean and safe
- Quality Housing
- Delivering excellent leisure facilities
- Award winning parks

Opportunities

Helping people get on in life by creating jobs and skills opportunities and building genuinely affordable homes.

- Helping our businesses grow
- Helping people succeed in life
- Genuinely affordable quality homes
- Delivering value for money

Connections

Making it easy for people to get around and get online by investing in road, transport links, faster internet and free Wi-Fi in town centres.

- Smart Havering
- Improving Havering's roads and pavements
- Making it easier to get around

1.4 In summary, the Corporate Plan puts the focus for the next year and beyond on investing in cleaner streets, community safety and improving our roads. In addition it prioritises helping young and old fulfil their ambitions through the £3bn Regeneration Programmes that will improve the borough as a place to live. It sets out the Council's plans to bring thousands of new jobs and genuinely affordable homes to the borough and to create new business opportunities.

1.5 The Corporate Plan sets out the Council's ambition to provide maximum value for money by keeping council tax increases as low as possible. It acknowledges that in future years the Council will be smaller but smarter in the way that it delivers services while working more with the whole community as a team to get things done.

2. Background

2.1 Budget progress to date

On 29th November 2018, Cabinet was updated on the latest position on the medium term financial strategy. This showed an initial gap of £14.2m in the 2019/20 budget proposals. The report Cabinet proposed a series of savings measures following an extensive consultation process in the summer months. These proposals were approved and reduced the 2019/20 budget gap to £6.5 million. This report provides proposals to close the remaining budget gap and set a robust balanced budget for 2019/20.

2.2 The Local Government Financial Settlement

On 13th December the provisional local government finance settlement was announced. The figures represented the final year of the four year settlement the Government had set out after the last spending review. As such the figures published were broadly as previously expected in the MTFS.

The settlement confirms the final year of the 4 year settlement with a significant reduction in settlement funding assessment (SFA) of 11.7% for Havering. The table below demonstrates that this scale of reduction was much higher than average, even for other London Boroughs. This is true for 2019/20 but also across the four year settlement period over which Havering's SFA has reduced by 44.1% since 2015/16.

Table 3 - Change in headline SFA by class of local authority

Authority group	Services			Change in SFA from previous year				Cumulative change since 2015/16
	Lower tier	Upper tier	Fire	2016/17	2017/18	2018/19	2019/20	
Havering	✓	✓		-17.1%	-15.2%	-10.0%	-11.7%	-44.1%
Unitaries without fire	✓	✓		-13.6%	-11.5%	-7.1%	-7.5%	-34.4%
Metropolitan Districts	✓	✓		-10.9%	-9.0%	-5.6%	-6.4%	-28.4%
Inner London Boroughs	✓	✓		-9.6%	-7.8%	-4.7%	-5.6%	-25.1%
Outer London Boroughs	✓	✓		-13.0%	-11.0%	-6.8%	-7.4%	-33.2%
Unitaries with fire	✓	✓	✓	-13.6%	-11.8%	-7.4%	-8.4%	-35.4%
Counties with fire		✓	✓	-16.7%	-15.1%	-9.9%	-8.6%	-41.7%
Counties without fire		✓		-17.0%	-15.0%	-9.9%	-9.9%	-42.7%
Shire Districts	✓			-16.9%	-15.0%	-8.0%	-5.8%	-38.8%
Fire Authorities			✓	-6.8%	-8.9%	-4.1%	-2.4%	-20.6%
England				-12.4%	-10.6%	-6.3%	-6.5%	-31.4%

	2018/19	2019/20	Change
Headline Settlement Funding Assessment	**40.089**	**35.379**	**-11.7%**
Adjusted Settlement Funding Assessment for pilots [a]	40.089	35.379	-11.7%
Of which:			
Revenue Support Grant	0.000	0.000	
Baseline Funding Level	40.089	35.379	

2.3 Core Spending Power

The Government uses Core Spending Power as a measure to highlight what it believes is the potential increase in ability to spend for Havering. For 2019/20, the government believes that Havering's ability to spend will increase by 2.8%.The table below confirms that this includes:

- grant changes (increases to the Improved Better Care Fund (IBCF) for Adult Social Care, and the new £1.7m Social Care Grant for Adults' and Children's Social Care, partially offset by a reduction to New Homes Bonus and other grants falling out)

- An assumption that Council Tax income will go up through the annual Council Tax increase, an increased Council Tax Base with new homes coming on stream in the borough and through the Council implementing the Adult Social Care Precept. At an increase of 7.3%, the government is assuming that the Council will increase Council Tax by the full amount of the government imposed cap of 4.99%. However, Council Tax increases are ultimately a local political decision so the real change in Core Spending Power will also be determined locally. In Havering's case, the Council is not proposing to increase the Council Tax by the full amount allowed under the government's capping arrangements.

	2018/19	2019/20	Change
Core Spending Power	**170.808**	**175.573**	**2.8%**
Of which:			
Settlement Funding Assessment	40.089	35.379	-11.7%
Assumed Council Tax	119.125	127.786	7.3%
Other Grants	11.594	12.408	7.0%

2.4 The other main settlement headlines were:

- **Council Tax –** The council tax referendum limit will again be 3% for local authorities (as in 2018/19)

- **New Homes Bonus –** As expected and reported in July to Cabinet, Havering did not reach the threshold to qualify for additional new homes bonus in the 2019/20 settlement. Havering received an additional £10k through building 29 new affordable homes (£350 NHB each).

It should be noted that the MTFS currently projects no further drop off of New Homes Bonus from 2020/21 onwards. To achieve this position will require significant new builds in 2019 and this will be closely monitored over the forthcoming months.

Havering Cumulative NHB Payments	2018/19	2019/20
	(£M)	(£M)
2015/16 Award	1.429	
2016/17 Award	2.117	2.117
2017/18 Award	0.817	0.817
2018/19 Award	0.014	0.014
2019/20 Award		0.010
Total Grant	**4.377**	**2.958**

- **Business Rates Pilots -** The London-wide 75% Business Rate Pool has been confirmed for 2019/20. Havering will benefit from shared growth through being in the pool.

- **Top Up/Tariff Adjustments (Negative RSG) –** As expected, the government has decided to provide an additional £153m in funding to those authorities that were due to pay negative RSG for 2019/20. This does not affect Havering as we are now a tariff authority as a result of being in the London Business Rate Pool

- **£180m additional funding –** There has been an additional £180m of new one off funding announced. This has been provisionally allocated via the 2013/14 Settlement Funding Amount allocations. Havering will receive a one off levy re-imbursement amount of £522k

- **Social Care Funding (£650m)** - Announced at Budget 2018, the government has now indicated how this funding will be allocated. This confirms our previously expected position that Havering will receive £1.0m for winter pressures in Adult Social Care and £1.7m for Adults' and Children's social care support grant (Total Allocation £2.7m)

2.5 Dedicated Schools Grant and Schools Funding

2.5.1 The Dedicated Schools Grant (DSG) is a ring-fenced grant that is allocated to local authorities to meet their responsibilities for early years' education, the funding of schools and for provision and support for pupils with special educational needs and disabilities and for pupils requiring alternative provision. The grant is allocated in four "blocks" and the Havering's allocation for financial year 2019-20 is shown in table 1 below.

2.5.2 **Schools Funding**

With effect from financial year 2018-19 the Government funds local authorities according to a national funding formula for schools. This provides funding based on data collected from schools at an October census date within a published range of formula factors (e.g. pupil numbers and deprivation) for local authorities to distribute to its schools and academies. 2019-20 will be the second of the transitional years in which local authorities can make local adjustments to the national funding formula in its calculation of the funding that it allocates to its schools following consultation with its Schools Forum and schools.

Following agreement with the Schools Funding Forum and consultation with all schools, Havering is able to apply the national funding formula in full with a 0.5% per pupil increase for all mainstream schools and academies with a cap of 2% for schools that would have otherwise have received a higher per pupil increase.

The effect on Havering schools of implementing the NFF in 2019-20 is as follows:

	No of schools receiving the minimum 0.5% increase per pupil	No of schools receiving an increase between 0.5% and 2% per pupil	No of schools receiving the maximum 2% increase per pupil
Infant	7	3	2
Junior	1	3	8
Primary	12	12	13
Secondary	16	2	0
Total	36	20	23
	46%	25%	29%

This is the second financial year that schools will receive an increase in their funding following six years of flat cash settlements during which they have been under increasing financial pressure in having to fund national pay awards, incremental progression, increases in employer national insurance and pension contributions and inflationary increases on goods and services. School governors and head teachers are therefore continuing to implement efficiencies in the costs of running of their schools in an attempt to avoid falling into deficit.

The figures in table 1 below show a reduction in the funding received for premises, pupil growth and falling rolls. This element of the funding formula funds local authorities for the costs of national non domestic rates in schools and also for pupil growth. From 2019-20 the pupil growth and falling rolls funding that was previously allocated to local authorities will be redistributed according to a formula. This will reduce the allocation to Havering from £3.3m to £2.5m in 2019-20 with the risk of further reduction in future financial years for a borough that that is projecting an increase in its pupil population.

2.5.3 **High Needs Funding**

As with schools' funding, from 2018-19 the distribution of funding from central to local government is through a national formula. The formula for High Needs funding includes a number of factors including historic funding, pupil population, deprivation and the number of pupils attending special schools and post 16 provision.

The figure in the table below also includes Havering's allocation from an additional £125m in each of the 2018-19 and 2019-20 financial years announced by the Secretary of State for Education in December 2018. Havering's allocation for each year is £611,278. As with a significant number of other local authorities, Havering will have difficulty in containing its expenditure with the allocation of funding because of an increasing number of pupils and students with Education, Health and Care plans and increasing complexity of need.

Table 1 - Havering's DSG allocation

	Schools Block				High Needs Block	Early Years	Central School Services Block	Total DSG
Year	GUF per pupil (£)	Pupil number allocation (£m)	Premises, pupil growth, falling rolls (£m)	Total Schools Block (£)	Allocation (£m)	Allocation (£m)	Allocation (£m)	Allocation (£m)
2019-20	4,623.49	169.06	4.66	173.72	25.29	17.63	1.57	218.21
2018-19	4,586.21	166.74	5.47	172.21	23.89	17.63	1.57	215.29
							0.00	

Diff	37.28	2.32	-0.81	1.51	1.40	0.00		2.92

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 needs provision.
2. The increase in the Schools Block is mainly due to the increase in number of pupils that are to be funded.
3. Funding for premises (business rates) pupil growth and falling rolls has reduced because of the introduction of a formula to allocate pupil growth funding.
4. The Early Years block is indicative and will be recalculated based on the January 2019 and 2020 early years censuses.

2.5.4 **Early Years Funding**

The national funding formula for early years education commenced in 2017-18. Local authorities receive funding for the provision of the universal free entitlement of 15 hours per week for 3 and 4 year olds, and additional 15 hours for working families and 15 hours per week for disadvantaged 2 year olds.

As in 2018-19, for 2019-20 the pass-through rate to providers is 95% including contingencies and an inclusion fund to support access for children with special educational needs and disabilities. The remaining 5% is for local authorities to carry out their statutory duty to ensure sufficiency of provision, quality assurance, the funding to providers, data management control and business support.

The DfE has announced the rates of funding to local authorities for 2019-20 which have not changed from the 2018-19 rates. For Havering these are: £5.66 for 2 year old provision and £5.28 for 3 and 4 year olds.

Local authorities must then anticipate the number of hours of provision for which they will receive the early years grant based on the January census dates and in consultation with early years providers determine the amount of contingency, special education needs inclusion fund and central fund to be retained. This process also determines the rate at which Havering will fund its providers. This has allowed an increase in the hourly rate paid to providers of 5p from £5.35 to £5.40 for 2 year old provision and of 12p per hour from £4.53 to £4.65 for 3 and 4 year old provision.

Early Years providers have been consulted and agreed on these rates and they were agreed at the Schools Forum at the meeting held on 17th January 2019.

2.5.5 **Central School Services Block**

The Central School Services Block is to fund some of the statutory education functions of local authorities that in previous years has been funded from the Schools Block and an Education Services Grant. This block also allocates funding for an LA's historic commitments previously funded within the Schools Block. Statutory functions include school admissions, the funding of national copyright licences, servicing the Schools Forum and other statutory duties previously funded from an Education Services Grant.

2.5.6 **Education Services Grant (ESG)**

The ESG ceased from September 2017 and local authorities now receive funding on a per pupil basis through the Central Schools Services Block of the Dedicated Schools Grant. The reduction in grant leaves a shortfall against the cost of providing LA statutory services in spite of the savings made centrally and a contribution from LA maintained schools to meet the cost of central services relating only to that sector. The table from the December report is repeated below at Table 2.

Table 2 – Shortfall in funding	**£m**
Estimated service costs in 2019/20	1.769
DSG Central Services Block for LA central duties (previously ESG grant)	(0.578)
Contribution from schools	(0.304)
Shortfall	**0.887**

The intention is to manage the shortfall in funding as part of the ongoing transformational review of the service. The service will come forward with longer-term proposals for implementation aimed at minimising the future funding gap. In the meantime, a contribution from the reserves held to support the investment in education traded services will be used to supplement the funding already earmarked corporately to cover the shortfall shown above.

2.6 Further consultation papers issued by the Government

The government has released two consultation papers as part of the settlement.

- Business Rate Retention Reform

This consultation seeks views on proposals for sharing risk and reward, managing volatility in income and setting up the reformed business rates retention system. The reform of the business rates retention system will sit alongside wider changes to the local government finance system which the government aims to introduce in 2020.

- Review of Local Authorities' relative needs and resources

This consultation seeks views on the approach to measuring the relative needs and resources of local authorities, which will determine new baseline funding allocations for local authorities in England in 2020-21.

The consultation:

- proposes to simplify the assessment of local authorities' relative needs
- considers the type of adjustment that will be made to an authority's relative needs assessment to take account of the relative resources available to them to fund local services
- proposes a set of principles that will be used to design potential transitional arrangements and examines how the baseline for the purposes of transition should be established.

2.7 Future Funding beyond 2019/20

2019/20 was the final year of the Governments four year settlement period. The reductions in formula grant announced in December were therefore widely expected and had been built into planning. The future beyond 2019/20 however is far less clear and financial planning will need to be updated as information becomes clearer during 2019. There are a number of key information releases which will allow projections of funding for 2020/21 and beyond. These are listed below.

- **Spending Review 2019**

This is probably the most significant financial announcement for local government in 2019. The Spending Review will determine the overall funding levels for government departments for the spending period. This will therefore set the total amount to be spent on public finance for 2020/2021 and future years.

- **The Adult Social Care Green Paper**

The Adult Social Care Green paper has been delayed through 2018. The paper is expected to set out the pressures facing Adult Social Care up to 2025 and the funding gap that will need to be closed. The paper is expected to set out options to close this funding gap. There is clearly a potential significant pressure on local authorities depending on the path the government chooses to take on funding.

- **The Fair Funding Review**

The Fair Funding review is aiming to review all the distribution formulae and data used for allocating funding to individual authorities. This will include population data, deprivation indices, sparcity and density factors and a whole series of other datasets including area cost adjustments used to distribute funding. The outcome of this review is likely to result in significant distributional changes between local authorities across the country. All London Boroughs and London Councils have lobbied hard to ensure that population growth, cost of living and deprivation factors experienced in London are fully reflected in the new formula.

- **Business Rate Reform**

The settlement has confirmed that Havering will be part of a 75% Londonwide Business Rate Pool in 2019/20 (previously 100% in 2018/19). Havering will benefit from this arrangement through the re-distribution of business rate growth across London. Currently the arrangements for the Londonwide Business Rates Pool have to be signed off annually between the government and the 33 London Boroughs.

- **Rebasing of funding**

One of the features of the four year settlement has been the announcement of grant figures up to and including 2019/20. Whilst this has provided stability up until now it does equally create significant uncertainty from 2020/21 onwards. As an example the Council currently receives S31 grants to compensate for losses to business rates through national initiatives. It is expected that these will be discontinued when the whole finance system is rebased next year.

In 2019/20 Havering will receive £5.6m in Improved Better Care Funding (IBCF) but no announcements have been made for future years. It is expected that updates on IBCF or its replacement will be included in the Adult Social Care future proposals but at the moment there is no clarity to give confidence for future planning

3. In-year financial position, consultation process, savings proposals and recommendations on Council Tax levels

3.1 **Current Financial Position 2018/19 Revenue Monitoring**

The development of the 2019/20 budget and MTFS has fully taken account of the financial position being reported for 2018/19. The period 8 (30th November) monitoring report reviewed by Overview and Scrutiny Committee reported an overspend across Council service departments of £2.787m for 2018/19. The Senior Leadership Team has continued to focus on measures to contain expenditure within the approved budget in order to ensure financial stability as a basis for the 2019/20 budget and beyond.

The main areas of overspend at period 8 are Children's Services (£1.7m), Neighbourhoods (£0.7m) and oneSource Non Shared (£0.4m). Services are working hard to develop ongoing mitigating actions for these overspends.

The monitoring position will be improved at year end by a projected underspend of £1.881m on capital financing and treasury budgets bringing the overall projected overspend for the Council to £0.906m.

The month 8 reported position for **Children's Directorate** is an overspend of £1.701m. The main areas of pressure continue to be staffing budgets in social care (although this has continued to show an improvement from prior periods) and placement costs primarily for looked after children and children with disabilities, along with increasing pressures in Primary and Special Home to School transport.

The service continues to work hard to develop plans and mitigating actions in order to reduce the overspend.

The period eight year end position for **Neighbourhoods** is forecast to overspend by £0.715m due to a combination of unachieved savings and increased costs across the service. The main areas of overspend are Planning (£0.3m) and Housing (£0.4m).

The oneSource Non-Shared budget is forecasting an overspend of £0.370m. This is primarily through an overspend in exchequer services and a shortfall of income from Romford Market.

Any final underspend from the Corpoate Risk Budget and Contingency budget after balancing the overspends on services will be transferred to the business risk reserve as part of 2018/19 accounts closure. This funding will then be utilised to mitigate the risk of delayed delivery of savings and unforeseen overspends for 2019/20.

3.2 **The Consultation Process**

The 2019/20 budget process has been robust including update reports to Cabinet firstly in July and then in November. The November Cabinet report included a section setting out the comprehensive consultation process that was undertaken over the summer to gather views on Council priorities.

The Consultation process included a Residents' Survey across the borough by Ipsos MORI in March/April 2018. In addition, a budget consultation took place over the summer, with thirteen public meetings, an on-line survey, a paper-based survey and a feature in the 'Living in Havering' magazine. There was also an opportunity for residents to talk to officers about the budget consultation on both days of the Havering Show. Over one thousand responses were received to this consultation.

A number of proposals from July have been revised in line with the feedback from residents. The Improving Traffic Flows proposal has been extended to include a significant investment programme into roads and pavements in the borough. The proposal to turn off or dim the street lighting on some roads in the borough was very unpopular and will now not be put forward for implementation. Finally, the proposal to review discretionary business rate relief for charities will not be undertaken and there will be no change in the current arrangements.

3.3 In November Cabinet approved a series of savings proposals (attached at Appendix B) which enabled the following MTFS position to be reached.

Cabinet February 2019

Position reported to November Cabinet	2019/20	2020/21	2021/22	2022/23	TOTAL
	£m	£m	£m	£m	£m
Gap before savings	**14.231**	**15.111**	**6.637**	**6.812**	**42.791**
Efficiencies, Service Reductions and Income Changes	-0.770	-0.400	-0.400	-0.532	**-2.102**
Departmental Savings	-3.156	-1.763	-1.450	-1.048	**-7.417**
Transformation Savings	-4.776	-4.040	-4.414	-5.315	**-18.545**
Revised Gap	**5.529**	**8.908**	**0.373**	**-0.083**	**14.727**
Revenue Contribution to Roads and Transport Capital Programme (funded from the Improving Traffic Flows savings of £3.658 million)	1.000	1.000	0.000	0.000	**2.000**
Revised Gap November Cabinet	**6.529**	**9.908**	**0.373**	**-0.083**	**16.727**

3.4 As further information has become available the MTFS assumptions have been updated to give the most accurate estimate for the 2019/20 budget. The table below shows these updates which are proposed to be included in the final budget

Description	2019/20	2020/21	2021/22	2022/23	4 Year Plan
	£m	£m	£m	£m	£m
Gap November 29th Cabinet	**6.529**	**9.908**	**0.373**	**(0.083)**	**16.727**
Corporate Adjustments	0.127				**0.127**
Adjusted Regeneration financing assumptions	0	(0.426)	2.428	0.891	**2.893**
Revised Social Care Assumptions	0	0.250	0.250	0.750	**1.250**
Revision to inflation assumptions	0.352	0.352	0.352	0.352	**1.408**
Communications and Community Projects	0.261				**0.261**
Appropriate Member and Governance Support	0.165				**0.165**
Additional Legal Support	0.200				**0.200**
Communications team	0.130				**0.130**
Reduction in HB admin Grant	0.086				**0.086**
Universal Credit	0.250				**0.250**
Demand Led Street Cleansing Improvements	0.400				**0.400**
Business Rates Risk Reserve	0.400				**0.400**
Planned contributions to reserves*		0.500	1.500		**2.000**
Adjustment to Pension Fund contribution		0.500	(1.500)	(1.500)	**(2.500)**
Revised Gap after adjustments	**8.900**	**11.084**	**3.403**	**0.410**	**23.797**

***An additional contribution to reserves will be made in 2019/20 from the redistribution of £522k as part of the Provisional Local Government Settlement in 2.4.

3.5 Proposals to close the 2019/20 financial gap

3.5.1 Business Rate Pooling

The local government financial settlement confirmed that Havering would be part of a Londonwide pool pilot which will be allowed to retain 75% of Business Rates. Participation in the pool includes a 'no detriment' guarantee to ensure that the pool cannot be worse off than the participating authorities would have been collectively if they had not entered the pilot pool. As a result the London scheme guarantees that no authority will lose out because of participating. Authorities will retain at least as much of their growth as they would have done prior to the pool and stand to gain a share of the aggregated benefits of pooling.

The pool arrangement has significant potential benefit to all London Boroughs with an expected distribution of Londonwide growth across all boroughs. Early projections forecast the benefit of these growth proposals to be at least £1.8m for Havering.

Despite the clear benefits of entering the pool there are still risks attached. The risk of non collection and successful business rate appeals lie with Havering and the GLA. This will be monitored closely through the year

3.5.2 Section 31 Grants

The government pays councils Section 31 grants to fund new responsibilities that have been introduced by the government rather than locally by councils themselves. There are a range of these grants and a recent review of them suggests that the MTFS is under-estimating the value of those likely to be received in 2019/20. An additional £1.5 million has therefore been built back into the budget.

3.5.3 Social Care Grant and precept

In the October budget statement the Chancellor announced a total of £2.7m extra funding for Adults' and Children's social care for Havering. £1m of this is a continuation of the funding originally provided in 2018/19 specifically for winter pressures in Adult Social Care with the remainder a more general recognition of the extreme pressure both Adults' and Children's social care are facing. This financing is announced for 2019/20 only with the future funding of this sector from 2020/21 onwards to be determined by the decisions taken following Spending Review 2019, the Fair Funding Review and the Adult Social Care green paper consultation process.

The 2019/20 funding will help mitigate the current pressures both Adults' and Children's social care are reporting in the revenue monitoring report. The MTFS position also recognises further demographic and inflationary pressures in 2019/20 which will be ongoing as client numbers continue to rise.

In relation to the Adult Social Care pressure, the Council intends to mitigate this pressure by increasing the Council Tax by 2% as a precept to directly support this area. This was put forward as one of the options in the budget consultation paper and was supported in the responses.

3.5.4 General Council Tax Recommendation

In order to close the remaining gap and set a balanced budget it is proposed to increase general Council Tax by 1.25% for 2019/20. (3.25% including the Adult Social Care Precept)

This proposal will balance the 2019/20 budget and provide a realistic outlook for the position over the following three years

Description	2019/20	2020/21	2021/22	2022/23	4 Year Plan
	£m	£m	£m	£m	£m
Revised Gap	**8.900**	**11.084**	**3.403**	**0.410**	**23.797**
Business Rate Growth	(1.800)				**(1.800)**
S31 Additional Grant	(1.500)				**(1.500)**
Adult Social Care Precept 2%	(2.400)				**(2.400)**
Social Care funding (one off)	(1.700)	1.700			**0.000**
Council Tax increase (1.25%)	(1.500)				**(1.500)**
TOTAL	**0.000**	**12.784**	**3.403**	**0.410**	**16.597**

4. The Medium Term Financial Strategy 2019-2023

The proposals in section 3.4 will balance the 2019/20 budget. There is however still a gap of £16.6m over the remaining 3 years of the medium term financial strategy. Appendix F sets out the main reasons for the gap.

The table below demonstrates that the Council is facing significant pressures in the medium term and delivery of the current savings proposals is essential to mitigate the position.

Description	2019/20	2020/21	2021/22	2022/23	4 Year Plan
	£m	£m	£m	£m	£m
Corporate pressures	5.998	7.315	9.459	5.305	**28.077**
Demographic Pressures	6.005	4.213	3.435	3.592	**17.245**
Potential loss of grant	7.368	9.402	0.000	0.000	**16.770**
Assumed savings	(13.257)	(9.146)	(9.491)	(8.487)	**(40.382)**
Proposals to close 2019/20 budget	(8.900)				**(8.900)**
Growth	2.786	1.000			**3.786**
TOTAL	**0.000**	**12.784**	**3.403**	**0.410**	**16.597**

Closing the Medium Term Financial Gap

At this stage it is prudent to flag the continuing risks for 2020/21 but there is work ongoing which it is expected will close the gap for that year during 2019. This includes:

- Further transformation savings (est £5m-7m in 2020/21)

The initial transformation business cases identified £18.5m of savings over the MTFS period (2019-23). These savings have been thoroughly reviewed and scrutinised and have been incorporated into the proposed 2019/20 budget and the MTFS for future years. There are however several transformation proposals which have yet to have savings figures confirmed. These proposals are being worked on at the moment and are expected to generate additional savings from 2020/21 onwards

- Potential improvement in the funding position following the Spending Review 2019

There is still considerable uncertainty about future external support from 2020/21 onwards so the Council has sensibly adopted a cautious position in its medium term planning. Currently the MTFS provides for further central grant reductions (£1.3m) and the discontinuation of Improved Better Care Fund (IBCF) and the new Social Care Grant (totalling £7.3m). Other councils are assuming elements such as the Improved Better Care Funding continue beyond 2019/20, but this cannot be guaranteed.

The Adult Social Care Green Paper is expected in 2019 and will hopefully provide some clarity on the options the Government are considering to fund this sector. It is anticipated that the future proposals will confirm the continuation of external funding to support Adult Social Care but it is prudent not to change the MTFS assumptions until this is clarified.

5.0 Total Council Tax Impact

5.1 Havering is proposing to increase Council Tax by 1.25%. It is proposed in addition to increase the Council Tax by a further 2% via the Adult Social Care Precept.

5.2 As set out in the section below the Mayor is proposing to increase the GLA precept by 8.9%. This gives a total net increase in Council Tax of 4.26% as shown in the table below

	2018/19	2019/20	2019/20	2019/20
	HAVERING	HAVERING	GLA	TOTAL
		(3.25% INC)	(8.93% INC)	(4.26% INC)
Band A	£909.22	£938.77	£213.67	£1,152.44
Band B	£1,060.76	£1,095.22	£249.29	£1,344.51
Band C	£1,212.29	£1,251.69	£284.90	£1,536.59
Band D	£1,363.83	£1,408.15	£320.51	£1,728.66
Band E	£1,666.90	£1,721.08	£391.73	£2,112.81
Band F	£1,969.98	£2,033.99	£462.96	£2,496.95
Band G	£2,273.05	£2,346.92	£534.18	£2,881.10
Band H	£2,727.66	£2,809.22	£641.02	£3,450.24

GLA Council Tax Proposals

The Mayor is proposing to provide the Metropolitan Police with additional resources in 2019/20. In order to fund this, the Mayor is proposing to increase his share of Council Tax by an average of 50p a week - the maximum amount allowed by the government. In total, the Mayor proposes to commit an additional

£95m next year to policing and tackling crime. This money will be raised from Council Tax and business rates. The Mayor's proposal would see his share of Council Tax increase overall by nearly 9 per cent or £26.28 a year in cash terms for an average Band D council tax payer.

This will generate an additional £84.8m to invest in the Metropolitan Police, which will be split between a number of crime fighting measures. This includes funding new officers, specialist investigators to disrupt gang violence and cutting-edge equipment for officers on the frontline, such as digital fingerprinting, rapid drug testing, technology to help with digital investigations, and advanced techniques to combat child sexual exploitation online. The Mayor aims to make the Violent Crime Taskforce more effective and visible on the streets and help tackle the crimes that impact most on the safety of Londoners.

The Mayor also intends to direct £6.8m from Council Tax and business rates to invest in a new Violence Reduction Unit. The Mayor announced the Violence Reduction Unit in September to expand his work on a public health approach to tackling all forms of violence. Using data to form a strong evidence base, the unit will use this money to identify where and how to make early interventions in a young person's life as part of a long-term strategy to prevent the spread of violence.

This new investment – which is on top of an initial £500,000 the Mayor invested towards initial set-up costs, will be directed towards local services and programmes to provide greater capacity to deliver early interventions to help prevent the spread of violence, and supporting projects that will help tackle the complex root causes.

A further £3.5m will be spent on other anti-violence initiatives, for example making permanent the successful 'Information Sharing to Tackle Violence' pilot that aims to develop more effective data sharing between Community Safety Partnerships, health services and other violence reduction partners. It uses a new approach to collect and analyse data from hospital emergency departments to help develop strategies to tackling violence.

The Mayor also intends to increase his non-policing precept by 2.99%, again the maximum permitted by the Government. This is the equivalent of £2.28 a year or just over 4p a week. The proceeds of this increase will be allocated directly to the London Fire Brigade.

Overall, this means that the Mayor's overall precept for an average Band D taxpayer will increase from £294.23 to £320.51. However, these are only proposals and this may change when the GLA meeting to approve the Council Tax takes place on 25 February. The final figure will be confirmed at the Full Council meeting on 27 February.

5.3 Budget Requirement, Council Tax resolution and Taxbase

The budget requirement, taxbase and Council Tax Resolution is set out in full at Appendix A.

5.3.1 Taxbase:

The 2019/20 Council Tax Base is calculated as;

89,803 Band D equivalents
98.70% Assumed Collection Rate
88,636 Total Council Tax Base

5.3.2 Budget Requirement

That the following amounts be now calculated by the Council for the year 2019/20 in accordance with Sections 31 to 36 of the Local Government Finance Act 1992 as amended:

(a)	508,023,773	being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(2) of the Act.
(b)	(383,210,990)	being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(3) of the Act.
(c)	124,812,783	being the amount by which the aggregate at 5(a) above exceeds the aggregate at 5(b) above, calculated by the Council in accordance with Section 31A(4) of the Act as its Council Tax requirement for the year.
(d)	£1,408.15	being the amount at 5(c) above divided by the taxbase, calculated by the Council, in accordance with Section 31B of the Act, as the basic amount of its Council Tax for the year.

5.4 The new Council Budget for 2019/20 is set out in Appendix E

6 Fees and Charges

6.1 The Council annually reviews its fees and charges to customers. Appendix C sets out the proposed fees and charges for 2019/20**.** In setting the fees and charges the Council takes account of:

- Full cost recovery where appropriate

- Statutory fees
- Inflation
- Benchmarking and other market comparators
- Delivery costs for social care providers

7 Contingency, Reserves and Balances

7.1 The Council maintains a £1m central contingency budget as a sensible and prudent measure to mitigate unforeseen in-year events. When departments show an in-year overspend position the expectation is that they will develop an action plan to mitigate the pressure. The medium term financial strategy recognises demographic and inflationary pressures so the central contingency is maintained purely for unforeseen events.

7.2 Earmarked Reserves

Earmarked Reserves are time limited reserves for specific purposes. Some reserves such as the Insurance Fund will need to be replenished each year in line with projected future claims whilst others will be expected to be spent over the next four years. The Council makes decisions to set up reserves where funding is required in future years as projects are identified.

It should be noted that the Council will always seek to contain costs and minimise the need to draw on the planned reserves where possible. The Council reviews reserves through the year and particularly at year end in order to ensure appropriate funds are set aside for future year projects and requirements and funds are released where they are no longer required.

7.3 General Balances

The Council's currently holds £11.7m in general balances. This figure is assessed annually at year end based on the inherent risks facing the authority and is reviewed as part of the external audit process. With the uncertainty of the current Brexit situation and also more generally the continuing impact of 10 years of austerity the MTFS makes provision to increase balances from 2020/21 onwards.

It is recommended that the Council consider increasing its level of general reserves. The historic rule of thumb from the now defunct Audit Commission was that 5% of net budget should be held as a General Reserve that should be untouchable except in major emergencies. The Council holds slightly more than this at 7% of net budget. However, the volume and complexity of the issues facing local government and the level of public expectation of councils from their residents suggests this is no longer sufficient. Many London Boroughs hold 14% and some significantly more. The events at Grenfell have made all councils reconsider the reserves they hold. It is recommended that a number of additions are made to the Council's reserves over the next four years to build them up towards £20 million or 14% by 2023/24.

8 The Capital Programme

The Capital Strategy and four year programme are subject of a separate report elsewhere on this Cabinet agenda. The revenue funding (MRP and Interest on borrowing) of the proposed programme has been fully incorporated into the Council's MTFS.

The Capital Programme includes a number of ambitious regeneration opportunities which provide critically needed new housing and also rejuvenate parts of the borough. These proposals provide income flows to the Council from the joint ventures which again have been built into Medium Term Financial Strategy where appropriate. The cost of borrowing and repayment of debt have also been provided for in the MTFS.

It should be noted that the nature of these regeneration schemes results in investment in early years which only generate full yield at the maturity of the project. All the regeneration proposals are the subject of full business cases which confirm viability and set out associated risk. These are set out elsewhere on this Cabinet agenda.

In 2019/20, the Council is planning capital expenditure of £266.6m (including HRA) as summarised below:

	2017/18 actual £m	**2018/19 budget £m**	**2019/20 budget £m**	**2020/21 budget £m**	**2021/22 budget £m**
General Fund services	51.165	71.120	72.651	62.745	12.662
Council housing (HRA)	33.056	67.459	47.310	80.719	54.186
Regeneration Programme	4.472	6.279	146.735	132.243	72.709
TOTAL	**88.693**	**144.858**	**266.696**	**275.707**	**139.557**

The main General Fund capital projects include highways, schools maintenance and expansions, IT infrastructure and leisure, and these can be seen in the February 2019 detailed capital strategy report.

9. Budget Risks and Uncertainties

9.1 There are a number of risks and uncertainties which could potentially impact on the 2019/20 budget and also medium term forecasting. This section summarises those risks. **Appendix D sets out these risks in more detail.**

- **Spending Review 2019:**
  The Government will announce a Spending Review in 2019. The spending review is likely to set the overall financial envelope for local government from 2020/21 onwards, although at this stage it is not clear how many years it will cover.

- **Review of Adult Social Care:**
  The Adult Social Care Green Paper is expected to set out the national funding gap for adult social care. The paper will also need to set out options in order to close this gap. It is unclear at present the extent to which local government and indeed local taxation will be expected to foot this bill.

- **Fair Funding Review**
  The Fair Funding Review outcomes will be built into the 2020/21 budget. The review is expected to be wide ranging and will cover all cost drivers for local authorities. It is unclear at present how the government will choose to weight the various formulae and datasets available. There is therefore a direct risk to Havering's funding if the demographic pressures the borough is facing are not fully reflected in the revised formula.

- **Potential implications from the change in the relationship between the UK and the EU**
  The potential implications of the UK leaving the EU remain unclear. There is the potential for changes to the strength of the pound, interest rates and inflation in terms of goods, services and staffing. There may be additional short term costs.

- **Loss / Reduction in Business Rates**
  In 2019/20 Havering will be part of the 75% Londonwide business rate pool. This is widely expected to be beneficial to the borough due to continued growth in central London. The risk of non collection and successful business rate appeals lie with Havering and the GLA. This risk needs close monitoring through the year

- **New Legislation/Burdens**
  The Government periodically reviews national service provision and can transfer new burdens onto local government. When this happens there is always a risk that either the amount or the funding mechanism results in a new pressure for authorities.

- **Changes to Interest Rates/ Inflation**
  The national economic situation is uncertain. As a result changes to interest rates and inflation levels are possible. An increase in inflation will potentially result in pressures on both pay and price locally and nationally.

- **Demographic pressures**
  Increased population has resulted in demographic pressures over a number of years. Demographic pressures continue to be a significant risk both through government underfunding and accelerated population growth in the borough.

- **Pension Fund Performance**
  The medium term financial strategy takes account of the latest triennial actuarial review of the pension fund. Provision has been made to make contributions to the fund up to and including 2019/20 in accordance with that review. There will be a further review in 2019 and there is a risk of increased general fund and HRA contributions if the deficit has increased on the fund.

- **In-year pressures and overspends**
  The 2019/20 budget is a robust balanced budget that takes account of all known pressures facing services. There remains a risk however that increased demand over forecasts will result in service overspend next year.

- **Future waste disposal arrangements**
  The current contractual arrangements with Renewi expire in 2027. ELWA are planning significant investment to secure future arrangements after that date. Future potential costs are therefore volatile and subject to those negotiations.

- **Risks associated with the delivery of the regeneration programme**
  The Council has an ambitious and far reaching regeneration programme which will rejuvenate key areas of the borough. There are however associated risks with the programme which are set out in detail in the business cases of the various schemes. The risks include:

  - Cost of delays: Delays to the programme result in some work needing to be repeated and updated and the cost of finance being incurred before it is required
  - Additional cost of re-design and changing plans. If the plans are changed significantly this causes both delay costs as described above and potentially abortive costs on the original plans.
  - Impact of a downturn in housing prices: The schemes assume sales valuations in order to achieve returns on investment. Clearly a downturn in the Housing market, eg due to delays in Crossrail, will affect these assumptions.
  - Impact of inflation: The models assume costs over the medium term. If inflation increased significantly this would have a direct impact on these costs.
  - Changing build costs / Variations. As the schemes progress it is possible that variations to the original specifications or additionality is required to deliver the required outcomes
  - Changes in legislation; All assumptions are based on current regulations. Should any national legislation change regarding building works then this could affect the overall costs
  - Issues with land eg contamination: There are currently no expected issues with any of the land involved in the various regeneration schemes. It is possible albeit unlikely that an issue may emerge as the projects progress.
  - Overall financial risk: The Council will invest significantly in the early years of these schemes with a return on investment in some cases maturing

only in the medium term. Adverse movement in the assumptions caused by any of the above reasons will affect the financial modelling set out in the business cases and is therefore a material risk to the Council.

In mitigation, the Regeneration Joint Ventures include a number of mechanisms for the partners to exit from arrangements where schemes become unviable.

10. Chief Finance Officer (S151 Officer) statement regarding the robustness of the budget and MTFS

10.1 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.

10.2 **Robustness of Reserves and Balances**

The budget has been prepared using a four year Financial Strategy agreed by Cabinet in July 2018 as its starting point. This Strategy has been developed through:

- The forecast position as set out in the Cabinet reports in July and November 2018
- The outcome and forecast impact on the Council of the Provisional Local Government Financial settlement as presented in this report;
- The Chancellor’s Autumn Budget Statement 2018.

As the development of the budget for 2019/20 has progressed, the position has been the subject to review and challenge with Heads of Service, the Senior Leadership Team, the Leader of the Council and Cabinet Members. Due consideration has been given to the the delivery of corporate priorities in this challenge process and this is reflected in the detailed budget proposals.

Budget proposals have been developed within the context of current and future service plans. The Council has reviewed its pressures using the latest demographic and inflationary trends. In respect of savings, the proposals have been risk assessed and will be monitored closely during the year. A review of legislation takes place on an ongoing basis as part of the budget development process to assess possible implications.

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.

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.

A review of the 2018/19 significant budget variances has taken place to assess any impact on the 2019/20 budget outside of the proposals in order to:

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

10.3 The Adequacy of Estimates Reserves and Balances

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.

The General Fund Balance stood at £11.766m at 31 March 2018. An annual review of the balance has taken place as part of the budget setting process It is recommended that the Council consider increasing its level of reserves. The historic rule of thumb from the now defunct Audit Commission was that 5% of net budget should be held as a General Reserve that should be untouchable except in major emergencies. The Council holds slightly more than this at 7% of net budget. However, the volume and complexity of the issues facing local government and the level of public expectation of councils from their residents suggests this is no longer sufficient. Many London Boroughs hold 14% and some significantly more. The events at Grenfell have made all councils reconsider the reserves they hold. It is recommended that a number of additions are made to the Council’s reserves over the next four years to build them up towards £20 million or 14% by 2023/24. This includes an additional £522k received as part of the Provisional Local Government Settlement for 2019/20, an additional £500k added into the base budget in 2020/21 and then a further £1.5 million built into the base in 2021/22.

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 appropriate approval of a robust business case including implementation plan.

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 sums established within earmarked reserves were agreed by the Senior Leadership Team as at 1st April 2018 and were fully allocated to projects or liabilities. Other reserves continue to be expended/ planned in accordance with their specific approved purpose. A review is planned to take place as part of the accounts closure process over the next few months. The working balances of the HRA are also subject to a risk assessment; this is included in a report on the HRA budget for 2019/20 elsewhere on this Cabinet agenda.

10.4 Opportunity Cost of Reserves

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.

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, £1.2m equates very approximately to 1% on the level of Band D Council Tax.

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.

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.

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.

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 crystalize.

10.5 Review of Reserves and Contingency

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.

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.

10.6 Summary of Robustness of the Budget and MTFS

The 2019/20 budget and 2019/23 MTFS has been prepared taking into account the following:

- The estimated impact of inflationary pressures and pay awards. Allowance has been made for cost increases over and above the general rate of inflation where these are known;

- The estimated impact of demographic change and the effect of increasing demands on services where these are unavoidable;

- Provision for legislative change and changes to the Council's statutory responsibilities;

- The estimated impact of underlying cost pressures, evidenced by financial monitoring reports in the current year;

- The estimated impact of Capital financing charges for ther Capital programme including regeneration and highways schemes

- Provision for the impact of government grant reductions in 2019/20 and the continued risk of further tightening of finances in future years.

Furthermore, taking into account the budget risks and uncertainties, and assuming that the recommendations set out above are agreed, the Council's contingencies and balances are considered prudent. The S151 Officer is therefore of the view that the budget is robust. However, Members' attention is drawn to the need for close monitoring of the budget and, in particular, the achievement of the targets for savings. It will be essential for firm financial management to be exercised throughout the year to ensure that expenditure is contained within budget and targets for service improvements are met.

11 Discount for Council Tax Payers Paying in Full

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

11.2 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 2020, 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 2019, 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".

11.3 Resolution for Council Tax

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

REASONS AND OPTIONS

Reasons for the decision:

The Council is required to set a balanced budget in advance of the beginning of each financial year. This report sets out the process to reach a balanced budget for 2019/20 and sets out the Council's future plans for balancing the budget in the medium term from 2020/21 to 2022/23.

Other options considered:

The report outlines all the options identified for balancing the 2019/20 budget. Officers will continue to seek further options for balancing the budgets for 2020/21 to 2022/23.

IMPLICATIONS AND RISKS

Financial Implications and Risks

The financial implications of the Council's MTFS are the subject of this report and are therefore set out in the body of this report.

Legal Implications and Risks

The Council is required under Chapter 3 of the Local Government and Finance Act 1992 to set a council tax for the forthcoming year along with its budget estimates. The decision must be made by 11 March of the preceding year (i.e. by midnight on 10 March). Each Member has a positive duty to ensure that the Council complies with its legal obligations, which requires agreeing a lawfully balanced budget. The Council's prospective income from all sources must be equal to its proposed expenditure.

Chapter 1 of Part 5 of the Localism Act 2011 requires the Council to calculate its "council tax requirement". This is reflected in the recommendations and report.

Cabinet February 2019

The approval of the budget and setting of the Council Tax is a decision reserved to Full Council under the Local Government Act 2000 and the Local Authorities (Functions and Responsibilities) Regulations 2000 (as amended).

Under these regulations, the Cabinet makes recommendations as to the setting of the council tax and budget to Full Council, which are set out in this report.

If Full Council seeks to reject or vary the budget in any material respect (in a way which is contrary to the Cabinet`s recommended budget or is not agreed by the Cabinet by altering the original recommendations at the meeting), then the statutory process set out in Part 4 of the Constitution must be followed.

This requires that any decision other than one to agree the Cabinet's budget recommendations must be referred back to the Cabinet for reconsideration and will not be implemented. They will be an "in principle" decision only.

A second Council meeting will need to be held to consider the Cabinet's response to the first Council decision and / or to present revised proposals for the budget. The final budget will be agreed at the second Council meeting but any decision to set the budget in any way other than to approve the Cabinet`s budget recommendations will require a majority of 2/3rds of those present and voting. All other votes are approved by a simple majority.

Once the budget is agreed by Full Council, the Cabinet has the sole power to implement the budget in 2018/19 without further reference to Full Council provided it remains within the budget framework. Further, Full Council cannot amend the Cabinet's budget proposals to direct the Cabinet to spend money allocated in the budget in a specific way. The Council's role is to set the overall budget and the Council tax only and to go further would be unlawful interference by the Full Council in the proper role of the Leader and Cabinet (R v (Buck) v Doncaster (2013) where Full Council's attempt to direct the Executive's decision with regard to library closures was held to be unlawful by the Court of Appeal).

The decisions in this report, as stated, agree the estimated budget required by the Council in the next financial year. The report also contains proposals for savings and efficiencies to be implemented in year to ensure the Council stays within budget. These proposals in this report do not constitute final decisions to make savings etc, as these are matters that are reserved for the Cabinet to decide under the Local Government Act 2000 in year. Therefore, as the proposals are at a formative stage, there is no obligation to have consulted on those proposals or had full and final due regard to the Council's equalities duties in respect of those decisions and / or any other legal obligation imposed on the Council before a final decision can be made. These decisions will be made by the Cabinet in the forthcoming year.

The 2011 Act provides for a referendum to be held on a council tax increase, where an increase exceeds a prescribed figure (and has been amended to take account of the permitted increase to contribute to Adult Social Care precept). The proposed increases in this report do not activate the requirement to hold a referendum.

Under the Local Authorities (Standing Orders) (England) Regulations 2001 (as amended) any decision to set the Council tax or budget for the authority will be undertaken by recorded vote and the Minutes of the meeting will record the names of all Councillors present at the vote and how each Councillor voted (for or against) or the fact that they abstained from voting.

Further Advice

Further advice from the Monitoring Officer on Members' responsibilities when considering the budget report and council tax setting is set out in **Appendix H**.

Human Resource Implications and Risks

The Council continues to work closely with its staff and with Trades Unions to ensure that the effects on staff of the savings required have been managed in an efficient and compassionate manner. All savings proposals or changes to the funding regime that impact on staff numbers, will be managed in accordance with both statutory requirements and the Council's Managing Organisational Change & Redundancy policy and associated guidance.

Equalities and Social Inclusion Implications and Risks

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to the need to:

(i) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;

(ii) advance equality of opportunity between persons who share protected characteristics and those who do not, and;

(iii) foster good relations between those who have protected characteristics and those who do not.

'Protected characteristics' under the 2010 Act are age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity, and gender reassignment.

In meeting its equalities duties, the Cabinet and Council as the decision maker should have regard to the equalities assessment and information before it. The discharge of the duty cannot be delegated to officers.

Due regard means giving proper and focussed consideration of the impact of the decision on meeting its equalities duties. The focus should be on any adverse equalities implications that will arise from a decision and how they can be avoided and / or how they are mitigated in the decisions. The amount of focus on the duties will vary with each decision and how far they adversely impact on protected characteristics.

Adverse impact is likely to be indirect, e.g. a decision that has universal application but a disproportionate adverse impact in practice on one or more groups or persons with protected characteristics. Positive impact is relevant but the consideration must be frank and open minded about assessing the adverse impact. For example, a decision may mean that provision to those with protected characteristics may improve in the long term but there is a short term adverse impact, e.g. greater travel times making accessibility more difficult.

Due regard does not mean that the equality outcomes have to be achieved. It will often be the case that difficult decisions need to be made that have an adverse equality impact but other relevant factors, such as finite budgets, can and will outweigh the Council's equality duty. This is permissible provided a conscientious balancing exercise of relevant factors takes place based on the evidence. In such situations, regard can be had to what mitigating steps are being taken.

Depending on the circumstances, regard should be had to the following:

- the need to remove or minimise disadvantages suffered by persons who share a protected characteristic that are connected to that characteristic;

- the need to take steps to meet the needs of persons who share a protected characteristic that are different from the needs of persons who do not share it. For example, meeting the needs of disabled persons that are different from the needs of persons who are not disabled include, in particular, steps to take account of disabled persons' disabilities;

- the need to encourage persons who share a protected characteristic to participate in public life (or in any other activity in which participation by such persons is disproportionately low); and

- the need to tackle prejudice and promote understanding.

The duty to have due regard must be carried out before a relevant decision is taken. The duty is also a continuing duty and so considerations may evolve during a decision making process, e.g. before and after a consultation or engagement process.

Although compliance is often demonstrated with the aid of an equalities assessment, this is not a legal duty so long as there is sufficient information to make a lawful assessment, as described, on the evidence. What is required is a conscientious consideration of the equalities impact.

Finally, whilst consideration of equalities impact must be rigorous, decision makers are not expected to explore every last possible differential impact of a proposed decision. If there has been proper consideration of the equality duties, the weight given to different factors in a decision will be for Cabinet to decide.

BACKGROUND PAPERS

Cabinet February 2019

None