



CABINET

9 September 2015

Subject Heading:	The Council's Financial Strategy
Cabinet Member:	Cllr Roger Ramsey
CMT Lead:	Andrew Blake-Herbert
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Policy context:	The Council is required to approve an annual budget and to establish a financial strategy and this report forms the initial phase of that process.
Financial summary:	This report sets out the process for developing the medium term financial strategy for the Council
Is this a Key Decision?	No
Is this a Strategic Decision?	No
When should this matter be reviewed?	October 2016
Reviewing OSC:	Value

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

Havering will be clean and its environment will be cared for [x]

People will be safe, in their homes and in the community [x]

Residents will be proud to live in Havering [x]

SUMMARY

This report sets out the Council's medium term financial strategy to manage the implications of funding reductions and cost pressures over the next three years.

It sets out the process for bridging the funding gap with a view to achieving a balanced three-year budget.

It reviews the cost pressures faced by the Council and updates the financial model as reported to the Council in February 2015 when setting the Council Tax requirement for 2015-16.

It considers the implications for the local government financial settlement (LGFS) arising from the recent budget statement and sets out the timetable for updating the financial strategy over the coming months.

It also explains the process and timescales for identifying further cost savings and income generation proposals that are required to meet the funding gap.

All proposals will be subject to full and proper consultation, before any final decisions are made.

RECOMMENDATIONS

Cabinet is asked to:

1. Note the original and currently projected budget gap and the assumptions upon which these have been based, and the risks associated with them.
2. Agree the draft Medium Term Financial Strategy, covering the period from 2016/17 to 2018/19, set out in this report.
3. Note that there is a range of risks and assumptions made as part of the development of this strategy and that updates will be provided to Cabinet should these vary.
4. Note that any alternative proposals from Overview & Scrutiny or opposition groups will need to be subject to a robust review before they can be considered for inclusion in the Council's budget and therefore must be submitted by 25th September prior to the next meeting of Cabinet on 21st October in order to be considered as part of the consultation process.
5. Note that a range of corporate strategies will be impacted by the budget strategy and these will need to be updated and approved accordingly.
6. Review the initial proposal to maintain a core capital programme of around £4.9m a year subject to a detailed review of available receipts.

7. Agree to receive a further report in October where savings and income generation proposals will be considered prior to agreeing a final list of proposals for formal consultation with the local community, stakeholders, other interested groups, staff and unions.
8. Note the advice of the Section 151 Officer in setting a robust budget.

REPORT DETAIL

1. STRATEGIC APPROACH

- 1.1 In the report to Cabinet in February 2015, the Council set out a financial strategy which balanced the budget for 2015-16 and 2016-17 but required further savings of £5.8m to be found in 2017/18 and 2018/19.
- 1.2 Given the impact on the Council's budgets of demographic growth, and an ageing population, it is essential that the Council sets out a long-term strategy for bridging the financial gap. This report represents the start of that process.
- 1.3 The first step has been to review the progress to date in delivering the 2015-16 budget. All of the savings identified and agreed need to be fully delivered for the budget strategy to balance. Failure to do so can result in further cost pressures and a requirement to identify the means of funding them.
- 1.4 The second step was to consider and review the impact of cost pressures and corporate assumptions on the MTFS in future years.
- 1.5 The third step is to try and understand the implications for Havering of national announcements and indicative information around austerity, including the Chancellors recent budget announcements. The report considers the implications and risks for the Local Government Financial Settlement, although the 2016-17 settlement is not expected to be released until late December 2015 and will inform the finalisation of the budget process.
- 1.6 The final step has been to update the financial model in order to produce a revised savings target for the three year period to 2018-19.
- 1.7 Officers are currently developing a range of savings options to bridge the gap with the intention of presenting these to Cabinet on 21st October 2015.

2. REVIEW OF 2015-16

- 2.1 The Council approved a balanced budget in 2015-16 as part of its four year MTFS strategy as set out in the Council Tax report approved in February 2015. In establishing the starting point for the consideration of the 2016-17 budget it is necessary to review the latest budget monitoring position for 2015-16 to determine whether the Council is on track to deliver its out-turn in line with budget.

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- 2.2 The first monitoring report of 2015-16 has indicated a potential in-year overspend against service department budgets of £6.7 million. This does not reflect any allocation from central contingencies, such as demographic growth. Neither does it reflect any alternative proposals which are expected to be developed to alleviate these pressures.
- 2.3 The 2015/16 forecast outturn as reported for period 3 is set out in the table below.

Directorate	Revised Budget	Forecast Outturn	Forecast Outturn Variance
	£'000	£'000	£'000
Communities & Resources	66,994	66,426	(568)
Public Health	2	2	0
Childrens, Adults & Housing	92,466	100,075	7,609
oneSource Non-Shared	333	(33)	(366)
Sub total	159,795	166,470	6,675
Contingency	2,000	2,000	0
Revenue Total	161,795	168,470	6,675
Dedicated Schools Budget	0	0	0
oneSource shared	3,391	3,391	0
Grand Total	165,186	171,861	6,675

- 2.4 The principle variances underlying the period 3 forecast rest in both Childrens and Adults services. Further analysis of the causes of the variances is being undertaken but Cabinet will be aware of the continued pressures of demographic growth in this area. There are also risks associated with the timing and delivery of savings proposals agreed as part of the 2015/16 budget strategy. Some of these risks may be mitigated by corporate measures outlined below but these variances will require careful management.
- 2.5 As Cabinet will be aware the demographic growth provision built into the budget is held corporately until it is demonstrated that it is needed. The remaining sum of £2.4 million is retained corporately and may be released to meet increased pressures identified in year, once it is clear if there are any mitigating actions the service can take.
- 2.6 Cabinet will also recall that a number of other budgets are retained centrally for specific purposes and are not released until their need can be demonstrated. The largest of these is the central contingency for contract inflation totalling approximately £1 million. It may be appropriate to release this as a partial offset against pressures and will be considered as part of the on-going budget monitoring process.
- 2.7 Central provision also exists for £1.4 million in un-ringfenced grants which relate to Childrens and Adults services. Officers will be asked to consider whether these grants can be used to mitigate the overspend, although the release of these budgets will be dependent upon the approval of a spending plan.

- 2.8 The overall budget also includes a general contingency of £2 million. This was established to ensure that the Council's budget is robust, and able to provide financial stability to enable adverse in-year variances to be overcome. The level of this budget is re-assessed annually as part of the budget-setting process. In accordance with previous practice any allocations from contingency will not be considered until all other measures have been explored. This contingency 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, on-going changes; these need to be resolved as part of the formal budget-setting process. Cabinet will also be aware that the contingency is due to be reduced to £1 million in 2016/17 as set out in the MTFS.
- 2.9 Members will note that the level of potential overspend could be covered from the demographic growth and central budget provisions identified in notes 2.3 to 2.6 above. However, CMT are reviewing progress in implementing savings plans and expect alternative proposals to be put in place in order to bridge the gap and minimise the call on contingency. The position will continue to be reviewed as part of the budget development process and reported to Cabinet at regular intervals. Whilst appreciating the heightened level of risk, CMT still expect the 2015-16 out-turn to be delivered in line with budget; however it does raise the prospect of additional costs pressures materialising during 2016-17 and beyond.

3. PROSPECTS FOR THE LOCAL GOVERNMENT FINANCIAL SETTLEMENT

- 3.1 The Government is expected to announce the Local Government Financial Settlement in December 2015 at which point the MTFS model will be adjusted to reflect the latest financial position. Any changes in the strategy will be reported to Cabinet in January 2016 and will also be reflected in the final budget report to Council.
- 3.2 The MTFS model reflects officers best estimate of the settlement based upon previous announcements and indicative information. However, the settlement remains highly complex and the continued pressure on the level of public spending make it all the more difficult to predict. Officers will continue to review the position and advise Cabinet of material changes in the model throughout the development of the MTFS and 2016-17 budget.
- 3.3 Following the General Election in May 2015 the new Conservative Government has made a number of announcements;
- 3.4 There are initial in year 2015/16 savings requirements relating to Public Health, £200m is to be taken back nationally, and they are currently consulting on how this will happen, the impact to Havering is likely to be in the region of £700k.
- 3.5 There have been announcements about a delay to part of the implementation of the Care Act, in respect of the element relating to self funders. Councillors will remember that this was always flagged as a risk in the budget, but a significant element of this risk has now been moved back, although there are still others relating the Care Act.

3.6 The Chancellor produced the first budget which contained a number of announcements of relevance to Local Government. These include:

- £17bn of cuts to welfare and tax avoidance.
- Real terms cuts to unprotected departments of £20bn by 2019/20 – who are being asked to work up what 25% and 40% cuts would look like.
- Local Government funding reductions to be phased over three years; 2016/17 to 2018/19.
- Increase in the minimum wage, to £9 by 2020.
- Social housing rents to be reduced by 1% a year for four years from 2016.
- Local Government pay increases capped to 1% per annum for four years.

3.7 At this stage it is extremely difficult to model the precise impact for Local Government. Further detail will be required to understand the specific funding streams affected and how and when they will change. More detail is expected to be available when the Government issues its Autumn statement in early December with the provisional settlement planned to be released later in that month. However, it is clear is that further cuts in Local Government funding are inevitable and action needs to be taken now to adapt the Council's financial strategy.

4. ADDITIONAL PRESSURES AND THE MTFS MODEL 2016-17 TO 2018-19

4.1 Based upon the financial modelling carried out on the Council's behalf by LGFutures, and from our own analysis of the Government's budget announcements it is considered prudent to provide for further reductions in Havering's grant funding of approximately £8.3m over the current MTFS cycle.

4.2 Given the on-going pressures on services faced by the Council the provision for demographic growth has also been increased by a further £2m for the purposes of financial modelling, over the same time period.

4.3 After taking these matters into consideration the savings gap determined through the MTFS model has been re-stated below. Cabinet will note that while the strategy remains on track for 2015-16 and 2016-2017 the level of savings likely to be required in the final two years are significant.

	2015-16	2016-17	2017-18	2018-19	Total
	£'m	£'m	£'m	£'m	£'m
Savings gap	0	0	7.5	8.5	16.0

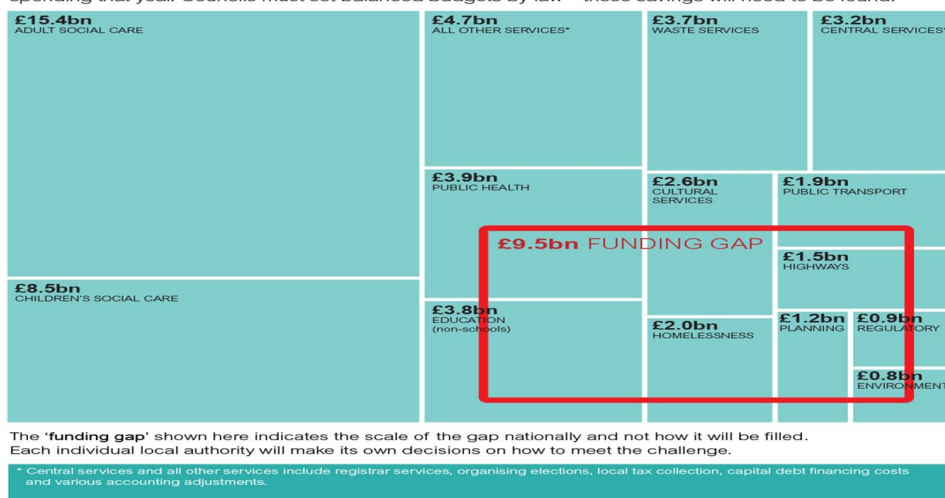
4.4 In arriving at a revised savings gap no account has been taken of any additional pressures reported at period 3 of the current year beyond the need to increase the provision for demographic growth. Where in-year budget variances give rise to on-going pressures service departments will be expected to bring forward additional proposals to bridge the gap. This would in effect increase the savings beyond the £16m outlined in the table.

5. BRIDGING THE GAP

- 5.1 Proposals are currently being formulated to bridge the funding gap identified in Para 4.3 above. Officers have been working on a number of different initiatives to identify potential savings proposals. These involved various individual service reviews, some Council wide ones, as well as looking at some significant income generations schemes. There is a increased focus on demand management and trying to hold down some of the cost pressures that the Council is facing. Proposals to manage costs pressures are expeted to be brought forward for consideration by Cabinet during the Budget cycle. On top of this staff have also been engaged through the big ideas programme to generate potential savings proposals.
- 5.2 A number of staff have now been placed in to, “hot house” groups to work up the suggestions that came forward to see if any of them have the potential to be taken forward in a meaningful way. There are four groups of these looking at options under the following headings:
- Digital inclusion
 - Commercialisation / income generation
 - New technology
 - Efficiency savings
- 5.3 The process for identifying and testing these proposals is to be completed by the end of September and full details of each of the options will be included in the report to Cabinet on 21st October 2015.
- 5.4 Councillors or Groups are also being asked to put forward any alternative budget proposals for consideration. As requested by the Leader and covered in the last full Council meeting, officers have been running a number of budget sessions; firstly on the overall position referenced in this report and then on the specific service areas and what they actually do and what could be done differently.
- 5.5 The feedback on these sessions appears to have been very positive and the aim of these was to support Councillors in their understanding of the services and their costs to enable alternative budget proposal to be put forward. The deadline for these, so there is time for them to be considered before the production of the October cabinet report is end of play on the 30th September 2015.
- 5.6 The chart below from the Local Government Association shows the potential savings required nationally from local government. The red box representing the level of savings required which could be placed anywhere on the chart shows the size and scale of the likely savings and that there will be no easy options to close the financial gap faced.

MEETING THE GAP

Local government faces a **funding gap** of **£9.5 billion** by 2019/20. This is more than 17 per cent of projected spending that year. Councils must set balanced budgets by law – these savings will need to be found.



6. IMPLICATIONS FOR COUNCIL TAX

- 6.1 In setting the 2015-16 budget, and given the scale of cost reductions required the Council approved an increase in Council Tax of 1.99% and proposed to make further increases in Council Tax for the remaining three years of the MTFs. Cabinet will be mindful that increases of 2% or more will almost certainly be subject to approval through a public referendum. For the purposes of preparing the model it has been assumed that increases of 1.99% per annum will be implemented. The alternative to this approach is to identify further reductions. Cabinet believe they have pushed the efficiency and organisational changes to the limit of its appetite for risk. However, this is a matter that will be further considered in the October report and during discussions with Overview and Scrutiny and in the budget consultation period.

7. CONSULTATION AND ALTERNATIVE BUDGET PROPOSALS

- 7.1 The additional savings and income generation proposals will be considered by Cabinet on 21st October along with an update to the MTFs strategy. These proposals will subsequently be considered by Overview & Scrutiny, and will be subject to consultation prior to inclusion in the draft MTFs and Council Tax setting report for 2016/17.
- 7.2 Given the overall scale of the budget gap should any of the proposals be rejected, either at the joint Overview and Scrutiny meeting or Cabinet meeting, alternative proposals will need to be put forward. These proposals will also need to be the subject of a robust review process, including, where appropriate equalities impact assessments.

8. EXPENDITURE AND PERFORMANCE

- 8.1 LGFutures recently carried out an analysis of Council spending based upon statutory Government returns relating to the 2014/15 budget. In doing so they were able to make comparisons of Havering's expenditure against two distinct groups:

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- Nearest Neighbour Group (NN) – 16 authorities with similar demographic and socio-economic characteristics (mainly outer London boroughs)
 - Comparable English Authorities (CEA) Group – 123 authorities with similar functions and responsibilities.
- 8.2. The detailed report has provided an analysis of Havering's budgets as compared with similar authorities. Havering's lower spending is a reflection of national funding restrictions which have been discussed at some length in previous reports. However, it does enable comparisons to be made at service level and most interestingly highlights areas of service expenditure which appear higher than that of our comparable authorities.
- 8.3 The key findings of the report were as follows:
- Overall Havering's total unit costs were 11.9% lower than its NN average and 21% below the CEA average.
 - Adults and Children's Social Care account for over 50% of budgeted expenditure and therefore have the greatest influence on overall unit costs.
 - Havering has lower unit costs in Adult Social care but higher than average unit costs for Children's Social Care.
 - For most other services Havering's unit costs were below the NN and CEA average.
 - For 2014/15 Havering's total unit costs are within the lowest 13% of its NN group and lowest 3% of its CEA group.
 - Its unit costs for Children's Social Care are within the highest 13% of its NN group and highest 10% of its CEA group.
- 8.4 The findings will be of help at a time when the Council is seeking to develop additional budget proposals to bridge the gap in the MTFS. However, Cabinet should also be mindful that the analysis was based upon the 2014/15 data and will not reflect the impact savings agreed as part of the 2015-16 budget process.

9. SPECIFIC BUDGET ISSUES

9.1 There are a small number of specific issues which have a significant impact on the budget, which are addressed below. These have been highlighted in previous reports to Cabinet, but are raised here so Cabinet is aware of them in the context of the development of the future budget strategy.

9.2 Freedom Pass

The Council's current contribution to the concessionary fares scheme stands at just below £8m. Havering has seen lower rises than other boroughs, due to our comparative usage figures, and this is reflected in the proposed future strategy. An increase of £300k per year is included in the model. There remains a risk that a significant rise in usage could affect Havering's contribution, particularly now TfL has become responsible for more stations.

9.3 Levies

There are a number of levies raised on Havering, the largest of which is East London Waste Authority (ELWA). The overall levies budget is just under £14m, of which the biggest element, ELWA, is around £13m. The ELWA levy is predominantly made up of the Shanks contract. The budget strategy is based on the most recent forward plan for the Authority. Going forward there are risks associated with waste tonnages, as the levy reflects these, so a disproportionate rise will affect the distribution between the constituent Councils.

10 IMPACT ON COUNCIL STRATEGIES

10.1 The budget strategy and the savings proposals to be considered by Cabinet at the October meeting may impact on a number of strategies previously agreed by the Council, through either Cabinet or Cabinet member delegation. On the assumption that Cabinet agrees the proposals, after considering the views of the joint Overview & Scrutiny Committees, these proposals will be subject to a formal consultation process. Depending upon the nature of the approved savings proposals it may be necessary to undertake a concurrent review of any strategies affected and to submit these for approval, and any necessary consultation process, over the coming months. Cabinet is asked to note this.

11. CAPITAL PROGRAMME

11.1 The report to Cabinet in February 2015 included an indicative programme for 2016/17 as set out in the table below.

Description	2016/17 £000's
Parks, Libraries, Leisure & Cemeteries	1000
Street Environment	2000
Protection of Assets and Health and Safety	500
IT Infrastructure	1000
Regeneration	100
Disabled Facilities Grant (Council element)	300
Total	4900

11.2 The current core programme is funded exclusively from capital receipts generated from the disposal of assets. The projected budget gap makes no allowance for any cost arising from prudential borrowing. Should there be insufficient receipts to finance capital spend, it would either need to be reduced to fit within the available receipts, or funded through borrowing; the latter measure would then need to be taken into account as part of the overall budget strategy, as it would increase the existing budget gap.

11.3 A further review of available receipts is currently underway and once completed, an assessment will be taken of the overall sum available. From this, proposals for a long term core capital programme will be drawn up for consideration as part of the formal budget setting cycle during January and February. This will include detailed schemes within each element of the core programme. As part of this, the potential to generate additional receipts from

the disposal of surplus properties will be identified, should this be needed to continue to deliver a similar programme in future years.

- 11.4 At this stage, Cabinet is asked to agree in principle to an overall core annual programme of £4.9m for 2016/17. This will enable officers to draw up detailed schemes for later in the budget setting cycle.

12. BUDGET ROBUSTNESS

- 12.1 The Council is required to set a balanced budget, taking into account a range of factors, including appropriate consultation and equality impact assessments. A key factor is to ensure that Cabinet are made aware of the advice of the Council's Chief Finance Officer (CFO) in making decisions relating to the Council's budget.
- 12.2 The Local Government Act 2003 sets out requirements in respect of Financial Administration, and in particular to the robustness of the budget and the adequacy of General Fund reserves. The Act requires the CFO to report to an authority when it is making the statutory calculations required to determine its Council tax or precept. The Act also suggests the advice should be given prior to the formal statutory calculation. This advice has therefore been given to both Cabinet in formulating proposals and to members of Overview and Scrutiny in considering the proposals, as part of previous budget setting cycles.
- 12.3 The advice of the CFO was set out at some length in the report to Cabinet in February 2015, in Appendix H of that report. Cabinet is asked to be mindful of this advice in reviewing proposals as they are brought forward for consideration during the budget development process when these are subsequently scrutinised by the Overview & Scrutiny Committee, and in then considering any alternative proposals. In particular, the need to set a balanced budget within the context of a medium term financial strategy is a prime responsibility for the CFO.

REASONS AND OPTIONS

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 the process for developing the Council's budget strategy for the next three years and reflects the expected continued Government approach of reduced levels of funding.

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 both the Budget and Comprehensive Spending Review (CSR) announcements, as highlighted in both this and the previous report 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 could prove 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. There are also considerable uncertainties stemming from the Care Act and the Children & Families Act, and although the Government has given an undertaking that new burdens will be funded, it remains to be seen what effect these will have locally and whether there will be any adverse financial impact. The Council therefore needs to maintain a prudent approach over its financial management and the budget setting process. It is essential that the Council puts a strategy in place to deal with the further reductions in Government funding.

The Council is required to set a balanced budget and the proposals that are made as part of the budget development process will need to be robustly reviewed, challenged and scrutinised, and consulted on wherever appropriate. The advice of the Section 151 Officer must be taken due account of within the budget setting process and that applies to all budget proposals, whenever they are put forward. This will mean a much more robust process will have to be applied to any alternative proposals put forward to those being made by the Administration; this could potentially necessitate formal consultation with the local community. All such proposals will be reviewed by the Section 151 Officer before they can be considered by Cabinet and Council.

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. Otherwise there are no apparent specific legal risks in adopting the recommendations set out in the report, providing appropriate consultation is carried out at all stages.

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:

This report sets out the Council's medium term financial strategy to manage the implications of funding reductions and cost pressures over the next three years, so that it is able to operate with a balanced budget and ensure the continued running of the most valued, and statutory, public services.

The Council faces significant challenges in achieving a balanced budget, not only in terms of funding reductions, but also in terms of the rising demand for services, brought about by Havering's increasing older demographic, as well as major national policy pressures such as the implications of the Care Act.

Proposals are currently being developed to bridge the funding gap and will be considered by Cabinet in October. Where proposals affect staff, service users, or indeed the wider population, they will need to be thoroughly analysed for disproportionate negative impact, with mitigating actions identified to minimise any negative impact. All proposals will be subject to consultation with Councillors, staff, service users and the general public as appropriate before any final decisions are made.

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.