



Cabinet

Subject Heading:

The Council's Medium Term Financial Strategy

Cabinet Member:

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SLT Lead:

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Section 151 officer

Report Author and contact details:

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Policy context:

The report seeks approval of the Medium Term Financial Strategy for the period 2018/19 to 2022/23. It also sets out the process for developing and approving the 2018/19 revenue budget 5 year capital programme and treasury strategy, together with initial proposals for balancing the 2018/19 budget.

Financial summary:

This report includes:

- an assessment of the national policy context, financial performance in 2016/17 and 2017/18 to date, together with the financial outlook to 2022/23.
- the approach to setting the Council's 2018/19 budget and MTFS
- initial proposals for balancing the 2018/19 budget

Is this a Key Decision?

No

Is this a Strategic Decision?

Yes

When should this matter be reviewed?

December 2017

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

This report presents an overview of the national economic and financial environment within which all local authorities are currently developing their financial plans for 2018/19 and over the medium term. It explains the complex range of factors impacting upon local authority forecast funding streams and expenditure pressures and the LB Havering's position in relation to these matters.

The report reflects upon the Council's financial performance in 2016/17 and 2017/18 to date and summarises the actions being taken by the SLT to manage the Council's overall financial position within budget in the current year.

The report sets out the approach to achieving financial balance over the period 2018/19 to 2022/23 and seeks Cabinet approval of the Medium Term Financial Strategy (MTFS) and initial budget proposals for closing the budget gap. Further proposals are being developed for consideration and approval by Cabinet in December.

This report consists of the following sections:

- Policy and Strategic Context and Forecast Budget Gap (section 1)
- Robustness of the Budget (section 2)
- The Council's financial performance in 2016/17 (section 3)
- The financial monitoring and forecast position for 2017/18 (section 4)
- Forecast future funding streams (section 5 to 7)
- Forecast future expenditure pressures (section 8 to 10)
- Budget Risks (section 11)
- Initial budget proposals for consideration and approval by Cabinet to progress for consultation where necessary (section 12)
- The process to achieve a balanced budget for 2018/19 and over the medium term to 2022/23 (section 13)
- An overview of the development of the Capital and Treasury Strategies and Capital Programme to 2022/23 (section 14)

It is assumed at this stage of the budget process that the Government's four year financial settlement and the position with respect to local authorities' ability to raise income via the Adult Social Care Precept will continue to be implemented unchanged by the new Parliament. The Queen's speech on 21 June 2017 indicated that the Government will bring forward new proposals for funding adult social care. In the meantime, the financial planning assumptions reflect the extent

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of the Council's reliance upon Improved Better Care Fund (iBCF) to meet its Adult Social Care pressures, which is confirmed up to 2019/20. The absence of a revised Local Government Finance Bill providing the legislative framework required to implement 100% business rates retention from 2020, presents a substantial risk for the whole of local government in developing future spending plans. Further risk exists in relation to the uncertainty around the wide ranging impacts of Brexit.

The Chancellor's Budget is due on 22 November 2017 and is critical to providing clarity for the local government sector in developing financial plans over the medium term and in setting the 2018/19 budget. In particular, the progress and timescale towards implementation of the 100% Business Rate Retention and the delayed consultation on the Fair Funding Review to address needs based funding distribution, together with clarity on a long term sustainable solution to address the crisis in adult social care and health funding will be key to the development of Havering's financial plans. It will be essential that our financial planning process is able to respond flexibly and on a timely basis to the Budget as we move forward.

The budget report to Council in February 2017 balanced the 2017/18 budget and identified a remaining gap to be closed of £2.895m in 2018/19 and a further £6.326m in 2019/20. Since the February 2017 meeting, further work has been undertaken to update and refresh the MTFs in preparation and planning for the new Council Administration from May 2018 and covers the period 2018/19 to 2022/23.

A review of the Council's financial performance together with an updated assessment of future funding streams and expenditure pressures has been undertaken. This work lays the foundations for the further development and delivery of robust financial plans over the medium term to enable delivery of quality Council services in an increasingly challenging financial environment.

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, identifying the anticipated budget gap over the period to 2022/23. Assumptions will be continually reviewed and refined as work progresses in the period to final budget setting in February 2018.

Table 1 - Forecast funding, expenditure and budget gap over the period.

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	5 Year Plan
Forecast Funding	151.913	147.422	147.026	148.006	148.986	743.353
Forecast Expenditure	161.061	156.269	161.203	152.663	154.152	785.349
Budget Gap	9.148	8.848	14.177	4.657	5.166	41.996
Gap at 2017/18 Budget	2.895	6.326				
Movement	6.253	2.522				

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The key assumptions underpinning the forecast and the movement in the budget gap since February 2017 budget setting is explained in section 1 of the report. The Council cannot relax its efforts in relation to the delivery of previously approved savings, nor in relation to the delivery of mitigation plans agreed by Cabinet in February 2017 to address further pressures that emerged during the course of 2016/17. Senior Leadership Team (SLT) is focused upon the successful delivery of these plans which are critical to keeping the delivery of the MTFs on track and to avoid the budget gap increasing from that summarised above.

The Council continues to face significant challenges in relation to the growing demand for services in children's and adults social care and also homelessness. These are nationally recognised issues and are explored further in section 8

Following the agreement of the new Corporate Plan and 2017/18 Budget in February, the SLT has continued to work over the summer to develop proposals for delivering corporate priorities and balancing the budget. Initial proposals are presented for consideration and approval by Cabinet in section 12. These will be supplemented by further proposals to December Cabinet together with an update following the Chancellor's Budget on 22 November. By December Cabinet, all proposals will be available to enable consultation and consideration by the Overview and Scrutiny (O&S) Board prior to Budget setting in February 2018.

It should be noted that any alternative budget proposals by Overview and Scrutiny Board or opposition groups that required public consultation, should be submitted to the Chief Finance Officer and Principal Democratic Services Officer by no later than 3 November to enable their consideration (assuming the proposals meet the "robust budget" test) at the meeting of Cabinet on 13 December 2017.

A review has been undertaken of a number of income generation and economic development schemes that were included in previous budget rounds aimed at supporting the Council's financial sustainability over the medium to long term. The MTFs estimates have been revised to reflect this work and further revision of income projections will be made as business cases are developed to maturity. A number of new economic development and regeneration pipeline schemes are currently in the business case development stage. These are scheduled for consideration by Cabinet in November 2017 in order that the financial implications of proposed investment decisions can be fed into the draft Capital Programme and Revenue budget proposals for consideration in December 2017.

Both Capital and further Revenue budget proposals will be presented to Cabinet in December 2017 to focus upon achieving financial balance in 2018/19 and laying the foundations for longer term investment in the delivery of the Council's Corporate objectives and achieve financial balance over the Medium Term. Budget proposals will be subject to consultation and an equality impact assessment as appropriate before final decisions are made by Council in February 2018.

Longer term plans to deliver further transformational change and demand management and achieve financial balance over the period to 2022/23 are also

being developed by SLT and will be scheduled for consideration by the new Administration following the local elections in May 2018.

RECOMMENDATIONS

The Cabinet is asked to:

1. **Note** the national financial context for local government and the projected budget gap over the period 2018/19 to 2022/23.
2. **Note** the assumptions which underpin the forecast as set out in section 1, 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 risks associated with the financial forecast set out in section 11.
4. **Note** the Council's financial outturn position on the General Fund Revenue budget for 2016/17 set out in section 3.
5. **Note** the month 4 financial monitoring and forecast outturn position for 2017/18 and the management actions being taken to control expenditure within the Council's approved budget set out in section 4.
6. **Approve** the inclusion of £3.761m of iBCF and the expenditure plan into the Council's budget for 2017/18.
7. **Approve** the draft Medium Term Financial Strategy (MTFS), covering the period from 2018/19 to 2022/23 as set out in this report.
8. **Approve** £9.632m of total savings proposals including £1.568m in 2018/19 for consultation where necessary as set out in section 12 and Appendix 2.
9. Approve the one off application of iBCF of £1.986m and £1.936m towards closing the estimated budget gap in 2018/19 and 2019/20 respectively.
10. **Agree** to receive a further report at Cabinet in December 2017 including an update following the Chancellor's November Budget and further proposals for balancing 2018/19 and achieving financial balance over the medium term.
11. **Note** the progress that is being made in relation to reviewing the existing capital programme, the development of a 5 year Capital Programme and Treasury Management Strategy that will be key to delivering the Council's ambition set out in its Corporate Plan. The draft Capital Programme will be presented for consideration by Cabinet in December 2017.
12. **Note** the timetable and process for developing, reporting and considering the 2018/19 budget and MTFS as set out in section 13.

13. **Note** that any alternative proposals from Overview & Scrutiny or opposition groups, that would need to be subject to consultation, will need to be subject to a robust review before they can be considered for inclusion in the Council's budget and therefore must be received by the Chief Finance Officer and Principal Democratic Services Officer by 3 November 2017 to enable their consideration (assuming the proposals meet the "robust budget" test) at the meeting of Cabinet on 13 December 2017.
14. **Note** that a range of corporate strategies may be impacted by the budget strategy and these will need to be updated and approved accordingly.

REPORT DETAIL

1. Policy and Strategic context

- 1.1 This report presents and seeks Cabinet approval of the Medium Term Financial Strategy (MTFS) between 2018/19 and 2022/23 that will be developed to achieve financial self-sufficiency by 2020 and align financial resources to the Council's Corporate Plan priorities.
- 1.2 Havering Council's vision – ***Making a Greater London***, is about embracing the best of what Havering has to offer, and how we as a borough can play an active role in the success of the whole of London. The Havering Council vision is focused around four cross-cutting priorities:

Communities

We want to help our residents to make positive lifestyle choices and ensure a good start for every child to reach their full potential. We will support families and communities to look after themselves and each other, with a particular emphasis on our most vulnerable residents.

Places

We will work to achieve a clean, safe environment for all. This will be secured through working with residents to improve our award-winning parks and continuing to invest in our housing stock, ensuring decent, safe and high standard properties. Our residents will have access to vibrant culture and leisure facilities, as well as thriving town centres.

Opportunities

We will provide first-class business opportunities by supporting the commercial development of companies within the borough, as well as being a hub for start-ups and expanding businesses. We will ensure sustainable economic growth that generates local wealth and opportunities, as well as securing investment in high-quality skills and careers.

Connections

We want to capitalise on our location with fast and accessible transport links both to central London and within the borough. Likewise, we will continue to make Havering a digitally-enabled borough that is connected to residents and businesses. Enhancing our connections will strengthen the borough's offer as a Greater London hub for business.

- 1.3 The Local Government finance landscape is fundamentally changing and by 2020/21, Government intend to have reformed the system for funding local government so that councils move to financial self-sufficiency. Consultation exercises have taken place on both the principles and the technical aspects of the proposed 100% Business Rates Retention scheme. The result of this consultation is still awaited following the delays due to the General Election. The consultation in respect the Fair Funding review which governs the allocation of government support on the basis of need has been delayed and this is critical to achieving a robust and meaningful resource allocation system as a baseline to facilitate the new funding regime. Whilst further details are expected later this year, it is not yet clear when they will be available.
- 1.4 Despite the delays in consultation, it is inevitable that the Council's spending power will become increasingly reliant upon locally generated income and therefore strategies to increase the growth in Council Tax, Business Rates and locally generated fees, charges and investment income will become increasingly important to achieving financial sustainability in local service delivery over the long term. The Council must balance its budget and deliver its essential services by also managing demand, generating efficiencies and delivering savings and so the scale of the challenge is increasing constantly.
- 1.5 All local authorities have experienced exceptional reduction in Government funding since the Comprehensive Spending Review in 2010 and this is expected to continue. By 2018/19 Havering Council's Revenue Support Grant (RSG) will have reduced by approximately 88% from £55.314m in 2010 to £6.847m in 2018/19 and will reduce to zero by 2020/21.
- 1.6 Many local authorities across the country are experiencing significant financial pressures due to the growth in demand for adult social care, children's social care and housing due to increasing homelessness. These are the main areas of financial risk for Havering in delivering services and are the main source of services overspending in recent years and forecast pressures in the future. Government have to date failed to recognise and provide meaningful financial support in relation to children's social care and homelessness. However, it has implemented a number of funding initiatives in relation to the financial crisis developing in adult social care and health.
- 1.7 The Government has recognised the pressures across adult social care services associated with an ageing population where people are living longer and have greater complexity of need. Time limited grants such as the Better Care Fund (BCF) and the Improved Better Care Fund (iBCF)

have been made available in an attempt to provide funding to meet service demand and facilitate closer working between local government and the NHS to achieve more efficient and effective solutions. Further, the measures to enable local authorities to raise Council Tax via the Adult Social Care Precept between 2016/17 and 2019/20 have relaxed restrictions on the ability of local authorities to raise funds more sustainably from local taxation to meet their ongoing statutory responsibilities in relation to adult social care.

- 1.8 Whilst grants are welcome, their time limited nature fails to provide a sustainable solution for local authorities in general. Further, the basis of their allocation has resulted in a perverse funding distribution for authorities such as Havering, who have experienced significant increases in their older population in recent years and have been forced to raise council tax historically due to lower Government funding settlements. These authorities receive significantly less BCF/iBCF than authorities with substantially lower council tax levels and who are in receipt of much higher levels of Government funding.
- 1.9 Havering has a population of 252,783¹ which is average for London. Historically it has been one of the lowest funded London boroughs despite having the highest proportion of older people (18.4%). In recent years, Havering also experienced the largest net inflow of children across all London boroughs. Some 4,536 children settled in the borough from another part of the UK during this six year period (2010-2015), having a significant demand for children's social care. The demand for housing is also increasing as private sector tenants are displaced and made homeless due to rapidly rising market rents. Further information is set out in section 8.
- 1.10 It is important for the Council to recognise the extent to which its adult social care services are reliant upon time limited funding streams which present an inherent risk to the sustainability of its financial planning due to the uncertainty of the Government's future plans. Whilst the Council will continue to lobby Government to ensure that funding for adult social care is sustainable and fairly allocated over the longer term rather than a current short term solution, it will also need to develop contingency plans for implementation post 2019/20 in the event that the Chancellor's Autumn Budget and/or the Local Government Finance Settlement does not provide sufficient assurance of the adequacy of future funding streams. Further details of the Council's funding sources are set out in sections 5 to 7 and its forecast expenditure pressures are set out in section 8 to 10 of the report.
- 1.11 The forecast budget gap is £41.996m over the period to 2022/23, of which £9.148m relates to 2018/19. Table 2 below summarises the reasons for the budget gap.

¹ Office of National Statistics 2016 mid year estimate

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Table 2 – summary of the budget gap	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	5 Year Plan £m
Reduction in RSG	5.430	5.471	1.376	0.000	0.000	12.277
Business Rate Revaluation	0.145	0.025	0.000	0.000	0.000	0.170
Demographic Growth	4.500	3.750	3.650	3.000	3.150	18.050
Pension	1.500	2.500	2.500	0.500	0.500	7.500
Inflation	2.876	2.875	2.790	2.790	2.790	14.121
Other Pressures	10.305	4.457	10.241	3.997	3.006	32.006
Total Pressures	24.756	19.078	20.557	10.287	9.446	84.124
Previously Agreed Savings	(15.608)	(10.230)	(6.380)	(5.630)	(4.280)	(42.128)
Revised Gap	9.148	8.848	14.177	4.657	5.166	41.996
Gap at 2017/18 Budget Setting	2.895	6.326				
Movement	6.253	2.522				

1.12 The movement in assumptions since the 2017/18 budget setting in February 2017 of £8.775 over the period 2018/19 an 2019/20 has arisen for the reasons summarised in Table 3:

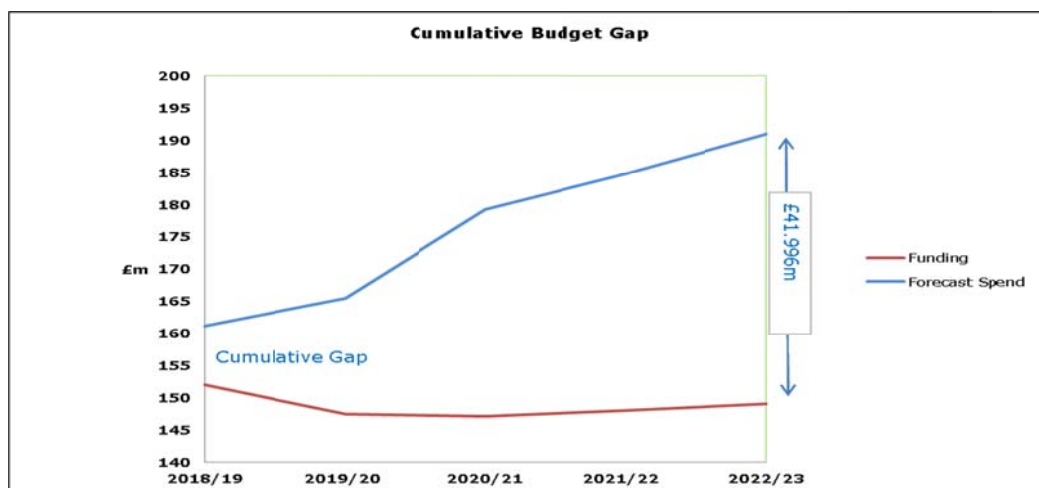
Table 3 Reasons for Movement	MTFS Ref	2018/19 £m	2019/20 £m	Total £m	Explanation
Council Tax - No increase from 2018/19	C5	0.000	2.000	2.000	The removal of assumed 1.95% council tax increase for 2019/20 to enable the Council Administration to determine its council tax strategy following the May 2018 Election.
ASC precept	C18	0.000	2.000	2.000	The removal of the assumed 2% ASC precept to enable the Council Administration to determine its council tax strategy post the May 2018 Election.
ASC Demographic Pressure		(0.913)	(0.471)	(1.384)	Reduction in forecast demographic expenditure pressure assumption.
Quarles	-	0.310	0.000	0.310	Capital financing costs - purchase of Quarles site (June Cabinet)
LPFA		0.072	0.000	0.072	Additional funding obligation re ex ILEA and GLA pensions – June Cabinet.
Income inflation		(0.287)	(0.287)	(0.574)	Increase inflation on discretionary fees and charges 2% to 3%

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Reasons for Movement	MTFS Ref	2018/19 £m	2019/20 £m	Total £m	Explanation
MLH Ltd- Income	C9	2.000	0.000	2.000	A high level income assumption £2m p.a. in relation to MLH Ltd was profiled from 2019/20 with transitional funding measures put in place for 2018/19. Delays in project development mean that the transitional funding measures are no longer feasible. This leaves a £2m pressure in 2018/19. Forecast income will be recalculated and profiled on the basis of the revised MLH business plan to be considered for approval by Cabinet in November 2017.
Solar Parks income	RS5	1.500	0.000	1.500	The original high level income assumption of £1.5m from 2019/20 related to Solar Parks on two sites within the Borough – Dagnam Park and Gerpins Lane. Transitional funding measures were in place for 2018/19. During 2017, planning issues with Dagnam Park resulted in the scheme being assessed as unviable. Whilst the Gerpins Lane site remains technically viable, a financial review concluded that it is unlikely to be financially viable in the foreseeable future, due primarily to the cessation of Government subsidies and the projected price of electricity over the medium term. The transitional funding arrangements are therefore not feasible and this leaves a budget pressure of £1.5m in 2018/19.
General Fund Housing		0.800	1.400	2.200	Additional pressures in the Housing General Fund due to increases in homelessness. (Section 8)
Re-phasing of previously agreed savings	SC7 SC12 CL2	1.250	(0.750)	0.500	Waste Minimisation (SC7) £0.500m – deferred to enable comprehensive review of waste collection and disposal solutions. Business Vehicle Charging (SC12) of £0.500m is proposed to be reprofiled from 2018/19 into 2019/20 to enable officers to learn from other local authorities and undertake consultation prior to implementation towards the end of 18/19. Parking charges in Parks (CL2) £0.250m re-phased to enable a borough-wide parking review.
Base Budget realignment		1.521	(1.370)	0.151	This represents adjustments in relation to confirmed government funding and a rebasing of a range of service income and expenditure budgets in line with actual performance.
Total		6.253	2.521	8.775	

1.13 Figure 1 below illustrates the 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. This is before the consideration of new budget proposals:

Figure 1- Cumulative Budget Gap



1.14 The forecast is based upon a number of key assumptions and changes to assumption which are summarised below.

- All mitigating action plans approved by Cabinet (approved February 2017) for 2016/17 to 2017/18 are delivered to plan
- All savings approved by Budget Council in 2016/17 and 2017/18 are delivered in full with the exception of the Waste Minimisation saving (3 sacks plus recycling) (SC7 £0.500m) and the Business Vehicles Charging Saving (Ref SC12 £0.500m) and Car Parking in Parks (CL2, £0.250m) which are proposed to be deferred (table 3)
- No revision of Business Rates income as this stage, see section 5
- At this stage 0% General Council Tax from 2018/19, see section 5
- At this stage 0% on Adult Social Care Precept, see section 5
- Growth in Council Tax base of 0.89% in 2018/19 to 2022/23, to be updated at December Cabinet - see section 5
- Target increase in discretionary fees and charges at 3% which is equivalent to the consumer price index (CPI)
- Pay inflation of 1%, however there is currently a NJC Local Government Services Unions Pay Claim submitted for London for 2018/19. Every 1% on the pay award generates an estimated cost of around £0.800m.
- Contract inflation of 2%
- Core BCF of £6.442m is assumed to be ongoing beyond 2019/20 although not yet confirmed by the Government.
- The Improved Better Care Fund (iBCF) is assumed to end in 2019/20 as this is awarded to 2019/20 only. Will be reviewed pending further clarity from Government

1.15 In line with statutory guidance and legislation the Council does have the ability to increase General Council Tax to a maximum of 1.99% plus 2% for the Adult Social Care precept. The impact of a maximum increase in terms of additional income generated to contribute towards the budget gap is set out within section 5.

2. Budget Robustness

- 2.1 The Council is required to set a balanced budget, taking into account a range of factors, including appropriate consultation and equality impact assessments. A key factor is to ensure that Members are made aware of the advice of the Council's Chief Finance Officer (CFO) in making decisions relating to the Council's budget and medium term financial strategy.
- 2.2 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 previous budget setting cycles and as set out within this report.
- 2.3 The advice of the CFO was set out at some length in the report to Cabinet in February 2017, in Appendix H of that report. The advice is reproduced at Appendix 1 to this report. Members are asked to be mindful of this advice considering the outlook over the medium term and in considering budget proposals throughout the budget development period and when Overview & Scrutiny Board consider the budget proposals. The need to secure plans to achieve financial balance over the medium term and to consider the 'Going Concern' basis of the Council in preparing its annual financial statements are primary responsibilities of the CFO.

3. Financial Performance 2016/17

- 3.1 The final revenue outturn position for 2016/17 was a break even position for the Council against a budget of £167.930m which is inclusive of corporate budgets, levies and contingency.
- 3.2 The service budgets equated to £155.956m (92.87%) of the revenue budget and overspent by £4.465m (2.86%). This adverse variance was funded through the use of corporate budgets and contingency of £3.315m and £1.150m respectively to achieve a balanced budget. The intention to use corporate funding to support the revenue outturn for 2016/17 was set out in a series of budget reports between October 2016 to February 2017.
- 3.3 Table 4 below provides a summary of the outturn position by service:

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Table 4 - Outturn Position by service	Revised Budget £m	Final Outturn £m	Outturn Variance £m	Outturn Variance %
Public Health	2.442	2.445	0.003	0.12
Children Services	44.890	48.547	3.657	8.15
Adult Services	56.380	57.625	1.245	2.21
Neighbourhoods	26.662	27.334	0.672	2.52
Housing Services	2.573	3.603	1.030	40.03
oneSource Non Shared	9.090	7.787	(1.303)	(14.33)
Chief Operating Officer	9.786	8.953	(0.833)	(8.51)
oneSource Shared	4.133	4.127	(0.006)	(0.15)
Service Total	155.956	160.421	4.465	2.86
Corporate Budget	10.824	7.509	(3.315)	(30.63)
Contingency	1.150	-	(1.150)	(100.00)
Revenue Total	167.930	167.930	-	-

- 3.4 As set out in section 5 of the report, the Council continues to face significant pressures within adult and children social care as well as housing services. In 2016/17 these services overspent by £5.932m which were offset by underspends in other services along with the corporate budget and contingency.
- 3.5 The main pressure within the Childrens service relates to expenditure in respect of additional agency social workers utilised to meet the increased number of referrals along with increased cost for the provision for looked after children and children with special educational needs and disabilities.
- 3.6 The Adult Service variance of £1.245m was a result of increased demand and high cost placements for Adult Social Care services after making savings of £3.329m in year. The service mitigated much of this pressure through use of the whole Section 256 Reserve (formerly social care monies to be spent on services that benefitted the NHS).
- 3.7 Increased demand on the homelessness service within Housing resulted in the overspend of £1.030m which equated to a 40.03% variance.
- 3.8 Cabinet agreed in December 2016, a number of management action plans for services to reduce their in year variances of:
- £1.500m from Services and £1.100m from Corporate in 2016/17;
 - a further £3.7m from Services in 2017/18 and for Children Services
 - a further £0.7m in 2018/19.
- In addition, corporate funding was approved of £5.5m in 2016/17 and a further £1.8m in 2017/18.
- 3.9 It was necessary to use £4.465m of Corporate Funding in 2016/17 as opposed to a forecast £5.500m due to underspending in other service areas.

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- 3.10 Against the £1.5m of management action plans in 2016/17 agreed by Cabinet, only £0.396m was achieved, resulting in a shortfall of £1.104m. The shortfall represents underlying pressures within the base budget therefore it is critical that the management actions plans are delivered in full as planned during 2017/18 and for Children's by 2018/19. The SLT is focused upon delivering the total value of action plans of £4.804m for 2017/18.
- 3.11 A summary of the management action plans for services for 2016/17 and their performance is provided in table 5 below along with the agreed plans for 2017/18:

Table 5 – Management Action Plan	2016/17 Planned Actions £m	2016/17 Net Shortfall £m	2017/18 Initial Planned Actions £m	2017/18 Revised Planned Actions £m
Children Services	0.000	0.087	(1.700)	(1.787)
Adult Services	(0.700)	0.355	(0.900)	(1.255)
Neighbourhoods	(0.400)	0.272	(0.500)	(0.772)
Housing Services	(0.400)	0.390	(0.600)	(0.990)
Service Total	(1.500)	1.104	(3.700)	(4.804)

- 3.12 Included within the budget for 2016/17, services were expected to deliver savings of £8.064m through schemes agreed by Budget Council in February 2017 or in previous budget setting rounds. In 2016/17 savings of £6.132m were achieved leaving a shortfall of £1.932m (6.14%). The shortfall was met during the year by services identifying mitigating actions or through agreement of alternative saving plans. The shortfall of £1.932m has similarly been rolled forward to enable management of the resultant pressure in the 2017/18. Directors are focused on the delivery of their savings or where this is not possible, to put in place alternative saving proposals to be agreed by Cabinet.
- 3.13 A summary of the deliverability of the savings is provided in table 6 below:

Table 6 - Deliverability of the Savings	2016/17 Savings Budgeted £m	2016/17 Savings Delivered £m	Variance £m
Public Health			
Children Services	1.434	1.110	0.324
Adult Services	3.450	3.329	0.121
Neighbourhoods	1.750	0.978	0.772
Housing Services	0.350		0.350
oneSource Non Shared	0.290		0.290
Chief Operating Officer	0.300	0.300	
Corporate	0.490	0.415	0.075
Service Total	8.064	6.132	1.932

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3.14 The material variances relate to the non-deliverability of:

Children Services

- £0.200m - Children and Adults Disability (CAD): A review of short breaks provision will be undertaken to meet the savings over 2017/18.

Neighbourhoods

- £0.250m– Parks: Deferred implementation of controlled parking measures within parks locations to enable a borough wide parking review
- £0.138m – Moving Traffic Contraventions: Four cameras were installed, as opposed to eight, however were not operational until the end of February 2017/early March 2017.
- £0.100m – Public Realm Transformation Review: A restructure was deferred to allow for the transition of some posts to the Chief Operating Officer.
- £0.100m– Trading Standards / Enforcement: Enforcement review has been placed on hold and the service is awaiting the business intelligence model to inform the future methodology.
- £0.100m – Local Land Charges Income: Analysis of borough, London wide and national property sales data from the Land Registry shows considerably fewer property transactions in 2016/17.

Housing Services

- £0.350m – Private Sector Leasing: due to the increased lease payments required to landlords being in excess of the benefit income thresholds.

oneSource

- £0.211m – Technical Services: The saving is linked to the removal of duplication and the introduction of efficiencies through combining the team with Newham. However, the service is now not intended to be shared and an alternative option needs to be developed and approved by Cabinet in December 2017.

3.15 As set out within this section, the financial variance at the end of the year is made up of a number of contributing factors:

- Pressures arising from demographic and service demands
- The non deliverability or delay of management action plans
- Unachieved or delay in delivering savings
- Other unforeseen factors

3.16 The focus for Senior Managers within the authority for 2017/18 is to balance the budget through achieving all savings agreed by Council and management action plans agreed by Cabinet. Where this is not possible Directors are required to put in place alternative plans to ensure a break even position for the 2017/18 financial year. Achievement of this will give the medium term financial strategy the stability that it requires moving forward to 2018/19 and beyond.

4. 2017/18 Financial Monitoring

- 4.1 The Council's 2017/18 net expenditure budget is £156.369m. After removing non-controllable budget (internal recharges, capital financing charges & adjustments under statute) the net controllable revised budget at period four is £163.759m.
- 4.2 At period four the net controllable forecast outturn position for service directorates and oneSource is £168.042m resulting in a forecast overspend of £4.283m (2.62%) as set out in table 7.

Table 7 – Forecast outturn and variances	Original Budget	Revised Budget	Forecast Outturn	Outturn Variance	Outturn Variance
	£m	£m	£m	£m	%
Public Health	(0.300)	(0.308)	(0.308)	0.000	0.00
Children Services	32.502	35.721	37.537	1.816	5.08
Adult Services	55.021	52.789	52.789	0.000	0.00
Neighbourhoods	12.394	14.264	14.652	0.388	2.72
Housing Services	1.356	1.521	3.407	1.886	124.00
oneSource Non Shared	0.735	0.701	0.665	(0.036)	(5.14)
Chief Operating Officer	7.154	6.847	7.103	0.256	3.74
SLT	1.019	1.307	1.280	(0.027)	(2.07)
oneSource Shared	14.788	16.097	16.097	0.000	0.00
Service Total	124.669	128.939	133.222	4.283	3.32
Corporate Budget	28.896	32.820	32.820	0.000	0.00
Contingency	2.000	2.000	2.000	0.000	0.00
Net Controllable Budget	155.565	163.759	168.042	4.283	2.62
Other uncontrollable budget	0.804	(7.390)	(7.390)	0.000	0.00
Net Expenditure Budget	156.369	156.369	160.652	4.283	2.62

- 4.3 The principal variances underlying the period four forecast rest in the Children's, Neighbourhood and Housing Services. Further analysis of the causes of the variances is being undertaken by Senior Management but Cabinet will be aware of the continued pressures in Children's, Housing Demand in relation Private Sector Leased (PSL) properties and Homelessness. SLT are focussed upon the delivery of mitigation and savings plans to manage expenditure within budget.
- 4.4 The material forecast variances at period four relate to:
Neighbourhoods
 Neighbourhoods is experiencing financial pressure within year due to a number of delayed savings which are being mitigated by the generation of additional income being generated in excess of budget on Penalty Charge Notices (PCN) and Moving Traffic Contravention (MTC) income.

Housing Services

The financial pressure in the Housing services predominantly in the homelessness demand pressures - £0.876m. Cost of prevention options (Find your own Scheme) are being used to minimise pressure.

Childrens Services

Childrens 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.

- 4.5 Senior Managers are focused upon balancing the budget through achieving all budgeted savings agreed by Council and management action plans agreed by Cabinet. Where this is not possible Directors are required to put in place alternative plans to ensure a break even position for the 2017/18 financial year. Achievement of this will give the medium term financial strategy the stability that it requires moving forward to 2018/19 and beyond.

5. Core Funding Streams

- 5.1 The Council receives a number of core sources of funding which include formulae driven grant allocations of baseline funding via the SFA and locally raised income streams such as Council Tax and the Adult Social Care precept. These are recurrent funding sources and the basis of the future forecasts are explained further in this section whilst other non-recurrent funding sources such as Improved Better Care Fund and New Homes Bonus are set out in section 6.

Settlement Funding Allocation (SFA)

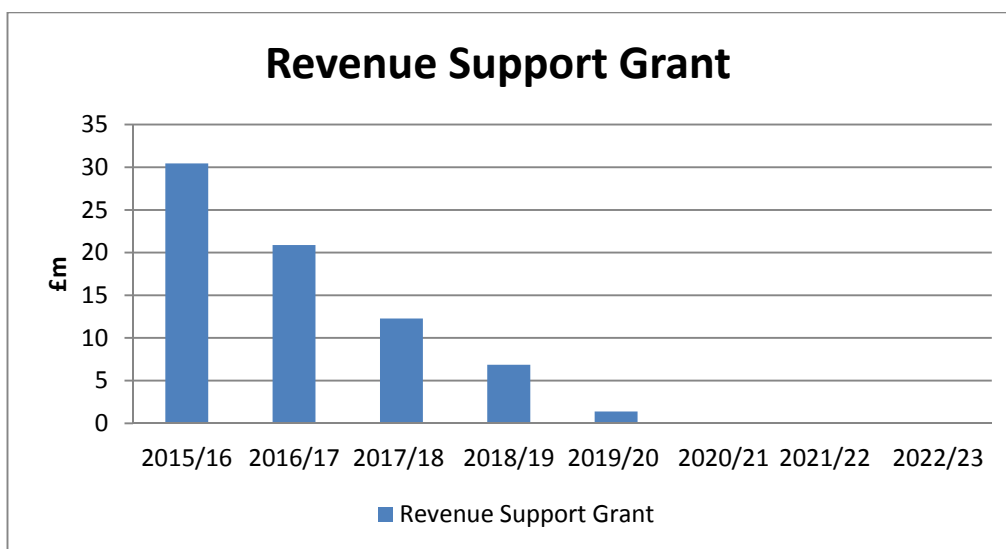
- 5.2 The Settlement Funding Allocation (SFA) comprises two funding elements making up grant received from Central Government. These are:
- Revenue Support Grant (RSG) which is determined by a national funding formula based on levels of need
 - A top up allowance received in respect of business rates, following introduction of the scheme in 2013.
- 5.3 Until 2016/17 SFA was a one year allocation published annually as part of the Local Government Finance Settlement. However, in February 2016 Government offered Local Authorities a four year settlement in exchange for agreeing and publishing a four year efficiency plan in order to improve certainty in financial planning. Whilst certainty was achieved, a fundamental change was made to the distribution formula which resulted in deeper and faster cuts for many authorities including Havering.

Table 8 - Settlement Funding Allocation	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £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

Revenue Support Grant

5.4 Havering’s allocation of Revenue Support Grant (RSG) has declined significantly and by more than was anticipated prior to the four year settlement. In 2010 the Council’s budget was £162.530m, with £55.314m (34%) funded from Central Government in the form of RSG. In 2017/18 this budget is £156.369m with only £12.283m (8%) funded from RSG. By 2018/19 Havering’s RSG funding will have reduced to £6.847m and by 2021 this grant will have disappeared completely. Figure 2 below illustrates the decline in the Council’s RSG from 2015/16.

Figure 2 - Decline in Government Support - Revenue Support Grant



5.5 This significant reduction in RSG has been due to a fundamental shift in the focus of Government from 2016/17 when calculating the distribution of RSG. Government now considers the ‘Local Authority Core Spending Power’ as a measure of overall revenue funding available to provide local services and uses this to calculate RSG distribution. This takes into account all available funding sources including a Council’s ability to raise income through raising its Council Tax; effectively those authorities with comparatively higher council tax levels in 2015/16 are deemed to be able to have more capacity to raise total funding than those with lower council tax levels and therefore received bigger and faster cuts to their RSG than prior to the four year settlement.

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- 5.6 Over many years Havering has been forced to raise Council Tax to higher levels than other London Boroughs to maintain services. As a result, it has a higher comparative Council Tax compared to most London Boroughs. As a consequence of this change to RSG distribution, Havering has experienced deeper and faster cuts in its RSG than would otherwise be the case.
- 5.7 Table 9 below sets out Havering's forecast Core Spending Power based upon current assumptions. Core spending power measures the core revenue funding available for council services, including Council Tax and locally retained business rates.

This includes both recurrent and non-recurrent funding sources.

Table 2 - Havering Core Spending Power

Core Spending Power - 2017/18 to 2022/23						
Description	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Business Rates	33.478	33.478	33.478	33.478	33.478	33.478
Revenue Support Grant	12.284	6.847	1.376	0.000	0.000	0.000
Total Settlement Funding Allocation	45.762	40.325	34.854	33.478	33.478	33.478
Council Tax	112.288	113.268	114.248	115.228	116.208	117.188
Adult Social Care Precept	4.318	4.318	4.318	4.318	4.318	4.318
Total Locally Raised Income	116.606	117.586	118.566	119.546	120.526	121.506
New Homes Bonus	4.842	1.101	0.505	0.290		
Transition Grant	1.370					
Improved Better Care Fund	3.761	4.822	5.619			
Total Government Grants	9.973	5.923	6.124	0.290		
Total Funding	172.341	163.834	159.544	153.315	154.004	154.984

Business Rates

- 5.8 The future direction for national business rates policy is uncertain. Due to this uncertainty, the forecast of business rates currently remain unchanged from those set out in the Council's 2017/18 budget in February 2017. Further work will be undertaken as new information becomes available through the budget process to February 2018.
- 5.9 Under the current Business Rates Retention Scheme, local authorities retain 50% of the rates generated in their borough. The remaining share is retained by Government and re-distributed to authorities based on their assessed level of need. In London, the boroughs share their portion with the GLA and in 2017/18 the local share for London increased to 67% with individual boroughs receiving 30% and the GLA receiving 37%. The balance of 33% is retained by Government.
- 5.10 The level of annual income raised for business rates in Havering has been steadily increasing from £77.749m in 2014/15 to £80.664m expected in

2018/19. The Council has effective collection arrangements and as a result benefits from a high collection rate at 98.64% for 2016/17 and a target of 98.70% for 2017/18. This performance will become increasingly important to ensure a reliable source of income in the long term.

100% Business Rates Retention

- 5.11 In April 2013, the Government's planned reform of local government finance commenced with the start of localisation of business rates through the introduction of the Business Rates Retention Scheme. The planned move to financial self-sufficiency and 100% business rate retention by 2020 represents the most fundamental change in the local government finance regime for a generation and has far reaching implications for the future of local government.
- 5.12 The Department for Communities and Local Government (DCLG) has launched a six week (from 14 September 2017 to 26 October 2017) consultation on the local government finance settlement 2018/19. The Technical Consultation paper sets out Government's intended approach for the third year of the multi-year local government finance settlement and officers will respond under delegated authority within this timeframe.
- 5.13 It is anticipated that, in simplified terms, the loss of RSG and other grants will be offset by gains through 100% retention of business rate growth. Further, it is expected that new powers and responsibilities for services will be devolved to local government as part of the new funding regime. There will be a series of Government measures to help manage exceptional financial volatility, but in principle, local authorities will benefit directly from strong local economic growth reflected through the growth of their business rates. However, they will also be exposed to financial risk associated with slower growth and/or decline in business rate income. This will have a direct impact upon both the quantum and volatility of funding available to provide local council services in the future. There is also uncertainty about the future financial pressures that these new burdens may place upon local authority budgets and these too will need to be factored into future updates as Government proposals become clear.
- 5.14 Final details of the proposed scheme have yet to be determined having been the subject of extensive consultation through 2016 and 2017. There are numerous technical issues and complexities to consider. Havering responded to the 100% Business Rates Retention consultation in May 2017. However, the Government has not yet published the outcome of the consultation, nor indicated its future intentions due to the delays caused by the General Election held in June. The absence of a revived Local Government Finance Bill in the Queen's speech in June was disappointing given it had been progressing through Parliament prior to the Election.
- 5.15 This has resulted in increased uncertainty for local government in planning its future finances. The Finance Bill would provide the framework for the introduction of 100% Business Rates Retention Scheme. Therefore, in the absence of this primary legislation, it is very difficult to assess the full

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impact on the Local Government finance regime for 2020 onwards and the timing and design of the new system. The Chancellor's Budget on 22 November is therefore expected to provide clarity over the way forward, giving information that is critical to effective financial planning for Havering and local government in general.

- 5.16 It is essential that when introduced, the delivery of 100% Business Rates Retention scheme is fair, transparent and incentivises innovation and growth in the local area. Further, it must be driven from a fair needs driven baseline assessment of business rates. Critical to achieving this, is that the Government's planned review and consultation of the needs funding formula is completed prior to implementation. This formula is inherently linked to the system of 'top-ups' and tariffs' of Business Rates to balance the difference between resources and expenditure pressures of local authorities.

The Fair Funding Review

- 5.17 The Government originally intended to run consultation on the needs funding formula – The Fair Funding Review concurrently with the 100% Business Rates consultation. However, the General Election in June resulted in suspension of the planned consultation. It is not yet clear when this consultation will take place. Representatives from local government finance are engaged in preparatory analysis and technical discussions with Government to inform the consultation exercise. This includes representatives from the Society of London Treasurers. The existing formula was frozen in 2013 and is complex, containing a range of drivers linked to population size and deprivation indicators which determine the basis for grant allocation.
- 5.18 A significant issue which has adversely affected authorities like Havering is the lack of weighting within the formula to population size which has meant that the financial pressures of rapid population growth in total or discrete population groups such as the elderly and children with social care needs, have not been adequately recognised. The Council will continue to lobby in relation to this issue and will engage and respond to the Consultation when it is launched.

The London Pilot

- 5.19 The Government has now formally confirmed its renewed desire to see a business rate pilot pool established in London in April 2018, as indicated in the previous Memorandum of Understanding between the Government and London signed in March 2017. It further issued a general invitation to other authorities to apply to become pilot pools next year, with a deadline for applications of 22nd October.
- 5.20 London currently collects £6.6 billion in business rates and London government has long held the view that it should be granted control of a wide range of local taxes, including business rates. Devolving business

rates will help build a joint, city-wide approach to incentivise, prioritise and manage the delivery of public services.

5.21 A draft prospectus has been issued via London Councils outlining a framework for how the pool could operate. It is proposed that there are two founding principles that would require agreement at the outset by all pooling members:

- Nobody loses:

The first founding principle would be that no authority participating in the pool can be worse off than they would otherwise be under the current scheme. A London pilot pool would be underpinned by the same safety net arrangements and “no detriment” guarantee currently offered to existing pilots in 2017/18. This ensures that the pool, as a whole, cannot be worse off than the participating authorities would have been collectively if they had not entered the pool.

For Boroughs in an existing pool², DCLG have also indicated that the basis of comparison would include the income due from that pool.

The level of Revenue Support Grant (RSG) for each borough has been set by the four-year settlement (to 2019-20). For each borough this would be replaced by retaining additional rates (just as the GLA has done this year). In addition Public Health Grant (PHG) and the Improved Better Care Fund (iBCF) would also be replaced by rates, leading to an adjustment of expected baselines and top-ups or tariffs (as appropriate).

- All members share the benefit of growth:

In recognition of the complexity of London’s economy, it is proposed that the second founding principle would be that all members would receive a share of any net growth benefits arising from the pilot pool. Assuming the pool generates some level of growth, the question of how to share this will be central to any final pooling agreement.

5.22 At the London Councils Leaders’ Committee and Congress of Leaders meeting on 10th October 2017, Leaders of each London Borough will be required to specify their intentions in participating in the London pool as well as participate in early discussions around their preferred option for distributing the net growth across London.

² Of the 33 London authorities in 2017-18 this includes Barking & Dagenham, Havering and Croydon

Appeals

5.23 Business rate income collected by the Council is adversely affected by successful appeals against rateable values by businesses. The rating valuations historically were published on a five-year cycle. However, following the valuation list published in 2010 the next wasn't issued until 2017. As at the end of July 2017, the Council had 266 outstanding appeals with the Valuation Office outstanding from the 2005 and 2010 listing. If the appeals are successful, the financial impact is estimated as follows. These estimates have been produced by Analyse Local whose forecast has proved accurate in recent years. This would be a cost to the Collection Fund. A provision is currently held in line with the forecast potential yield loss.

Table 10 - Appeals

Potential Alteration Date	Number of Appeal Records	Potential Appeal Rateable Value £m	Rateable Value Loss £m	Potential Yield Loss £m
2017/18	104	11.475	1.302	3.483
2018/19	49	10.973	1.274	1.887
2019/20	113	8.593	0.874	1.101
Total	266	31.041	3.450	6.471

5.24 The 2017 revaluation hasn't triggered any new appeals to date. The Government has introduced a new system for dealing with appeals. 'Check Challenge Appeal' is a self-assessment based system with the intention of agreeing on the facts underlying valuations at an early stage in the process, thereby removing the need for a large number of formal appeals. This should reduce the number of appeals but will mean it is more reliant on the maintenance of the current national tax base and honesty of businesses to complete the self-assessment accurately.

5.25 As part of the 2017 Local Government Finance Settlement, Government announced a transition grant which means that changes to new business rate bills will be phased in over the next four years.

In addition, as part of the 2017 Spring Budget, the Chancellor announced new measures amounting to a £435m cut for Business Ratepayers to smooth the transition to the new rates. The three new measures were:

- No business previously entitled to Small Business Rate Relief - but losing it as a result of revaluation - will see their bill increase in 2017/18 by no more than £50 a month;
- 90% of pubs with a rateable value below £100,000 will have a £1,000 discount on their business rates bill; and
- A £300m fund will be established for local councils to offer discretionary relief for those businesses hardest hit by revaluation. The fund will be distributed to Councils via formula grant.

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Cabinet in August 2017 considered and agreed the options for administering the Revaluation Support Scheme (RSS) for the financial year 2017/18 and the principle of the following three years to utilise the total grant receivable of £1.696m between 2017/18 to 2020/21.

Council Tax Income

5.26 Havering has an average population and has historically been one of the lowest funded London boroughs despite having the highest proportion of older people and experiencing the fastest growth in respect of children population across all London boroughs. This has led to higher increases in Council Tax than other authorities. The Havering element of Council Tax and SFA is compared against other London Boroughs in Table 11 below.

Table 11 - Comparison of Havering Council Tax and SFA

Local Authority	Inner/ Outer London	2017/18 Council Tax (Band D) £	Provisional SFA 2018/19 £m
Highest Council Tax			
Kingston Upon Thames	Outer	1,477.46	22.74
Richmond Upon Thames	Outer	1,358.51	19.96
Harrow	Outer	1,347.66	45.45
Havering	Outer	1,317.71	40.05
Lowest Council Tax			
Kensington & Chelsea	Inner	797.92	66.93
Hammersmith & Fulham	Inner	727.81	82.85
Wandsworth	Inner	420.02	101.19
Westminster	Inner	408.47	124.93

5.27 The total income raised from Council Tax is equal to the number of Band D equivalent domestic dwellings (the tax base) multiplied by the level of Council Tax. Therefore, in terms of longer term planning under the Government's reformed system, the forecast rate of growth in housing and the type of housing will directly impact upon growing the tax base and will be increasingly important in generating a sustainable local income stream to fund the provision of Council services. This will be a key factor in determining the Council's financial strategy together with decisions on the level of Council Tax annual increases. It should also be noted that population and housing growth will also result in growth in demand for a range of services such as waste collection and disposal costs as a result the East London Waste Authority (ELWA) levy.

Tax Base

5.28 Havering's council tax base increases year on year due to growth in the numbers of houses. In 2017/18 there was growth of £1.708m and in 2016/17 £2.882m. The Council's medium term forecasting model assumes around £0.980m (0.89%) increase on council tax base per annum for the period to 2022/23. However, the Council's move to self-

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sufficiency is reliant upon sustainable growth of housing in the Borough and in the last two years, actual increases have been higher.

- 5.29 Projecting income from Council tax since 2013/14 has been complicated by the localisation of the scheme for Council Tax support (formerly Council Tax benefit), the costs of which are reflected in the Council Tax Base figure that is used to forecast and calculate the amount of income generated from Council Tax. The transfer of this cost to local government, which was previously funded fully by the Department for Work and Pensions, has also meant a significant transfer of risk as the cost of any increases in claimant numbers will fall entirely to the Council to fund; although this also means that the Council benefits from any reduction in claimants.
- 5.30 Nationally, there has been a steady growth in the Council Tax base since 2013/14 and the percentage increase year on year is rising, reflecting both the building of new homes and a reduction in the number of claimants for council tax support. Government is projecting that Council Tax receipts nationally will increase by 20% from £22.9bn in 2016/17 to £25.8bn in 2019/20.
- 5.31 The Council approved its Local Development Plan in July 2017 which sets out the ambitious vision and strategy for the Borough for future growth and sustainable developments over the next 15 years up to 2031. The plan sets out the need for new infrastructure, homes and jobs and a spatial plan that will enable the borough to rise to these challenges.
- 5.32 The Local Development Plan goes in hand with a series of economic regeneration schemes due to be considered by Cabinet in November 2017, which will enable officers to make better assumptions and estimates on the future pipeline of new houses being built. This enables better financial modelling of the impact this could have on the number of properties liable for Council tax as well as receipt of new homes bonus.

This work is in progress and the planning assumption of 0.89% increase in Council tax properties will therefore be reviewed and updated for the December 2017 Cabinet update.

Council tax level

- 5.33 Central Government continues to restrict the ability of local authorities to increase the level of Council Tax raised to fund general services through measures commonly known as 'capping'. For increases proposed above the capping limit, local authorities are required to hold a local referendum to gain approval from their council tax payers. For a number of years the threshold has been set at 2%. The Local Government Finance Settlement which is due in December 2017 will propose the threshold for 2018/19. The current planning assumption is that the threshold will remain at 2%.
- 5.34 In 2016/17, the Government relaxed restrictions on the ability of local authorities to increase Council Tax in specific circumstances in recognition

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of the continued national spending pressures upon adult social care services. The change allowed up to 2% increase in Council Tax in addition to the General Council Tax increase, provided it was spent exclusively on adult social care, known as the Adult Social Care (ASC) Precept.

- 5.35 In 2017/18, the Government made further changes to the ASC Precept, allowing local authorities to raise up to 3% in one year subject to an overall increase of 6% over the period 2017/18 to 2019/20. Increases of up to 2% in a year need to be exclusively for adult social care the same as 2016/17, whilst an increase between 2% and 3% in any one year required local authorities to additionally demonstrate that the increase would deliver improved service provision. The Council's s151 Officer is required to certify that the ASC Precept has been used in accordance with the conditions specified by Government. In 2017/18, Havering applied a 2% increase in the Adult Social Care Precept.
- 5.36 The MTFS planning assumptions in the 2017/18 budget, assumed no increase in either the general level of council tax or the ASC Precept for 2018/19. That assumption has been extended to 2019/20 and future years, to provide a consistent basis from which to make decisions on future savings proposals and the council tax strategy. This will enable Cabinet to take tax and spending decisions in respect of 2018/19 and also enable the new Council Administration after May 2018 to determine its Council Tax Strategy for the period to 2022/23.
- 5.37 In determining its Council Tax Strategy, the Cabinet will be mindful of the impact of the increase upon local Council Taxpayers and will seek a balance between the level of the local tax increase against other funding streams, its local income generation and expenditure saving proposals and their overall impact upon the level and quality of local service provision in meeting its statutory responsibility to set a balanced budget for 2018/19.
- 5.38 Table 12 sets out the 2017/18 level of General Council Tax and ASC Precept, together with a scenario of the increase in income that would result from an increase of 1.99% (maximum without a referendum) on General Council Tax and a 2% per year increase in the ASC Precept (2018/19 and 2019/20). A decision to increase the Council tax by the maximum 1.99% in each year from 2018/19 to 2022/23 would raise an estimated £11.845m to contribute towards the forecast budget gap over the period. A decision to increase the ASC precept by 2% in 2018/19 and 2019/20 will raise approximately £4.622m. Whilst every further 1% growth in the taxbase will generate approximately £1m of additional income

Table 12 - Level of General Council Tax and ASC Precept

	General Council Tax 1.99%	Adult Social Care Precept 2.00%
	£m	£m
2018/19	2.277	2.288
2019/20	2.322	2.334
2020/21	2.368	
2021/22	2.415	
2022/23	2.463	
Total	11.845	4.622

5.39 Further work will be undertaken to model the impact of increases in tax base and Council Tax increases alongside the development of savings proposals for further consideration by Cabinet in December.

6 Non-Recurrent Funding Streams

6.1 In addition to recurrent formulae driven Government funding streams, local authorities receive a range of other non-recurrent grants in respect of their service responsibilities.

Better Care Fund and Adult Social Care Grant

6.2 For local authorities providing adult social care services the Government introduced the Better Care Fund (BCF) in 2015/16. This initiative spans the NHS and local government. It seeks to join-up health and social care services, to enable people to manage their own health and wellbeing, and live independently in their communities for as long as possible. Its key ambition is to improve health and social care outcomes for the most vulnerable people in our society, placing the individual at the centre of NHS and local authority arrangements for service provision; tailoring care and support to improve client experience and quality of life. Providing integrated health and social care services also seeks to achieve cost efficiency over the long term.

6.3 Nationally the Better Care Fund is a ring-fenced fund worth a total of £5.128bn for 2017/18 rising to £5.617bn in 2018/19. This includes the Disabled Facilities Capital Grant and a new grant allocation to local authorities to fund adult social care, first announced in the 2015 Spending Review: the improved Better Care Fund (iBCF). Further, the Spring Budget 2017 included a significant increase in iBCF allocations following lobbying by a number of local authorities including Havering. All the funding is required to be spent on Health and Social Care.

6.4 Table 13 summarises the allocation of the various BCF funding streams between 2017/18 and 2019/20. For comparative purposes, the 2016/17 core BCF allocation was £6.332m.

6.4.1 The current planning assumption is the core Better Care Funding is likely to continue after 2019/20 through the medium term to 2022/23 whereas

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the iBCF is less certain and so is currently forecast to end in 2019/20, subject to clarification by Government. The income forecast over the period is £54.738m.

Table 13 - Better Care Funding Allocation

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Total
	£m	£m	£m	£m	£m	£m	£m
BCF - Core	6.442	6.565	6.689	6.816	6.946	7.708	41.166
IBCF							0
Announced 2015/16		1.978	4.202				6.18
Spring 17 Budget	3.761	2.844	1.417				8.022
Total IBCF	3.761	4.822	5.619				14.202
TOTAL	10.203	11.387	12.308	6.816	6.946	7.078	54.738

6.5 The additional adult social care monies within the iBCF announced in the March 2017 budget is a total of £3.761m in 2017/18. Adult Social Care, in consultation with local health partners, is required to ensure that these funds address three major areas, with no nationally specified proportions, and the service has applied funding to these broadly as follows:

- Meeting adult social care needs - £0.900m;
- Reducing pressures on the NHS, including supporting more people to be discharged from hospital when they are ready - £1.131m and
- Ensuring that the local social care provider market is supported - £1.730m

6.6 It should be noted that the spending plans for these monies and outcomes achieved will be scrutinised by NHS England and the DCLG. Central Government is keen to ensure that adult social care departments use the additional funding to support and reduce pressure on the NHS, particularly through winter 2017/18, and have set delayed transfer of care (delayed discharges) targets for each local authority/CCG area. These targets use a baseline of February 2017 from which to measure performance through this forthcoming winter. For local authority/CCG areas that fail to meet these targets, this could put future core BCF and Improved BCF funding at risk, including the already published new adult social care monies for 2018/19 and 2019/20. However it should be noted there is now also a lack of clarity nationally about any risk for 2017/18 overall BCF allocations in the event of failure to meet the prescribed delayed transfer of care targets (both NHS and social care delays) this winter.

6.7 For Havering, it should be noted that social care delays in this area are significantly below average and therefore the service is confident of meeting the prescribed social care delayed discharge targets. Havering's Adult Social Care performance outturn around delayed transfers of care over the last few years reflects significant investment and support in previous years, including provider rate reviews and discharge support

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services. This was reflected in the pressures incurred during 2016/17 outturn.

- 6.8 It is less clear whether the local NHS will position itself to meet its own delayed transfer of care targets for 2017/18, and work is ongoing with NHS partners to ensure schemes are put into place to robustly improve performance by reducing the delayed discharges the NHS is responsible for. The primary cause of NHS delays is around NHS continuing healthcare assessments, with patients sometimes waiting in hospital for a significant length of time for assessments to be completed and the determination of eligibility to be made. The local health system is under significant financial pressure, with the local Clinical Commissioning Group put under 'legal directions' by NHS England in respect of their budget deficit and as such are required to implement a deficit reduction plan to recover a £55m deficit in 2017/18 across Barking & Dagenham, Havering and Redbridge. The local acute hospital/health system has also been assessed as amongst a handful of trusts nationally as most at risk of not delivering robust A&E performance (not consistently able to meet the national targets around 90% of patients being seen in A&E within 4 hours). The Local NHS has indicated its priorities for 2017/18 winter are therefore linked to ensuring performance in this area is sustainably improved.
- 6.9 The Secretary of State for Health has indicated to all health systems in the position set out above, that failure to deliver against A&E performance during winter 2017/18 will not be acceptable, and also indicated that he will act jointly with DCLG to intervene in areas where he considers local authorities are not engaging sufficiently to support local health system partners.
- 6.10 Within this context, there remains a complete lack of clarity at a national level what the level of financial risk/penalty may be of failure to meet the NHS and social care delayed discharge performance targets, nor what the approach will be where one partner (such as social care) meets its targets and the other (such as the NHS) does not. Further information will be provided to Cabinet in future reports as it is known. Adult Social Care is working closely with the local NHS around plans that will ensure the delayed discharge target is met to quantify and mitigate the risk.
- 6.11 The Better Care Fund helps support the delivery of the aims of the 2014 Care Act, which puts an emphasis on giving people more choice and information as well as looking at prevention and delaying the escalation of peoples need.
- 6.12 To ensure a sustainable local health and social care system through improved health and wellbeing outcomes, the Council is working collaboratively with both the London Borough of Redbridge and London Borough of Barking and Dagenham and Barking, Havering and Redbridge CCGs and both local major NHS provider trusts to develop an Accountable Care System (ACS).

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- 6.13 The ACS will be a partnership approach between the CCG, NHS provider trusts, the Councils and other partners such as the voluntary sector, to provide collective responsibility for resources and population health. The new operating model will give more control to the local health and care system within the borough. This could include devolved transformation funding for certain services, a 'one stop shop' for regulation or an ability to redeploy staff from the national bodies.
- 6.14 The principle behind the concept is that the system can provide joined up, better coordinated care and any savings made in the cost of care provision are shared across the system. To achieve the intended cost savings, providers typically work together to develop a case management approach targeted at patients at risk of potentially avoidable admissions or emergency department visits. Such case management is either preventative (proactively contacting patients with a high risk profile and deriving a community based care plan) or reactive (case coordinators based in a hospital intercept patients and direct them to other resources).
- 6.15 The work on the ACS is being led by the Chief Executive and the Director of Adults Social Care and Health, who will be reporting to the Health and Wellbeing Board and where necessary to Cabinet on developments within this area. The Chair of the Health and Wellbeing Board approved the 2017/18 plan on 11 September 2017. The planned use of iBCF in 2018/19 will be factored into the updated budget forecasts to be presented to Cabinet in December 2017.
- 6.16 The forecast budget gap does currently factor in the use of this iBCF funding in 2018/19 and 2019/20, and this is illustrated in the budget Gap at figure 1 in section 1 of this report. This shows that the Council will incur increased financial pressure upon in its MTFs if the Government does not propose more sustainable financial support for Adult Social Care beyond 2019/20. Further, there is an underlying risk that if the core BCF does not continue beyond 2019/20 that this will create further financial pressure in the medium term financial strategy given that it is supporting ongoing expenditure on core social care services. It is therefore important that the Council continue to lobby for fair and adequate and sustainable funding to support Adult Social Care Services.

New Homes Bonus

- 6.17 The New Homes Bonus (NHB) was introduced in 2011/12 in order to encourage local authorities to grant planning permission for new housing developments return for additional revenue funding that can be used to fund service provision generally.
- 6.18 During 2016, Government consulted on changes to the NHB. The outcome of this consultation has been to introduce a threshold of 0.4% from 2017/18. This means that Government expect housing growth to increase by 0.4% as a matter of routine each year without any financial incentive for local authorities. Therefore, only annual growth over 0.4% will attract NHB.

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In addition, Government has implemented a change to the payment terms and the number of years for which payments are made will:

- reduce from 6 years to 5 years for 2017/18
- reduce to 4 years from 2018/19.

It is important to note that the final change only makes the bonus payable where planning permission is granted when the local authority grants planning permission directly and isn't a result of an appeal. Therefore due consideration will need to be to the potential adverse financial consequences of the loss of NHB that will be linked with successful appeals going forward.

- 6.19 The revised forecast of NHB to 2019/20 is incorporated in the corporate risk budget on a non-recurrent basis and is not projected within the MTFS model beyond these time frames. It is utilised in exceptional circumstances to offset directorate overspends where a directorate is not reasonably able to manage financial pressures within its approved budget.
- 6.20 As in all previous years, it should be noted that no additional spending is included in the revenue budget or Capital Programme to match the grant and there is no longer a top-slicing of funding for the London Local Enterprise Partnership.
- 6.21 Officers are currently doing further financial modelling on what income they believe could be 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. Further updates will be provided in future Cabinet reports between December 2017 and February 2018.

Education Services Grant

- 6.22 Since its introduction in 2013/14, the Education Services Grant (ESG) has been calculated on a per pupil basis according to the number of pupils for which a local authority or academy is responsible. The ESG general funding rate was reduced from an initial £116.46 per pupil in 2013/14, to £87 in 2015/16 and to £77 per pupil in 2016/17. 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.
- 6.23 In the Government Spending Review and Autumn Statement 2015, a phasing out of the ESG was announced to save £600m. The £77 per pupil will cease from September 2017 with a reduced transitional rate of £66 per pupil for the period April 2017 to August 2017. In financial year 2018/19 only the retained element remains. Havering's allocation from ESG since 2015/16 has been as follows:

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Table 14 - ESG Funding since 2015/16

Funding	2015-16 £m	2016-17 £m	2017-18 £m	2018-19 £m
Retained duties @ £15 per pupil	0.564	0.570	0.589	0.589 (estimate)
General rate @ £87/£77 per pupil	1.980	1.766	0.000	0.000
Transitional rate @ £66 per pupil	n/a	n/a	0.568	n/a
Total	2.544	2.336	1.157	0.589

6.24 The ESG is intended to fund a range of the statutory duties of a local authority including:

- Director of children's services and personal staff for director,
- Planning for the education service as a whole,
- Revenue budget preparation,
- Preparation of information on income and expenditure relating to education, and external audit relating to education,
- Administration of grants,
- Authorisation and monitoring of expenditure not met from schools' budget shares Formulation and review of local authority schools funding formula,
- Internal audit and other tasks related to the authority's chief finance officer's responsibilities under Section 151 of LGA
- Functions in relation to the exclusion of pupils from schools, excluding any provision of education to excluded pupils
- School attendance
- Responsibilities regarding the employment of children
- Management of the LA's capital programme including preparation and review of an asset management plan, and negotiation and management of private finance transactions
- General landlord duties for all buildings owned by the local authority, including those leased to academies.

6.25 In financial year 2017/18 cost savings were made in the education service of £0.590m and there was a one off contribution from the Corporate budget of £0.551m. In preparation for the cessation of the Education Services Grant, the Council is carrying out a review of its education services, including the traded elements, in order to determine the most appropriate configuration and offer for the future. The Council is doing this work in the context of working with schools on the establishment of a sustainable self-improving education system across the borough. The detailed financial impacts of this project will be reported as the work progresses.

Public Health Grant

6.26 Public Health responsibilities were passed to Local Authorities from April 2013 and Havering's Public Health Grant for 2017/18 is £11.224m. Allocations for future years have not yet been published but in February

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2016, it was announced that nationally there will be a 9.6% cash reduction over the period to 2019/20 – equating to approximately 2.65% reduction per annum. This assumption has been incorporated into Havering's financial forecast for the planning period and shows a steady decline in the grant.

Consultation and guidance issued recently as part of introducing 100% Business Rates Retention scheme suggests that Public Health is one of the additional responsibilities that local authorities will take over when the scheme is in place. Therefore, the current assumption is that the Public Health Grant will cease to exist beyond 2020/21. If 100% Business Rates Retention doesn't progress then it would be expected that the grant would continue. The table below illustrates the grant allocations for the remaining life of the grant.

Table 15 - Public Health Grant Allocation

Grant Allocation	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Public Health	11.224	10.927	10.637	-

Independent Living Fund

- 6.27 From April 2015 local authorities became responsible for supporting care costs of those clients who were previously in receipt of Independent Living Allowance. The Council has received a grant to fund these additional costs and in February 2016 allocations for the period 2017/18 to 2019/20 were announced.

Table 16 - Independent Living Grant Allocations

Independent Living Fund Grant Allocations				
	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Independent Living Fund	0.625	0.605	0.585	-

The current planning assumption is that this grant will cease to exist from 2020 and therefore any ongoing care costs for this cohort of clients will need to be funded from the Council's general resources.

Other Grants

- 6.28 The number of other grants that the Council receives is now relatively small in terms of both number and value. The majority are assumed within individual service budgets and the current working assumption is that expenditure matches the grant levels and any reduction in grants will be matched by reductions in expenditure.

7 Other Local Income

Investment Income

- 7.1 The Authority held an average cash balance of £225m during the first quarter of 2017/18. The average rate of return was 0.68% against a budgeted rate of return of 0.60%, giving an interest earned figure of £0.372m as at the end of quarter 1 against a full year budget of £1.349m.
- 7.2 The level of return achieved on these cash deposits is low by historic standards, and whilst the likelihood of an increase in interest rates in the short term is receding, inflation continues to run above the Bank of England target rate of 2% eroding the value of investment returns.
- 7.3 The Authority continually seeks to improve risk adjusted returns on its cash balances and mitigate as much as possible the erosion of value caused by inflation. In pursuance of that objective, Council approved an amendment to the Treasury Management Strategy Statement (TMSS) on 13 September 2017 to enable the authority to take advantage of a broader range of investment opportunities.

External Borrowing

- 7.4 The forecast of external debt and Capital Financing Requirement (CFR) assumed in the TMSS are set out below:

Table 17 - Borrowing

	31/03/17 Estimate £m	31/03/17 Actual £m	31/03/18 Estimate £m	31/03/19 Estimate £m	31/03/20 Estimate £m
Long Term External Debt	210.234	212.751	210.234	210.234	256.234
CFR	251.203	250.578	282.403	310.409	342.046
Internal Borrowing	40.969	37.827	72.169	100.175	85.812

- 7.5 The TMSS assumes total long term debt will remain unchanged until 2019/20 when the Council will need to take up to £46m of further external borrowing as cash balances that are currently available for internal borrowing become exhausted. A review of the medium term Capital Strategy is currently underway and will further inform the capital expenditure forecasts at which point the Authority's external borrowing requirement will be further reviewed and included in the December MTFS report to Cabinet to set out the combined impact of capital financing costs and income from investments on the General Fund position.
- 7.6 Of the £100m capital budget allocation for regeneration and development projects implied in the above CFR figures, the Authority is currently committed to:

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- Mercury Land Holdings (MLH) - £17m for the Cathedral Court on the Oldchurch Site, PRS Scheme
- Quarles Site from Havering College, purchase and potential loan - £10m

7.7 There are a number of other proposals currently being developed to be met from this budget allocation, including:

- Mercury Land Holdings revised business plan
- Bridge Close Development
- Rainham and Beam Park Development

The current intention is to present the above schemes at the November 2017 Cabinet meeting for decision making to enable a comprehensive assessment of the future capital programme to be considered at December Cabinet .

Fees and Charges

7.8 Local authorities have powers to charge for various types of services they provide, from Adult Social Care functions to collection of garden waste, and others. Some charges are covered by government guidance and some set by statutory instrument, whilst for other services the Council has more discretion in the charges set.

7.9 The Council's 2017/18 budget for income from fees and charges is £52.123m and will contribute towards closing the budget gap in future years. The Council continues to review its discretionary fees and charges and the cost of service provision to ensure that income generated will meet the full cost of service provision which is in line with the medium term shift to financial self-sufficiency.

The table below provides the splits of budgeted fees and charges in 2017/18 by service:

Table 18 - Fees and Charges by Directorate

Fees & Charges	
Directorate	Revenue Budget 2017/18 £m
Children Services	(7.548)
Adult Services	(10.483)
Neighbourhoods (including Housing Services)	(20.422)
oneSource Shared	(0.411)
oneSource Non Shared	(6.566)
Chief Operating Officer	(6.641)
Corporate	(0.051)
Grand Total	(52.123)

7.10 In 2017/18, the Council increased its discretionary fees and charges by 2% and for 2018/19, a 3% increase in fees and charges is assumed to keep track with the UK Consumer Price Inflation (CPI) which was 2.9% in August 2017. Given the upward pressure on inflation, this assumption will be kept under review. The 3% increase is expected generate £0.287m additional income in 2018/19.

8. Forecast Expenditure Pressures

8.1 The Council faces a range of expenditure pressures that could have a serious impact on the financial position. The key financial expenditure pressures and risks are set out below:

8.2 The key pressures facing the Council are highlighted below:

- **Adult Services**

The financial pressures set out previously in the report during 2016/17 and emerging into 2017/18 for adult services are due to continue into the medium term. A number of steps are being taken by the Adults Service to reduce demand and dependency for services, looking at working more collaboratively with health and to maximise the opportunities around the Better Care Fund. However demand for services continues to increase as a result of the ageing population within Havering and longer life expectancy.

As set out in section 6 the Council is in receipt of £6.442m of Better Care Fund in 2017/18 which is assumed to increase over the medium term to £7.708m in 2022/23. The plans for the Better Care Fund are continuing to be worked on by the Adults Services and were reported to and approved by the Health and Wellbeing Board in September 2017. Further details will be incorporated into the December Cabinet report.

- **Children Services**

As set out previously, Havering has the highest number of net inflow of Children the authority has seen alongside an increase in the number of local births. Demand for Children Services has continued to increase specifically with a high number of high cost placements and limited supply for long term residential provision within the Borough.

The Ofsted report published in December 2016 inspected services for children in need of help and protection, children looked after and care leavers. This highlighted within the majority of areas that services 'required improvement'. The inspections in 2011 and 2013 rated the services as 'adequate'. The report was complementary that the situation is improving, however there is further work to do.

The Children Service therefore faces a number of challenges: increasing demand for services whilst the Council's financial resources are reducing and a need to improve services following the

Ofsted report. The real challenge for Children Services is therefore to transform the service to accomplish the competing priorities over the short to medium term.

- Homelessness
The number of households presenting to the Housing Advice and Homeless Service for assistance due to homelessness continues to increase. This is primarily due to the increase in eviction rates as a result of increased private sector rents. The number of contacts through the Public Advice and Service Centre (PASC) in 2014/15 was 9,873 and this is expected to increase to 13,400 in 2018/19. Following the contacts, there are number of outcomes including:
 - A proportion are given on the day/one off housing advice
 - A proportion are sign-posted to other services
 - A proportion are assisted through detailed housing option case-work which may result in a prevention outcome
 - Where a homeless prevention is not achieved, a formal homeless application/decision is made
 - Following completion of enquiries into the formal homeless application, a proportion are accepted and accommodated in longer term temporary accommodation leased from private landlords

Whilst there has been an increase in demand for customer contacts, a lack of property supply has result in the use of expensive and unsuitable bed and breakfast accommodation with a peak in January 2016 where 96 households were housed through this route.

9. Levies

- 9.1 The levies are part of the Settlement and therefore need to be taken into account when setting the Havering element of the Council Tax. There are a number of levies, but the predominant levy relates to East London Waste Authority (ELWA) as the Statutory Waste Disposal Authority (WDA). Further, the behaviours of Havering residents in relation to the volume of waste generated has an impact upon the level of the ELWA levy over the medium term.
- 9.2 The current overall levy budget is £15.667m, of which ELWA accounts for £14.925m (95.3%). At this stage ELWA has not taken account of any changes in the distribution of levies arising from the changes in Council Tax base. However provision has broadly been made within the Council's Financial Strategy for increases in the ELWA levy of £1.000m in 2018/19 and per annum thereafter.

ELWA

- 9.3 The cost of waste disposal under the contract with ELWA Ltd is approximately 94% of ELWA's total gross expenditure. The ELWA revenue budget has three general components: contractor costs, non-contractor costs and income. A total ELWA tonnage figure of 0.469m tonnes has been assumed for 2017/18. The overall waste level is

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influenced by population increases, household behaviour in disposing of waste and the pace of new development as well as the constituent councils' monitoring and enforcement of waste collection. The tonnage of the constituent councils are Barking and Dagenham (0.097m), Havering (0.113m), Newham (0.137m), and Redbridge (0.122m).

- 9.4 At this stage, officers are awaiting the budget report from ELWA, which is subject to consideration by the ELWA Board. The final levy will be included in the February 2018 Council Tax setting report.

Other Bodies

- 9.5 Of the remaining levying bodies, for planning purposes, a provision of £0.050m has been made, pending notification of the planned rises.

10 Freedom Pass and Taxicard Scheme

- 10.1 Havering's contribution to the Freedom Pass Scheme currently stands at £8.313m. The Freedom Pass Scheme is demand led and, as such, the costs are largely uncontrollable. The cost of the scheme to the London Borough of Havering has increased year on year since its inception.
- 10.2 The total cost of the Freedom Pass Scheme across London is based on the total cost of trips as well as the costs of card production. The cost model is negotiated and agreed between Transport for London (TfL), the Association of Train operating Companies (ATOC), independent bus operators and London Councils (on the boroughs' behalf) based on the scheme principle of leaving transport operators in a "no better and no worse off" situation than they would have been in the absence of the scheme. The scheme is also subsidised. The total cost is then apportioned between the boroughs based on the usage of active passes in each borough. This is determined by a snapshot of active passes undertaken at the end of May each year.
- 10.3 Havering has commissioned a review of the active passes in circulation with a view to deactivate those no longer in use. It is not yet possible to predict with any accuracy how many passes will eventually be deactivated as a result of this work.
- 10.4 It is important to note that, in order to smooth any significant changes in cost brought about by sudden changes in public transport modes, the cost calculation takes into account the average number of journeys made over the past two years. As such, the full financial benefit of this work will not be realised until 2019/20.
- 10.5 The Council's contribution to the London Taxicard scheme, which is also funded through London Councils, currently stands at £0.150m. The 2018/19 contribution level will be reflected in the final budget report.

11 Risk Management

Financial Management within Service Directorates

- 11.1 In 2016/17, the Council maintained its track record of managing expenditure within its overall approved budget. Despite experiencing significant financial pressures within adults' social care, children's social care and housing which contributed to a final overspend of £4.465m across service directorates; this was met from the corporate risk and corporate contingency budgets to achieve an overall balanced position on the General Fund.
- 11.2 The progress in delivering mitigation plans approved by Cabinet in February 2017 is variable and is summarised in section 2 of this report. These underlying pressures have been carried forward and are a primary focus of the SLT to ensure delivery in 2017/18.
- 11.3 It is essential that strict budgetary control is maintained throughout 2017/18 and future years. Directors must take all possible management actions to control expenditure within their approved budget. Indications at period 4 (see section 3) are that Children's Services and Housing continue to experience significant financial pressures due to rising service demand. Therefore other services will be required to exercise restraint on expenditure as part of the corporate effort to manage within the Council's overall approved budget in the current and future years.
- 11.4 The Council cannot afford to relax its efforts in managing the financial challenges that are inherent within its operational environment if it is to keep the MTFs on track. SLT is focused on delivering the previously agreed savings and mitigation plans which are key assumptions in calculating the financial gap of £41.996m set out in this report.
- 11.5 In recognition of the increasingly challenging financial environment, in January 2017 Cabinet approved the establishment of a Business Risk Reserve to provide a safety net against the risk of non-delivery of savings and/or over optimism with funding assumptions. The balance on this Reserve stands at £16.627m and may be utilised to support the delivery of savings and manage short term pressures subject to the reprioritisation of commitments against it. In addition, the uncommitted balance on the Corporate Risk Budget (formerly corporate provisions) within the base budget stands at £4.500m and is available to manage the overall budget position. The Corporate Contingency budget of £2m remains uncommitted. Current planning assumptions are for it to reduce to £1m from 2018/19 but this will be kept under review. These sums are within the management control of the Chief Finance Officer and are available to be deployed as required at an appropriate stage after Service Directorates have exhausted all other measures to manage within their approved budgets whilst meeting statutory requirements.

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Government Legislation

- 11.6 Following the General Election on 8 June 2017, the new Government is in place but uncertainties remain around future policy direction and the impact this will have on the local authority finances.
- 11.7 In the 2016 Budget and Autumn Statement, Government announced a further £3.5bn of additional spending cuts and at this stage it is unclear if the new Government will continue with those cuts and if they do, what the impact will be on Local Government generally and specifically Havering.
- 11.8 The Queen's Speech on the 21 June 2017 set out the legislative programme for the Government. As expected the main focus was around Brexit but there were a number of announcements directly impacting on Local Government, including:
- Bringing forward proposals for consultation that will set out options to improve the adult social care system and to put it on a more secure financial footing (see also section 6); and
 - Current arrangements for schools which will be subject to review.

There are a number of plans which were not highlighted - the removal of free school meals and the expansion of Grammar schools which it is assumed have been put on hold.

- 11.9 The biggest risk for local government is that the Queen's Speech did not include a revived Local Government Finance Bill which had been progressing through Parliament until the General Election was called. Amongst other things, this Bill provided the legislative framework for the introduction of 100% Business Rates Retention and the Fair Funding review. Consequently, there are a number of outstanding questions for business rates retention and the wider reform of local government funding which presents uncertainty for local authorities in developing their financial plans. Further updates will be reported to Members as new information becomes available (see section 5).

Brexit

- 11.10 On 23 June 2016, the UK voted to leave the EU. This has created volatility in economic conditions over the last 12 months albeit to a lesser extent than originally anticipated. Negotiations on the UK's plan to leave the EU have started and at this stage the impact on Local Government finances remains unclear. Particular areas of risk include restrictions on workers access and the reaction of the financial markets which may impact interest rates, inflation and the exchange rate – all of which influence the Council's income levels and costs.

Planning Decisions impact on New Homes Bonus

- 11.11 The proposed changes to the rules governing future New Homes Bonus will have potential financial implications for the approach adopted by the Council's Planning Committee. NHB will only be payable where the local authority grants planning permission directly and this isn't a result of a successful appeal. Therefore it will be important for the Planning

Committee to ensure the continued robustness of its planning decisions to avoid unnecessary reductions in this funding stream. (see section 6)

Implications of a future recession

- 11.12 In normal circumstances, an economic upturn is followed by an economic downturn. The UK has been experiencing growth over a number of years but the outcome of the EU referendum, the recent General Election and the further risk of austerity has created uncertainty in economic conditions and the prospect of a recession over the next three years is possible. This would have an adverse impact on council tax income, business rate income, service expenditure and income from fees and charges. The higher the proportion of business rates, council tax and fees and charges is of total Council, income the greater the potential risk to financial stability. The use of reserves (particularly the Business Risk Reserve) during such a volatile period may need to be considered alongside potential reduction in services as further restraint on expenditure would also be required.

Expenditure and Income assumptions

- 11.13 The current projections of expenditure and funding set out in the detail of this report are based upon key assumptions summarised in section 1. Whilst the forecast is based upon the best information currently available it is important to recognise that the strategic, operational and financial environment in which the Council operates is complex and assumptions will need to be reviewed and revised as appropriate when new information becomes available.

Staffing

- 11.14 London and the South East has high levels of employment and quality staff are hard to find. There is strong competition amongst public service bodies for quality people and new organisations are also entering the market. Competition exists across most professional roles and is particularly strong for roles such as social worker, planners and building control, finance and legal professionals. In a changing environment the Council must ensure recruitment and retention of the right people with the right skills, knowledge and experience to deliver its corporate priorities.

Pension Fund

- 11.15 The Pension Fund last actuarial review was completed in 2016/17. The investment strategy has been agreed by the Pension Fund Committee. However, there is the risk that the level of deficit recovery isn't sufficient therefore at the next actuarial review in 2019/20 may see an increase in the employers pension rate.

12 New Budget Proposals

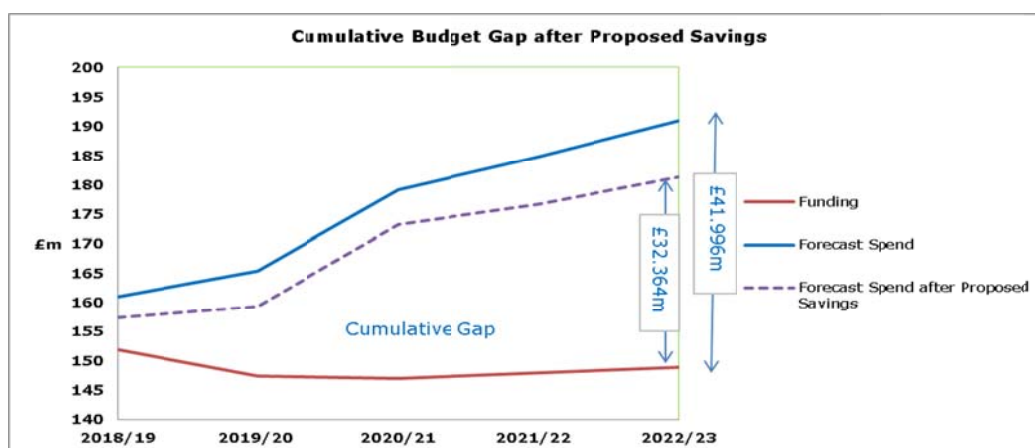
12.1 SLT have been working over the course of the year to develop a range of budget proposals for consideration and approval by Cabinet to balance the 2018/19 budget and lay plans for achieving financial balance over the medium term that will be considered more fully by the new Administration post May 2018. This work has also included a review of financial performance to identify the opportunity to re-base budgets to align with actual income and expenditure levels.

12.2 Table 19 below sets out the progress made to date in developing proposals to close the budget gap.

Table 19 Proposals to Close the Budget Gap	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	5 Year Plan
Budget gap	9.148	8.848	14.177	4.657	5.166	41.996
Savings proposals total	(1.568)	(2.501)	(1.839)	(2.134)	(1.589)	(9.632)
Application of the iBCF	(1.986)	(1.936)	0.00	0.00	0.00	(3.922)
Non-recurrent iBCF	0.000	1.986	1.936	0.000	0.000	3.922
Remaining gap	5.594	6.396	14.274	2.524	3.577	32.364

12.3 Figure 3 below illustrates the forecast cumulative budget gap over the 5 year period to 2022/23:

Figure 3 - Cumulative Budget Gap after proposed savings



12.4 The budget proposals in this report contribute gross savings of £9.632m over the 5 year planning period, including £1.568m in 2018/19. Non-recurrent iBCF of £1.986m is applied in 2018/19 and £1.936m in 2019/20. This is assumed to drop out of the base budget in 2020/21 and will be reviewed in light of future Government announcements on adult social care funding.

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12.5 Budget proposals are summarised by directorate in Table 20 and by type of saving in Table 21. A number of invest to save proposals require investment of capital and/or revenue resources which are assumed to come from the £5m Efficiency Budget within the Capital Programme or the Transformation Reserve. A summary of proposals by directorate is set out in Appendix 2.

Table 20 - Savings Proposal by Directorate

Directorate	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
Neighbourhoods	(0.350)	(0.450)	(0.500)	0.000	0.000	(1.300)
Chief Operating Officer	(0.149)	(0.019)	0.000	0.000	0.000	(0.168)
oneSource	(0.194)	(0.164)	(0.064)	(0.279)	(0.214)	(0.916)
Adult Services	(0.225)	(1.443)	(0.850)	(1.150)	(1.000)	(4.668)
Children's Services	(0.650)	(0.425)	(0.425)	(0.705)	(0.375)	(2.580)
Total	(1.568)	(2.501)	(1.839)	(2.134)	(1.589)	(9.632)

Table 21 - Savings Proposal by Type

Type of Proposal	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
Savings	(1.568)	(2.012)	(1.350)	(1.150)	(1.000)	(7.081)
Invest to Save	0.000	(0.489)	(0.489)	(0.984)	(0.589)	(2.551)
Growth	0.000	0.000	0.000	0.000	0.000	0.000
Total	(1.568)	(2.501)	(1.839)	(2.134)	(1.589)	(9.632)

12.6 The Cabinet is asked to consider and approve the initial budget proposals as summarised in Tables 20 and 21 and Appendix 2.

12.7 Subject to approval, of these proposals, the estimated residual budget gap for 2018/19 is £5.594m. Further detail on these and further proposals will be presented for consideration and approval by Cabinet in December to enable consultation where required and review of all proposals by the Overview and Scrutiny Board in January.

13 Timetable and approach for Budget Setting

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

- November Cabinet:
 - consider a range of Economic Development Projects for capital investment to generate long term revenue income returns to feed into December Cabinet
- December Cabinet:
 - update on financial assumptions following the Chancellor of the Exchequer's November Budget.
 - consideration of further detailed budget proposals by officers for savings and income generation.

Cabinet 20 September 2017

- Consideration of alternative budget proposals put forward by Members of the Opposition and Scrutiny Board
- consideration and approval of the proposed Capital Programme and impact on Treasury Management Strategy
- January Cabinet:
 - Update on financial assumptions following the Provisional Local Government Finance Settlement
 - Further consideration of measures to balance the budget
- January Scrutiny Board
 - Review and Challenge of Cabinet approved budget 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

13.2 Uncertainty around a number of funding streams will continue until the Local Government Finance Provisional Settlement is announced in December and further updates will be brought before Cabinet in January and February 2018 to enable the finalisation of budget proposals including decisions on the level of Council tax increase that will apply for 2018/19.

14 Capital Investment Strategy

14.1 As set out in the budget reports to Cabinet and Council in February, officers within the Capital Asset Management Group (CAMG) are in the process of reviewing the Council's existing Capital Programme and forecast capital resources, within in the context of the priorities set out in the new Corporate Plan. Work is underway to develop a renewed Capital Strategy, Asset Management Plan and Capital Programme that will facilitate and support future investment decisions to deliver improved outcomes to the community.

14.2 It is important to recognise that the internal resources such as capital receipts and revenue contributions that have historically been available to fund capital investment, are becoming increasingly limited. It will therefore be increasingly important that the Council works in partnership with other public and private sector organisations to lever the external funding required in order to realise its vision as well as adopting robust arrangements for prioritisation of future capital investment to deliver the best value for money possible.

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- 14.3 The Council has traditionally funded its capital programme for a number of years from internal resources – mainly capital receipts. However, as indicated by the agreement to earmark £100m of capital investment to be funded from prudential borrowing in the 2016/17 Capital Programme, the Council will become increasingly reliant upon borrowing as a source of funding capital investment over the medium term if it is to achieve its ambitions.
- 14.4 There is a direct financial impact upon the General Fund Revenue Budget in relation to all capital expenditure which is funded from borrowing irrespective of the Council's overall Treasury position in terms of managing its overall short and long term cash position and its need to borrow externally, for example from the Public Works Loans Board (PWLB). This is in the form of a charge to the revenue account in respect of capital financing costs which comprise an element to provide for the repayment of loan principal (known as the Minimum Revenue Provision or MRP) plus the interest charges on borrowing. These charges are governed by statutory capital financing regulations by Government and are managed within the CIPFA Prudential Code of Practice which aims to ensure that local authorities make robust and prudent decisions in respect of capital investment and are able to afford to repay the debt and meet the interest charges associated with such investment.
- 14.5 The rules around accounting and financing of capital expenditure are complex and the impact upon the revenue account will vary depending upon the individual circumstances of individual projects and the nature of the investment into the creation or acquisition of physical assets and in relation to investment of equity as a shareholder into companies and joint venture delivery vehicles.
- 14.6 The CAMG is working to develop revised and updated strategies and plans that will be reported to Cabinet through the budget process through to February leading to Council approval of the Capital Programme for 2018/19 and that will underpin the development and delivery of the Capital Programme to 2022/23 as follows:

Capital Strategy

- 14.7 This will include:
- a clear set of objectives and a framework within statutory legislation that proposes new capital expenditure to be evaluated to ensure that all new capital investment of Housing Capital and General Fund Capital is targeted at meeting the pledges and the Council's Priorities
 - A framework within which the Council identifies, programmes and prioritises capital requirements and proposals arising from business plans submitted through a stringent gateway appraisal mechanism comprising of Strategic Outline Cases and Full Business Cases to deliver a number of long term benefits for the Borough;
 - A methodology for considering options for funding capital expenditure to determine an affordable and sustainable funding policy framework,

whilst minimising the ongoing revenue implications of any such investment;

- Assessment and assurance of the overall balance of risk within the strategy on a range of investments over timespan, type of investment and rate of return;
- Arrangements for the management and reporting of capital expenditure including the assessment of project outcomes, budget profiling, deliverability, value for money and security of investment.
- Identification of the financial resources available for capital investment over the MTFS planning period

Asset Management Plan

14.8 The Asset Management Plan will guide the Council in the effective utilisation of resources including its asset base to provide services to the community. Key considerations set out in the plan will be:

- Investment in core assets such as highways, buildings and IT which are essential to the delivery of effective services over the medium to long term. Capital investment in assets will be informed by effective asset management and planning.
- A review of existing assets in terms of suitability for purpose, alternative and future use, and maintenance requirements. The aim will be for the Council to rationalise its asset portfolio and only retain assets that support the delivery of its goals, offer value for money or in some other way are important for community, heritage or other significant social purpose.
- The Council will consider the use of the surplus assets and the generation of future capital receipts which are critical to the councils future capital funding streams

Capital Programme

14.9 A review of the existing approved Capital Programme and its financing is being carried out and this review will form the basis from which Cabinet will be asked to consider the draft 5 year Capital Programme in December. The intention is to develop and deliver a 5 year capital programme that:

- is affordable in terms of revenue implications
- delivers value for money,
- is balanced in terms of financial risk
- is within the capital financing limits of the Prudential Code
- allows forward planning of sustainable investments over the long term.

14.10 The review will also consider improved arrangements for effective management and reporting of the Capital Programme and projects within it over their lifecycle.

Regeneration and Development

14.11 In 2016/17, £100m was included in the capital programme for Regeneration and Development schemes to be funded by prudential borrowing subject to approval of robust business cases. A number of potential schemes are in the business case development stage and these will come forward for consideration by Cabinet from November 2017 and will feed into the Capital Programme proposals to be considered in December and the Capital Strategy over the medium term. In addition, a significant development within the Housing Capital Programme is enabling the 12 Estates programme. This is being funded from with the HRA ring-fenced revenue resources.

Financing

14.12 With the shift in local authority funding to more a position of self sufficiency it is essential that the Council takes a long term and strategic approach to the allocation and use of the available capital resources. The sustainability of these funding streams and how the council supports its future requirement for capital investment ambitions is a critical consideration in establishing a sustainable long term strategy. Capital Programme decisions will be informed by the impact on the MTFS and the affordability and financial sustainability of individual schemes.

14.13 The Council will finance capital expenditure through a combination of:

- Capital Receipts
- External Funding
- S106 Contributions / CIL
- Revenue Contributions to Capital
- Capital Grants
- Prudential Borrowing

14.14 Each funding stream will be considered in terms of risk and affordability in the short and long term, and in terms of the impact on the general fund and the MTFS. The current and future economic climate has a significant influence on capital funding decisions.

14.15 Capital receipts are generated from the disposal of Council assets. The generation of capital receipts is within the control of the Council and depends on releasing assets in a planned way. Planned disposals will be kept under regular review to ensure the timing maximises the potential receipt where market conditions are not favourable.

14.16 It is also critical that we plan the funding into the future and have a sustainable approach. Capital expenditure will only be permitted where funding streams have been identified and confirmed as secure via signed Funding Agreements. There will be corporate oversight of the allocation of the available funding streams to ensure the best strategic use of those funds.

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

Under S151 of the Local Government Act 1972 a local authority has to make proper arrangements for the administration of its financial affairs.

Under S 28 of the Local Government Act 2003 a local authority has to review its budget calculations from time to time during the financial year and take appropriate action if there is any deterioration in its budget.

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

Havering has a diverse community made up of many different groups and individuals. The Council values diversity and believes it essential to try to understand the different contributions, perspectives and experience that people from different backgrounds bring to our community.

All proposals will be considered to understand the equalities impact assessment and this will be developed for inclusion in the December report.

**BACKGROUND PAPERS
BUDGET SETTING COUNCIL MEETING.**



**Budget report 2017/18 - LOCAL GOVERNMENT ACT 2003
ROBUSTNESS OF ESTIMATES, ADEQUACY OF RESERVES AND THE
MANAGEMENT OF RISK**

1. BACKGROUND

- 1.1 Section 25 of the Local Government Act 2003 requires Chief Financial Officers to report to their authorities about the robustness of estimates and the adequacy of reserves when determining their budget and level of council tax. Authorities are required to consider their Chief Financial Officer's report when setting the level of council tax.
- 1.2 Section 26 of the Local Government Act 2003 gives the Secretary of State power to set a minimum level of reserves for which an authority must provide in setting its budget. The minimum would apply to "controlled reserves", as defined in regulations. The intention in defining controlled reserves would be to exclude reserves that are not under the authority's control when setting its call on council tax, for example the balance on the Housing Revenue Account and schools balances. There may also be a case for excluding other types of reserve. Regulations to define controlled reserves would only be made in conjunction with regulations setting a minimum.
- 1.3 It was made clear throughout the Parliamentary consideration of these provisions that section 26 would only be used where there were grounds for serious concern about an authority. The Minister said in the Commons standing committee debate on 30 January 2003: "The provisions are a fall back against the circumstances in which an authority does not act prudently, disregards the advice of its Chief Finance Officer and is heading for serious financial difficulty. Only in such circumstances do we envisage any need for intervention." There is no intention to make permanent or blanket provision for minimum reserves under these provisions.
- 1.4 If the need to apply a minimum to an authority were identified, the minimum would be set after considering the advice of the CFO to the authority and any views expressed by the external auditor. The authority would be consulted on the level to be set.
- 1.5 Any minimum set under section 26 applies to the allowance to be made for reserves in the budget. There is nothing to prevent the reserves being used during the year even if as a result they fell below the minimum. However, if in preparing the following year's budget it was forecast that the current year's reserves would fall below the minimum the CFO would need to report to the authority under section 27.

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2. REPORT OF THE CHIEF FINANCIAL OFFICER

2.1 The Chief Financial Officer for the London Borough of Havering has provided the following assurance:

The London Borough of Havering prides itself on its record of creating balanced budgets, delivering challenging savings programmes and carefully managing its finances within each financial year. It is this track record which has helped to build the foundations for the 2017/18 budget and will need to continue via the MTFS through to 2019/20.

The confirmation of the four year financial settlement, whilst anticipated, is disappointing. It will result in substantial reductions to Havering's allocation of Government funding. The failure of the funding formula to acknowledge the significant financial pressures associated with rapid population growth particularly in relation to its impact on social care services for children and adults results in significant financial pressures for the Council to manage the delivery of services in the forthcoming years. This is exacerbated by the effects of the 2016/17 settlement introduction of the 'core spending power' calculation, which removes government funding from those authorities which are considered able to raise proportionately more council tax, without regard for the need to spend to meet escalating demand for services. As a consequence, Havering continues to receive lower than the average level of funding for London despite having the highest proportion of older people within its population, which is a key driver of adult social care expenditure.

In light of the substantial savings made in recent years (£38.2m over the period 2014/15 to 2016/17), the challenge in preparing the budget for 2017/18 and the MTFS has been to identify proposals which minimise the impact of budget reductions upon delivering the Council's priority services

However, the future financial position for Havering is very challenging. Whilst the proposal contained within this report will achieve a balanced budget in 2017/18, a gap of £2.895m is forecast in 2018/19 and a further £6.325m in 2019/20. The Council will need to develop further savings and income generation plans during 2017/18 and to consider its future Council Tax strategy as part of developing the 2018/19 Medium Term Financial Strategy within the context of further pressures and funding opportunities that may arise during 2017/18.

Consequently, while I have assessed the proposals contained in this report for 2017/18 as robust, with a sufficient safety net for any savings that are ultimately non-deliverable, it is clear that further proposals for the MTFS will need to be developed to enable the s151 officer to sign off the budget as robust in future years.

All of the above comments are made in the context of a planning assumption that the Council will agree to a Council Tax increase of 3.95% including an Adult Social Care precept of 2% in 2017/18.

The budget reinforces the need for on-going robust financial management, strict budgetary control and the on-going monitoring of savings delivery plans with effective processes in place to promote these.

In assessing the robustness of estimates, I have drawn on the advice of service chief officers that the proposals presented for 2017/18 can be delivered within the available resources envelope.

In January, Cabinet approved my recommendation to establish a Business Risk Reserve with effect from 1 April 2017, into which the estimated underspend of £5.4m on the corporate risk budgets will be transferred as part of accounts closure. The Business Risk Reserve will provide a safety net against the risk of non-delivery of savings and/or over optimism with funding assumptions within 2017/18.

The projected levels of earmarked reserves as referred to in section 3 below have been established to meet planned projects or budgetary pressures and are considered adequate at this time. The sums earmarked for these purposes were agreed as part of the annual approval of accounts process and the use and application of those reserves are reviewed quarterly as part of the budget monitoring process. The General Fund Balance stood at £11.75m at 31 March 2016 and it is recommended that it be retained at this level.

In addition, the inclusion of a Corporate Risk Budget of £8.9m within the base budget for 2017/18 will further support the management of budgetary pressures through 2017/18. It should be noted that prior commitments of £5m have been made against this budget thereby protecting services from further budgetary reductions. The Corporate Risk Budget is forecast to reduce to approximately £3m by 2018/19 and therefore it will become more difficult for the Council to respond in a similar manner to future adverse financial pressures.

The Corporate Contingency budget remains at £2m which is adequate for the risks that it is expected to cover. Whilst it is currently planned to reduce to £1m in 2018/19, this will be kept under review during 2017/18 and in preparing the 2018/19 Strategy.

The budget does not provide specific funding for any unforeseeable, extraordinary items of major expenditure, for example, the implications of flooding. If such an event were to occur, it would need to be funding from the existing general reserves and balances, if the general contingency were exhausted.

Against such a challenging financial background, it will therefore be crucial that reserves, both general and earmarked, continue to be managed in the medium term in a way that gives due regard to the need to set a legally balanced budget.

Debbie Middleton BA(Hons), CPFA
Section 151 Officer

3 ROBUSTNESS OF ESTIMATES, RESERVES AND BALANCES

3.1 The budget has been prepared using the three year Financial Strategy agreed by Cabinet in September 2016 as its starting point. This Strategy has been developed through:

- The revenue and capital budget strategy statements, which are included as part of this report;
- The forecast position as set out in the Cabinet report of January 2017 and February 2017 and the proposals set out in those reports;
- The outcome and forecast impact on the Council of the Local Government Financial settlement as reported to Cabinet in January 2017;
- A variety of announcements concerning the new funding system;
- The Autumn Budget Statement 2016.

3.2 As the development of the budget for 2017/18 has progressed, the position has been the subject to review and challenge with Heads of Service, SLT, the Leader of the Council, Cabinet Members and the Lead Member for Financial Management. Due consideration has been given to the over-arching strategy above along with the delivery of corporate priorities in undertaking these reviews and this is reflected in the detailed budget proposals.

Budget proposals have been developed within the context of current and future service plans. Furthermore:

- a) the Council has reviewed its pressures alongside those identified by the LGA and London Councils to provide a cross check/challenge;
- b) In respect of savings, the proposals have been risk assessed against an agreed set of criteria which will ultimately inform in-year monitoring;
- c) A review of legislation takes place on an ongoing basis as part of the budget development process to assess possible implications;
- d) Financial modelling related to the new funding system and its impact on Havering's budget has been under periodic review and refinement, especially in light of the Autumn Budget Statement and the Provisional Local Government Financial Settlement announcements.

3.3 At a more detailed level, budgets have been built having due regard to:

- Staffing changes incorporating proposed restructures;
- Inflation;
- Contractual commitments
- Existing budgets;
- The proposals for budget adjustments and savings;
- The impact of changes to specific grants.

3.4 The budget includes a contingency that will provide a reasonable level for unforeseen issues that could arise during the year. This has had due regard to a risk assessment. Further information on the basis of this is set out later in this statement.

3.5 A review of the 2016/17 significant budget variances has taken place to assess any impact on the 2017/18 budget outside of the proposals in order to:

- (a) Ensure action plans are in place where a possible adverse variance could occur;
 - (b) Ensure use of any possible additional favourable variance is considered in the context of the overall strategy;
 - (c) Inform the risk assessment of contingency and reserves.
- 3.6 The proposed budget provides a foundation from which to develop the financial strategy over the period to 2019/20 and work will continue during 2017.

4. THE ADEQUACY OF ESTIMATES, RESERVES AND BALANCES

- 4.1 As set out in section 1, local authorities are required to maintain adequate balances to deal with unforeseen demands upon financial resources. It is the responsibility of each authority to set its level of reserves based on local conditions, but taking into account national factors. Although a view can be sought from the external auditors it is not their responsibility to prescribe or recommend the appropriate level. In setting the level, the Authority should take into consideration the advice of their Chief Finance Officer (CFO), taking into account all local relevant circumstances.
- 4.2 The Strategy agreed by Council in July 2009 set out that the minimum level for of the General Fund Balance will be £10m. This Strategy has been maintained since that time. The General Fund Balance stood at £11.750m at 31 March 2016. An annual review of the balance has taken place as part of the budget setting process. The risk assessment is attached at Annex 1 and the CFO's advice is that the minimum level of reserves. Given the increasingly uncertain financial climate and financial pressures, it is recommended that the minimum General Fund Balance requirement should remain at its current level of £11.75m which represents 7.2% of the Council's net 2017/18 budget including levies.
- 4.3 After taking account of the most recent projection in the current year and more significantly the outcome of the Local Government Financial Settlement, it is anticipated that the Council's general reserves will remain at £11.75m as at 31 March 2017.
- 4.4 Members will be aware that the working balances provide protection against unforeseen events that could impact on the authority. Reserves must be used carefully and can be used only once. As reflected in the revenue budget strategy, the Council will not utilise General Fund Balances to subsidise its budget or suppress council tax increases. Further it will not use any specified or earmarked reserves to subsidise its budget or to suppress council tax increases on an on-going basis as this is neither financially sustainable nor prudent. It may, in exceptional circumstances, utilise appropriate specified or earmarked reserves to bridge short term forecast budget shortfalls to facilitate delivery and implementation of projects and service initiatives that will generate additional income or reduce on-going expenditure to achieve a balanced budget. Approval of decisions to utilise reserves in this manner will require the approval of a robust business case including implementation plan.
- 4.5 The Council maintains a number of earmarked funds for specific purposes and their use is planned and approved for these purposes. Often they are used to

comply with accounting policies, manage arrangements across financial years, or to fund known future commitments. The most significant are for the following:

- (a) Insurance Reserve (6.9m), which is part of the Insurance Self-Funding Arrangement to meet future liabilities incurred but not yet claimed.
- (b) Strategic Reserve to support corporate transformation (£27.6m) – these funds are earmarked for the various transformation programmes across the Council – as well as priority projects and bridge funding for schemes such as the Property Strategy and the Leisure contract cash flow.

The sums established within earmarked reserves were agreed by SLT as at 1st April 2016 and were fully allocated to projects or liabilities. The balances will be reviewed again as at 31 March 2017.

- 4.6 Other reserves continue to be expended/ planned in accordance with their specific approved purpose. A review has taken place of these as part of the budget finalisation.
- 4.7 The working balances of the HRA are also subject to a risk assessment; this will be included in the report to Cabinet on the HRA budget for 2017/18.

5. OPPORTUNITY COST OF RESERVES

- 5.1 Holding general reserves to meet unexpected events or emergencies is a necessary requirement. However, there are opportunity costs and benefits of holding cash balances, which can be measured in different ways, depending on what these resources were alternatively to be used for. For example, holding cash gives a financial benefit in contrast to using the cash to fund capital expenditure. The financial benefit would be the difference between the investment return and the total borrowing cost. At the current time due to low interest rates, these are in fact broadly neutral. However, a cost of around 4% will be incurred in respect of a requirement make revenue provision to repay debt.
- 5.2 On this basis, for every £1m of cash held, the purely financial benefit could be deemed to be £0.040m per annum or approximately £0.400m per year for balances of £10 million. This is dependent on prevailing money market conditions, which in the current economic climate can fluctuate significantly. Using the balances to repay debt earlier would not achieve a matching saving given the costs around early redemption and the similarity in short-term lending rates and long-term borrowing rates. For information, £1m equates very approximately to 1% on the level of Band D Council Tax.
- 5.3 If, however, this is considered in the context of using these balances to fund one off expenditure, then the opportunity cost is the improvements that would accrue from that expenditure. This might for example be improvements in services, increased performance or some other measure and would be assessed via a business case. Such items have been considered by officers during the course of developing the MTFs, but these have not generally been included within the final proposals or the detailed budget given the broad financial constraints within which Havering is operating.

- 5.4 Should these items be included within the budget, they would obviously provide a basis for additional and/or improve services; with the need to appreciate that reserves exist for various reasons, and once expended, either have to be replenished, or the funding terminated. This is the opportunity that is being potentially foregone by holding general reserves. However this is only relevant to the extent that such proposals align to Council's priorities and Medium Term Financial Strategy.
- 5.5 It is important that in considering the level of working balances that the issue of the opportunity costs and benefits of such an approach is also considered and that Members weigh up the potential benefits against the risks. The other important factor in making this judgement is to consider is that balances can as indicated only be spent once, and can realistically only be used to support one off expenditure, or to allow time for management action to be implemented to address ongoing expenditure requirements.
- 5.6 As stated above, the use of significant levels of balances to fund ongoing spending or reductions in Council Tax can pose material financial risks, especially given that the Council's ability to generate funds to replenish reserves through Council Tax is severely restricted by the Council Tax capping regime. Hence the level of reserves held overall requires a balance to be struck between the opportunity cost of holding balances against the unknown risks facing the Council and the need to safeguard the provision of local services if such risk were to crystallise.

6. REVIEW OF RESERVES AND CONTINGENCY

- 6.1 The assessment of the sums required for reserves and contingency purposes is reviewed regularly, taking into account the various risks facing the Council, the level of risk, the actions taken to mitigate risk, and the financial assessment of the risk. The review include consideration of the Corporate Risk Register, with the objective of ensuring that all such risks having a potential financial impact are covered in the reserves and contingency assessment.
- 6.2 The outcome of this review is set out in Annex 1 to this Appendix. This shows each risk and the detail associated with it, and includes a cross-reference to the Corporate Risk Register. Each risk is evaluated in term and a financial assessment is made of the potential costs arising and the degree of likelihood, which in turn drives the sum for which provision is being made.
- 6.3 The Corporate Risk Register is kept under review by the Senior Leadership Team, so any changes are then reflected when the reserves and contingency assessment is updated.

**RISK ASSESSMENT FOR GENERAL BALANCE / CONTINGENCY 2017/18
REVIEWED AT 20 JANUARY 2017**

Risk (incl Corporate Risk Register item)	Risk Owner	Risk Description	Assessment of Risk (counter measures in place)	Contingency		General Balance	
				Value of Assessment £000	Value Having Regard to Risk £000	Value of Assessment £000	Value Having Regard to Risk £000
1. Failure to Balance the MTFS over the period to 2019/20 CR4Failure to deliver a balanced budget	S151 SLT	4 year financial settlement includes a significant reduction in grant funding over the four year cycle to 2019/20. The impact has not yet addressed as part of MTFS development. A gap of £9.2m exists in the MTFS over 2018/19 and 2019/20 and represents a financial risk to the Council.	Medium to High			9,200	9,200
2. Failure to achieve in year budget balance in year overspending CR4Failure to deliver a balanced budget	S151 SLT	Mitigating action plans have been presented which to cover £7m overspend in 2016/17 (as reported to January Cabinet). If these are not brought into line it will place further risk on budget strategy. The Business Risk Reserve will provide a buffer of £5.5m approx. Latest forecast projections suggest that pressures may be closer to £7.5 m leaving a risk exposure of £2m	Medium	7,500	2,000		
3. Impact of changes in homelessness legislation CR4Failure to deliver a balanced budget	Director of Housing	The amount of Housing Benefit we claim for a unit of temporary accommodation has a £40 per week element called a management fee. This pays for managing the property, and the cost of managing the individual. That is ceasing from April 2017. In its place there will be a transitional lump sum payment and we are due to be notified in a letter by DCLG in January £0.5m provided for within Corporate Risk Budget although overall costs could be £1m to £2m	High			1,500	1,500
4. Reduction in ESG CR4Failure to deliver a balanced budget	Director of Children's Services	Reduction in ESG funding will require savings in 2016/17 and beyond. There is a gap of £0.7m to be found. There is a long term pressure of £0.2m which could potentially increase if short term measures are not converted into longer term savings.				700	700

Risk (incl Corporate Risk Register item)	Risk Owner	Risk Description	Assessment of Risk (counter measures in place)	Contingency		General Balance	
				Value of Assessment £000	Value Having Regard to Risk £000	Value of Assessment £000	Value Having Regard to Risk £000
5. Apprenticeship levy implementation CR4 Failure to deliver a balanced budget	SLT	Cost of apprenticeship levy is factored into the MTFS although current estimates suggest that there is an under-provision of £0.250m.					250
ASSESSMENT HAVING REGARD TO RISK LIKELIHOOD – MINIMUM LEVEL REQUIRED			Overall Medium Risk	7,500	2,000	11,650	11,650

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HAVERING 2018/19 REVENUE BUDGET PROPOSALS SUMMARY															
Ref No.	Directorate	Specific Service Area	Type of Proposal:	Proposal Title	Proposal Description	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Total £m	FTEs in service	Headcount in service	FTEs Reduction	Currently Vacant posts
			S - Savings I - Invest to Save G - Growth												
NEI 3	Neighbourhoods	Public Realm	S	Review Cleansing and Grounds Maintenance to drive efficiencies	Public Realm services are under review and using best practice gained from other Local Authorities and the private sector will be redesigned to reduce operational costs whilst maintaining or improving service standards. The process will involve reviewing operational resources including staff, vehicles and plant.	(0.100)	(0.450)	0.000	0.000	0.000	(0.550)	171.0	234.0	37.1	40.0
NEI8	Neighbourhoods	Public Realm	S	Outsourcing of Public Realm Services	Following the efficiency saving review (NEI3), it is proposed that a market testing exercise is carried out with the objective of externalisation which officers believe could save up to £0.5m a year through the private sectors ability to procure fleet and plant directly with the manufacturer thus realising savings and local overhead savings.			(0.500)	0.000	0.000	(0.500)	171	234	9.3	40
NEI11	Neighbourhoods	Public Realm	S	Yellow box junctions.	Introducing the Moving Traffic Contravention enforcement of yellow box junctions.	(0.250)					(0.250)				
				Total Neighbourhoods Directorate		(0.350)	(0.450)	(0.500)	0.000	0.000	(1.300)	342.0	468.0	46.4	80.0
COO7	COO	Communications	S	Christmas trees and lighting	Seek to secure external funding and sponsorship for Christmas trees and lights.	(0.091)	0.000	0.000	0.000	0.000	(0.091)				
COO8	COO	Communications	S	Havering Show	Increasing Revenue to fund the Havering Show	(0.040)	0.000	0.000	0.000	0.000	(0.040)				
COO9	COO	Communications	S	Living in Havering Magazine	This proposal would phase out the production of Living In Havering magazine in printed format over a two year period, saving the base budget £0.037m per year. Living in Havering would be produced more frequently as an electronic bulletin and distributed via email. The Council already successfully produces e-newsletters and has a distribution data base of 135,000 subscribers.	(0.018)	(0.019)	0.000	0.000	0.000	(0.037)				
				Total Chief Operating Officer Directorate		(0.149)	(0.019)	0.000	0.000	0.000	(0.168)	0.0	0.0	0.0	0.0
ONE1	oneSource	IT	S	Wireless and mobile infrastructure	Leasing of council assets to communications providers to use to support wireless and mobile infrastructure. The first example is that the market will be asked to bid for the opportunity to rent street furniture e.g. lampposts to create a public Wi-Fi network via a mini-tender from an existing framework. Other projects will need to follow to reach this target.	(0.050)	(0.100)				(0.150)				
ONE2	oneSource	Crosscutting	S	Mail room Transformation	A review of systems and processes for handling incoming and outgoing post together with potential externalisation of some activities. resulting in reduction of internal staff, posting, printing and scanning costs.	(0.145)					(0.145)	17		4.0	0
ONE4	oneSource	Crosscutting	I2S	Sale of oneSource services	oneSource is currently working with Red Quadrant to establish if there is a business case for moving into a separate trading entity, however the business case is considering the current model and six other delivery models. Regardless of whether oneSource does this, the oneSource Management Team are focussed at developing the external client base in order to generate further income which will be distributed to the three Partner Councils. Red Quadrant are helping oneSource establish if this could go further if it was a separate trading entity. The growth represents investment that will be required by the Council to transition oneSource into a wholly owned subsidiary which is followed by subsequent potential increased income levels. However, these are broad estimates and can not be confirmed until the business case has been completed and the direction of travel has been agreed by the three Partner Councils.	0.139	(0.064)	(0.064)	(0.279)	(0.214)	(0.482)				
ONE4a	Corporate	Transformation	I2S	Sale of oneSource services	Implementation cost to be funded from Transformation reserves.	(0.139)					(0.139)				
				Total One Source Directorate		(0.194)	(0.164)	(0.064)	(0.279)	(0.214)	(0.916)	17.0	0.0	4.0	-
AS5	Adult Services	Learning Disabilities commissioning	S	Improved market management	Through the recommissioning of existing contracts, especially residential care and block contracts for LD clients - increased focus on Outcome based models, expansion of Direct Payments and sourcing more Community based provision. Additional opportunities from an Integrated Commissioning model being proposed by the JCU, whereby savings can be generated from a single provider delivering support on behalf of multiple agencies.		(1.000)	(0.100)	(0.100)	(0.100)	(1.300)				
AS6	Adult Services	Community Team commissioning	S	Front door changes	Prevention Strategy to manage the extent initial contact results in actual care provision rather than achieve staffing savings. Aim is to offer alternative solutions including information and advice, referral to other Council commissioned services at initial contact for those able to self manage but without the adequate knowledge or information on how to best achieve /maintain their own wellbeing effectively.		0.000	(0.200)	0.000	0.000	(0.200)				
AS8	Adult Services	Disabilities	S	Day Care Services Review	Reviewing current day opportunities to achieve efficiencies		(0.043)	(0.100)			(0.143)				
AS10	Adult Services	Community Team commissioning	S	Intermediate care tier, including Discharge to Assess	Empirical evidence from nationwide research suggest substantial benefits from discharging people into the community to be looked after improves their recovery and wellbeing, whilst also reducing their need for ongoing care/support.	(0.125)	(0.250)	(0.250)	(0.250)	(0.250)	(1.125)				
AS11 & AS12	Adult Services	Community Team commissioning	S	Managed Transitions from Children Social Care into Adults	Reduced demand through work of Preparing for Adulthood, also work on existing cases to review provision, consider extent cases can be jointly funded and wherever possible relocate out of borough provision into future supported living / Extra-care schemes within the borough	(0.100)	(0.100)	(0.100)	(0.100)	(0.100)	(0.500)				

HAVERING 2018/19 REVENUE BUDGET PROPOSALS SUMMARY															
Ref No.	Directorate	Specific Service Area	Type of Proposal:	Proposal Title	Proposal Description	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Total £m	FTEs in service	Headcount in service	FTEs Reduction	Currently Vacant posts
			S - Savings I - Invest to Save G - Growth												
AS13	Adult Services	Learning Disabilities commissioning	S	Move clients in Out of borough Residential Homes into In borough supported living schemes	Working with Housing and Regeneration colleagues to identify needs around developing Supported Living Schemes within the borough - there were approx. 73 LD clients in out borough Residential Homes costing £4.4m in 16/17				(0.500)	(0.500)	(1.000)				
AS14	Adult Services	Mental health commissioning	S	Improved market management	Targeted Management of local care market, aim to work more collaboratively around outcomes for clients and opportunities for greater shared procurement in conjunction with Health. Setting achievable targets around step down and move on.		(0.050)	(0.050)	(0.050)	(0.050)	(0.200)				
AS15	Adult Services	Staffing	S	New System implementation	More efficient working due to new case Management System. The potential FTE reduction is an estimate at this stage. However, if there is a requirement to reduced the number of FTE's, this will be sourced from existing vacancies limiting the direct impact on staff.			(0.050)	(0.150)		(0.200)	31	39	5.0	7
Total Adults Directorate						(0.225)	(1.443)	(0.850)	(1.150)	(1.000)	(4.668)	31.0	39.0	5.0	7.0
CH2	Children's Services	Business Support	S	Revised delivery model for the Business Support Service	A review and restructure of the service will take place. The review will determine what the primary business support needs are for the Social Care service. This will lead to a range of delivery models developed, with an appropriate model selected for consultation. A reduction in headcount will achieve the identified savings. Consultation will commence as soon as possible after October Cabinet with a view to full implementation by 1 April 2018. The saving achieves a reduction in the cost base by 2018-19 which is then sustained in future years.	(0.300)	0.000	0.000	-	-	(0.300)	61	69	9.0	5
CH3	Children's Services	Social Care	S	Revised delivery model for intervention support service.	The saving will be achieved by reviewing the Family Support element within the service. Analysis shows that the functions are no longer required due to a duplication with Early Help and do not deliver value for money. Posts will be deleted, contributing to the MTFs saving. Reduced agency costs and the deletion of any existing vacancies will contribute to the identified saving. Consultation will commence as soon as possible after October Cabinet with a view to full implementation by 1 April 2018. The saving achieves a reduction in the cost base by 2018-19 which is sustained in future years.	(0.300)	0.000	-	-	-	(0.300)	84	85	8.0	2
CH5	Children's Services	Placements	I2S	Creation of additional In borough placements for Looked After Children	There is scope to improve the offer that we make for looked after children to ensure we can provide suitable accommodation in borough where appropriate. This business case proposes that the council considers building and/ or using any current facilities that are available and meet requirements. With the benefit of having purpose built in borough provision the council will have the flexibility to tender out the required support care. The support care could be tendered either as a stand-alone single borough or as part of the sub-region residential care project. The savings potential (caveated by assumptions of possible costs, ongoing increasing demand and constraints around comparator information) is circa £250k pa based upon a 6 bed residential facility. A key assumption is that the new facility will be a transitional stage in the move away from residential care, and that throughput of occupants should occur on an annual basis. The ambition is, over the course of four years, to see a significant reduction in the population in residential care and a reduction in the cost base of £1m. Further detailed work will be required on costings but an indicative model is as follows. The estimated saving is based on the cost of 6 high cost placements less the assumed running costs of the new facility. This generates an estimated saving of £250,000 in the first year of operation. In the second year, the initial cohort of children and young people are able to move out of residential care into family-based settings sustaining the cost saving for this cohort. This saving is subject to the preparation and approval of a business case to secure the required capital investment from the £5m invest to save capital budget.		(0.250)	(0.250)	(0.250)	(0.250)	(1.000)				
CH6	Children's Services	Innovation	I2S	Scale and spread of Pathways Innovation Programme in Children's Social Care	By placing children closer to home, using specialist foster carers, we are less reliant on residential placements and independent fostering agencies. The difference in costs between residential and a specialist in-house carer, is circa £2,250 per week. We can save money by placing children who are currently in high cost placements, and bringing them into in-house provision. The intention would be to keep children in a specialist fostering placement for 6 month, the turnover allows for more children to be supported but subsequently increases the savings potential. Foster carers will need to be recruited and also existing foster carers 'converted' to enhanced foster carers. They will receive support from qualified practitioners so they have the necessary support to maintain resilience and the best pathway to succeed.		(0.175)	(0.175)	(0.125)	(0.125)	(0.600)				

HAVERING 2018/19 REVENUE BUDGET PROPOSALS SUMMARY															
Ref No.	Directorate	Specific Service Area	Type of Proposal:	Proposal Title	Proposal Description	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Total £m	FTEs in service	Headcount in service	FTEs Reduction	Currently Vacant posts
			S - Savings I - Invest to Save G - Growth												
CH8	Children's Services	Social Care	I2S	Invest to save proposal to build local SEND care provision	<p>We need local overnight short breaks provision, its part of the need to support families with children with ever increasing complex and challenging needs. This will complement our new special free school.</p> <p>With these 2 provisions in place we will be able to maintain children at home and avoid out of borough expensive school placements and family breakdown which are the 2 reasons we send children to expensive residential schools.</p> <p>There is a current lack of provision in this area and we pay very high rates, despite a new provider providing more competitive rates, there is still a significant pressure.</p> <p>A 6 bed residential home for children with moderate to severe disabilities with or without challenging behaviours, would also be of benefit, as we have a number of children with disabilities who end up in care and we find it difficult to find local foster carers, they end up going out of borough, leaving local schools, making the whole process more disruptive for children. This ultimately significantly raises costs for Havering.</p> <p>Building new provision will require capital investment but early analysis shows long-term revenue savings.</p> <p>A range of assumptions on building/running costs and comparator data have been made in order to calculate potential savings. The highest cost placements can cost Havering £250k per year.</p> <p>This saving is subject to preparation and approval of a business case to secure the required capital investment from the £5m invest to save capital budget.</p>				(0.330)		(0.330)				
CH9	Children's Services	Social Care	S	Charging model for children accommodated under Section 20 of the Children's Act 1989.	<p>This policy is aimed at operating in partnership with parents and legal guardians to promote best outcomes for children in care under Section 20 arrangements and further ensure that where possible parents and legal guardians financially contribute towards the care of their child. The policy is not intended to leave families in financial hardship as a financial assessment will be undertaken. However, parental responsibility for any child in care should, where feasible, encompass some financial contribution.</p> <p>Whilst the introduction of the Policy may generate some income towards maintenance costs, the main purpose of the proposal is to act as an alert to parents of the cost of the service they are requesting and allow them to reconsider other forms of family support that provides alternatives to care.</p>	(0.050)	0.000	0.000	0.000	0.000	(0.050)				
Total Children Services Directorate						(0.650)	(0.425)	(0.425)	(0.705)	(0.375)	(2.580)	145.0	154.0	17.0	7.0
GRAND TOTAL						(1.568)	(2.501)	(1.839)	(2.134)	(1.589)	(9.632)	535.0	661.0	72.4	94.0