Havering
LONDON BOROUGH

CABINET 23 JANUARY 2013	

Subject Heading:	The Council's Financial Strategy
Cabinet Member:	Cllr Roger Ramsey
CMT Lead:	Andrew Blake-Herbert Group Director Finance & Commerce
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Policy context:	The Council is required to approve an annual budget and this report provides information to enable Cabinet to make recommendations to Council in February 2013
Financial summary:	There are no specific financial issues, this report deals with the overall budget position and associated issues
Is this a Key Decision?	No
Is this a Strategic Decision?	No
When should this matter be reviewed?	December 2013
Reviewing OSC:	Value

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

Ensuring a clean, safe and green borough	[X]
Championing education and learning for all	[X]
Providing economic, social and cultural activity in thriving towns and villages	[X]
Valuing and enhancing the lives of our residents	[X]
Delivering high customer satisfaction and a stable council tax	[X]

SUMMARY

Cabinet received a report at the last meeting in December that set out an update on national developments and information on the financial position within Havering.

This report updates Members on the progress of the corporate budget and the proposed financial strategy for responding to the financial position facing the Council.

This report sets out the additional proposals now identified for consideration by all the relevant Committees and for consultation with stakeholders.

The provisional Local Government Financial Settlement has now been announced, and relevant details are included in this report, together with a summary of the key elements of the Autumn Budget Statement.

RECOMMENDATIONS

Cabinet is asked to:

1. Note the progress made to date with the development of the Council's budget for 2013/14 and beyond.

2. Note the outcome of the Autumn Budget Statement and the likely impact on local authorities.

3. Note the outcome of the provisional local government financial settlement announcement, and that officers are continuing to work on the details as the information was produced very late, or in some cases, is still awaited.

4. Note, arising from the settlement, the reductions in mainstream Government funding for 2013/14 and 2014/15, of around £2m and £6m respectively, that equate to additional reductions of around £1.5m and £3m, or £4.5m in total.

5. Note the potential reduction in funding in early intervention services, which is still under review.

6. Note that a response to the consultation process will have been submitted by time Cabinet meets and that a meeting with the Minister has been arranged.

7. Note the expected date for the announcement of the final settlement and that, owing to timing, further supplemental information to the main Council Tax report may need to be submitted at the February Cabinet meeting.

8. Note that the proposals contained in the reports to Cabinet in July 2010 and July 2011 are now being incorporated in the Council's future budget as appropriate.

9. Note that the Administration is committed to maintaining the stability of the Council's finances whilst doing everything it can to keep Council Tax rises to a minimum and if at all possible, to freeze Havering's Council Tax at the current level.

10. Note the Council's intention to take advantage of the new Council Tax freeze grant for 2013/14.

11. Issue this report for consultation to Members, the unions and affected staff, and other stakeholder groups.

12. Agree that a consultative presentation will be made to a joint meeting of the Overview & Scrutiny Committees.

13. Note the financial position of the Council in the current year.

14. Agree that any future underspends from the Corporate Contingency Fund, from the Transformation budget, and from any service revenue underspends, are allocated to the Strategic Reserve.

15. Approve the updated version of the Corporate Plan set out in Appendix F.

16. Note the summary of the GLA's consultation budget and the expected date for the publication of the final proposals.

REPORT DETAIL

1. INTRODUCTION

1.1. Cabinet received a report on progress with the Corporate Budget at its meeting in December. This report sets out the position with developing the Council's budget for the coming financial year, the proposed future financial strategy, the financial prospects for the Council, the announcement of the Autumn Budget Statement, and the subsequent announcement of the local government financial settlement.

1.2. The Council established a broad approach to stabilising its financial position in response to the incoming Government's austerity measures during 2010. This has seen a wide range of savings introduced designed to not only deliver a stable financial position, but also to ensure that as far as possible, these savings do not impact on those services which our community regards as highly important and highly regarded. The Administration remains committed to this and the proposals contained in this report have been developed with that objective in mind.

1.3. The budget proposals set out in this report reflect the determination of the Administration to stabilise council tax - as set out in the *Living Ambition* Goal for Value. The proposals support a series of priorities that have been defined through public consultation in recent years – both through the *Your Council, Your Say* and *Spring Clean* surveys. These priorities include: keeping Havering clean and safe; supporting those most in need; maintaining roads and pavements and protecting libraries and parks. There is also a clear need to promote and encourage new local businesses – both to bring employment to the Borough and to ensure that Havering benefits from the Government's new funding model for local authorities. The measures set out in this paper will allow the Council to support these priorities.

1.4. Specific budget proposals are included as part of this report where these have been developed and Cabinet is asked to approve these for consultation with the local community, other stakeholders, and committees, to inform the final consideration of proposals at the meeting of Cabinet in February.

1.5. Previous reports to Cabinet have highlighted the extent of change to the funding of local authorities; the new funding regime includes:

- Rolled up and top-sliced grants
- New grants
- Localised business rates including tariffs/top-ups and levies/safety nets
- Localised Council Tax support (previously benefits)
- New formula and damping mechanisms
- A new Council Tax base calculation
- A new NNDR1 calculation.

1.6. All these factors – and more – are covered in this report. This has been without question the most complex budget-setting process for some time, not helped by either the lateness of the announcement or the subsequent delays in the publication of the background information. At the point of concluding this report, some of the background information had in fact still to be published. As a result of this, officers are continuing to analyse the settlement in consultation with colleagues elsewhere, and this is likely to continue up to the point when the budget report to Council is finalised. This has increased the degree of financial risk facing local authorities, aside from the impact of the specific proposals contained in the settlement. Cabinet is therefore asked to be mindful of this when considering this report.

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

Comprehensive Spending Review (CSR)

2.1. The Coalition Government published the outcome of its Comprehensive Spending Review in October 2010. Full details of the Review were reported at some length in reports to Cabinet as part of the budget-setting cycle for previous years.

2.2. To remind Cabinet of the background, the Review set out at a high level spending plans for each Government department. The major effect was, as expected, a significant reduction in funding for the public sector over the four years covered by CSR. This has subsequently been translated into the detailed financial settlement, which for Havering saw a loss of general revenue support grant of around £13m, and a further £3m in specific grants, over the previous two financial years (2011/12 and 2012/13).

2.3. In anticipation of the cuts expected to be announced by the incoming Coalition Government, plans were put in place to assess the likely budget gap, and means of bridging it. Work on this started almost immediately after the new Government was formed. This has enabled Havering to be well ahead of many of our colleagues in other boroughs, and has meant that a robust and well-thought-out financial strategy was put in place at an early stage. However, the scale of the gap – estimated at £40m – was extremely challenging, and the measures put in place were not without a heightened degree of risk. This in turn has required much greater scrutiny of both the proposals and their subsequent delivery.

2.4. Cabinet agreed reports in July 2010 and July 2011, setting out a range of savings proposals designed to largely bridge the forecast budget gap between 2011/12 and 2014/15, as refined in the light of, firstly, the CSR announcement, and secondly, the subsequent financial settlement. The remaining gap would be met by further measures, assuming no material change in funding was announced by the Government, with the aim of achieving a stable financial position and with little or no impact on frontline services. However, the announcements over prospective changes in the funding of local authorities, and in particular the localisation of both Council Tax support and business rates, added further to the element of uncertainty and the risks being faced and managed.

The Autumn Budget Statement (ABS)

2.5. The ABS has had considerable national exposure since its announcement in early December. In very broad terms, the Chancellor advised that the national position remained difficult. His statement indicated that, in effect, austerity will remain in place for a further year beyond that originally expected, though there has since been speculation that this in reality means the end of the current decade. A summary of the key elements of the ABS is set out in Appendix A.

2.6. The statement confirmed widespread speculation that the Government's austerity programme would continue for an extra year until 2017/18, deep into the life of the next Parliament. It will certainly cover the whole period of office for the next Administration of Havering following the 2014 elections. This extension to the fiscal consolidation will take state spending down to 39.5% of national income from 48% in 2009/10, the Chancellor said. The background to the Chancellor's announcement lies in confirmation from the Office for Budget Responsibility (OBR) that the weak economic performance over the past two years meant the Government was set to miss the Chancellor's target for debt to be falling by the end of the current Parliament in 2015/16.

2.7. According to OBR forecasts, debt is set to continue to rise over the next three years, peaking at 79.9% in 2015/16, before beginning to fall again. On growth, the OBR is predicting an overall contraction of 0.1% for this year, with the economy set to grow by 1.2% next year, 2% in 2014 and rising year-on-year thereafter, reaching 2.8% in 2017. The OBR also advised that the effects of the 2008/09 downturn are deeper than initially thought, and will continue to be felt for several years to come.

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

- Spending Review 2013; details of departmental spending plans for 2015/16 will be set at a spending review, which will be announced during the first half of 2013. This has led to speculation that there will be further reductions for that year
- Public Sector Funding; further reductions in public sector expenditure for 2013/14 (1%) and 2014/15 (2%) were announced. Local government will not be impacted by the 1% reduction in 2013/14; but will still have the 2% reduction in 2014/15. Based on a crude calculation, Havering's "share" of this could be around £1.2m
- Public sector expenditure for 2017/18; Totally Managed Expenditure is set to fall at the same rate as over the Spending Review 2010 period. This equates to a £4.6bn real terms reduction on 2016/17 levels, i.e. based on the more pessimistic forecasts from the OBR, there will need to be a further year of spending reductions in 2017/18
- Public sector pay; the level of pay in the public sector was expected to rise by an "average" of 1%
- Business Rates; the temporary doubling of the Small Business Rate Relief will be extended for a further 12 months from April 2013. It was also proposed to exempt all newly built commercial property completed between October 2013 to September 2016 from empty property rates for the first 18 months.

2.9. Based on this analysis, in broad terms, there is no evident sign of an immediate reduction in funding for next year, but a likely reduction in the following year (2014/15) of around £1.2m. In addition, it is also expected that there will be a further reduction in 2015/16 (for which no spending figures have to date been indicated), and this trend will continue for the following two years. This however was ahead of the settlement announcement, which is addressed later in this report, and specifically reflects the impact of revised Government department spending levels. Of course, if the improvement in the economic environment anticipated in the OBR, and thus the ABS, does not materialise, or some of the assumptions prove to be wrong, then further action and/or an extension beyond 2017/18 would become necessary.

2.10. Specifically on the last bullet point, this potentially gives rise to an additional cost to local authorities. This has been raised by London Councils and they have been given an assurance that the Government intends to fund any new burdens arising from tax policy changes, of which the ABS measures are the first example, via section 31 grants or Revenue Support Grant. London Councils intends to undertake a "new burdens assessment" as the basis for discussion and this will be kept under review by officers.

Local Government Financial Settlement (LGFS)

2.11. Details of the provisional settlement were announced on 19th December, which was as expected but, as Cabinet has been made aware, is very late in the context of the Council's budget-setting process, and given the extent of changes to the funding regime. The settlement covers a two year period, for both 2013/14 and 2014/15. Cabinet is asked to note that:

- A considerable volume of the detailed papers that accompany the actual announcement were not released on settlement day
- Some that were issued then had to be withdrawn owing to errors
- A significant number of those relating to 2014/15 were not made available until 2nd January
- Some of them have in fact still to be published at all
- There has basically been only one clear day when no additional information has appeared, or existing information has been withdrawn, since the original publication on 19th December.

2.12. This has made it extremely difficult for officers to both interpret the outcome and to utilise information provided by local government associations, in particular the LGA and London Councils. Officers have analysed the information available and, based on that assessment, various conclusions have been reached and an overall position arrived at. This is reflected in the proposals now contained in this report for Cabinet to consider. The continuing uncertainty over both the content and meaning of the settlement clearly increases the degree of risk facing local authorities, but also continues to emphasise the need for careful planning and financial prudence.

2.13. A summary of the settlement is set out in Appendix B; this includes a glossary to various key terms introduced as part of the new funding system, some of which are referred to below. The main points affecting local government in general, and Havering in particular, are set out below; a fuller explanation of these key elements then follows:

- The final settlement is likely to be announced around 2 weeks after consultation closes on 15th January, even though the most recent release of information was provided on 4th January 2013
- The settlement covers the financial years 2013/14 and 2014/15 and introduces a fundamental change in the system of funding. From 2013/14 local authorities in London will be able to retain 30% of their business rate yield

- Councils will face an average reduction in spending power of 1.7%; the average London reduction is 1.2%, Havering's reduction in 2013/14 stands at 1.57%
- London has 9 tariff authorities and 24 top-up authorities with Havering being a "top-up"
- Havering's provisional 2013/14 start-up funding is £75.569m (£69.311m for 2014/15); this includes £31.2m of rolled in grants
- The equivalent 2012/13 figure, incorporating the rolled in grants, is £79.7m, £4.1m lower due to reduction in Early Invention Grant (EIG), indicators within the formula grant, and removal of the New Homes Bonus
- As part of the Start-up Funding allocation, Havering has been set a business rate baseline of £30.2m in 2013/14 (£31.1m 2014/15) which includes a £9m top-up grant (£9.3m in £2014/15). Havering's retained yield has been calculated as £21.1m thus resulting in a £100k shortfall
- Havering has continued to face the highest floor damping band with a reduction of 8.7% in the settlement as Havering is regarded as being less reliant on central government grant; only three other local authorities in London have been given this level of reduction
- If a London pool had been created, London as a whole would be a tariff paying authority with a levy rate of 10p/£.

Settlement Periods and Final Announcement

2.14. The consultation period for the LGFS runs until 15th January, a week prior to the Cabinet meeting where this report is being considered. It is anticipated that the final settlement will be announced around 2 weeks after consultation closes, in common with earlier years, though a definitive date has yet to be confirmed. This is potentially too late for inclusion in the February Cabinet report. It will therefore be necessary to update Cabinet at that meeting if there are any material changes to Havering's settlement, or simply to confirm the position as set out in the provisional settlement.

Havering's Grant Funding

2.15. The original settlement announced in 2011 gave Havering funding of £56.520m for 2011/12 and £51.357m for 2012/13. This meant that Havering's grant was cut by around £8m in 2011/12, with a further £5m in 2012/13; this equated to a grant cut of around 20% over the two years. The adjusted grant figure for 2012/13 is £51.351m, excluding the Council Tax freeze grant for that year. These sums were fully in line with the Council's financial strategy and budget models. Further grant reductions were anticipated, based on the departmental spending levels contained in the CSR, and these have been reflected in the Council's financial planning. In broad terms, assumed reductions of around £500k and £3m were built into the planning process.

2.16. The provisional settlement covers 2013/14 and 2014/15 and gives Havering a provisional 2013/14 start-up funding of £75.6m (£69.3m in 2014/15), however unlike previous year's settlement, this is a notional amount and not the amount of grant Havering will actually receive. The start-up funding is split in the ratio 60:40 in 2013/14 resulting in an RSG figure of £45.4m and a business rate baseline of £30.2m. This ratio has been calculated by the DCLG due to the spending control totals being significantly greater than the localised business rates aggregate.

2.17. Within the start-up funding allocation, £31.2m of grants have been rolled into the formula of which £13.5m is in relation to Council Tax Support. This grant as per previous consultations has already been reduced by 10% which is not included as part of the Government's spending powers calculation and thus does not reflect the true reduction in funding.

2.18. Based on the calculations set out in the LGFS on start-up funding, the estimated impact on Havering is an overall reduction in mainstream grant funding of around £2m in 2013/14 and a further £6m in 2014/15. In overall terms, this means an additional reduction in grant funding of around £4.5m across the two years, £1.5m and £3 respectively. Whilst work on the settlement is still underway, it would be prudent to factor these into the detailed budget development process.

National Position

2.19. In a similar manner to the previous two years, the Government's headlines focus on comparative figures concerning a local authority's "revenue spending power". Local authorities will face an average reduction in spending power of 1.7%; and that no authority would experience a decrease of more than 8.8%. The average London reduction is 1.2%, Havering's reduction in 2013/14 stands at 1.57%. The 2014/15 figures at this time are not available due to late adjustments being made by the DCLG.

2.20. The Local Government control total has been set at £26.1bn, down from £27.2bn in 2012/13, whilst including £7.9bn of rolled in grants into its calculation along with the transfer out of £4.1bn in relation to both LACSEG and police funding. Other adjustments have been made to include announcements from the Autumn Statement and policy changes as a result in the business rates retention.

Formula Grant Damping

2.21. Funding formula will be subject to damping or smoothing as per previous settlement. Four bands have been set up according to an authority's level of grant dependency. Due to the fact Havering receives one of the lowest settlements in London and has a relatively large council tax base / population ratio, it faces the highest level of reduction of 8.7%. Only three other authorities in London face this level of reduction – Bromley, Kingston and Richmond. Cabinet should however be aware that the DCLG has, at the time of concluding this report, yet to publish the actual damping methodology behind these calculations.

2.22. To ensure that no local authority has its "Revenue Spending Power" reduced by more than 8.9% for 2013/14 and 2014/15 only, the Government has created an Efficiency Support Grant (similar to the Transition Grant) which is in addition to any funding floor. Only 8 authorities will receive this funding, none of which are in London.

Business Rates Multipliers

2.23. The Government has set the provisional small business and main non-domestic multipliers for 2013/14 as 46.2p and 47.1p (these are currently 45.0p and 45.8p respectively). In addition, the Department of Communities and Local Government has assumed the 2014/15 multiplier to increase by 3%. Havering has no influence on the multiplier used to determine the business rate charge as this is based on September's RPI figure.

2.24. As discussed above, Havering's formula funding is notional as it is dependant on Havering's business rate yield. Based on the methodology behind the new funding regime, Havering's business rates yield will need to increase by RPI to ensure this equates to the same level of start-up funding. If Havering's business rates yield does not keep up with inflation, whether it be due to appeals on properties or bad debts, Havering would need to fund the difference. A safety net is available, however Havering's element of the business rates, which has been set at 30%, would need to drop by £2.2m in order for a safety net to be activated (£7.5m in total).

Council Tax Base

2.25. The new funding system also sees a change in the basis of calculation of the Council Tax base. This is the estimated number of equivalent band D properties. The calculation has been affected by the changes relating to Council Tax support. These payments have in the past fallen directly into revenue spending, offset by Government grant, but from next year, support payments will fall into the Collection Fund, with the grant being rolled-up into the new start-up funding assessment. To counter this, the base calculation formula has been amended.

2.26. The estimated base for next year has been set at 79401 – the current figure is 90139. The impact of this change locally is broadly neutral, as a lower base will be applied to a lower net spend sum. However, as all authority base calculations are changing, this may have an impact where precept or levy calculations are concerned, for example the ELWA levy. The impact of this is currently being assessed and an update will be provided as part of the February report.

Specific Grants

2.27. As previously reported to Cabinet, there have been major changes to the system of specific grants and Area Based Grant (which has now ceased completely). This resulted in either the merger of, or in most case, cessation of, funding streams. This has been reflected in the Council's budget for the last two years. This trend has continued with the migration to the new funding regime, examples of these were set out in the previous report to Cabinet. As a result, a number of existing specific grants will cease completely (though they may appear within the “new” Revenue Support Grant). In addition, most grants are now unringfenced; although the department allocating the funds will usually identify the intended purpose of the funding stream, the allocation of these resources is down to the local decision-making process.

2.28. All remaining specific grants – where funding details have so far been announced – have been listed, alongside their current equivalents, to quantify how the changes in the funding system impact on the various funding streams. These are set out in Appendix C. This includes information on grants where announcements have been made, as well as identifying how these grants are being treated as part of the new funding system. This list contains a number of gaps, as further announcements are awaited, and a more up-to-date version will be included in the February report.

2.29. As reported previously to Cabinet, funds were to be transferred out from the Early Intervention Grant to fund free education for two year olds, with a further sum to be retained centrally for future use in funding early intervention and children's services. More details of this funding have subsequently been announced and these are set out in Annex A to Appendix C. Also included in the same Annex is further information on the Social Fund replacement scheme, an outline of which was included in the report to Cabinet last October.

2.30. As Cabinet will be aware, details of the Council Tax freeze grant were included in last year’s settlement announcement. Whilst this is a base grant, expected to last for the duration of the CSR period, a further announcement was made in late 2011 regarding an additional such grant, solely for financial year 2012/13; details were set out in the previous report to Cabinet. The new funding system will see the original base freeze grant rolled up, but the one-off funding for the current year is being removed. There is a “new” freeze grant on offer, but this only equates to a 1% equivalent sum, reduced considerably from the level for the current year.

2.31. Should Havering choose to accept this funding, it equates to around £1.08m (based on the equivalent Council Tax base). This funding would be available for both 2013/14 and the following year. At this stage, nothing has been said about a further freeze grant for 2014/15, but as there is no reference to this in the LGFS, it would be reasonable to assume this would only occur if the Government were able to identify additional funds, and then almost certainly on a one-off basis only.

2.32. The Government has made it clear that they intend to ensure that council tax payers are protected against Councils seeking to impose what they consider to be “excessive” council tax rises. Any proposed rise in Council Tax above 2% will now trigger a local referendum, as previously advised to Cabinet. The outcome is based on a simple majority of those voting, either in favour or against. This aspect is covered later in this report.

Dedicated Schools Grant & Schools Funding

2.33. The details of the Education grant funding were released at the same time as the main settlement announcement. There are a range of education services providing statutory and support functions such as home to school transport, pupil planning, special education needs and school admissions that sit within the Learning and Achievement service area. For those services falling within the definitions of eligible expenditure, funding is through the Dedicated Schools Grant (DSG). All other services are funded through DCLG formula grant as they are statutory functions of the local authority.

2.34. Since 2011/12 there has been a top slice of the DCLG formula grant to recognise statutory functions that transfer from local authorities to academies. This funding is referred to as LACSEG (Local Authority Central Spend Equivalent Grant). From 2013/14 LACSEG is to be replaced by an Education Services Grant (ESG). This will involve the transfer of grant from councils' DCLG start up funding to the Department of Education (DFE) and the allocation back to local authorities on the basis of the number of pupils in maintained schools.

2.35. The amount of the transfer for LBH is £5m and it will be allocated back on the basis of £116.46 per pupil in maintained schools and £15 for all pupils regardless of whether they attend academies. The figures for pupils attending maintained special schools and alternative provision are £494.96 and £436.73 respectively. It is currently estimated that this will provide £3.0m of ESG to Havering taking into account the number of schools likely to convert to academies by 1st April 2013 or shortly after, although the precise number will depend on exact numbers at a point in time in January. For each school that converts during the financial year a pro rata deduction will be made to the ESG. The announcement on ESG funding is expected shortly. The DFE will make quarterly adjustments based on academy conversions during the year, so the exact funding will potentially change.

2.36. In anticipation of this reduced funding a number of restructures have commenced within Learning and Achievement (L&A) which will reduce expenditure by approximately £1.85m in overall terms, of which the majority – around £1.4m – lies within the service, by 1st April. The reduced amount of funding to Education will also limit the amount of corporate costs that can be recharged, of around £300k. There is also a small reduction (of approximately £150k) that should be met from outside of L&A relating to the Asset and Capital Management Team.

2.37. One other service area is affected by the LACSEG issue. The Havering Schools Improvement Service (HSIS) "core service", covering the Council's statutory responsibilities, is funded through the 2013/14 LACSEG allocations and may be subject to further review depending on the rate of academy conversions. The HSIS "traded service" is subject to school buy in and the operating costs being fully absorbed by schools, the service will be demand led. This therefore represents an area of risk as it is dependent on schools "signing up" for the services available; negotiations with schools are ongoing, so the budget process currently underway includes the assumption that they will buy into the services. There is a risk that they may not, and if that transpires, there will be an in-year budget pressure whilst necessary consultation is carried out to reduce the level of spend accordingly.

Public Health

2.38. This function transfers to local authorities with effect from 1st April 2013, as has previously been separately reported to Cabinet. An announcement on funding was expected to have been made on the same day that the LGFS was announced; however, this was cancelled at the very last minute, and guidance was issued later that day. This indicated that the announcement would now be made "as soon as possible in January", although no specific date was given. A more recent announcement has indicated that funding details will be released on 11th January. As this is too late for inclusion in this report, the details will be included in a supplementary paper.

2.39. Whilst this funding is ring-fenced, the delay is unhelpful, as all other activities around the transfer are proceeding without any clear idea what level of funding will be available. It will therefore be necessary to revisit this area once the announcement is made, and its content has been properly digested and analysed. Cabinet will be updated accordingly at the appropriate point.

Overall Impact on Havering

2.40. The new funding system has proved to be extremely complex, difficult to understand and interpret, and the fact that the announcement and the associated documentation have been released extremely late in the budget-setting process has made this a much more difficult budget-setting process. The lack of information on the second year, 2014/15, until very recently, has meant that it has only been possible to undertake a detailed review on the first year. There is also a degree of risk that officers' interpretation of the settlement is, in fact, incorrect, and with this in mind, work has continued on the settlement on conjunction with colleagues elsewhere. It is however fair to say that the system is patently not transparent, nor does it suggest that Havering's starting position is not worse than it is currently.

2.41. In broad terms, the settlement indicates a funding reduction of £2m in 2013/14 and a further £6m in 2014/15. These are higher than previous figures have indicated, and based on that information, the current budget strategy assumed equivalent reductions of around £0.5m and £3m respectively. Therefore, in overall terms, there is an additional funding reduction across the two years of around £3.5m. In addition, there is a further reduction in equivalent EIG funding – this is currently under review as part of continued work on the settlement – as well as a reduction related to LACSEG funding of around £1.8m. Whilst specific proposals are being drawn up to address both the EIG and LACSEG issues, the Council will need to update its plans to reflect this latest information. A number of proposals have been drawn up and these are considered in the remainder of this report, alongside a number of other factors.

2.42. The Council is in the process of considering its formal response to the settlement consultation and a copy of the response will be included in the February Cabinet report. A meeting with the Local Government Minister to discuss the settlement and its impact on Havering has been requested, and this has been scheduled for Monday 14th January. As this report will have been finalised by then, the outcome will be reported verbally at the Cabinet meeting, and reflected in the subsequent report to Cabinet.

Overall Revenue Forecast

2.43. Based on officers' assessment of the settlement announcement, the financial forecast has been updated to reflect the anticipated grant reduction. Due account has also been taken of a number of other factors, considered later in this report, as well as the planned savings already agreed by Cabinet. The overall position across the next two years, prior to the inclusion of any additional items, is summarised in the table below:

Element	Value £m	Comments
Growth provision	3.1	Mainly demographic growth, net of interest
Inflation	5.5	Based on parameters set out in December Cabinet report
Contribution to external bodies and Pension Fund	1.8	Concessionary fares and revenue contribution to Pension Fund
Savings	-15.6	As agreed previously by Cabinet
ELWA and other levies	2.3	Mainly ELWA levy, based on previous assumptions
Reduction in revenue support grant	8.3	Anticipated net reduction in grant based on settlement analysis
Changes in funding system	0.5	Adjustments arising from LACSEG, grant roll-ups and transfers, including Council Tax support impact and Council Tax base
Council Tax freeze grant	2.7	Removal of one-off funds for 2012/13
Current gap	**8.6**	**Excluding reduction in EIG funding**

2.44. This leaves an overall gap of approaching £9m, in addition to which there is a further funding reduction relating to EIG, which is currently being investigated further. This gap needs to be met through a number of factors:

- Review/refinement of elements within the budget forecast
- Identification of additional savings
- Assessment of existing and potential new budget pressures
- Increase in Council Tax.

2.45. The proposed approach to addressing this gap is considered in the following sections of this report. The Administration's commitment to maintaining financial stability and in minimising Council Tax rises has been the over-arching objective in this approach.

3. PROPOSALS – REVENUE BUDGET

3.1. In broad terms, the approach adopted by the Council provides for an assessment of the Council's *Living Ambition* priorities in relation to its Medium Term Financial Strategy and corporate goals, and for resources to be allocated to those areas of the highest priority. Whilst the general economic climate and financial outlook have remained highly challenging, the focus of the Council's budget will need to be on significant levels of savings and only any material unavoidable pressures, with little scope for any additional investment. The efficiency savings already identified have the prime objectives of allowing the redirection of resources to areas of higher priority, the preservation of priority services, and the minimisation of the impact of Council Tax on our local community.

Progress with Proposals Already Agreed

3.2. As stated earlier in this report, Cabinet previously agreed reports in July 2010 and July 2011, set out a series of proposals designed to bridge the forecast budget gap. These set out proposals totalling around £35m (excluding the Council Tax base effect, which is accounted for separately), spread over financial years as follows:

	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m
Cumulative Savings	9.5	19.2	32.0	34.3	34.8

3.3. Detailed schedules of these proposals were included in the respective Cabinet reports and were subject to formal consultation, including consideration at joint meetings of all Overview & Scrutiny meetings. The more significant items, and progress generally in delivering these savings, are set out in the following paragraphs. This includes a review of progress with savings in the current year.

3.4. An analysis of savings by service area from these Cabinet reports affecting 2013/14 is shown in the table below (this differs slightly from the table shown above, as the phasing of savings has meant that £500k has effectively been shifted until later in the process, and thus does not feature as part of the 2013/14 budget):

	July 2010 £000	July 2011 £000	Total £000
Adults Services	3,100	2,015	5,115
Children's Services	1,100	2,420	3,520
Social Care & Learning		520	520
Culture & Community Services	271	657	928
Finance & Commerce	400	385	785

Legal & Democratic Services	50	150	200
Corporate Services	1,050	660	1,710
Total	5,971	6,807	12,778

3.5. There were seven significant items included within the savings proposals that impact on the 2013/14 budget; these are shown in the table below, together with their current progress:

Savings Item	Cabinet Report	Value of 2013/14 Savings £000	Progress
Review of Adults social care	July 2010	1,250	This is made up of a range of savings some of which have been delivered and some that are currently being worked through by officers to ensure delivery
Review of Adults transport	July 2010	500	Savings arising linked to the review of day service provision have been achieved. There is a £50k to £100k potential shortfall for which possible solutions have been identified but not yet initiated as the changes to transport arising from the Day Centre changes need time to settle in
Youth service	July 2010	500	New contract now let, this saving reflects the full year effect and meeting the needs of up to 20% more customers
Reablement services	July 2010	750	New contract now let, this saving reflects the full year effect. The new contract with Family Mosaic is meeting this target (full year effect) and meeting the needs of up to 20% more customers
Efficiency budget	July 2010	1,000	Although removal of this budget has been planned for some time and was expected to be achieved, more recent developments have meant a review of this position has been undertaken. This issue is addressed later in this report
Connexions	July 2011	600	Achieved through contract retendering completed in Sept 2012
Children's transformation	July 2011	500	On track to deliver £138k of this through Children's Centre review Work is on-going to identify further

			savings to fund current shortfall of £362k

3.6. Work is now well underway to deliver the planned savings for 2013/14. Progress is monitored through each of the Transformation Programme Boards and this is in turn reported to CMT. Service managers are expected to highlight any shortfalls or slippage, and to propose alternatives where these occur.

3.7. As previously reported to Cabinet, and as set out in the revenue monitoring reports, progress with the delivery of savings is kept under close scrutiny, and any shortfalls or slippage are also highlighted as part of the revenue monitoring process, and as such, will appear in the revenue monitor report. The majority of the savings are being delivered through service restructures, all of which are either well underway or have been concluded. Both the ISS and CST programmes are very complex, and in the case of the both these programmes, there has been a slippage in delivery of savings in the current year. There are also a small number of other areas where the delivery of savings will not be achieved in full this year, these are addressed later in the report.

3.8. There is clearly a risk that it will not be possible to deliver the full level of savings already approved by Cabinet. Circumstances are changing all the time and alongside this, so are demand for services and their associated costs. Whilst the budget contains a significant contingency sum, this is designed to address in-year issues, and the sheer scale of the savings proposals and the lengthy period over which they are being implemented – nearly £36m over a 4 year period – mean that some slippage or shortfall has always been a risk. Not the least because 2013/14 contains the highest level of savings – approaching £13m – across the four year plan.

3.9. A schedule of savings items that cannot now be delivered, are being delivered through other means than originally proposed, or where slippage has occurred, has been drawn up. This is included as part of Appendix D, which sets out the detailed revenue proposals for the 2013/14 budget.

Revenue Proposals

3.10. Given the financial climate, and the fact that the national economy is facing an unparalleled position, the Government has been faced with hard choices. These are reflected in both the ABS and the LGFS announcements. This factor has been at the forefront of the budget development process since 2010, and as a consequence, there is no scope for any budget growth at all. In reality provision has only been made where there is no other option and the need for the budget adjustment is unavoidable, for example where demographic changes give rise to growing service needs.

3.11. The revenue items proposed for the 2013/14 budget, and the subsequent year, are set out in Appendix D. These fall broadly into the following categories:

- Savings originally quantified that can no longer be delivered
- Proposed replacement or new savings proposals
- Funding changes from external organisations (excluding levies)
- Unavoidable growth arising from external factors.

3.12. Whilst this is a relatively short list of items, it does reflect the degree of risk over the delivery of savings proposals on such a scale, as well as the impact of factors outside the Council's control. A prudent approach has been taken in assessing the potential budget gap, and this has enabled the Council to weather the impact of the substantial cuts in grant funding it has been faced with, as some of these elements have turned in the Council's favour. In addition, due to the previous uncertainties over the New Homes Bonus, it is now possible to include the whole of this funding within the base budget.

3.13. Further information on both the New Homes Bonus and funding for social care are set out later in this report.

4. CAPITAL PROGRAMME

Background to Current Programme

4.1. The Council approved the adoption of an eight year Capital Programme as part of the planning process at its meeting in October 2008. This Programme was based on the gradual move towards the use of prudential borrowing to finance it and provision for this was reflected in the budget proposals. This Programme was subsequently approved by Council in February 2009.

4.2. Since that time, there has been a continued hold on interest rates, so borrowing remains relatively inexpensive. However, it remains the case that the Council's ability to generate receipts is rapidly reducing. It is therefore an increasing risk that receipts will not arise as had been predicted, which means the Programme needs to be kept under constant review to respond to any material change in circumstances.

4.3. For the longer term, financing any form of capital programme will almost certainly be heavily reliant on borrowing, although external financing and Section 106 receipts are expected to remain available, if unpredictable. This therefore brings an additional revenue pressure.

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

4.5. The original long term programme was based on a number of assumptions around funding sources, and in particular capital receipts. Both the overall level of spend and the forecast receipts have been kept under review. As a result of that review, adjustments have previously been made to the core programme to bring this in line with the expected duration of capital receipts. However, the risk remains that receipts will not arise as planned, and where these relate to a specific site with a material value, this could adversely impact on the planned programme.

4.6. Given the ongoing need for austerity in the public sector, and the very real threat of future reductions in funding, it is not felt prudent to consider any expansion to the existing capital programme. Once the longer term position becomes clearer, then it will be possible to reassess the areas where investment is required, the priorities for that investment, their financial impact and phasing, and the sources of funding potentially. No further commitments will be entered into in that time. This will be therefore considered as part of the budget cycle for 2014/15 and beyond. This will be covered in future reports to Cabinet as part of that year's budget setting process.

Proposed Forward Programme

4.7. The Programme – and in particular that part of the Programme funded by the Council's own resources – has therefore been constructed with these factors in mind. A detailed Programme funded through Council resources has been compiled for 2013/14, and approval to this Programme will formally be sought from Cabinet in February. An outline Programme for elements funded through external resources has also been drawn together, for consideration by Cabinet but also to give some context to the Council's own funding.

4.8. This detailed Programme for the element funded through the Council's own resources is based on the provisional Programme for 2013/14 as set out in the report to Cabinet in February 2012. This is set out in the appendix as part of the consultation process on the Council's budget proposals for next year. In addition, a proposed programme of maintenance works on schools has been developed and is included in the appendix; this is based on an estimated level of grant funding. The actual programme will be refined in the light of the subsequent grant announcement.

4.9. Alongside the Council funded element of the Programme, the appendix also summarises the remainder of the Capital Programme, which includes spend which is financed through grant funding. It excludes the HRA Capital Programme as this is covered separately in the HRA budget report. At this point in time, further information on grant funding is awaited, or consideration is still being given to the potential deployment of grant funding. Pending further formal announcements by Government departments, further information on these will be included in the February report. This will appear alongside an overall summary of the whole Capital Programme.

4.10. The overall Programme is broadly balanced, although still heavily reliant on the generation of capital receipts at the appropriate level. This is therefore an area of risk as stated above, and is kept under review as disposals progress. There is a significant amount of spend towards the end of the current programme; this currently provides sufficient scope to accommodate a degree of change in the level of receipts generated. As part of the ongoing monitoring process, the opportunity is being taken of reviewing earmarked reserves, alongside the broader priorities contained within the existing programme, and in the context of the views expressed by our local community on their priority areas for investment. This will also be reflected in the February report.

4.11. At this stage, no assumptions have been made regarding prudential borrowing to fund the Programme. Consideration has been given as part of previous budget-setting cycles to the inclusion of revenue provision to support capital spend, but judicious management of the Programme and the associated disposal programme has meant that the Council has been able to avoid the need to do so. Whilst the situation is being kept under review, however, it is highly likely that an alternative to the reliance on capital receipts to finance the Council's capital spend will be needed. Officers are examining a range of options and at the appropriate time, proposals will be brought back to Cabinet for approval.

5. CURRENT FINANCIAL POSITION

5.1. As part of its standard business processes, a robust system of budget monitoring is in place to ensure the Council's financial stability. As part of this process, both variances and potential risks are identified and action plans developed to counteract any adverse variances. Reports are considered up the management chain, from cost centre managers through to Heads of Service, and then CMT, individually and collectively, as well as Cabinet Members. Monthly reports appear on the Council's intranet site. Full reviews of the financial position are undertaken quarterly, with high risk areas being reviewed monthly. Reports are on an exception basis.

5.2. The initial forecast for period 3 indicated that there was an overall underspend of around £1.4m. The most recent forecast for period 6, which is a full quarterly budget review, indicates that this has reduced slightly to just below £1.2m. The main elements of this are:

Service	Issue	Variance £000
Corporate Provisions	Underspend against the Special Corporate Budget Provision Underspend against the Insurance Provision Shortfall in Advertising Hoardings income	-2,000 -500 236
Transformation	Slippage in savings from the Customer Services and Shared Services transformation programmes	800
Learning	Surplus on the Catering trading account	-500
Adults & Health	A net underspend across social care services	-290
Children's	One off costs relating to the introduction of new IT systems, management restructures	1,000

	and continued pressures both with Child Protection assessments and placements for Looked After Children	

5.3. As Cabinet will be aware, the budget includes a Contingency Fund. This is to ensure the Council's budget is robust, and to provide financial stability to enable adverse in-year variances to be overcome. The level of the Fund is re-assessed annually as part of the budget-setting process. Allocations from the Fund are generally only made once other measures have been considered, and during the latter part of the year. This is in accordance with practice of previous years. Allocations made later in the year cover those items that cannot be contained within departmental spend, and are generally beyond their local control. The Fund is designed to enable the Council to resolve any in-year issues that cannot otherwise be contained within approved budgets. It is not however available to fund permanent, ongoing changes; these need to be resolved as part of the formal budget-setting process.

5.4. Part of the planning process ensures that any in-year variances are fully assessed and taken into account. These issues are therefore being reflected in the approach to 2013/14 and beyond. Each of the variances reported at period 6 is being analysed to determine if any of these have a longer term effect, and therefore need to be considered as a base budget issue for next year. The outcome of this assessment is currently being completed, but has been held up whilst officers have been examining the recent settlement announcement. This will therefore be included as part of the February Cabinet report.

5.5. Cabinet will be aware that the insurance provision has been a persistent feature within budget monitoring reports, as has the shortfall in advertising hoardings income. It is not felt to be unrealistic to achieve any additional income for the foreseeable future, and given the stability over the Council's insurance costs, it is now proposed to include both these items within the budget for 2013/14, as a saving and partially offsetting pressure; these have therefore been included accordingly.

6. OTHER KEY MATTERS

Impact of Inflation

6.1. As Cabinet will be aware, inflation levels have remained at their lowest point in many years. The 2009 local government pay award saw a rise of around 1%, and further restraint in pay rises, given the economic climate, has continued, with no pay rise at all for 2010, 2011 and 2012.

6.2. The Government set out its expectation that there will be minimal rises in the public sector. This has taken the form of the recent pay freeze and an announcement, as part of the Autumn Budget Statement 2011, of a further 1% cap on public sector pay for the subsequent two years. More recently, the 2012 ABS included an expectation that pay rises would be capped at an "average" rise of 1%. Whilst local government pay negotiations are dealt with differently, the Government has made it clear that they expect the sector to comply with these guidelines, and the funding they will provide will be reflective of this. With this in mind, provision has been made in line with the Government's spending plans.

6.3. Provision is being made for increases in major contracted services and for an increase in fees & charges. The broad level provided was set out in the report to Cabinet on 7th November. The proposed increases for contracted services – which mainly relate to contracts based on an RPI index – are broadly in line with that level, but subject to the specific circumstances applicable to each individual contract.

6.4. A review of fees & charges is being undertaken as part of the budget setting process and any rises being proposed will be reflected in the schedule submitted to Cabinet in February. However, it is not proposed to increase fees & charges for parking services, where these are set by the Council, in accordance with the Administration's previous commitments. There are a handful of other areas where the proposed rise cannot be delivered, of which the biggest area is Housing Needs (Private Sector Landlords), and this will be reflected in the detailed budget.

Interest Levels

6.5. Interest rates have remained at historic lows for some considerable time. The Council's budget strategy originally assumed that there would be a recovery in interest levels during 2010/11. This has not happened, and therefore the originally planned increase has been delayed until 2013/14.

6.6. There appears to be little sign of rates rising, and in fact more recent intelligence shows a considerable fall in the rates that are being achieved, so the planned rise of £300k is at risk. However, it is felt that this can be achieved through prudent financial management of the Council's cash flow position, and this is therefore being retained given the pressures elsewhere. The position will need to be monitored as a more significant rise has been anticipated in 2014/15.

Concessionary Fares and Taxicard Scheme

6.7. This has been a major factor in previous years. Havering's contribution currently stands at £7.786m, which resulted from one of the lowest rises across London. The basis for both calculating and distributing contributions has been under review and this has been reflected in the figures assumed for next year. A rise had been anticipated for planning purposes, but based on more recent announcements, this had been expected to lead to only a small rise. However, this is now actually expected to fall very marginally to £7.661m. This is a reduction of £57k, whereas previously a rise had been anticipated. This area remains a financial risk to all London boroughs as future rises could well be at a similar level to that currently allowed for, and this is covered in the Council's longer term planning.

6.8. There will also be a reduction in the Council's contribution to the London Taxicard scheme, which is also funded through London Councils. This fell from the original level of £387k to a contribution of £280k for this year, and this will now expected to fall further to £130k for 2013/14, a further reduction of £150k, although this is dependent on a final decision due on 17th January. This has been reflected in the schedules pending the decision.

6.9. Both these reductions are due in part to lobbying undertaken by the Council on both the cost and the distribution between London boroughs. The proposed figures ensure that, not only will the Havering contribution reduce, but the continuance of the schemes has been assured.

Pension Fund

6.10. The difficulties experienced nationally by pension funds in general, and the Local Government Pension Fund in particular, have been well publicised. The current position, relating to consultation on proposals to change the operation of the existing scheme, was set out in the previous report to Cabinet, and the Council is responding to this. There have been concerns that any savings delivered from changes to the scheme would effectively be taken by the Government, but this fear has recently receded.

6.11. Havering's Pension Fund has, like most if not all others in the public sector, been adversely affected by not only the level of liabilities, but also the impact of gilts on the assessment of those liabilities. So, whilst the value of investments has actually seen an increase, this has been counter-balanced by the rise in liabilities owing to historically low gilt returns. Clearly, the Council cannot influence how gilts impact on the Fund, but it does have a responsibility to deal with this as part of its prudent financial management.

6.12. A review of the investment strategy is currently underway and the 2013 actuarial review of the Pension Fund is also in train. With the general economic climate in mind, it is inevitable that increases will be needed to the level of contributions made over coming years, and this is the initial advice provided by the Council's actuary. The current budget makes provision for an incremental rise of £500k, as set out in the previous budget-setting cycle. It is now felt, to be prudent, that this needs to be increased. The budget for this has therefore been increased to £1.5m with effect from 2013/14. This will establish a bigger buffer against the potential outcome of the actuarial review.

6.13. Whilst this is a material increase, it is the Chief Finance Officer's advice that this is essential given the position on the Fund, and the likely advice from the actuary. It is also, in context, within the overall budget gap of £40m originally assessed in 2010. It can therefore be accommodated within the budget without requiring additional compensatory savings.

6.14. With the outcome of the actuarial review in mind, work has started on a review of the Pension Fund investment strategy. This will reflect proposals for further investment into the Fund. The strategy is expected to incorporate provision for the Fund to invest in infrastructure assets, such as property investments, with the proviso that any such investments need to deliver an appropriate level of return to the Fund. To enable the Fund to undertake such investments, it would be prudent to make more resources available to the Fund. Officers are currently exploring opportunities to do so as the investment strategy is being developed. Whilst this will require formal approval by the Pensions Committee, this is seen as a unique opportunity for Havering, especially given the growing impact of local taxation yield on our financial position

Levying Bodies

6.15. The levies are part of the Settlement and therefore need to be taken into account when setting the Havering element of the Council Tax. There are a number of levies, but the predominant levy relates to ELWA. The current overall levy budget is around £11.7 million, of which ELWA accounts for £10.9 million. At this stage, no account has been taken of any changes in the distribution of levies arising from the changes in Council Tax base referred to earlier in this report.

ELWA

6.16. Provision has broadly been made within the MTFS for increases in the ELWA levy of around £1m per annum over the budget window the Council now operates. The Authority considered a report on its financial prospects at its meeting in December. Whilst the final budget will reflect more recent tonnage information and updated financial information, the report indicated that the provisional levy proposals for 2013/14 would be lower than had previously been allowed for.

6.17. At this stage, whilst officers are awaiting the final budget report, which is subject to deliberations by ELWA, it would be appropriate to reflect a reduction in the levy as part of the overall budget build process. This has therefore been reflected in developing the current proposals. At the point at which ELWA approves its final budget, due account will need to be taken of this in the Council’s own budget setting process.

Other Bodies

6.18. Of the remaining levying bodies, for planning purposes, a prudent approach has been taken to the level of increase that might be expected. Notification has already been received of a planned rise of 5% per annum for next year, and the following 10 years, for the Environment Agency Thames Region levy.

London Councils Subscription and London Boroughs Grants Scheme (LBGS)

6.19. The Council’s current subscription to London Councils is £144k. This is expected to fall to £137k next year. The Havering contribution to the LBGS for 2012/13 stands at £347k, although the current budget for this is £418k, which reflects decisions taken last year as part of the budget-setting process. It is currently anticipated that this will reduce to £261k in 2013/14, and this reduction has been reflected in the savings schedule, given the overall financial position.

Transformation Funding and Baseline Growth

6.20. Cabinet will recall that, as part of the Council's approach to delivering its transformation programme, a reserve was established to finance a wide range of activity, for example the Internal Shared Services programme. These reserve funds supplemented a base budget sum created several years ago of £1m. It was originally planned that this sum would be removed from the budget in 2013/14. However, as pointed out in previous reports to Cabinet, given the inevitable continuation of the Government's "austerity programme", it is highly likely that local authorities will be engaged in transformation activity for a considerably extended period, possibly for the remainder of the decade. In addition, the need for local authorities to seek to retain and where possible expand their business rates base is an additional burden and will require resources to achieve.

6.21. To continue to deliver a sustained transformation programme will require additional resources to those deployed within the Council to deliver "business as usual". The level of reserves has continued to reduced and is a finite resource, and it is not considered appropriate to fund what is clearly a long-term programme – possibly as long as a further 5 to 6 years – using one-off resources. It is therefore proposed that the planned removal of the £1m base budget will not now take place, it will be retained as a base budget sum. This will be used to fund resources to oversee and deliver the long-term programme and to enable resources to be allocated to support a sustained, continuous transformation programme.

6.22. Alongside this ongoing programme, there are clear incentives for local authorities to seek to stimulate their local economies, through activities for business retention and growth, and through more engagement with local suppliers, and to expand the number of domestic properties by maximising the use of existing housing stock and seeking to increase this where possible. These will give rise to additional business rate and Council Tax income. Undertaking such activities will require the allocation of resources beyond those currently available within the Council. It is essential that the Council seeks to increase its yield from local taxation, not the least because the Government is anticipating rises as part of its overall funding plans.

6.23. At this point in time, no detailed assessment has been undertaken on exactly what resources will be required. Once this has been completed, and firm plans drawn up, an update will be given to Cabinet. With these measures in mind, the removal of the base sum as a saving is no longer recommended, and this has been included within the schedule of 2013/14 items.

6.24. Alongside this base budget sum, it is also likely that additional, one-off funds will be needed. This will enable the Council to finance any further projects and to ensure funds are available for any further redundancy costs, should these arise, beyond the current programme. With this in mind, it is proposed that any underspends from the Corporate Contingency Fund, from the retained base budget sum of £1m, and from any service revenue underspends, are allocated to the Strategic Reserve. Cabinet is asked to endorse this approach.

6.25. Alongside this, potential investment opportunities will be explored, and these may require the use of funds from the Strategic Reserve. Work is already underway on a full review of the Council's Pension Fund investment strategy, to facilitate opportunities for investment in property, and this will be brought back to the Pensions Committee in the near future. Once this has been approved, this would enable the Council to invest further in the Fund, in turn allowing the Fund to acquire property assets with an appropriate revenue stream back to the Fund. This would potentially include both domestic and commercial properties. Details of this are currently being worked up as part of the investment strategy.

New Homes Bonus (NHB)

6.26. This new funding stream was introduced with effect from 2011/12. Cabinet will recall that, at the point of setting the 2012/13 budget, there remained some uncertainty over the longevity of this funding. For that reason, this funding was not built into the base budget, and has instead been used on a one-off basis, principally for Streetcare activities.

6.27. Speculation about the treatment of NHB as part of the new funding system has continued for some time, but the approach has finally been confirmed as part of the settlement announcement. The funding will remain in place for the originally proposed 6 years, although it has been top-sliced out of the overall funding "pot". In essence, local authorities will see a rise in their NHB funding over a 6 year period, but this will be offset by a corresponding reduction in Revenue Support Grant. As the budget reflects the actual RSG sum, it now also needs to incorporate NHB as a base budget item. A sum of £1.797m is therefore now being included for 2013/14, with a higher sum of £2.397m for the following year. Cabinet should note that this latter sum is based on officers' assessment, rather than the sum included as part of the settlement details.

6.28. The stated purpose of the New Homes Bonus is to increase effective housing supply. It is unringfenced funding, providing a significant, flexible resource which can support communities in improving their places – whether supporting town centre regeneration, improving connections or supporting new or existing services. It provides an incentive or reward for councils to build new homes or bring long-term empty properties back into use. Local authorities can decide how to spend the funding in line with local community wishes.

6.29. Given the nature of the funding, its inclusion in the budget not only allows the existing "efficiency pot" to be retained for subsequent investment, it also ensures that the existing services provided by the Council, which are highly regarded by our local residents, can be maintained. Without this funding, it is likely that additional savings would need to be found.

6.30. The Council will be commissioning work from a specialist advisor with the objective of identifying additional properties to be brought back into use. This would give rise to an additional NHB sum. As this work has yet to be undertaken, it would not be prudent to factor this into the budget. It will also take time for any changes to work their way into the NHB calculation. Once the position has become clearer, an update will be given to Cabinet.

NHS Funding to Support Social Care and Benefit Health

6.31. In the 2011/12 Operating Framework for the NHS in England, the Department of Health (DoH) set out that PCTs would receive allocations totalling £648 million in 2011/12 and £622 million in 2012/13 to support adult social care. This funding was in addition to the funding for reablement services that was incorporated within recurrent PCT allocations of £150 million in 2011/12 rising to £300 million from 2012/13. For the 2013/14 financial year, the Board will transfer £859 million from its global allocation to local authorities. Payments are to be made via an agreement under Section 256 of the 2006 NHS Act.

6.32. For Havering, this has meant additional funding of £2.553m for social care and a further £1.402m for reablement. These funds have been utilised for various services and activities, including falls prevention, the COPD telecare health service and assistive technology, which are workstreams being managed as part of the transformation programme, together with a number of activities for dementia services, and finally to support the reablement programme. The funds for the current year are governed by a Section 256 agreement.

6.33. The sum for social care for 2013/14, based on the increased allocation, will be £3.560m, an increase of around £1m. There is however no equivalent sum for reablement as this funding stream appears to have come to an end. Whilst the additional funding is welcomed, it needs to be set in the context of a continuing rise in both the adults' population base in general, and in those in need of a service in particular.

6.34. Whilst there is no express purpose for the increased sum, it is assumed that these funds will be expended on a range of social care services. There are various conditions attached to the allocation of funding, in particular, that the funding must be used to support adult social care services in each local authority, which also has a health benefit. However, beyond this broad condition, the DoH wants to provide flexibility for local areas to determine how this investment in social care services is best used. From April, the Council will constitute a Health and Wellbeing Board which will be the statutory partnership board for the council's new health responsibilities. Whilst this board will, amongst other things, recommend joint plans and arrangements for social care and health co-operation and spending, with regard to social care spending, the Council's normal spending authorisations will continue to apply through Cabinet, the Council and Lead Member arrangements. A further Section 256 agreement will need to be put in place.

Early Intervention Grant (EIG)

6.35. This funding stream was originally established in 2011, with around £10m of existing specific grants and Area Based Grant (nationally over £1 billion), including for example Sure Start Children's Centres, Connexions, Early Years and Children's Fund, being rolled into the new Early Intervention Grant (EIG). As part of the funding system, this grant is being rolled up. Further information on this is contained within the Appendix on the settlement, but in broad terms, the equivalent figure being rolled into Havering's start-up funding assessment is being reduced from £8.9m currently to around £6.6m next year. In addition, there is a further reduction down to £6.2m in 2014/15.

6.36. Whilst some level of reduction in grant had been anticipated, the overall apparent scale of the reduction – around £2.3m next year – is far higher. There are elements of the basis of calculating the new funding sum that are still being explored, not the least because some councils appear to have lost even more money whilst others have lost less. In addition, insufficient time is available to quantify savings and undertake a full and proper consultation process, especially as the exact amount has yet to be confirmed. There is also no information on how other sources of funding may become available, which has been intimated in the communication of the funding level.

6.37. With this in mind, officers are currently preparing a range of options, and these will be brought back to Cabinet in due course. These are reflective of the broad principle adopted in the past by the Council, which has been to mirror reductions in Government funding levels in related Council spend.

Social Care Services

6.38. Social Care Services remain an area of pressure for the Council. The aging population demographic is expected to lead to an increase in demand for adult social care. This issue has been reflected in the Council's budget for the past two years, and due to the fluid nature and high risk will continue to be closely monitored. This provision has been based on a detailed financial model, but given the passage of time, continuing changes in demand, the increased financial pressures facing local authorities, and in the light of the additional funding referred to above, this is now being subject to a further review to ensure it is both realistic and robust. The outcome of this review will be reported back to Cabinet once the assessment has been completed.

Members Allowances

6.39. As is customary, a report on the proposed Members Allowances scheme will be considered at the same time as the budget. The Administration proposes to reduce the cost of Allowances, in line with reductions in spend within the Council, and an additional saving of £100k in 2014/15 has been included accordingly.

Corporate Plan

6.40. The Corporate Plan 2011-14 sets out the Council's Living Ambition and how this will be delivered through five goals for the Environment, Learning, Towns and Communities, Individuals and Value. These goals, along with the strategic outcomes, key activities and measures/targets, are summarised in the 'Plan on a Page'.

6.41. The 'Plan on a Page' has been refreshed, in light of the progress made on the Corporate Plan over the past year and publication of the Annual Report in September – see Appendix F. The refresh captures the Council's goals and strategic objectives as follows:

- Environment – individual responsibility and enhanced community participation
- Learning – strategic commissioning role and strengthened partnership working between learning providers
- Towns and Communities – co-production of services, business support and development of growth areas for investment
- Individuals – new partnerships in health, prevention, integrated services and access to the 'early help offer' for children and young people at risk
- Value – customer service transformation, including self-service, efficiency and value for money.

6.42. The measures/targets have been reviewed and, where required, new targets have been set for next year. The updated 'Plan on a Page' will be used to inform service planning, ensuring all activities are linked back to the goals, strategic objectives and strategic outcomes of the Corporate Plan. CMT is asked to formally approve the revised "Plan on a Page" as set out in Appendix F.

7. EXPENDITURE RESTRICTIONS AND BUDGET ROBUSTNESS

Expenditure Restriction by Government

7.1. The Government has previously stated that it will use its capping powers where necessary. As part of the settlement announcement last year, following on from previous announcements, a referendum process was introduced. The broad level at which this would be triggered is set out earlier in this report, and this has not changed since previously reported to Cabinet in November. Clearly, those Councils choosing to avail themselves of the Council Tax freeze grant on offer for 2013/14 only will not be affected by this.

7.2. However, guidance has been issued setting out the basis upon which the 2% is to be applied. This is not, as expected, the existing level of Council Tax, but an assessed sum, or Alternative Notional Amount (ANA). The guidance prescribes the basis for this calculation, which in essence removes elements not directly with a local authority's control (basically, parish precepts and levies) and also adjusts for the impact of the localisation of Council Tax support. For Havering, the ANA has been assessed by DCLG as £1,048.66, whereas the current band D figure is £1,195.18. So should consideration be given to any rise in the basic Council Tax level, further calculations would be needed to determine whether the 2% limit has been exceeded, and should that be the case, then it would be necessary to undertake a referendum.

7.3. The Government has indicated that the referendum process is likely to remain in place for future years, although they have not committed to the actual percentage levels. There does however appear little prospect for a rise beyond the current limit of 2%, and local authorities would need to be mindful of the potential cost of undertaking a referendum should they wish to consider triggering one, especially with the potential cost of a further billing process to be undertaken, should the local community reject a proposed rise.

Budget Robustness/Reserves Position

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

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

7.6. The General Fund Balance at 31 March 2012 was £11.8m. Prior to making a final recommendation to Council, there will also be a need to further consider the current financial position for 2012/13. The revenue budget strategy statement, as agreed by Council, sets out that the minimum level of reserves held will be £10m. There is an opportunity cost of holding reserves, in particular the alternative use that these balances could be put to and the benefits that might accrue as a result. Equally, the importance of retaining sufficient reserves has been emphasised by the position within social care services during previous financial years, and particularly so now, with the Council suffering an ongoing reduction in grant funding from Government.

7.7. The Council's revenue budget strategy statement requires that:

- While addressing its priorities and setting a balanced and prudent budget, the Council will seek to keep any increase in the Council Tax to the lowest possible level and in line with its stated aspirations whilst maintaining reserves at the minimum level of £10m

- And as part of that process, the Council will not utilise those reserves, or any reserves earmarked for specified purposes, to subsidise its budget and reduce Council Tax levels as this is neither a sustainable nor a robust approach.

7.8. In addition to its general reserves, the Council also holds a number of earmarked reserves. At 31 March 2012, the total value of reserves stood at £38.7m. Of this, a significant element had been earmarked for the corporate transformation programme, which is delivering much of the savings target agreed by the Council. The vast majority of these funds have now been allocated to programmes and much of this will have been expended by the end of 2012/13 in funding programme resources and IT investment, and over an extended period of time, redundancy costs. A further element relates to strategic projects, whilst the remaining reserves cover a variety of purposes, including the Insurance Fund. Any reserves utilised as part of the budget-setting process can only be applied once; thereafter equivalent reductions – or increases in Council Tax – would still need to be found.

7.9. The current advice of the Group Director Finance & Commerce is that the existing level of general reserves can be considered to be adequate, but issues in previous years over adult social care spend, and both the recent and imminent major reductions in grant funding, emphasise the need for prudence with the management of reserves.

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

8. SUMMARY OF FINANCIAL POSITION

8.1. Based on the factors that are set out in this report, the Council is in a good position to take advantage of the additional Council Tax freeze grant offered by the Government for 2013/14, although this is not without some degree of risk. Assuming that there are no changes in the final settlement, and no other material factors come to light, the budget recommendations to Cabinet and Council in February will reflect this position.

8.2. The overall financial position over the next two years, based on the factors set out above, is now as follows:

Element	Value £m	Comments
Current gap	**8.6**	**Excluding reduction in EIG funding**
Reduction in Inflation	-0.5	Rises in income not achievable (mainly parking) offset by reduction in provision for contracts
Pension Fund	2.0	Revised revenue contribution to Pension Fund
New budget items	-2.8	Additional savings proposals,

		corporate budget items, etc
Special budget provision	-2.5	Removal of the special provision created for 2012/13
ELWA levy	-1.0	Reduction in levy based on most recent ELWA report
Council Tax freeze grant	-1.1	Assuming acceptance of new grant offered
Current gap	**2.7**	**Excluding EIG reduction**

8.3. The latest position shows a remaining budget gap of around £2.7m. Should it not be possible to reduce this residual gap through other means, then additional savings would become necessary. A preliminary assessment of the impact on each year suggests that further savings would not be needed until the second year, ie 2014/15. Should this prove to be the case, once the settlement position has been finalised, this would ensure sufficient time was available to fully develop new proposals, undertake appropriate consultation, and to implement the proposals.

8.4. As indicated elsewhere within this report, the Council has maintained a Contingency Fund and also has sums held in reserves and balances that could be deployed to address specific in-year issues, should the risks highlighted in this report materialise. These risks will be carefully monitored in parallel with the consultation process, but these funds would provide a cushion for the immediate future should the need arise. The final budget proposals will be drawn up in the light of responses to the consultation process, the developing position around the settlement, and the assessment of the risks facing the Council.

8.5. At this stage, whilst the LGFS is still being examined, and some uncertainty remains over the second year, and further work is underway on a number of detailed budget elements, it is too early to determine with any reliability whether further savings will be needed. However, it would be prudent to commence the development of potential proposals, so that these may then be reviewed and consulted on as appropriate. Greater clarity should be available by the time Cabinet considers its detailed budget proposals in February, and a plan set out to address any gap, should this remain. The assumption made at this stage is that the Council will seek to take advantage of the Council Tax freeze grant on offer for 2013/14; this is factored into the table above and the final budget proposals presented to Cabinet are being developed with that objective in mind.

8.6. It is, however, recognised that this does bring a degree of risk; taking the grant does mean foregoing an increase in base Council Tax income which can only be recovered by compensating rises in subsequent years. The alternative would be to seek an additional level of savings at the appropriate time. Given the current financial climate, with the prospects for national growth shrinking, and with the Government extending its planned austerity period, holding Council Tax at the current level for a further year is felt to be the approach favoured by our residents. The Administration remains committed to maintaining the stability of the Council's finances and doing everything it can to keep Council Tax rises to a minimum, and wherever possible holding Council Tax to current levels.

8.7. Adopting this approach would see Havering's Council Tax held at the same level for a third successive year, following a reduction in 2010/11. Owing to the prudent approach adopted and the focus on reducing back-office bureaucracy in order to protect frontline services, the Council is able to recognise the priorities indicated by our residents. This means that:

- The Council can maintain weekly waste collections
- No libraries have been closed or had their opening hours reduced
- The Council will continue to invest in roads and pavement repairs
- Social care support for vulnerable residents can be maintained
- The Council can continue to prioritise clean streets and a pleasant environment for all.

8.8. Beyond the current budget window, it is evident from the ABS that the Government intends to continue its austerity programme for the foreseeable future. The ongoing reduction in funding available to local authorities is likely to be continue on a similar "trajectory". Whilst it is difficult to assess what precisely this means, within the current 4 year cycle (since the 2010 CSR announcement), Havering will have seen a reduction in overall funding of well over £20m in mainstream grant and around a further £5m in specific grant.

8.9. Using similar assumptions to those on which the original £40m gap was assessed, it would therefore not be unreasonable to envisage a further gap of between £40m and £50m between 2015/16 and 2018/19. Clearly, this cannot be bridged by Council Tax rises alone, and even with rises around the referendum "cap" of 2%, this will now only generate around £8m to £9m. It will therefore be necessary to develop a longer term budget strategy to address this new gap. The proposed approach to this will be set out in the report to Cabinet in February, as part of the budget setting process.

9. HOUSING BUDGET

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

10. CONSULTATION

10.1. The proposals set out in this report will be publicised through the local media, on the Council's website and through other communication channels - and responses from residents will be encouraged. A further joint meeting of all Overview & Scrutiny Committees is being held on 24th January to invite comments on the proposals now being released for consultation.

10.2. We will also write to the local Chamber of Commerce and Federation of Small Businesses to alert them to the budget report and ask for any feedback from the local business community

10.3. Beyond this statutory consultation, the Council is engaged in an ongoing effort to listen and respond to the views of residents. Two years ago, the Council undertook the highly successful *Your Council, Your Say* survey. Over 12,000 residents responded to the survey – making it one of the most productive public surveys in recent history. As part of Havering's commitment to better understand the priorities of local residents for the Borough – particularly at a time of reducing budgets - the *Your Council, Your Say* survey will be repeated in March this year.

11. GREATER LONDON AUTHORITY (GLA)

11.1. The announcement of the Mayor's draft budget proposals for his financial strategy was made in early January. This indicated an intention to make a slight reduction in the GLA's Council Tax level, from the current £306.72 to £303 – a reduction of £3.72, or around 1.2%. Consultation on the budget proposals ends on 23rd January. The final budget proposals will be issued on 8th February and the budget is due to be approved just before the Council formally considers its own budget for 2013/14, on 25th February.

11.2. The Mayor's draft budget consists of – Mayor's Office for Policing and Crime, Transport for London, London Fire and Emergency Planning Authority, the London Legacy Development Corporation and core Greater London Authority. The total budget (capital and revenue) is £16.5 billion. In light of the Provisional Local Government Finance Settlement, the Mayor has asked LFEPA to identify £3m of savings for 2013/14, which is a £13m reduction from previous requests.

11.3. The Mayor's 2013/14 draft net revenue spend is £5,531 million. Under the proposal the total GLA precept will be cut from £306.72 a year to £303.00 (for a Band D household). The Mayor's proposed council tax precept draft budget comprises of £220.50 to support the Metropolitan Police service, £50.65 for the London Fire Brigade, £20 for the 2012 Olympic and Paralympic Games and £12.10 for transport and other services.

11.4. As is the case with the Council's own budget, there are immediate examples of how the new funding system has impacted on the GLA, as their Council Tax requirement has reduced from £120m to £73m. This reflects the new system and the changes brought about by the localisation of Council Tax support. The budget consultation document also includes this statement:

Due to the fact that there remain concerns about the potential volatility and accuracy of the council tax and business rates taxbase estimates which billing authorities will be able to provide for 2013-14 the GLA has set aside a precept resilience reserve of £23.2 million to help manage these risks.

11.5. This emphasises the need for both prudence and careful monitoring of local taxation yield, given its impact on local authority funding under the new system.

12. TIMETABLE

12.1. The key dates for consideration of the budget strategy and capital programme are as follows:

Key Tasks	Date
Release of specific proposals taking account of settlement	January Cabinet
Detailed budgets and public consultation consideration	Considered by joint Overview & Scrutiny Committees January
Final Cabinet recommendation to Council taking account of any further issues	February
Council Tax Setting and Corporate Budget Agreement	February

12.2. This outline timetable is kept under review to ensure that the budget and policy are fully integrated and reflect community priorities. The timetable may also vary if meetings are changed.

REASONS AND OPTIONS

Reasons for the decision:

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

Other options considered:

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

IMPLICATIONS AND RISKS

Financial implications and risks:

The Council's budget-setting process will ensure that financial implications and risks are fully met. Any financial implications or risks are covered in this report as necessary. There are significant risks given the continuing degree of uncertainty over the outcome of the LGFS, the extensive changes to the funding system and the complexities associated with it, and the general economic environment, but the steps already taken by the Council should mitigate much of this. However, the degree of risk has risen and the Council needs to ensure it is taking a robust approach in its budget-setting process, both now and for several years to come. It will also be necessary to continually refine the financial forecasts underpinning the Council's budget to ensure that any necessary actions can be taken at the appropriate times, allowing for consultation as appropriate.

Legal implications and risks:

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

Human Resources implications and risks:

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

Equalities implications and risks:

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

BACKGROUND PAPERS

Revenue Monitoring Report Period 6 2012/13
Capital Monitoring Report Period 6 2012/13

APPENDICES

A AUTUMN BUDGET STATEMENT

B LOCAL GOVERNMENT FINANCIAL SETTLEMENT

C SCHEDULE OF GRANTS

D SCHEDULE OF REVENUE BUDGET ITEMS 2013/14

E CAPITAL PROGRAMME 2013/14

F CORPORATE PLAN – “PLAN ON A PAGE”