



## CABINET

24 September 2014

**Subject Heading:**

**THE COUNCIL'S FINANCIAL STRATEGY**

**Cabinet Member:**

**Cllr Roger Ramsey**

**CMT Lead:**

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**Policy context:**

The Council is required to approve an annual budget and to establish a financial strategy and this report is the next step in that process

**Financial summary:**

This report summarises the outcome of the initial consultation on specific financial proposals as part of the development of a long term financial strategy for the Council  
No

**Is this a Key Decision?**

**Is this a Strategic Decision?**

No

**When should this matter be reviewed?**

February 2015

**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

The report to Cabinet on 3 September 2014 set out the background to the development of the Council's future budget strategy. It also included a range of proposals to bridge a substantial budget gap over the coming four years. These

proposals were considered at a joint meeting of the Overview & Scrutiny Committees on 8 September.

This report summarises the outcome of that meeting and recommends a final set of proposals, on which consultation will now commence. The report also sets out as further background information the final outturn position for 2013/14, and the initial monitoring position for 2014/15, as this also informs the development of the strategy.

## **RECOMMENDATIONS**

Cabinet is asked to:

1. Approve the final schedule of proposals, set out in Appendix A.
2. Review any alternative proposals submitted and accepted by the Chief Finance Officer and agree their inclusion or omission within the consultation process.
3. Agree that officers should commence consultation on these proposals.
4. Note the specific consultation questions being asked in the consultation documents, set out in Appendices J, K, L and M.
5. Agree the draft strategies for libraries and parking, set out in Appendices C and D, as part of the consultation process.
6. Note the final outturn position for 2013/14 and the initial forecast for 2014/15.
7. Note the proposed timetable for reviewing the outcome of the consultation process and the remainder of the budget cycle.

## **REPORT DETAIL**

### **1. BACKGROUND**

- 1.1 The general financial background was set out in the previous report to Cabinet. This identified a potential budget gap over a four year period, starting in 2015/16, of around £60m, although this was expected to reduce to around £45m, accepting the risks inherent with this scale of gap. The report formed the first stage in the development of a future budget strategy for the Council.
- 1.2 Set out in the report was a range of proposals designed to cover the majority of the forecast budget gap. These proposals were considered by Cabinet, and then subsequently by a joint meeting of Overview & Scrutiny Committees (OSCs) on 8 September. This report summarises the outcome of that review, and includes a final set of proposals, for Cabinet's approval. Consultation on these proposals will commence shortly. The outcome of that process will be

taken into account when the more formal stages of the budget setting process are underway, in January and February 2015.

- 1.3 As part of the background to the development of the budget strategy, it is important to reflect on the current financial position. A summary of the outturn position for the year recently ended, 2013/14, and the initial monitoring position for the current year, 2014/15, are included in this report.

## **2. OUTCOME OF INITIAL CONSULTATION**

- 2.1 As indicated above, a joint meeting of OSCs was held on 8 September and the proposals contained in the previous report to Cabinet were subject to scrutiny.
- 2.2 A range of comments and queries were raised on the report and the proposals set out within it. The draft notes of the meeting are set out in Appendix G. Although there were a considerable number of issues discussed, no explicit alternative proposals were put forward at the meeting. The Administration therefore proposes to now initiate formal consultation on its budget proposals, as set out later in the report. Further details on the consultation process are set out later in this report in Section 5.
- 2.3 The final schedule of proposals is now set out in Appendix A; this schedule is now recommended to Cabinet for approval. The relevant draft Equalities Impact Assessments (EIAs) have now been completed and these are attached at Appendix B. Consultation with relevant groups, including the local community, interested stakeholders, staff and unions, will now commence. Final versions of the EIAs will be produced as part of the budget finalisation process in January.
- 2.4 As indicated in the previous report to Cabinet, a number of Council strategies will need to be refined to reflect the budget proposals. Two of these strategies have been revised and draft documents are set out for them, for approval as part of the consultation process, as follows:
- Appendix C      Draft Parking Strategy
  - Appendix D      Draft Libraries Strategy.
- 2.5 In addition, further details of the Council Tax Support Scheme are set out in Appendix E for Cabinet's information. Consultation on the scheme will be run in parallel with the remainder of the consultation process, but as explained at the OSC meeting and elsewhere in this report, the new scheme needs to be approved by Full Council by 31<sup>st</sup> January. The proposed Havering scheme would, if approved, bring us in line with the schemes in neighbouring boroughs.
- 2.6 It is open to Opposition groups to propose changes to the Administration's proposals, and to submit alternatives. These were due to be submitted by Monday 15<sup>th</sup> September and any such proposals will be included in a supplementary paper, for consideration by Cabinet at this meeting. Cabinet will be asked to consider whether to include those alternative proposals as well as those set out in the attached documents, subject to confirmation from the Group Director Resources (the Chief Finance Officer) that he considers the proposals to be robust and financially viable and that the budget would remain

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- balanced, and to his advice on the impact any proposals would have on Council balances in subsequent years.
- 2.7 In agreeing these proposals, Cabinet is asked to be mindful of the advice of the Chief Finance Officer (CFO), which was set out in the previous report, and the revenue budget strategy statement, which was agreed at the last meeting. The Council needs to put in place a new long-term budget strategy, given the potential scale of the budget gap it is facing. It is the view of the CFO that approving the current proposals, coupled with a further report in the summer of 2015, will place the Council in a financially robust position. There is a significant lead-in time with many of the proposals and it was not felt prudent to delay bringing an initial strategy to Cabinet beyond summer 2014.
  - 2.8 The projected budget gap is, as discussed at the last meeting, a best estimate forecast. Clearly, circumstances may and almost certainly will change, not the least with the next General Election coming ever closer. However, the sheer scale of the gap has made the early development of a new strategy essential, and the Administration firmly believes its adoption at this point in time is critical to maintain essential services but also to provide financial stability. Containing the gap at the lower level of £45m will require considerable effort, and the risk remains that this gap could conceivably be bigger. The Council's financial strategy needs to be mindful of this.
  - 2.9 Looking beyond the General Election, the likelihood is that some things will be the same but others will change significantly and probably very quickly. The current Coalition Government has pursued a very clear fiscal policy which has resulted in significant funding cuts for local government. All the indications are that there will be continued downward pressure on funding for local government, regardless of whether there is a change in government in May 2015 or not. That in turn means that there are likely to be implications for local government funding of a change in government.
  - 2.10 Most obviously, some current funding streams would cease very quickly. New Homes Bonus is an obvious example of funding that rewards local authorities in the south east with a growing population, and is unlikely to survive a change in government, which explains the prudent approach the Council has taken to its treatment in the base budget. Other changes might be less high profile but would certainly move funding around the country: for example the assumed council tax in the system is set to be 34% below the actual level in 2015/2016 and a correction would be highly redistributive. And the balance of funding between adult social care and health could change to respond to policy development and political change. These issues simply underline the importance of developing and implementing a long term strategy.
  - 2.11 Whilst final decisions are taken at the budget and tax setting in February, these proposals are based on the assumption that there would be an increase in Council Tax of 2% in 2015/16. Should any alternative proposals be put forward that would require a higher Council Tax rise, under current rules, this would necessitate the holding of a referendum. Cabinet is asked to be mindful that such a process would cost at least £250k, and may require the Council to reissue every Council Tax bill, if a Council Tax rise was to be rejected, with the risk of confusing residents over their payments and inevitably introducing

delays in payments and recovery action. A proposal to raise Council Tax has however been included within the consultation process to gauge residents' views on such a step.

- 2.12 The previous report to Cabinet highlighted a number of issues, including the ELWA levy. There was a major fire at the main site at Frog Island and this is likely to disrupt service provision for a considerable period of time. This in turn is likely to impact on the ELWA levy. ELWA is currently reviewing its forward projections and once these have been properly assessed, the position will be reported to the Authority and the constituent councils. Should there be an adverse impact, this will be reported to Cabinet accordingly. It is however believed at this stage that any additional costs will be covered by insurance. This therefore represents an additional area of risk in formulating the budget strategy, albeit likely to be a minor one.
- 2.13 The Council is also considering increasing the Council Tax level applied to empty properties and a motion has been proposed to Full Council seeking agreement to the application of an empty house premium on empty households above the standard Council Tax rate. This motion was due to be debated at the Council meeting on 17<sup>th</sup> September.

### **3. PROVISIONAL OUTTURN POSITION FOR 2013/14 AND MONITORING POSITION FOR 2014/15**

- 3.1 As part of the development of the future financial strategy, due account needs to be taken of the position in both the previous and current financial years. These are summarised below.

#### **Outturn Position 2013/14**

- 3.2 The last forecast reported to Cabinet was set out in the February report, as part of the formal budget setting process. This covered the most recent revenue monitoring reports for periods 7 and 8, October and November. These were exception-only reports; for period 7, this showed an increase in the service overspend to around £1.4m, whilst the period 8 report showed a further increase to around £1.5m. Neither of these forecasts took into account the position around the Collection Fund or with corporate finances, such as the Contingency Fund. These are not generally declared until year end, once all other issues have been identified and dealt with.
- 3.3 The last monitoring report for the year, period 11, indicated an overall underspend in the region of £7.5m. The final position shown by the draft statement of accounts showed a final net underspend of £7.2m and this sum was transferred into earmarked reserves, as is customary. This sum included around £5.2m in corporate finance issues and a further £1.4m unallocated contingency. The outturn report, including service narratives on all variances in excess of £25k, is set out at Appendix F.
- 3.4 The net service underspend was less than £600k, and there were four material adverse variances, as follows:

- Regulatory Services, £213k; principally shortfall in income

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- Customer Services, £215k; mainly slippage in delivery of planned savings
  - Adults Services £505k; pressures arising from demand for services
  - Special Educational Needs (SEN) £571k; increase in number of children plus overspend on transport services.
- 3.5 The first of these was already provided for within the 2014/15 budget, and the second is still expected to be achieved. The third and fourth are reflected in the assessment of demographic growth allowed for within the current budget but would be reviewed as part of the development of the future budget strategy and against the current year.
- 3.6 There were a number of service underspends as well and these are also set out in the Appendix. These arise in the main from measures taken to compensate for the over-spends referred to above, though there was also a significant underspend within Exchequer Services of around £700k. This arose from the benefits subsidy account; whilst this is a material sum, it needs to be seen in the context of an overall throughput of over £100m. It is not felt prudent to assume future surpluses as part of the base budget, owing to the degree of volatility in this area.
- 3.7 The corporate underspend including a special budget provision of £3m, created as part of the budget setting process for 2013/14. These funds were intended to act as a safeguard to the Council from any adverse consequences arising from the major changes to the funding system introduced in that year, which were set out in the background report to the previous Cabinet meeting. This was felt to be a significant area of risk, hence the creation of the provision. Events subsequently have meant that this provision was not drawn on during the year, and thus appears as an underspend, and with the funding system now reasonably well-stabilised – though not without risk – this provision has since been removed from the budget.
- 3.8 The outturn position included around £10m in funds carried forward. These are detailed in the report but this includes nearly £4m from NHS funding and a further £1m from public health. The final position also indicates that earmarked reserves now stand at around £45m, although this sum has fallen from the previous year. These funds all have a designated purpose and are not otherwise available to offset the budget gap, although the Council's budget strategy precludes the use of reserves to balance the budget, as this simply creates a problem for future years. The CFO's advice is that it is not prudent to use one-off funds as a means of balancing the Council's budget strategy.
- 3.9 Whilst the Council's balance sheet now includes around £10m in general reserves and £45m in earmarked reserves, these are all one-off funds and can thus only be deployed once. The general reserves level, as well as the contingency level, is based on a risk-assessed calculation and this is set out in the February report to Cabinet, and also reflects the broad views of the Council's external auditor. Earmarked reserves are more volatile, as the balance not only reflects the Council's financial performance, it also reflects the reasons why such reserves are required. For the purposes of clarity, set out below in the table is a brief explanation of the main areas of reserves included

within the Council's accounts, and the relevant note from the 2013/14 accounts listing the details of earmarked and general reserves has been included at Appendix H:

Item	Definition
General Reserves	Councils are expected to set a minimum level of reserves for which an authority must provide in setting its budget. These are known as general balances. The minimum would apply to "controlled reserves", as defined in regulations. This excludes reserves that are not under the authority's control when setting its call on council tax, for example the balance on the housing revenue account and schools balances.
Earmarked Reserves	An earmarked reserve is a sum set aside to fund known items of anticipated expenditure for which the liability is not chargeable to the current year's accounts. The Council holds a number of these, the most significant of which are for the Corporate Transformation programme, funds to deliver strategic projects, insurance claims, capital bridge funding and invest to save resources. This differs from the general reserves, as they have no explicit designated purpose, and contingency, as that is for unforeseen circumstances
Contingency	The contingency fund enables the Council to fund costs arising from unforeseen issues, such as emergencies. Although the fund lies within the base budget, use can only be made of the fund for one-off expenditure. This would include major incidents, which could include inclement weather

- 3.10 Whilst the year-end balance is considerable, a large element of this relates to specific grant funding (for Public Health and Better Care), totalling nearly £10m, and these can only be used for designated purposes. Nearly £9m is being held for future capital schemes and a further £4m relates to the Council's insurance fund. There is around £15m within the strategic reserve, of which around £8m currently has not yet been explicitly earmarked for use. However, the level of future redundancy costs coupled with costs arising from further transformational changes to Council services will mean these funds will be required. They will not therefore be available for other purposes in any event. The earmarked reserves balance is therefore expected to diminish significantly over the current and following financial years.

**Current Monitoring Position 2014/15**

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- 3.11 The initial revenue monitoring report for the year, as at period 3 (June), has been produced. This is the first review of the financial position for the year and sets out the forecast position in detail. Any variance exceeding £25k is included in the report.
- 3.12 It is essential that the development of a long term financial strategy takes due account of the position in the current year. In particular, any variances likely to have an impact beyond the current year need to be considered against future savings proposals and demographic growth, as well as the other factors included in the assessment of the budget gap.
- 3.13 The monitoring report is set out in Appendix G and indicates an overall overspend of just above £2m. The main elements of these are as follows:
- Children's Services £829k; mainly due to an increased in the number of looked after children and placements costs
  - Learning & Achievement £638k; due to SEN transport costs, this follows on from a similar level of overspend in 2013/14, as indicated above
  - Adult Services £478k; this is due to placement activity in Learning Disabilities, pressures within the Preventative Services, and Dreywood Court.
- 3.14 At this moment in time, the adverse variances within the three social care areas are felt to be containable in the longer term. This however is not without a degree of risk. It is intended to undertake a fundamental review of transport services and this will include the SEN functions as well.
- 3.15 The forecast position takes no account of any potential draw-down or under-spend from the corporate contingency fund or corporate provisions. Whilst these are monitored throughout the year, they would not normally be declared until year end. That said, the Council's financial capacity has been eroded over time, with the ongoing funding cuts, and this position will inevitably continue into the future.

## **4. NEXT STEPS AND TIMETABLE**

- 4.1 The final budget proposals are set out in this report and are designed to deliver a balanced budget position over the next two financial years. It will be necessary to refine the budget strategy in the light of the financial settlement announcements later this year – though these are not expected to show any material changes from the current position – and after the General Election, once the incoming Government sets out its spending plans in the Comprehensive Spending Review.
- 4.2 A number of budget proposals require consultation and this will now be initiated as appropriate. Consultation is scheduled to close on 29<sup>th</sup> December and the results will be analysed at that point. The outcome from this process will be taken into account when the final budget proposals for 2015/16 are brought before Cabinet by the Administration in January 2015 for formal consultation.
- 4.3 The position in the current year will continue to be monitored and the next major review, for period 6, the mid-year position, will be reported to Cabinet



around Christmas. This will also take into account the details of the local government financial settlement, although it is not yet known when these will be announced. Based on recent years, this may not be available until around December. That said, given the two year announcement last year, it is unlikely there will be any material shift in funding.

- 4.4 Due account will be taken of any responses to consultation on the final budget proposals and a formal recommendation will be put before Cabinet in February 2015, prior to the Council Tax setting meeting later that month. This will include the final detailed proposals, together with the overall budget and Council Tax level.
- 4.5 The only difference to this timetable applies to the proposed Council Tax Support scheme. This requires approval by Council by 31<sup>st</sup> January. Therefore, the final scheme proposals will be brought before Cabinet in January.

## **5. CONSULTATION**

- 5.1 As indicated in the previous Cabinet report, the intention is to consult widely on the council's proposed budget strategy and on the specific proposals within the strategy that require statutory consultation. As some specific proposals require 3 month consultation periods, in order to provide greater clarity and transparency, it is proposed that the general budget consultation also runs for the same 3 month period. This will mean that consultation opens on Monday 29<sup>th</sup> September 2014 and closes on Monday 29<sup>th</sup> December 2014. The specific consultation documents are set out in Appendices J, K, L and M, together with the form the consultation will take.
- 5.2 There will be a general consultation on the overall budget strategy asking for comments on the areas identified for protection and those identified for savings. Questions on residents' priorities will be included.
- 5.3 In respect of the Library Service and car parking, the council is consulting on revised strategies as well as asking for specific views about the options proposed in the budget strategy. These consultations will be statutory 3 month consultations.
- 5.4 The Council is also consulting on the Council Tax Support Scheme and this consultation will run for the same 3 month period. However, members should note that decisions about the Council Tax Support Scheme will need to be taken at the January Cabinet and Full Council meetings in order to meet the legal deadline for any changes to the scheme being enacted on 1<sup>st</sup> April 2015. The results of all of these case consultations will be reported back to the January Cabinet meeting.
- 5.5 There will also be a 3 month consultation on the Council's voluntary sector strategy. Though there is not a requirement for a statutory 3 month consultation period for this, the Council has a compact with the voluntary sector that sets out a 3 month period as appropriate for consultation. This consultation is targeted at the voluntary and community sector and so will not be a general public consultation. Any specific changes to individual grants or

commissioned services will be subject to appropriate consultation at a later date. The proposal to reduce funding to the voluntary and community sector is of course, included as part of the broad public consultation on the overall budget strategy.

- 5.6 Proposals for reductions to the youth service also require statutory consultation. However, further mapping work is being undertaken prior to specific proposals being put forward for consultation. Specific consultation on changes to the youth service will therefore be launched at a later date, probably in November 2014. There is no intention to shorten the overall 3 month consultation period for these specific proposals and so decisions on the youth service will run more slowly than for other savings.
- 5.7 Some of the savings will require consultation with the Council's staff. In the case of those proposals that are the subject of statutory consultation, staff consultation will not commence until the statutory consultation is complete and final decisions taken. For other savings, particularly where they involve internal reorganisations within the Council and savings proposals are timed to be delivered in the 2015/16 financial year, staff consultation will commence during November so that the ending of staff consultation will coincide with the end of public consultation. In some case, where it is necessary to ensure savings are delivered in 2015/16, it may be necessary to complete restructure proposals and issue consultation notices in advance of the Council Tax setting meeting in February 2015. These notices will be withdrawn if Council does not support the savings proposal. It should be stressed that only a small number of the proposals require staff consultation to this timescale.
- 5.8 Cabinet is also asked to note that the LED lighting saving is still shown within the overall scope of the budget strategy but is being progressed ahead of the remainder of the savings due to the need to obtain the necessary capital funding loans for the Government.

## **6. CAPITAL PROGRAMME**

- 6.1 The outline capital programme was set out in the previous report to Cabinet. It is now intended to develop a detailed programme at scheme level, within the overall sum proposed, and this will be brought back to Cabinet as part of the detailed budget proposals, in January. This will be accompanied by an updated Capital Strategy and Asset Management Plan.
- 6.2 A separate report is included on the agenda for this meeting with respect to Street Lighting, as outlined in the previous report, and as indicated above.

**Reasons for the decision:**

It is essential that the Council's financial strategy takes due account of Government plans, and any other material factors where these are likely to have an impact on the Council's financial position. This report sets out proposals for the Council's budget strategy for the next four years, and reflects the expected continued Government approach of reduced levels of funding. The scale of these means consideration of detailed proposals, followed by consultation and implementation, at an early stage following the local elections, is essential.

**Other options considered:**

None. The Constitution requires this as a step towards setting the Council's budget.

**IMPLICATIONS AND RISKS**

**Financial implications and risks:**

The Council's budget process will ensure that financial implications and risks are fully met. There are continuing risks with the potential impact on funding arising from the continuing Government grant reductions, as highlighted in both this and the previous reports to Cabinet. The steps already taken by the Council should mitigate this, but it is evident that a longer term approach now needs to be considered, as the potential scale of the future budget gap has proven to be even bigger than the gap the Council is currently addressing.

There are considerable risks in the medium to longer term, with the continuing economic uncertainty as well as the likely impact of further funding changes. The Council therefore needs to maintain a prudent approach over its financial management and the budget setting process.

**Legal implications and risks:**

The Council is subject to a number of duties in relation to revenue, capital and procurement. For instance, as a Best Value Authority the Council is under a duty to "make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness." s 3 Local Government Finance Act 1999. The Council is also under an implied duty to set a balanced budget.

Case law has established that when consultation is undertaken it must be done at a time when final decisions have not yet been taken. It is appropriate nevertheless to have a preferred option. Consultees must have sufficient information and time to comment meaningfully. Once the responses have been received they must be conscientiously taken into consideration before a final decision is taken. There is

nothing within the Report to indicate any legal risk in putting the Budget and other proposals out to a 3 month consultation.

Otherwise there are no apparent specific legal risks in adopting the Recommendations set out in the Report.

**Human Resources implications and risks:**

The Council continues to work closely with its staff and with Trades Unions to ensure that the effects on staff of the savings required have been managed in an efficient and compassionate manner.

All savings proposals or changes to the funding regime that impact on staff numbers, will be managed in accordance with both statutory requirements and the Council's Managing Organisational Change & Redundancy policy and associated guidance

**Equalities implications and risks:**

There are no equalities implications or risks at this stage. However any savings that need to be considered following publication of details of the Local Government Financial Settlement may carry equalities implications and risks and accordingly, these will need to be analysed.

**Other Risks:**

There are no particular other risks arising, other than a very short timescale to properly analyse the LGFS announcements whenever they eventually occur. This is being planned for but much of the detail will have to await the final announcements and publication.

**BACKGROUND PAPERS**

There are none.

APPENDICES

- Appendix A Savings Schedule and Templates
- Appendix B Draft Equalities Impact Assessments
- Appendix C Draft Parking Strategy
- Appendix D Draft Libraries Strategy
- Appendix E Summary of the proposed Council Tax Support Scheme for 2015
- Appendix F Outturn 2013/14 Report
- Appendix G Revenue Monitoring Report Period 3 2014/15
- Appendix H Earmarked and General Reserves
- Appendix I Notes from Joint Overview & Scrutiny Committee Meeting
- Appendix J Consultation Document – Parking
- Appendix K Consultation Document – Libraries
- Appendix L Consultation Document – Council Tax Support Scheme
- Appendix M Consultation Document – Budget Strategy