



CABINET

14 December 2016

Subject Heading:	The Council's Financial Strategy
Cabinet Member:	Cllr Roger Ramsey
SLT Lead:	Deborah Middleton Interim Chief Financial Officer
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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 latest phase of that process.
Financial summary:	This report sets out the latest projections for the Council's medium term financial strategy and provides an update on the Local Government Financial Settlement.
Is this a Key Decision?	No
When should this matter be reviewed?	January 2017
Reviewing OSC:	O&S Board

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

Cabinet received a report on 12th October 2016 setting out the potential funding gap in the Councils financial strategy over the next two years.

This report now updates the financial strategy and includes a range of proposed actions which are intended to bridge that gap. If agreed, these proposals will be integrated within the financial model as part of the Council Tax setting report to be considered by Cabinet in January 2017 and for approval by Council in February 2017.

The Chancellor of the Exchequer presented his Autumn Statement to the House of Commons on 23rd November 2016. The Chancellor confirmed that the Government remains committed to the spending plans introduced in 2015 although previous plans to produce a budget surplus for 2019/20 have been abandoned.

The Local Government Financial Settlement (LGFS) should have now been confirmed for the four-year period ending in 2019/20, and if possible a verbal update will be provided on the night of the cabinet meeting.

All proposals will be subject to the necessary level of consultation, before any final decisions are made.

RECOMMENDATIONS

Cabinet is asked to:

1. Note the Government's announcements affecting Local Government as set out in the Autumn Statement.
2. Note the latest projection of budget gap and the assumptions upon which these have been based and the risks associated with them.
3. Note the income generation proposals identified through the budget preparation process and that fully costed proposals will be included in the January report.
4. Note the latest projection of the draft Medium Term Financial Strategy (MTFS), covering the period from 2017/18 to 2018/19, as set out in this report.
5. Note the action plans being developed by the Senior Leadership Team (SLT) and of their importance in delivering a balanced MTFS.
6. Note the size and significance of the projected budgetary position for 2019/20 to be included in the Council's draft MTFS.

7. Agree to receive a further report in January 2017 which considers the impact of the Local Government Financial Settlement on the MTFs and the implications for Council Tax setting, which will be referred onto the joint scrutiny board.
8. Note the advice of the Section 151 Officer in setting a robust budget.

REPORT DETAIL

1. UPDATING THE FINANCIAL STRATEGY

- 1.1 Cabinet are advised of a potential gap of £5.6m in the Council's financial strategy for the two-year period ending in 2018/19, before any potential council tax increases.
- 1.2 Cabinet are also advised of the potential funding gap of £14.3m in 2019/20 and of the associated pressures, before any potential council tax increases.
- 1.3 This report also considers the impact of budgetary pressures arising in 2016/17 and their implications for setting the revised three-year strategy.

2. REVIEW OF 2016-17

- 2.1 In establishing the starting point for the 2017/18 budget it is necessary to review the latest budget monitoring position for 2016/17 to determine whether the Council is on track to deliver its out-turn in line with budget.
- 2.2 The amended 2016/17 forecast outturn as reported for period 6 is set out in the table below. Movements in the revised budgets since the previous report are as a consequence of approved virements and grant funding allocations.

Directorate	Revised Budget	Forecast Outturn	Forecast Outturn Variance
	£'000	£'000	£'000
Public Health	5,778	5,778	0
Learning & Achievement	15,687	16,786	1,099
Children's Services	27,663	29,669	2,006
Safeguarding - Quality & Assurance	1,673	1,773	100
Housing Services	1,769	2,785	1,016
Adult Services	49,019	50,667	1,648
Mental Health	2,908	2,982	74
Neighbourhoods	24,988	25,866	878
oneSource Non-Shared	1,156	1,097	(59)
Chief Operating Officer	28,451	28,177	(274)
Sub total	159,092	165,580	6,488
Contingency	1,159	1,159	0
General Fund Revenue Total	160,251	166,739	6,488

- 2.3 The forecast out-turn variance for period 6 indicates an overspend on service budgets of £6.5 million. This represents a significant risk to the delivery of the Council's MTFS that will impact adversely on the Council's budget strategy for 2017/18 without corrective measures being taken.
- 2.4 In view of the impact of these additional financial pressures on both the current year budget position and the projected MTFS, the SLT have requested that action plans be developed by services with the objective of finding savings and income generation proposals which would enable them to return to a balanced budget position by the end of 2017/18.
- 2.5 The savings and income generation proposals to be achieved from implementing these action plans will not bridge the £6.5m gap in 2016/17, however it is planned to deliver the 2016/17 out-turn in line with budget by utilising corporate provisions and central contingency to meet the shortfall. The following table sets out how this will be achieved. The savings to be achieved from implementing the action plans will be included in the January report and will reduce the call on corporate provisions.

	£000's
Current Outturn Projection	6,488
Action plans (in year 16/17 impact)	(1,469)
Release of Contingency	(1,000)
Release of Corporate Provisions	(4,019)
Net impact on Budget Outturn	0

- 2.6 It is essential that the on-going pressures contributing towards this overspend are addressed by the end of 2017/18 to ensure that the Council's Financial Strategy remains on course. The MTFS as approved by Cabinet in February 2016 included planned reductions in corporate provisions and contingencies in 2017/18 and later years. Whilst this has alleviated some of the pressures faced by the Council in developing savings options in 2017/18 it does leave the Council with less scope to deal with unexpected pressures in future.

3. AUTUMN STATEMENT AND PROSPECTS FOR THE LOCAL GOVERNMENT FINANCIAL SETTLEMENT

3.1 Headlines

The Autumn Statement was announced on 23rd November. The main headlines affecting Local Government were as follows.

- Commitment to reduce public sector net borrowing to a surplus abandoned in this parliament
- Government is committed to the spending plans announced in 2015.
- New draft charter for budget responsibility
- £23bn of additional investment for key infrastructure

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- £1.8bn of funding awarded to LEPs
- Extra Funding to boost housebuilding
- National Living wage increased from £7.20 to £7.50 from April 2017
- Government department spending control totals remain unchanged
- Funding for Adult Education to be devolved to London from 2019/20
- Announcement in regards to the New Homes Bonus will be released as part of Settlement.
- No announcements on additional social care funding, which represents a significant pressure for Councils.

3.2 Government Spending

The Chancellor has announced that the Government's plan to run a surplus by the end of parliament has been scrapped. As announced in the 2016 budget a surplus of £10.4bn was planned by 2019/20 however this has been revised to a deficit of £32.3bn. This has been mainly put down to the impact of leaving the EU which is forecast as costing £58.7bn over the next five years.

The Chancellor also announced a new draft charter for budget responsibility with three new rules:

- Borrowing should be below 2% by the end of this Parliament;
- Public sector net debt as a share of GDP must be falling by the end of this Parliament;
- Welfare spending must be within a cap, set by the government at AS 2016 and monitored by the Office for Budget Responsibility (OBR).

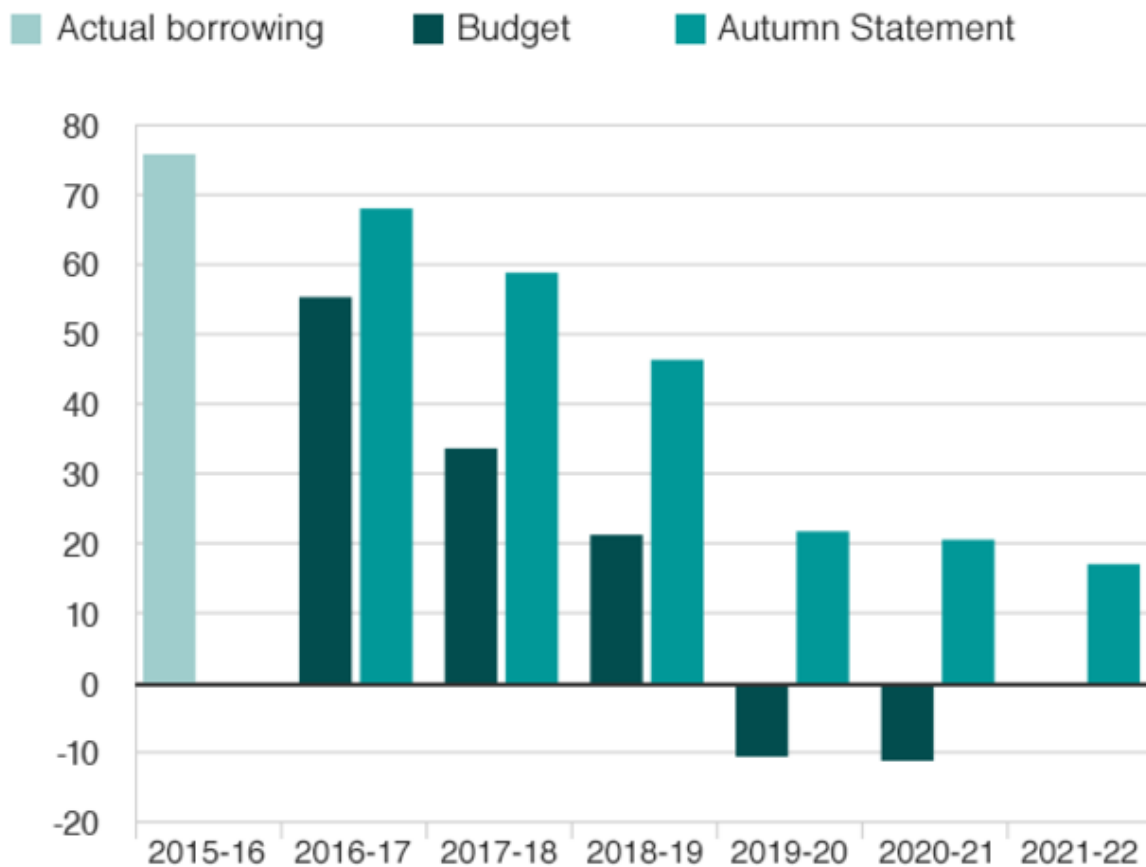
With the level of productivity in the UK lower than its European neighbours additional investment was announced called the National Productivity Investment Fund which will provide £23bn of spending between 2017/18 and 2021/22. This will target the following objectives;

- Accelerate Housing Supply
- Tackle Congestion on the Roads
- Support the roll out of fibre connections and future 5g communications
- Enhance the UK's position as a world leader in science and innovation.

3.3 Economic Forecast

Below shows the revision to the borrowing forecast from the Autumn Statement. As a consequence of the decision to leave the European Union, the Office for Budget Responsibility has forecast that the surplus by the end of the parliament is no longer achievable. As a consequence the chancellor announced that the move to running a surplus should be done by the earliest opportunity in the next parliament.

Borrowing forecasts (£bn)



Source: ONS and OBR (excludes public sector banks)

BBC

3.4 Other Announcements

Business Rates

Further announcements were made in regards to additional relief from 2017. These include 100% on investment in full fibre infrastructure and rural relief. Additional announcements in regards to the transitional arrangements for business rates which will spread the cost / reduction of rates bill over 4 years.

Regions

The Government announced that it will award £1.8bn to Local Enterprise Partnerships across England through a third round of growth deal of which £492m is expected to be allocated to London and the South East.

Housing

A Housing Infrastructure Fund – a new Housing Infrastructure Fund of £2.3bn by 2020-21, funded by the National Productivity Investment Fund (NPIF) and allocated to local government on a competitive basis. It is intended that this will deliver up to 100,000 new homes.

Affordable homes – the government will relax restrictions on grant funding to allow providers to deliver a mix of homes for affordable rent and low cost

ownership. The NPIF will provide an additional £1.4bn to deliver an additional 40,000 housing starts by 2020-21.

Right to Buy – The government will fund a large-scale regional pilot of the Right-to-Buy for housing association tenants. Over 3,000 tenants will be able to buy their own home with Right-to-Buy discounts under the pilot.

Other Measures

The government will increase the National Living Wage (NLW) by 4.2% from £7.20 to £7.50 from April 2017.

The tax free allowance will increase to £11,500 from April 2017 and will then increase to £12,500 as planned by the end of the Parliament. Beyond 2020, it will then rise in line with inflation.

The higher rate income tax threshold will rise to £50,000 by the end of the Parliament.

Employee and employer National Insurance thresholds will be equalised at £157 per week from April 2017.

4. BUDGET STRATEGY

4.1 The MTFS as approved at Cabinet in February 2016 (and updated at the meeting held in October 2016) indicated that a budget shortfall would arise in 2017/18 and 2018/19 and that further action would be required to balance the budget in each of those years.

4.2 The model has once again been updated to reflect the latest estimate of known pressures facing the Council. Based upon the current financial position as set out in paragraph 2 it is reasonable to assume that the 2016/17 out-turn will be delivered in line with budget.

4.3 It is also assumed that any transitional costs arising from the implementation of the action plans referred to in paragraph 2.5 will be met from the strategic reserve and that the plans will be fully implemented and delivered by the end of 2017/18.

4.4 The latest position on the financial model is unchanged from that reported to Cabinet in October:

	17/18	18/19	Total
	£'m	£'m	£'m
Budget Gap as reported to Council October 2016 before any assumed Council tax increased	3.350	2.250	5.600

4.5 Cabinet will note that there is a residual gap before council tax of £5.6m over the two-year period ending 2018/19. Further updates on assumptions,

including positions from levying bodies, will be included in the January report along with proposals for bridging any further gap.

- 4.6 A number of options developed during the budget setting Star Chamber process were incorporated into the financial model as reported to Cabinet in October. These options are set out in the table below although they are still subject to further review and fully costed details will be included in the January report to Cabinet. These options are focussed on raising additional income and cost recovery arrangements rather than cutting valuable public services.

Lead Officer	Subject	17/18 £000's	18/19 £000's
Dir of Neighbourhoods	On Street Parking	250	
Dir of Neighbourhoods	Business Vehicles Charging		500
Dir of Neighbourhoods	Full Cost Recovery on other service costs	250	
Chief Operating Officer	Leisure contract additional income	150	250
Chief Operating Officer	Commercial Income	108	104
	Total	758	854

5 Four Year Financial Settlement

- 5.1 The Council's application for a four-year financial settlement has now been approved by DCLG. As previously reported to Council and Cabinet the allocations included in the 2016/17 local government financial settlement for Havering (and reflected in the draft MTFS for financial planning purposes) are as follows:

	2016/17	2017/18	2018/19	2019/20
	£'m	£'m	£'m	£'m
Business Rate Baseline (BRB)	22.164	22.600	23.267	24.011
Top-Up Funding	9.462	9.648	9.933	10.250
Revenue Support Grant (RSG)	20.890	12.284	6.847	1.376
Settlement Funding Allocation (SFA)	52.516	44.532	40.047	35.637

- 5.2 The budget strategy as discussed in paragraph 4 has so far focussed on the period up to 2018/19. The impact of these reductions has been factored into the financial model for the three-year period ending 2018/19. Given the certainty of grant reductions over the four-year cycle officers have extended the financial model up to the year ending 2019/20.
- 5.3 It is expected that significant financial pressures will be faced by the Council by 2019/20 although the precise impact is difficult to measure at this stage. In addition to the reduction in the financial settlement outlined in paragraph 5.1 it is anticipated that the Council will face further demographic growth pressures for Adults and Children's Social care and Housing services in particular. Taking these issues together a budgetary shortfall in the region of £14.3 million is expected to materialise in 2019/20 unless corrective steps are taken.
- 5.4 The financial strategy as discussed in paragraph 4 should enable the Council to deliver a balanced budget for 2017/18 and 2018/19. However, the projected budget gap for 2019/20 represents a major financial challenge. Given the lead in time required to identify and implement further savings or income generation proposals, it is recommended that a process be established during 2017.

6. IMPLICATIONS FOR COUNCIL TAX

- 6.1 The current financial strategy set out at paragraph 4 would require an increase of at least 1% in Council Tax for 2017/18 (in addition to the 2% Social Care precept). The alternative to this approach is to identify further cost reductions or income generation proposals. However, the final decision on the level of Council Tax for 2017/18 will be made as part of the budget setting report in February 2017.
- 6.2 In considering the level of Council Tax increase, Cabinet should be aware that a reduction in Council Tax levels in 2017/18 below a 1% will require additional savings in each year thereafter as it will reduce the level of Council Tax base assumed in the financial model.
- 6.3 Conversely by increasing Council Tax to a level above 1% would generate additional income and reduce the level savings required. However, Cabinet are

also reminded that each year the Government sets a level of increase above which approval is required by way of a public referendum. The level was set at 2% or higher in 2016/17. We await confirmation of the level that applies to 2017/18. To date no authority has successfully increased Council Tax by way of a referendum.

- 6.4 The proceeds of a 1% increase (or cut) in Council Tax are approximately £1m per annum. The cost of a referendum has not been factored in but would also need to be borne by the General Fund.

7. ALTERNATIVE BUDGET PROPOSALS

- 7.1 No alternative budget proposals, that would have required full statutory public consultation for implementation in April 2017, were put forward for consideration prior to the 10th November deadline.

8. CONSULTATION

- 8.1 Unlike previous years, there are no items within the savings proposals that require a level of statutory consultation, just the normal budget engagement process. Public engagement on the budget will take place via on line and via press releases and through the use of the Council's magazine "Living".
- 8.4 Depending on the final Local Government Finance Settlement, and given the need to close the remaining budget gap should any of the proposals be rejected, 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. A public consultation exercise may also be required where significant service delivery issues arise.

9. BUDGET ROBUSTNESS

- 9.1 Cabinet are reminded of the requirements for setting a robust budget. 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.
- 9.2 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.

- 9.3 The advice of the CFO was set out at some length in the report to Cabinet in February 2016, 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 Joint Scrutiny Board , 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 represents a further significant step in 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 setting process should enable the Council to properly consider the financial implications and risks associated with the delivery of it's MTFs. The four year financial settlement has provided a level of clarity over grant funding that will greatly assist in the financial planning process. However, there are continuing risks associated with the delivery of the significant savings proposals agreed as part of the 2017/18 budget setting process and with the potential size of the budget gap over the full four year cycle. The steps already taken by the Council should support the delivery of a balanced budget in 2016/17 although further action will need to be taken in 2018/19 and 2019/20 to balance the MTFs.

There are considerable risks in the medium to longer term, with the continuing economic uncertainty as well as the uncertainties associated with the reform of Business Rates and Fairer Funding Review. The Council therefore needs to maintain a prudent approach over its financial management and the budget setting process and needs to be prepared to adapt its plan in the face of further pressures.

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.

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. Where appropriate Equality Impact Assessment will also be provided at the point that 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

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being planned for but much of the detail will have to await the final announcements and publication.

BACKGROUND PAPERS

There are none.