Havering
LONDON BOROUGH

Cabinet

Subject Heading:	**The Council's Medium Term Financial Strategy**
Cabinet Member:	**Councillor Roger Ramsey**
SLT Lead:	**Debbie Middleton** Chief Finance Officer (Section 151) officer **Julie Oldale** Head of Finance Strategy, oneSource 01708 433 957 Julie.oldale@onesource.co.uk.
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Policy context:	The Council is required to approve an annual budget and Medium Term Financial Strategy and this report is the second in a series of reports within that process that will conclude with the Budget and Council Tax setting Council in February 2018.
Financial summary:	This report provides an update on assumptions within the Medium Term Financial Strategy approved by Cabinet in October. It sets out further budget proposals to achieve a balanced budget for 2018/19 and the proposed 5 year Capital Programme for approval to progress to consultation and scrutiny. The report also provides an overview of the proposed Business Rates Pilot Pool with effect from 2018/19 and the amendments to the Council Tax Discretionary Support Scheme Policy to support care leavers
Is this a Key Decision?	Yes

Cabinet 13 December 2017

Is this a Strategic Decision? Yes

When should this matter be reviewed? January 2018

Reviewing OSC: Overview & Scrutiny Board

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

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

Cabinet approved the Council's Medium Term Financial Strategy (MTFS) and initial proposals for balancing the 2018/19 budget to go to consultation where necessary at its meeting on 20 October 2017.

This report:

- Provides an update on the policy and strategic context and assumptions within the MTFS, the forecast budget gap and in year performance; (section 1 & 2)
- Budget Risks (section 5)
- Provides an overview of the proposed London Business Rate Pilot Pool in advance of a further report in January that will seek Cabinet approval for LB Havering to join the Pool with effect from 2018/19 for a period of up to two years following finalisation of the deal with Government; (section 3)
- Presents for consideration and approval, further proposals for balancing the 2018/19 revenue budget (section 6);
- Presents for consideration and approval the proposed 5 year Capital Programme together with an assessment of the Treasury Management position. (section 8)
- Presents for approval amendments to the Council Tax Discretionary Policy to support care leavers on low incomes discharge their council tax liability (section 4).

Subject to Cabinet approval, the further revenue budget proposals and proposed Capital Programme will progress to Scrutiny and consultation as required prior to inclusion in the final proposals to be considered for approval by Council in February 2018.

Cabinet 13 December 2017

The Council is required by statute to set a balanced budget for 2018/19 and to have a robust plan in place to achieve financial balance over the medium term. The revised assessment of the medium term financial forecast is based upon the best information available at this time. Assumptions will be continually reviewed and refined as work progresses in the period to final budget setting in February 2018. Table 1 sets out the updated budget gap over the period.

Table 1 - Forecast Budget Gap.

Table 1 Breakdown of Movement	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	5 Year Plan
Gap at October Cabinet	**5.594**	**6.396**	**14.274**	**2.524**	**3.577**	**32.364**
Further Savings December	(0.588)	(0.802)	0.000	0.000	0.000	**(1.390)**
Growth Proposal December	1.080	0.000	0.000	0.000	0.000	**1.080**
Adjustment - December	(2.096)	0.942	0.013	0.013	0.014	**(1.114)**
Movement October to December	**(1.604)**	**0.140**	**0.013**	**0.013**	**0.014**	**(1.424)**

The £1.424m (£1.604m in 2018/19) movement in the budget gap since the October cabinet figure is due to further savings proposals of £1.390m over the period of which £0.588m relate to 2018/19; growth proposals to address service demand pressures total £1.080m all relating to 2018/19; and other net adjustments of £1.114m of which £1.604m relate to 2018/19.

No alternative budget proposals from the Overview and Scrutiny Board or Opposition Groups were received by the Chief Finance Officer or Principal Democratic Services Officer by the deadline of 3 November 2017 to enable their consideration within this report prior to approval to progress to scrutiny and consultation through the remainder of the budget process.

At period six the forecast outturn position for service directorates and oneSource is £135.500m resulting in a forecast overspend of £4.357m (3.32%), as set out in section 2 below. The uncommitted Corporate Risk Budget and Corporate Contingency budgets stand at £6.500m to enable the overall outturn to be achieved within the approved budget for 2017/18. However, in light of the forecast reduction in these corporately held budgets in 2018/19, it is essential for financial sustainability over the medium term, that service directorates manage their ongoing expenditure within approved budgets.

The Senior Leadership Team continues to focus upon delivering mitigating action plans and previously agreed savings plans and exercising restraint on non essential expenditure. A further update will be provided to Cabinet in January.

The Capital Programme is presented in section 8 and lays the foundations for longer term investment in the delivery of the Council's corporate objectives and the achievement of financial balance over the Medium Term.

The report provides the overview of the proposal to join the London Business Rate Pilot Pool from 1 April 2018 for a period of up to 2 years. Based upon current forecasts, LB Havering will potentially benefit from the pool by between £0.900m to

£2.500m in relation to 2018/19 business rate growth which will be confirmed in October 2019. Further details are set out in section 3.

The report presents for Cabinet approval, proposed amendments to the Council Tax Discretionary Policy to support care leavers on low incomes to discharge their council tax liability. Through the Council Tax Support Scheme, the Council is assisting approximately 50 care leavers who live independently but on low incomes discharge up to 85% of their Council Tax liability.

RECOMMENDATIONS

That Cabinet is asked to:

1. **Note** the updated national financial context for local government, in year financial performance and the projected budget gap over the period 2018/19 to 2022/23 as set out in section 1 and the period 6 forecast position set out in section 2.

2. **Note** the assumptions which underpin the forecast and that further updates will be provided as further information becomes available in the build up to the budget setting in February 2018.

3. **Note** the update on the proposed London Business Rate Pool Pilot and that this will be presented to Cabinet for a decision in January 2018.

4. **Approve** additional savings proposals of £1.390m of which £0.588m relate to 2018/19 for consultation where necessary as set out in section 6 and Appendix B.

5. **Approve** growth proposals of £1.080m, all of which relate to 2018/19 for consultation where necessary as set out in section 6 and Appendix B.

6. **Approve** the proposed 5 year Capital Programme for consultation and scrutiny as required as set out in section 8

7. **Note** the updated Treasury Management position arising from the proposed Capital programme and that an updated Treasury Management Strategy will be presented in January (section 8)

8. **Approve** the amendment to the Council Tax Discretionary Policy to include supporting care leavers set out in section 4.

9. **Note** the timetable and process for developing, reporting and considering the 2018/19 budget and MTFS as set out in section 7 which will include consideration and approval of the Council Tax Support Scheme in January 2018.

REPORT DETAIL

1. Policy and Strategic context

1.1 This report provides an update on the policy and strategic context and assumptions, in year financial performance and budget gap within the MTFS approved by Cabinet in October.

1.2 The Chancellor delivered the Autumn Budget on the 22 November 2017. In addition to the usual updates on the performance of the economy and the state of the public finances, the Chancellor made a number of key policy announcements relating to local government, namely; London business rates retention pilot, Business Rates RPI to CPI indexation, Business rates revaluations, Council Tax, Housing investment, HRA borrowing cap, Grenfell Tower and NHS. Further details provided in section 1 below.

At this stage, it is too early to confirm what the exact impact on local government will be. An update will be provided to Cabinet at the meeting on 13 December. In January, Cabinet will be presented with a further update report following the publishing of the Provisional Local Government Finance Settlement which is due before the end of December.

1.3 There are consultations out at the moment from the DCLG and CIPFA proposing changes to the prudential framework for capital finance, local government investments and statutory guidance on the Minimum Revenue Provision which is associated with capital expenditure financed by borrowing. These proposed changes could impact on the Council's use of borrowing via the Public Works Loans Board (PWLB), which would impact on our future capital investment plans including both regeneration and commercially driven investment.

1.4 The October Cabinet report indicated that a number of the Council's funding streams were subject to further review. These included:

- Business Rates
- Impact of the London Business Rates Pool Pilot
- Council Tax Base and Level
- Better Care Fund and Improved Better Care Fund
- New Homes Bonus
- Education Services Grant
- External Borrowing

1.5 The update on these areas are set out below and are reflected where relevant in the revised forecast:

<u>Business Rates</u>

1.6 The future direction for national business rates policy remains uncertain. However, the Chancellor announced that;

- Government has agreed a pilot of 100% business rates retention in London in 2018-19. The Greater London Authority (GLA) and London boroughs will come together to form a pool and invest revenue growth strategically on a pan-London basis.

- The autumn budget confirmed the planned switch from RPI to CPI inflation will be brought forward to April 2018 (2 years earlier than planned). Nationally, this will cost £770m and £2.3bn over the first 2 and 5 years respectively. Local government will be "fully compensated" for the loss of income.

- Furthermore, the Chancellor confirmed, the £1,000 business rates discount for public houses will be extended by one year to March 2019. Local government will be "fully compensated" for the loss of income.

- The frequency of revaluations will move to three years following the next revaluation, currently due in 2022. A consultation on implementation is due in the spring.

Further clarity on the national business rates policy may be included in the Provisional Local Government Settlement expected in December.

The London Pilot and the impact of the pilot

1.7 At the London Council's Leaders' Committee in October the establishment of a London Business Rates Pilot Pool for 2018/19 was agreed in principle. It was agreed that all authorities would receive at least as much from the pool as they would have under the existing 50% retention scheme. Further details are set out in section 3.

Council Tax

The Autumn budget confirmed the power to raise empty homes premium will be doubled from 50% to 100% from April 2018. Based on current data, a further 50% premium is expected to generate additional £0.120m. This additional income has therefore been incorporated into the forecast budget figures.

Council Tax Base

1.8 The Council tax base growth assumptions of £0.980m (0.89%) increase remains as predicted at the October Cabinet. The review of properties to come into rating indicates that there is no scope to increase this estimate further for 2018/19. Further due diligence review is underway to ensure the assumption remains realistic so there is still a risk associated with achieving the current assumed levels.

Council tax level

1.9 The Council tax level will be reviewed as part of the budget report to February 2018 cabinet and council.

Better Care Fund and Adult Social Care Grant

1.10 No further update has been provided with regards the Better Care Fund and Adult Social Care Grant; pending the Local Government Finance Settlement. On the 16th October 2017, the Government announced that the Adult Social Care Green paper will now be published in summer 2018 and not autumn 2017 as had been initially announced. In the coming months, Government will engage with Local Government and the NHS, voluntary sector and care providers as well as service users to develop the Green Paper which will then be subject to full public consultation.

New Homes Bonus

1.11 Further financial modelling is being carried out by officers on income projections receivable by the Council over the medium term period to take consideration of the local delivery plan expectations, the regeneration schemes underway along with planning permissions granted. There is also the risk to new homes bonus if planning applications are granted on appeal. No growth potential over and above current estimates has been included in the budget calculations, pending the Local Government Finance Settlement. Further updates will be provided in the January and February Cabinet reports.

Housing Investment

1.12 In the Autumn Budget, the Chancellor announced an additional £15.3 billion of new financial support will be made available creating a total of at least £44 billion of capital funding over the next five years (including grant, loans and guarantees) to support the target of 300,000 net additional homes per year by mid-2020s. Local authorities in areas of high demand will be invited to bid for increases in their HRA borrowing caps from 2019-20, up to a total of £1 billion by the end of 2021-22. It is unclear at this stage which local authorities are included in this category.

1.13 Other Housing investment announcement included in the Autumn Budget include;

- Local authorities are required to undertake essential fire safety works. Councils should contact DCLG if they cannot afford to undertake essential work.
- Government will increase the Targeted Affordability Fund by £125 million (£40 million in 2018-19 and £85 million in 2019-20) in areas of greatest pressure.
- Government will proceed with a £200 million largescale regional pilot of the Right to Buy for housing association tenants in the Midlands.
- Government will provide £20 million of funding for schemes to support people at risk of homelessness to access and sustain tenancies in the private rented sector.

The impact of the above to LB Havering is yet to be known. Subject to its publication a verbal update will be provided to Cabinet at the meeting on 13 December with a further update report presented to Cabinet in January following the publishing of the Provisional Local Government Finance Settlement which is due around the middle of of December.

Education Services Grant (ESG)

1.14 The ESG general funding rate was reduced from an initial £116.46 per pupil in 2013/14, to £87 in 2015/16, £77 in 2016/17 and £66 per pupil for the period April 2017 to August 2017 and then it ceased from September 2017. An additional £15 per pupil is allocated to LAs for retained duties regardless of whether the pupils are on the roll of a school or an academy and this has now been moved into the Dedicated Schools Grant (DSG).

1.15 The Schools Funding Forum has recognised that some of the costs of the education services relate to services provided to LA maintained school (e.g. accounting and audit services) and have therefore agreed to a contribution of £19.89 per pupil from their delegated budgets for financial year 2018/19. This will amount to £0.322m. In addition, the Forum has agreed that the £0.589m that is now funded from the DSG rather than the ESG may be retained by the LB Havering to meet the costs of its statutory duties.

1.16 In financial year 2018/19 the shortfall in funding after taking into account the contribution from schools is £0.835m. This is calculated as follows:

Table 2 – Shortfall in funding	**£m**
Service costs after £590k saving in 2017/18	1.746
DSG for LA central duties	(0.589)
Contribution from schools	(0.322)
Shortfall	**0.835**

1.17 The intention is to manage the shortfall in funding as part of the ongoing transformational review of the service. The service will come forward with longer-term proposals for implementation from September 2018, aimed at minimising the future funding gap. In the meantime, a contribution from the reserves held to support the investment in education traded services will be used to supplement the funding already earmarked corporately to cover the shortfall shown above

2. 2017/18 Financial Monitoring

2.1 The 2017/18 original net budget as agreed by Full Council in February 2017 was £156.369m. At period six after adjusting for grant re-allocation and in-year inter-directorate budget virements, the revised net controllable budget is £165.037m.

This total net controllable budget reflects the combination of corporate budgets and service expenditure budgets. Within this sum, the Service Directorate and oneSource budgets reflect the core operational spend of the Council. The forecast outturn position on these budgets is £135.500m resulting in a forecast overspend of £4.357m (3.32%), as set out in table 3 below.

Table 3 - Forecast outturn and variances at Period 6	Original Budget £m	Revised Budget £m	Forecast Outturn £m	Forecast Outturn Variance	
				£m	%
Public Health	(0.300)	(0.308)	(0.308)	0.000	0.00
Children's Services	32.502	35.683	37.496	1.814	5.08
Adult Services	55.021	52.797	52.797	0.000	0.00
Neighbourhoods	12.394	14.249	14.646	0.397	2.78
Housing	1.356	2.658	4.225	1.567	58.96
oneSource Non-Shared	0.735	1.797	1.831	0.034	1.89
Chief Operating Officer	7.154	6.865	7.069	0.204	2.98
SLT	1.019	1.307	1.307	0.000	0.00
oneSource shared	14.788	16.096	16.436	0.341	2.12
Service Total	**124.669**	**131.143**	**135.500**	**4.357**	**3.32**

2.2 The uncommitted Corporate Risk Budget and Corporate Contingency budgets stand at £6.500m to enable the overall outturn to be achieved within the approved budget for 2017/18. However, in light of the forecast reduction in these corporately held budgets in 2018/19, it is essential for financial sustainability over the medium term, that service directorates manage their ongoing expenditure within approved budget.

2.3 The principal variances underlying the period six forecast rest in the Children's, Neighbourhood and Housing Services. Due to continued demand pressures in Children's, Housing Demand in relation to Private Sector Leased (PSL) properties and Homelessness. SLT are focussed upon the delivery of mitigation and savings plans and general restraint on non essential expenditure to manage the outturn within budget by the end of the financial year. A further update will be provided in January together with updated mitigation plans from service directorates where relevant.

2.4 The material forecast variances at period six relate to:

Neighbourhoods - £0.397m forecast overspend

Neighbourhoods is experiencing financial pressure within year due to a number of delayed savings and other in year pressures which are being mitigated by the generation of additional income being generated in excess of budget.

Housing Services - £1.567m forecast overspend

The financial pressure in the Housing services predominantly in the homelessness demand pressures. Cost of prevention options are being used to minimise pressure.

Children's Services - £1.814m forecast overspend

Children's Service is experiencing in year one off overspends on placements for looked after children, permanent placement allowances, fostering and asylum seekers adoption costs and agency staff costs. In addition there are base budget pressures on SEN Home to School transport, SEND costs and placements for children with disabilities.

These are offset by underspends in fostering staffing cost and an inflation provision allocation for Children's Social Services. There are some financial pressures in relation to a number of delayed savings for which alternatives are being sought, alongside the ongoing transformation work.

Children's Directorate is currently reviewing the Financial Recovery Plan with a view that the service will return to overall budget balance in 2018/19, assisted by the demographic growth money already included within the MTFS. A further update will be provided in January.

3. London Business Rate Pool Pilot

3.1 The overview of the proposed pilot for London was reported to Cabinet in October. On 10 October 2017, the Leaders' Committee for London agreed in principle to go forward with establishing a pan-London Business Rates Pool to pilot 100% retention of business rates growth in 2018-19 for a period of up to two years.

3.2 The Committee considered a number of options for distribution and agreed to delegate the task of finalising a proposition (including the basis for redistribution of any net financial benefit of business rate growth) to the Chief Executive in consultation with London Councils' elected officers, for negotiation and agreement with the Mayor and with Government.

3.3 Final agreements to enter a pilot pool, and the way in which it would operate, will be subject to formal decisions by each individual authority. It is proposed to present to Cabinet in January the agreement for the London Borough of Havering's participation in the London Pilot on the basis of the scheme agreed by the Elected Officers of London Leaders, following confirmation of agreement with Government. It remains the case that unanimous support will be required for the pilot to proceed.

3.4 The Government's policy intentions with regard to 100% retention of business rates still remain unclear following the General Election.

a) The Pool principles are set out in the draft prospectus circulated in September and reported to Leaders' Committee in October remains the same. These principles are summarised below;

   I. The pool would be voluntary, but include all London authorities;
   II. London would retain a greater share of business rates in exchange for Revenue Support Grant;
   III. a "no detriment guarantee" would ensure that the pool could not be worse off than the participating authorities would have been collectively if they had not entered the pilot pool;

IV. No "new burdens" would be transferred to London and participation in the pilot would not affect the development or implementation of the Fair Funding review (currently anticipated in 2020/21).

V. Public Health and Improved Better Care Fund grants would not be rolled in initially, but there are plans to include them if all parties were to agree to continue a pilot into 2019/20.

b) Modelling of the pooling scenarios – the Elected Officers of London Leaders agreed a proposal based upon the distribution of business rates growth using four drivers for distribution, weighted as follows:

- **Incentivising growth** (by allowing those boroughs where growth occurs to keep some proportion of the additional resources retained as a result of the pool) (15%)

- **Recognising the contribution of all boroughs** through a per capita population allocation (35%)

- **recognising need** through the needs assessment formula (35%) and

- **Facilitating collective investment** through an investment pot designed to promote economic growth and lever additional investment funding from other sources (15%).

c) Governance of the strategic investment pot: The pot would be dedicated to projects that contribute to the sustainable growth of London's economy, and which attract match funding from other private or public sources. Following legal advice, decisions would be taken formally by a lead authority in consultation with all member authorities. These decisions are expected to be taken bi-annually.

3.5 The Minister for Local Government has indicated that the investment pot should constitute a substantial proportion (c50%) of the growth distribution. This proposal is predicated on the assumptions that the Government will view the share that goes to the GLA as contributing towards the investment pot.

3.6 London Councils have developed their modelling to illustrate the impact of the distribution methodology on individual Boroughs. It is based upon a survey of London Boroughs' expected growth undertaken in the summer of 2017 which forecasts aggregate growth for London at 6.1%, thus generating a 'growth pot' of circa 240m – this is the growth pot to be distributed. However, it is important to recognise that actual growth may vary and could be more or less. For example, if growth in 2018/19 followed a trajectory based upon actual aggregate growth in London between 2013/14 and 2017/18 at 2.2%, the size of the growth pot may be circa £87.5m

3.7 Table 4 below, summarises the estimate range of the potential growth pot, the potential share for the London Borough of Havering, together with the overall allocation of to London Boroughs, the GLA and the Investment Pot.

Table 4 - Assumptions used		Range of forecast	
Estimated LB Havering Growth		3.40%	6.80%
Expected London Growth		2.20%	6.10%
Assumed growth distribution pot		£88m	£240m
Distribution Pot	**Distribution Ratio**	**LBH Share**	**LBH Share**
	%	£m	£m
Incentives	15	0.10	0.19
SFA	35	0.30	0.74
Population	35	0.60	1.52
Investments	15		
Net benefit to LB Havering		**0.90**	**2.46**
From London Council modelling		**£m**	**£m**
Minimum borough gain (£m)		0.60	1.70
Maximum borough gain (£m)		2.60	8.20
Spread over boroughs (£m)		2.00	6.50
London Boroughs - Total		47.50	130.30
GLA		26.90	73.90
London subtotal		74.40	204.30
Investment pot		13.12	36.00
London Total incl. Investment Pot		87.50	240.30

3.8 Havering's share of growth in 2018/19 may range between £0.9m and £2.5m based upon these assumed levels of growth. The administrators of the pool will use annual Business Rate Returns (the NNDR 1 and NNDR3 returns) to establish the schedule of payments to be made and the actual reconciliation of the amounts due. The final reconciliation and confirmation of the distribution of growth due to all Boroughs will be after the accounts and returns for the financial year have been audited i.e. October 2019 in relation to 2018/19.

3.9 Therefore, whilst the London Business Rate Pool Pilot is expected to generate an additional revenue funding stream through a share of growth for Havering in relation to 2018/19, this will not be known with sufficient certainty to enable this growth to be incorporated prudently into the base budget for 2018/19. Following confirmation of the growth around October 2019 (i.e. 2019/20), this funding will be fed into the development of the MTFS for 2020/21, with one off funding potentially available in 2019/20.

3.10 For Boroughs in an existing pool, DCLG have indicated that the basis of comparison would include the income due from that pool. London authorities in an existing pool include Barking & Dagenham, Havering and Croydon. London Borough of Havering is currently in a pool with Thurrock unitary, Basildon district, and the London Borough of Barking and Dagenham since 2014.

3.11 Impact of Government changes this year means that we are not able to remain in existing pool for 2018/19 due to the drive for the London Pilot Pool with

London Boroughs being restricted to the London Pilot as their first option for a pooling arrangement. Estimated growth for 2016/17 and 2017/18 on winding up the existing pool, currently estimated at £0.500m for 2016/17 and 2017/18, will be brought into 18/19 budget on a one off basis. Under the “no worse off” agreement enshrined in the London Pool pilot, it is assumed that this benefit will continue into the year of the pilot, so this assumption has been continued with £0.500m being included for the financial year 2018/19 pool.

4. Local Authority Care leavers and Council Tax

4.1 The Council is seeking to create a culture of corporate parenting to enable care leavers to experience the stability and support they need to progress confidently into independent lives. This approach follows the Department for Education’s cross-government care leaver strategy, Keep on Caring. The Council are supporting approximately 130 care leavers.

4.2 Through the Council Tax Support Scheme, the Council is assisting approximately 50 care leavers who live independently but on low incomes discharge up to 85% of their Council Tax.

4.3 Further financial assistance to care leavers up to the age of 25 years, to cover the remaining 15% of the council tax liability, could be provided through the Council Tax Discretionary Reduction Policy.

4.4 Subject to Cabinet approval of this report, it is intended to implement the proposals by the 1st January 2018. The estimated cost to Collection Fund of discretionary payment to care leavers for up to 7 years is shown below

4.5 The table sets out the potential impact on the Collection Fund using the maximum increase in council tax as an illustration of the maximum increase. I.e. Council Tax (1.99% and 2% ASC precept in each year. The actual cost will depend upon future decisions on the level of council tax and ASC precept.

4.6 The starting point is a £220 cost to the Collection Fund per annum in Year 1 per care leaver assuming 50 carer leavers per year. The approximate additional cost to the Collection Fund would increase by year seven to £0.097m and stabilise at that figure assuming the number of care leavers living independently remained at 50 each year.

Table 5 - Estimated cost to Collection Fund of discretionary payment to care leavers for up to 7 years. The starting point is a £220 per annum per care leaver assuming 50 carers per year.

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Number of Carer Leavers	50	100	150	200	250	300	350	350
Cost per care leaver (£)	220	228.78	237.91	247.4	257.27	267.53	278.21	278.21
Cumulative Cost (£m)	0.011	0.023	0.036	0.049	0.064	0.080	0.097	0.097
Incremental Cost (£m)	0.011	0.012	0.013	0.014	0.015	0.016	0.017	0.000

4.7 Members are asked to note the financial impact on the Collection Fund and approve the changes to the Council Tax Discretionary Policy attached at Appendix D.

5. Budget Risk

5.1 The DCLG is currently consulting on proposed changes to the prudential code for capital finance, including consideration of statutory guidance on local authority investments and the minimum revenue provision required. The scope of this review covers aspect of the Council's Capital Programme and the impact of borrowing and investments on the Councils MTFS. The closing date for the consultation is 22 December 2017 and could lead to changes to the prudential code, the way the impacts of borrowing and investments are calculated within the MTFS and the way the council finances its capital programme. The potential impacts cannot yet be quantified but the results of the consultation will be assessed as we move forward with the budget process. However, the outcomes may not be fully understood by the time the Provisional Local Government Finance Settlement is announced in December.

5.2 The risk from the challenge facing the council from Homelessness Reduction Act and the in year budget pressures being managed was highlighted in the October cabinet report. The work on the regeneration of the housing estates over the forthcoming MTFS period is being carried out within this context and being carefully managed to ensure the best transition for tenants and the most efficient, cost effective way for the council.This work is also considering the impact on the temporary accommodation and private sector leasing within the borough.

6. Further Proposals for Savings and Growth

6.1 Tables 6 and 7 show the impact of further growth and savings proposals and other adjustments since the October report.

6.2 Table 6 shows the cumulative budget gap before any 2017/18 proposals as reported in October was 41.996m. This will reduce to £41.962m over the period and £8.132m in 2018/19, if December growth proposals are approved and due to other movements in the forecast. Subject to both October and all December savings proposals being approved, the budget gap over the period to 2022/23 is forecast to be £30.940m, of which £3.990m relates to 2018/19.

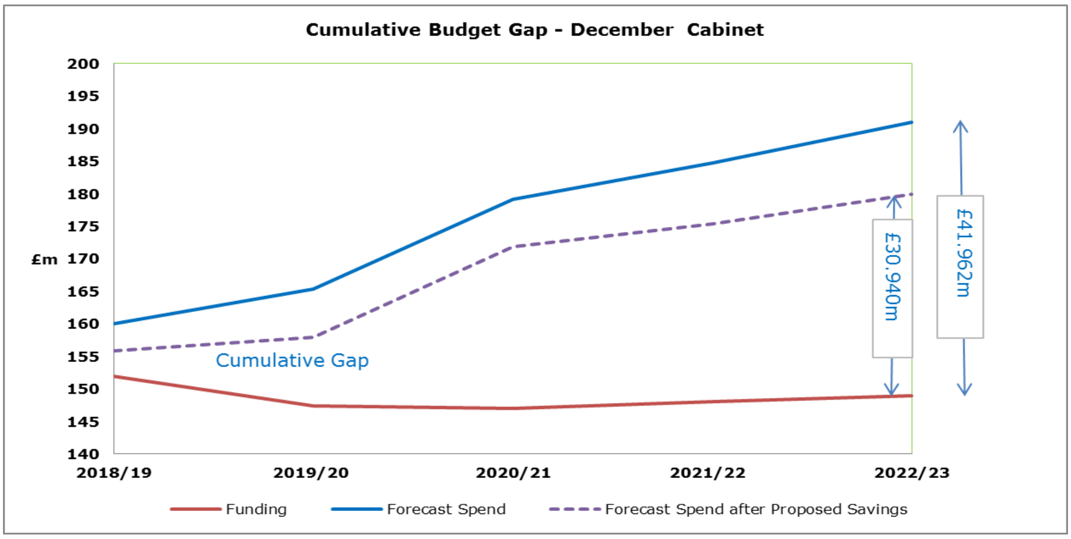
Table 6 – Movement in Forecast spend October to December	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	5 Year Plan
Budget Gap October before Savings	**9.148**	**8.848**	**14.177**	**4.657**	**5.166**	**41.996**
New Growth Proposal December	1.080	0.000	0.000	0.000	0.000	1.080
Adjustment December	(2.096)	0.942	0.013	0.013	0.014	(1.114)
Forecast Spend - December	**8.132**	**9.789**	**14.190**	**4.670**	**5.180**	**41.962**
October Savings Proposal	(3.554)	(2.451)	0.097	(2.135)	(1.589)	**(9.632)**
Further Savings - December	(0.588)	(0.802)	0.000	0.000	0.000	**(1.390)**
Forecast Budget Gap - December	**3.990**	**6.536**	**14.287**	**2.536**	**3.591**	**30.940**

6.3 Table 7 shows the net savings after taking account of growth proposals and other adjustments of £1.424m over the period of which £1.604m relates to 2018/19.

Breakdown of Movement	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	5 Year Plan
Further Savings December	(0.588)	(0.802)	0.000	0.000	0.000	**(1.390)**
Growth Proposal December	1.080	0.000	0.000	0.000	0.000	**1.080**
Adjustment - December	(2.096)	0.942	0.013	0.013	0.014	**(1.114)**
Total Movement	**(1.604)**	**0.140**	**0.013**	**0.013**	**0.014**	**(1.424)**

6.4 Figure 1 below illustrates the revised forecast cumulative budget gap over the 5 year period to 2022/23 based upon the assumptions set out in the remainder of the report in relation to expenditure pressures and future funding streams:

Figure 1- Cumulative Budget Gap – December



6.5 The forecast is based upon a number of key assumptions as reported in October cabinet report and updated to take account of rebasing on all inflation assumptions.

6.6 Cabinet approved total savings of £9.632m including £3.554m in 2018/19 at its meeting in October. These are summarised in appendix A. Further net savings proposals totalling £1.390m of which £0.588m relates to 2018/19 are presented in Appendix B.

6.7 Table 8 summarises the total of all December growth and saving proposals by directorate.

Table 8	**Proposals By Directorates**					
Directorate	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**	**Total £m**
Neighbourhoods	0.150	0.000	0.000	0.000	0.000	0.150
Chief Operating Officer	(0.288)	(0.102)	0.000	0.000	0.000	(0.390)
oneSource	0.630	(0.700)	0.000	0.000	0.000	(0.070)
Corporate	0.000	0.000	0.000	0.000	0.000	0.000
Children's Services	0.000	0.000	0.000	0.000	0.000	0.000
Total	**0.492**	**(0.802)**	**0.000**	**0.000**	**0.000**	**(0.310)**

6.8 Table 9 below summarises all December growth and saving Proposals by Type over the period 2018/19 to 2022/23.

Table 9	**Type of Proposal**					
Type of Proposal	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**	**Total £m**
Savings	(0.588)	(0.802)	0.000	0.000	0.000	**(1.390)**
Growth	1.080	0.000	0.000	0.000	0.000	**1.080**
Total	**0.492**	**(0.802)**	**0.000**	**0.000**	**0.000**	**(0.310)**

6.9 The Government recognised the undue financial pressure that the new system for distributing the national reductions to Revenue Support Grant across local authorities placed on a number of local authorities   LB Havering has received Transition Grant in 2016/17 and 2017/18 to address the perverse reduction in its RSG following Government changes to the distribution of RSG in 2016/17. Given the delay in implementing the Fair Funding Review and progress on implementing 100% Business Rate Retention, Officers have responded on the technical consultation on the LG Finance Settlement 2018/19 to request that this funding continues in 2018/19 and 2019/20 until the new national funding arrangements are in place. It is expected that the position on Transition grant will be clarified as part ofthe forthcoming Local Government Finance Settlement in respect to all funding matters.

7 Timetable and approach for Budget Setting

SLT are continuing to work to develop further budget proposals for consideration by Cabinet as follows

- January Cabinet:
  - Update on financial assumptions following the Provisional Local Government Finance Settlement
  - Further consideration of measures to balance the budget
  - Consideration and approval of the proposal for Havering to join the London Business Rate Pool Pilot from 2018/19
  - Consideration and approval of the Council Tax Support Scheme for 2018/19.

- January Scrutiny Board
  - Review and Challenge of Cabinet approved proposals
  - Further update on financial assumptions

- February Cabinet
  - Final budget and council tax proposals and results of consultation considered and approved to recommend to Council
  - Final consideration of Capital Programme including Housing Capital Programme and recommendation to Council
  - Final consideration of the Treasury Management Strategy and approved to recommend to Council
  - Consideration and approval of the Housing Revenue Account

- February Council
  - Council Tax Setting Report
  - Consideration and approval of reports recommended by February Cabinet

8 5 year Capital programme and Treasury strategy

8.1 The October Cabinet report referred to the review of the capital strategy and programme. The review has produced a profiled existing capital programme over the period to 2022/23 and confirmed that funding is available for that programme. Table 10 below includes a summary of the existing approved capital programme following that review.

Table 10 - Summary of the existing approved capital programme by Service	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	Total £m
Children's Services		0.118			0.118
Learning & Achievement Service	0.477	0.060	0.020		0.557
Children's Services	**0.477**	**0.178**	**0.020**		**0.675**
Adults Services	1.417		0.181		1.598
Adults Services	**1.417**		**0.181**		**1.598**
Development	7.435	1.126	0.580	0.003	9.144
Environment	6.181	1.146	0.371		7.698
Regulatory Services	0.723				0.723
Neighbourhoods	**14.339**	**2.272**	**0.950**	**0.003**	**17.565**
Housing Services	0.889	0.573			1.462
HRA	45.745	8.457			54.202
Housing Services	**46.634**	**9.029**			**55.664**
Asset Management	45.611	27.115	17.762	0.464	90.951
ICT Services	1.215	0.500			1.715
oneSource	**46.826**	**27.615**	**17.762**	**0.464**	**92.666**
Bereavement Services - Cems & Crems	0.222	0.170	0.068		0.460
Culture & Customer Access	0.292	0.135	0.060		0.487
Policy & Performance Management		0.035			0.035
Chief Operating Officer	**0.514**	**0.340**	**0.127**		**0.981**
Contingency	0.716				0.716
Contingency	**0.716**				**0.716**
Efficiency Programme	6.465				6.465
Efficiency Programme	**6.465**				**6.465**
TOTAL CAPITAL PROGRAMME	**117.388**	**39.434**	**19.040**	**0.467**	**176.329**
Capital Receipts	30.968	11.894	1.254	0.003	**44.119**
Revenue and Reserve Contribution	44.471	4.375	0.020		**48.866**
Grants	32.087	22.102	17.073	0.464	**71.727**
Section 106	0.865	1.062	0.693		**2.621**
Prudential Borrowing	8.997				**8.997**
TOTAL FUNDING	**117.388**	**39.434**	**19.040**	**0.467**	**176.329**

8.2 There has also been a review of the future capital requirements undertaken across the business. A shortlist of proposals were considered by Capital Asset Management Group (CAMG), an officer level group established to give oversight and management of key processes around the capital programme and approvals. The schemes that have progressed through this officer level challenge are being consolidated into the draft capital programme to be presented for consideration as part of the budget process.

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Table 11	CAPITAL EXPENDITURE						
Schemes with funding plans	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**	**Total Capital Spend £m**
- ECONOMIC DEVELOPMENT	10.172	10.473	75.419	43.717	24.925	12.541	**177.247**
- SLM	7.509	4.670	11.706	5.664	0.854	0.485	**30.888**
Externally funded bids	0.000	5.923	5.780	5.652	0.030	0.030	**17.415**
Provision within existing capital programme							
Efficiency Programme	0.000	1.715	1.950	2.800	0.000	0.000	**6.465**
Additional Funding	0.000	0.085	0.000	0.000	0.000	0.000	**0.085**
Total Efficiency Programme Bids	0.000	1.800	1.950	2.800	0.000	0.000	**6.550**
New Bids outside existing approved funded capital programme							
ICT BIDS - to link with IT strategy	0.000	1.000	1.000	0.620	0.620	0.620	**3.860**
CAMG ENDORSED PROJECTS and NEW PROJECTS	0.000	15.405	23.145	6.450	2.000	2.000	**49.000**
	17.681	**39.271**	**119.000**	**64.903**	**28.429**	**15.676**	**284.960**

Table 12	FUNDING					
Schemes with funding plans	**Capital Receipts £m**	**Revenue and Reserve Contribution £m**	**Grants £m**	**Section 106 £m**	**Prudential Borrowing £m**	**Total £m**
- ECONOMIC DEVELOPMENT	0.000	0.000	45.200	11.620	120.427	**177.247**
- SLM	0.000	0.000	0.000	0.000	30.888	**30.888**
Externally funded bids	0.000	0.000	17.415	0.000	0.000	**17.415**
Provision within existing capital programme						
Efficiency Programme	6.465	0.000	0.000	0.000	0.000	**6.465**
Additional Funding	0.085	0.000	0.000	0.000	0.000	**0.085**
Total Efficiency Programme Bids	**6.550**	**0.000**	**0.000**	**0.000**	**0.000**	**6.550**
New Bids outside existing approved funded capital programme						
ICT BIDS - to link with IT strategy	0.000	0.000	0.000	0.000	3.860	**3.860**
CAMG ENDORSED PROJECTS and NEW PROJECTS	1.345	0.126	31.800	0.285	15.444	**49.000**
	7.895	**0.126**	**94.415**	**11.905**	**170.534**	**284.960**

8.3 The schemes are split into 4 groupings

Schemes with funding plans

8.4 These schemes are proceeding through parallel funding approval routes, and are included in this report as part of the formal inclusion in the capital programme. The capital financing costs are included in the business cases which will be factored in their entirety into the MTFS. These include

a) Economic Development schemes

i) Bridge Close Regeneration

This scheme was approved for progression at Cabinet on 15 November 2017. The report included the corporate investments required in progressing the scheme, and identified the financing costs and funding streams to cover them. Inclusion in this programme ensures that the capital approvals are in place and the revenue impact is included in the MTFS. This includes the commitment to cover the shortfall of some £1.6m in the first 5 years of the programme from the Business Risk Reserve, with income generated for the GF over the later years of the scheme.

ii) Mercury Land Holdings business plan schemes

These proposals reflect the business plan intentions approved at Cabinet on 15 November 2017. Project business cases will be subject to Cabinet or delegated approval as set out in the report.

iii) Rainham – Beam Park Regeneration

This report is considered elsewhere on this December Cabinet. The inclusion in the capital programme going forward will be dependent upon the approval of these proposals by Cabinet.

b) SLM

i) This represents the inclusion of the contractual arrangements considered and approved by Cabinet on 15 November 2017. This includes the commitment to cover the shortfall of some £2.11m in the first 5 years of the contract from the business risk reserve, with these sums being paid back in later years of the contract. The revenue impact of the SLM contract will be included in the overall MTFS position of the council

Externally funded schemes

8.5 These represent the Highways and Local Infrastructure Plan schemes where funding is provided by Transport for London (TfL)

Provision within the existing capital programme

8.6 As part of the 2017/18 budget report to Council a sum of £5m was included in an Efficiency Pot to cover capital financing for invest to save schemes that generated significant revenue savings to the council. This was combined with the remaining invest to save capital provision and £6.465m is included in the existing capital programme as yet unallocated. The proposal is to allocate these sums to fund the establishment of residential or semi independent living schemes within Children's and Adults services. This will support the service transformation work and enables innovative service delivery and is an essential enabling investment for revenue expenditure savings and/or reduction in service cost pressures as approved within the October Cabinet report.

New bids outside the existing approved capital programme

8.7 The final section of the proposed addition to the capital programme is the inclusion of new bids for capital funding. These schemes have been identified and considered in terms of a prioritisation including links to the corporate priorities, which will be developed within the capital strategy, ongoing asset maintenance requirements, ongoing programmes health and safety and statutory considerations. The summary expenditure proposals and the associated funding proposal can be seen in tables 12 and 13 and the details of the schemes by service can be seen in Appendix C.

8.8 The schemes are grouped into 2 categories;

a) ICT – infrastructure, improvement and resilience- funding required to manage and sustain the council's ICT infrastructure.
b) CAMG endorsed core capital programme requirements and new schemes. These schemes can be seen in Table 12 and 13 and in detail in Appendix C summarised across each directorate.

8.9 The significant schemes by Directorate and relevant assumptions are outlined below;

a) Children's – Schools expansion programme
It is assumed that this will be funded from the basic needs or other grant funding made available to the council. The potential use of s106 funding is also to be scrutinised to ensure best use
b) Neighbourhoods – Footway and Carriageway Resurfacing
This is the ongoing programme of capital repairs and includes an additional sum in 2018/19 for repairs to street lighting. Going forward this will be funded from borrowing.
c) Schools capital maintenance programme
This is assumed to be funded from grant funding and is not planned to impact on prudential borrowing.

8.10 In allocating funding to these proposals the principle of borrowing as a last resort was used. The use of external funding sources will be maximised, pulling together the co-ordination of grant funding, s106 and any CIL payments and the use of capital receipts, revenue and reserves under the review of CAMG. The use of prudential borrowing will be considered as the final option, once all alternative funding sources have been considered. This principle will be enshrined in the revised capital strategy and inform the revision of the Treasury Management strategy for the medium to long term. The return on the investment after meeting the revenue costs of borrowing expected from such borrowing will need to be considered within business cases in order to establish a financially sustainable plan and the capital strategy going forward will incorporate this.

8.11 Table 13 below summarises the potential impact on the MTFS of the funding arrangements proposed for the ICT bids and new capital bids. As can be seen from table 11 above, alternative funding sources are to be used where available. If prudential borrowing is required, this will result in revenue capital financing costs over the profile of the schemes as shown below. Whilst these costs are factored into the MTFS for prudent financial planning purposes, alternative funding sources will be used where possible to mitigate these costs.

Table 13	ADDITIONAL REQUIREMENT - MRP & INTEREST					
	2018/19 £m	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**	**Total £m**
ICT BIDS - to link with IT strategy	0.030	0.230	0.219	0.143	0.143	**0.764**
CAMG ENDORSED PROJECTS and NEW PROJECTS	0.139	0.221	0.209	0.170	0.140	**0.879**
	0.169	**0.451**	**0.428**	**0.313**	**0.283**	**1.643**

8.12 The Capital Strategy is under development as part of this budget process and will be presented for consideration and approval by Cabinet in February. The existing capital programme is largely funded from the use of capital receipts however going forward it is acknowledged that the capital ambition of the council will exceed the potential capital receipts available and will therefore require the Council to plan for the inclusion of prudential borrowing. The £100m included in the existing capital programme to cover the activities of the MLH commitments is to be funded from planned prudential borrowing. The significant regeneration and development schemes within the revised programme have business cases which require capital borrowing. The capital financing requirements and financial return to the Council to meet fiduciary responsibilities. It is essential that the business cases underpinning these programmes ensure adequate financial returns on these investments. This framework and the expected returns on investment will be included in the revised capital strategy.

8.13 As referred to in section 4, it should be noted that there are currently consultations underway from the DCLG on proposed changes to the prudential code for capital finance, including consideration of statutory guidance on local authority investments and the minimum revenue provision required to provide for the repayment of borrowing. In addition, in this context the due diligence work on the Regeneration schemes is continuing, to establish the potential impacts of the consultations and the proposals. This means that the work on the Mercury Land Holdings, Bridge Close and Rainham –Beam Park business cases cannot be finalised until this due diligence is complete. Therefore, even though the capital scheme numbers are included in the capital programme, the full impact on the MTFS of the proposals cannot yet be incorporated in to the budget. The approval for implementation of these schemes will therefore be dependent upon completion of all due diligence under the delegations set out in each Cabinet report.

8.14 The impact of the additional borrowing and the potential impacts of the consultations that are underway will also need to be considered as part of the review of the Treasury Management Strategy in order to ensure that the capital investment is financially sustainable and affordable and within the Prudential Code of Practice and the Treasury Code of Practice. The Treasury Management Strategy will be included for approval in the February Cabinet report.

IMPLICATIONS & RISKS

Financial Implications and Risks

The financial implications of the Councils MTFS are the subject of this report and are therefore set out in the body of this report.

Legal Implications and Risks

The Council is subject to a number of financial duties, for instance, 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 required to set a balanced budget, taking into account a range of factors, including consultation feedback and decisions must also be taken in accordance with the Council’s duties under the Equality Act 2010.

With regards the proposed changes to the Council Tax Discretionary Policy, the Local Government Finance Act 1972 Section 13A gives councils a power to reduce liability in cases where they think fit. This is separate from the Council Tax Support Scheme.

Human Resource 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 and Social Inclusion Implications and Risks

Under Section 149 of the Equality Act 2010 the Council has a duty, in the exercise of it functions, to have due regard to the need to

- Eliminate unlawful discrimination, harassment and victimisation and other conduct that is prohibited by the Act.
- Advance equality of opportunity between people who share a protected characteristic and those who do not
- Foster good relations between people who share a protected characteristic and those who do not.

The “protected characteristics” are: age, disability, race, religion or belief, sex, sexual orientation, pregnancy and maternity, and gender reassignment. Marriage and civil partnership are also a protected characteristic for the purposes of the duty to eliminate discrimination.

The preparation of the budget is a Council function. All proposals are being evaluated during the budget process to understand their impact and detailed equality impact assessments will be undertaken when any final decisions are taken in relation to specific proposals, with mitigating actions identified to minimise any adverse impact identified where possible. However, the Council also 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, and budgetary constraints are a legitimate consideration in making decisions.

Concerning the proposal to amend the Council Tax Discretionary Policy in relation to care leavers, this seeks to advance the equality of opportunity of young people leaving care by providing them with the possibility of some financial support.

BACKGROUND PAPERS

None