

COUNCIL, 24 February 2016

REPORT OF CABINET

SUBJECT: THE COUNCIL'S BUDGET 2016/17

The purpose of this report is to enable the Council to calculate and set the Council Tax for 2016/17.

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

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

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

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

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

Attached to this report are:

- a revised Council Tax statement, originally provided in the Cabinet report marked as **Appendix E**, amended following the final notification of the levies
- **Annex A** to this report which provides supporting information to the resolutions
- **Annex B** which are the draft minutes of the Cabinet meeting.

The Treasury Management Strategy and related documents were reported to Cabinet separately but are being submitted to Council as part of this report (**Annex C**) for approval, as they are directly related to the budget. The Capital Programme was

originally provided in the Cabinet report marked as **Appendix I**. A separate report also covers the proposed Members Allowances scheme for 2016/17.

The HRA Capital and Revenue Budget for 2016/17 were also reported separately to Cabinet and approved at the meeting on 10th February 2016. It includes a detailed HRA capital programme for 2016/17.

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

The effect of adopting these resolutions would be to set the Council Tax for a Band D property at £1,543.64

RECOMMENDATIONS

1. That the following as submitted in the report to Cabinet be approved:
 - a) The General Fund revenue budget for 2016/17, as set out in the revised **Appendix E** attached to this report.
 - b) The delegated schools' budget for 2016/17, as set out in **Appendix F** of the report to Cabinet.
 - c) The Capital Programme for 2016/17, as set out in **Paragraph 3.28** and **Appendix I** of the report to Cabinet.
 - d) The HRA Capital Programme 2016/17, as set out in the separate report to Cabinet on 10th February.
2. That, in accepting recommendation 1, Council is mindful of the advice of the Chief Finance Officer as set out in **Appendix H** of the report to Cabinet.
3. That the Leader reported to Cabinet that the Council had recently received notification of a Transition Grant in the order of £1.4 million for 2016/17 and the year following. He also stated this amount could be used to replenish the budgeted transfer from general reserves.
4. That it be noted that an online Council Tax consultation was launched on the 5th January until 2nd February 2016. In response to the first Yes/No question 1,020 responded, of which 53% were yes and 47% were no. With regards to the Comment box there were 305 responses. 170 (56%) agreed with the proposal, (44%) disagreed. In total there 1,325 responses where 711 said yes (54%), 649 said no (49%). 38 others gave general comments and neither agreed or disagreed.
4. That it be noted that under delegated powers the Chief Finance Officer has calculated the amount of 85,474 (called T in the Act and Regulations) as its Council Tax base for the year 2016/17 in accordance with regulation 3 of the Local Authorities (Calculation of Council Tax Base) Regulations 1992 (as amended) made under Section 31B of the Local Government Finance Act 1992 as amended.

5. That the amount of £ 108,350,261 be now calculated as the Council Tax requirement for the Council's own purposes for 2016/17, with £2,083,856 of that amount being ringfenced for Adult Social Care.
6. That the following amounts be now calculated by the Council for the year 2016/17 in accordance with Sections 31 to 36 of the Local Government Finance Act 1992 as amended:

(a)	£482,507,061	being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(2) of the Act.
(b)	(£374,156,800)	being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(3) of the Act.
(c)	£108,350,261	being the amount by which the aggregate at 5(a) above exceeds the aggregate at 5(b) above, calculated by the Council in accordance with Section 31A(4) of the Act as its Council Tax requirement for the year. (Item R in the formula in Section 31B of the Act).
(d)	£1,267.64	being the amount at 5(c) above (Item R), all divided by Item T (1(a) above), calculated by the Council, in accordance with Section 31B of the Act, as the basic amount of its Council Tax for the year.

7. That the Council, in accordance with Sections 30 and 36 of the Local Government Finance Act 1992, hereby sets the amounts shown in the table below as the amounts of Council Tax for 2016/17 for each of the categories of dwellings.

Valuation Bands London Borough of Havering			
	Havering	Adult Social Care	Total
	£ p	£ p	£ p
A	828.84	16.25	845.09
B	966.98	18.96	985.94
C	1,105.12	21.67	1,126.79
D	1,243.26	24.38	1,267.64
E	1,519.54	29.80	1,549.34
F	1,795.81	35.22	1,831.02
G	2,072.10	40.63	2,112.73
H	2,486.52	48.76	2,535.28

8. That it be noted for the year 2016/17 the major precepting authority (the GLA) has stated the following amounts in precepts issued to the Council, in accordance with Section 40 of the Local Government Finance Act 1992, for each of the categories of the dwellings shown below as proposed by the Mayor and as due to be considered by the London Assembly at its meeting on 22nd February 2016.

Valuation Bands Greater London Authority	
	£ p
A	184.00
B	214.67
C	245.33
D	276.00
E	337.33
F	398.67
G	460.00
H	552.00

9. That, having calculated the aggregate in each case of the amounts at 6 and 7 above, the Council, in accordance with Sections 30 and 36 of the Local Government Finance Act 1992, hereby sets the following amounts as the amounts of Council Tax for the year 2016/17 for each of the categories of dwellings shown below:

Valuation Bands	£ p
	£ p
A	1,029.09
B	1,200.61
C	1,372.12
D	1,543.64
E	1,886.67
F	2,229.70
G	2,572.73
H	3,087.28

The effect of adopting this resolution would be to set the Council Tax for a Band D property at £1,543.64

9. That Council having considered the principles approved under the Local Government Finance Act 1992 by the Secretary of State for Communities and Local Government concludes that the Council's basic relevant amount of Council Tax for 2016/17 is not excessive.
8. That any Council Tax payer who is liable to pay an amount of Council Tax to the Authority in respect to the year ending on 31st March 2017, who is served with a demand notice under Regulation 20(2) of the Council Tax (Administration and Enforcement) Regulations 1992 as amended and who makes payment to the Authority of the full balance of the estimated amount shown on that demand by 1st April 2016, may deduct a sum equivalent to 1.5% of and from the estimated amount and such reduced amount shall be accepted in full settlement of that estimated amount.
9. That Council agrees that the Capital Programme be expanded for schemes during the year which are funded via additional external funding under the authority of the Cabinet Member Value and the relevant service area Cabinet Members.

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10. That Council approves the Treasury Management Strategy Statement, Prudential Indicators, and the Minimum Revenue Provision Statement for 2016/17.

REPORT DETAIL

As set out in the reports to Cabinet of the 10th February 2016 and the attached Annexes.

APPENDIX E

**LONDON BOROUGH OF HAVERING
FINAL COUNCIL TAX STATEMENT – 2016/17 BUDGET**

2015/16 £		Estimate 2016/17 £	
176,208,904	Havering's Expenditure	156,965,072	
2,000,000	Service Expenditure	2,000,000	
178,208,904	General Contingency	158,965,072	
	Havering's Own Expenditure		
	Levies		
13,023,000	East London Waste Authority	13,670,000	Final
176,557	Environment Agency (Thames)	180,403	Final
18,564	Environment Agency (Anglian Eastern)	19,520	Final
249,438	Lee Valley Regional Park Authority	244,208	Final
315,425	London Pensions Fund Authority (LPFA)	313,461	Final
13,782,984	Sub Total – Levies	14,427,592	
(26,149,782)	Unringfenced Grant	(10,247,850)	
165,842,106	Sub Total – Total Expenditure	163,144,814	
	External Finance		
(30,442,521)	Revenue Support Grant	(20,889,741)	
(9,383,968)	Business Rates Top-up	(9,462,167)	
(21,830,714)	National Non Domestic Rate	(22,513,105)	
(61,657,203)	Sub Total – External Finance	(52,865,013)	
(2,678,000)	Collection Fund Deficit/(Surplus)	(3,793,000)	
(195,818)	Business Rates Deficit/(Surplus)	1,863,460	
101,311,085	Havering's Precept on the Collection Fund	108,350,261	

<u>The Collection Fund</u>			
2015/16 £		Estimate 2016/17 £	
101,311,085	Expenditure	106,266,405	
0	Precepts	2,083,856	
24,517,450	London Borough of Havering	23,590,824	
21,830,714	Adult Social Care	22,513,105	
	Greater London Authority (Final)	15,008,737	
14,553,809	London Borough of Havering Retained Business Rates (Final)	37,521,841	
	Greater London Authority - Retained Business Rates (Final)	270,688	
36,384,523	Central Government - Retained Business Rates (Final)		
271,109	Cost of NNDR collection		
198,868,690	Total Expenditure	207,255,456	
	Total Income		
(73,040,155)	National Non-Domestic Rate	(75,314,371)	
(878.84)	NNDR receivable	(881.14)	
125,828,535	COUNCIL TAX per Band D property	131,941,085	
83,110	Council Tax Base	85,474	
	Council Tax percentage change 1.96%		
Valuation as at 1/4/91	Council Taxes Per Property Band £ p	£ p	Change £ p
Under £40,000	1,009.33	1,029.09	19.76
£40,000 - £52,000	1,177.56	1,200.61	23.05
£52,001 - £68,000	1,345.78	1,372.12	26.35
£68,001 - £88,000	1,514.00	1,543.64	29.64
£88,001 - £120,000	1,850.44	1,886.67	36.23
£120,001 - £160,000	2,186.89	2,229.70	42.81
£160,001 - £320,000	2,523.33	2,572.73	49.40
Over £320,000	3,028.00	3,087.28	59.28

BUDGET AND CORPORATE PLAN AND COUNCIL TAX 2016/17

SUPPLEMENTARY INFORMATION

A. THE GREATER LONDON AUTHORITY AND LEVIES

The Greater London Authority precept proposed by the Mayor was advised as being £276.00 per Band D property (6.44% decrease). The London Assembly was due to consider this budget and precept on 22nd February 2016. Confirmation of formal approval to the budget has now been received and the proposed Band D amount has been agreed.

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

B. FINAL LOCAL GOVERNMENT FINANCIAL SETTLEMENT 2016/17 to 2019/20

1. Introduction

1.1. On 8th February 2016, the Secretary of State for the Department for Communities and Local Government, Greg Clark MP, announced the final local government finance settlement 2016/17. The statement provided details of the final 2016/17 settlement as well as provisional allocations up until 2019/20. This briefing note highlights key issues of note and some comparative information.

2. Headlines

- 2.1. The Secretary of State announced that over the term of the parliament, councils will see a reduction in spending powers of 0.4%.
- 2.2. The settlement sets out the councils funding levels for the next 4 years which shows a reduction in Settlement Funding Allocation (SFA) of £3.9bn or 68% nationally.
- 2.3. The final settlement reveals no material changes from the provisional settlement announced in December.
- 2.4. A new grant has been made available to authorities with the steepest funding cuts in 2016/17 and 2017/18.
- 2.5. In a similar manner to the previous years, the government's headlines focus on comparative figures concerning a local authority's "revenue spending power" and make several optimistic assumptions on Local Authority's council tax levels and growth in taxbase.
- 2.6. Government have announced that the cuts for the next 4 years are significantly less than the cuts seen since 2010 spending review. This is not

comparing like for like as this includes a number of optimistic assumptions on council tax and taxbase growth.

2.7. A “Fair Funding” review will take place on the needs assessment formula before the transition to 100% business rates retention.

3. Spending powers

3.1. The average spending power reduction nationally has been stated as 0.4% over the next four years with Havering’s comparable figure an increase of 1.8%. Although the figures suggest an increase in funding, the figures presented are not a true reflect of the cuts facing local government as they do not compare like for like. The “core spending powers” include a number of optimistic estimates and assumptions. For example the figures include:

- An increase in taxbase of over 2% each year
- Assumptions that Havering will increase council tax by 1.75% each year
- Assumptions that Havering will charge the 2% Adult Social Care precept each year for the rest of the parliament.
- No account of reductions in grant funding.
- Assumption that locally retained business rates will be in-line with government targets.

3.2. Table 1 below shows the reduction in formula funding from 2015/16 to 2019/20 following the reductions announced at final settlement. The amount of funding available for local authorities has reduced by £3.6bn in 2016/17 and by a further £3.1bn in 2019/20.

Table 1- Settlement Funding Allocation for 2015-16 to 2019-20

	2015/16 £000's	2016/17 £000's	2017/18 £000's	2018/19 £000's	2019/20 £000's
Settlement Funding Allocation inc Business Rates	22,249	18,602	16,624	15,559	14,500
Reduction in Funding		(3,647)	(1,978)	(1,065)	(1,059)
Percentage Reduction		(16.4%)	(10.6%)	(6.4%)	(6.8%)

4. The Formula Funding – Havering

4.1. The Settlement Funding Assessment is used to determine both Havering’s Revenue Support Grant (RSG) and Business Rate Baseline (BRB). This comprises of the old formula grant methodology, grants rolled in over the last 4 years and the cuts in local government funding. This equates to a final Settlement Funding Assessment (SFA) for 2016/17 of £52.516m compared to a 2015/16 equivalent of £63.328m. As business rates are uprated in line with inflation, all of the funding adjustments only impact Havering’s RSG.

4.2. In order to compare like for like, **Appendix A** shows a comparison of Havering’s settlement funding allocation since 2015/16. When compared to

the 2016/17 grant allocation, Havering's RSG will have reduced by £10.8m since 2015/16 and reduce by £30m by the end of the parliament allocating Havering only £1.37m in RSG.

4.3. Within the RSG allocation, a number of grants worth £1.5m have been rolled into the system however there is no breakdown of how these grants relate to future years RSG allocations.

4.4. The formula grant system has consistently penalised Havering since its inception. Compared to other authorities in London, Havering receives one of the lowest grant-per-head allocations despite being one of the largest boroughs in London with the highest proportion of elderly population and the fastest growth in under 5's in London. The current indicators and data sets do not reflect the demographics pressures affecting the authority which has resulted in Havering having to increase its council tax to compensate.

Appendix B shows the grant per head allocations for London, clearly showing the amount of funding Havering receives compared to other London authorities.

4.5. As part of the local government financial settlement, it was announced that a full review of the assessment of need will be looked into ahead of the 100% retention of business rates. There is no timeline of when this will happen as there will need to be a number of legislative changes as well as the complex changes to the formula methodology. It is unclear whether this will benefit Havering as its dependent on the indicators are used by government.

5. Business Rate Baseline – Havering

5.1 Details of Havering's Business Rate Baseline (BRB) is shown in table 2. As inflation stays relatively low Havering's target business rates, top-up grant increase by only 0.8%. The baseline is a target set by government in determining how much funding each authority should receive as a result of business rate retention. As can be seen, Havering's 2016/17 yield is higher than our target. This is due to the removal of discounts announced as part of the 2014 Autumn Statement which Havering previously received section 31 grant.

Table 2 – Details of Havering's Business Rate baseline compared to its actual estimated yield.

	Settlement 2015/16 £000's	Settlement 2016/17 £000's
Business Rate Baseline (BRB)	31,365	31,627
Top-Up	9,384	9,462
Target Business Rates	21,981	22,165
Havering's estimated yield	21,831	22,513
Safety Net	29,013	29,255

5.2 As part of the budget setting process, Havering has estimated its business rate yield to be £75.043m of which 30% relates to Havering (£22.513m). The yield includes estimates on reliefs, allowance for non-collection and appeals. There are a large number of risks which could impact Havering collection that include

- Any unforeseeable appeals which is completely out of Local Authority control,
- the possibility that NHS trusts will be successful in their claim to be treated as a charity and therefore receive mandatory relief of 80% which would be backdated 6 years.

Both issues have the possibility to significantly reduce Havering's yield in 2016/17 so much so that if both are successful/approved in 2016/17; Havering would hit the safety net.

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

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

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

Amounts of gross expenditure

The gross expenditure of—

- (a) the billing authority,
- (b) each relevant precepting authority, and
- (c) each relevant levying body,

for the relevant year (i.e. the year for which the budget is being set) and the preceding year.

Amounts of council tax requirement

The council tax requirement of—

- (a) the billing authority, and
 - (b) each relevant precepting authority,
- for the relevant year and the preceding year.

Statements concerning gross expenditure and council tax requirement

The billing authority's reasons for any difference between the amounts stated in respect of the gross expenditure and council tax requirement for the billing authority and each precepting authority for the same year.

The billing authority's opinion of the effect that its gross expenditure has on the level of council tax set for the relevant year.

Each relevant precepting authority's opinion of the effect that its gross expenditure has on the level of its precept issued for the relevant year.

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

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		2015/16	2016/17
		£	£
	Amounts of Gross Expenditure		
	Aggregate of the items which are attributable to the services administered by the Authority during the year	485,675,439	482,507,061
excluding	allowances for contingencies	2,000,000	2,000,000
	and contributions to financial reserves	-17,192,888	-19,746,108
	Gross Expenditure	500,868,327	500,253,169
	Amounts of Council Tax Requirement		
	LBH element of the Council Tax Band D for a Property	1,219.00	1,267.64
multiplied by	the Council Tax Base	83,110	85,474
	Council Tax Requirement	101,311,085	108,350,261
	Statements concerning Gross Expenditure and Council Tax Requirement		
	Gross Expenditure	500,868,327	500,253,169
less	Council Tax Requirement	101,311,085	108,350,261
		399,557,242	391,902,908
	Reason for Difference		
	Gross income	319,833,333	319,362,247
	Retained Business Rate	21,830,714	22,513,105
	Business Rate Baseline (Top-Up)	9,383,968	9,462,167
	Revenue Support Grant	30,442,521	20,889,741
	Council Tax (Deficit)/Surplus	2,678,000	3,793,000
	Business Rates (Deficit)/Surplus	195,818	-1,863,460
		384,364,354	374,156,800
	Less contingencies and contribution to reserves	-15,192,888	-17,746,108
		399,557,242	391,902,908

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

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

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

- Demand notices include another statement where the billing authority has published certain information which must be supplied with demand notices on its website to explain that and to give the address where that information can be found.

D. CALCULATION OF CHANGE IN HAVERING'S EXPENDITURE

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

Change in Council's Expenditure

	£m
2015/16 Budget	165.8
2016/17 Budget	163.1
Net Decrease	-2.7
Budget Pressures	8.3
Inflation	3.7
Increase in Levies	0.6
Provisions & Other Issues (including Grant & Funding Changes)	3.3
Use of Reserves	-1.4
Sub Total	14.5
Efficiencies/Savings	-17.2
Net Total	-2.7

E. REFERENDUMS RELATING TO COUNCIL TAX RISES

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

A Council Tax referendum will be required in 2016/17 if the increase in the basic relevant amount of Council Tax set by an authority exceeds the Council Tax excessiveness principle which applies to that year. The Secretary of State has proposed that, for that year, an authority will be required to seek the approval of their local electorate if, compared with 2015/16, an increase in that amount exceeds 4% for local authorities (comprising 2% for expenditure on Adult Social Care and 2% for other expenditure). This level was set out in the final settlement release.

As the Council's proposes a Council tax increase of 3.99%, taking into account of all levies, the level of increase cannot be considered as excessive under the provisions of the Act. In these circumstances the Council would not be required to hold a referendum.

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