



Haverling

L O N D O N B O R O U G H

CABINET, 8 FEBRUARY 2012

COUNCIL, 22 FEBRUARY 2012

THE COUNCIL'S BUDGET 2012/15

This report is being supplied to all Members of the Council.

**ALL MEMBERS ARE ASKED TO RETAIN THIS REPORT AND
ITS APPENDICES FOR REFERENCE AT THE COUNCIL TAX
MEETING ON 22 FEBRUARY 2012**

CABINET

8 February 2012

REPORT

Subject Heading:

THE COUNCIL'S BUDGET 2012/15

Cabinet Member:

Councillor Roger Ramsey

CMT Lead:

Andrew Blake-Herbert

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Policy context:

The Council is required to approve an annual budget and this report sets out the proposed budget for 2012/13 and includes recommendations to Council for the formal budget-setting process. This report deals with the overall budget position and sets out the detailed proposals for 2012/13 and recommends to Council the Council Tax level at band D as £1,505.00

Financial summary:

Is this a Key Decision?

Yes/No

Is this a Strategic Decision?

Yes/No

When should this matter be reviewed?

Reviewing OSC:

Value

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

Clean, safe and green borough	X
Champion education and learning for all	X
Economic, social and cultural opportunities in thriving towns and villages	X
Value and enhance the lives of our residents	X
High customer satisfaction and a stable council tax	X

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ON 22ND FEBRUARY 2012**

SUMMARY

This report outlines the context within which the 2012/13 budget is being set and identifies the Council's overall policy direction, statutory duties and financial strategy.

The Council's budget needs to reflect the level of funding allocated to it by the Government. Since the General Election, the Coalition Government has made a series of announcements, recently culminating with the announcement of the provisional Local Government Settlement. This is expected to be the last such announcement under the existing funding regime.

In anticipation of the changes that these various announcements have brought about, and in response to the Emergency Budget announced in 2010, Cabinet previously agreed a range of savings proposals in July 2010, and again in July 2011, designed to deliver savings approaching £36m. These proposals are in the process of being implemented, subject to consultation where appropriate.

The provisional settlement was announced on 8th December. Details were included in the previous report to Cabinet. In the light of the ongoing financial climate, information on a small number of budget pressures and savings proposals was released for formal consultation in January and as part of this process, was submitted to the joint Overview and Scrutiny Committee. The results of this consultation are set out in this report. Subject to any further changes made by Cabinet arising from the consultation and scrutiny, this report sets out the factors being recommended for inclusion within the 2012/13 budget.

The current position is that there would be no increase to the Havering element of the Council Tax, assuming the ELWA levy is agreed as set out in this report.

Final confirmation of the Greater London Authority (GLA) precept is not expected until the day on which the London Assembly meets, which is the day after this Cabinet meeting. The Mayor has, for the fourth year running, proposed no increase in the current precept, and this has been the subject of a similar consultation process. Any changes to the GLA position will be reported at the Cabinet meeting where known, but none are anticipated.

On the assumption that this is approved by the London Assembly, there would be no overall increase in Council Tax. The band D figure would remain at £1,505.00.

This report provides details of the various components of the budget with appendices.

RECOMMENDATION

That Cabinet, in view of the need to balance the Council's policies, statutory requirements, government initiatives, inspection regimes and Council Tax levels:

1. Consider the advice of the Chief Finance Officer as set out in Appendix H when recommending the Council budget.
2. Consider the comments received during the consultation exercise, which are set out in the report from the joint Overview and Scrutiny Committee, which is attached as Appendix J to this report when recommending the total Council budget.
3. Approve the Council's General Fund draft budget as set out in Appendix E, formulated on the basis of:
 - an ELWA levy based on the anticipated budget and levy increase
 - the budget adjustment items shown at Appendix F
 - the other assumptions set out in this report.
4. Approve the delegated schools' draft budget as set out in Appendix E.
5. Approve the establishment of the Special Corporate Budget Provision as set out in paragraph 3.15.8.
6. Delegate to the Chief Executive and Group Directors to make any necessary changes to service and the associated budgets relating to any subsequent specific grant funding announcements, where delays may otherwise adversely impact on service delivery and/or budgetary control, subject to consultation as appropriate.
7. Delegate to Group Directors to approve any spending plans for new sources of funding where these exceed £250,000, in consultation with the relevant Cabinet Member.
8. Approve the schedule of Fees and Charges set out in Appendix K, with any recommended changes in year being implemented under Cabinet Member delegation.
9. Approve the Capital Programme for 2012/13 as set out in the report and Appendix I.
10. Delegate to the Chief Executive and Group Directors to implement the 2012/13 capital and revenue proposals once approved by Council unless further reports or Cabinet Member authorities are required as detailed.
11. Agree that the final Greater London Authority precept and levies (when known) be incorporated, by making an appropriate adjustment to the contingency provision, subject to any changes being minor, to enable the band D Council

Tax to be levied in round pounds and that, if necessary, the Group Director Finance & Commerce (in the absence of the Chief Executive) report the revised recommended resolutions needed to give effect to this to Council on 22nd February 2012.

12. Agree that if there are any changes to the GLA precept and/or levies, that the Group Director Finance & Commerce (in the absence of the Chief Executive) be authorised to amend the recommended resolutions accordingly and report these to Council on 22nd February 2012.
13. Agree that information be made available to members of the public, staff, trade unions, etc, explaining the decisions made by Cabinet, and the final decision on the Council Tax setting.
14. Delegate to the Cabinet Member Value and the relevant service area Cabinet Members authority to commence tender processes and accept tenders where these relate to Capital schemes within the Capital Programme.
15. Delegate to the Chief Executive authority to consider the comments of the trade unions and to reflect any changes and/or comments in the recommendations to Council.

That Cabinet:

1. Recommend to Council, subject to recommendation 3 above, the General Fund budget, and the Council Tax for Band D properties, and for other Bands of properties, all as set out in Appendix E, as revised and circulated for the Greater London Authority (GLA) Council Tax.
2. Recommend to Council the delegated schools' budget, also as set out in Appendix E.
3. Recommend to Council for adoption the budget strategy statements set out in Appendix B.
4. Recommend to Council that a resolution be passed based on the proposals as set out in this report in order to set the Council Tax – the final text/figures to be advised to Council once the final GLA position is known.
5. Recommend to Council to pass a resolution as set out in section 8.4 of this report to enable Council Tax discounts to be given at the existing level
6. Recommend to Council the Capital Programme for 2012/13 as set out in Appendix I.
7. Recommend to Council to agree that the Capital Programme be expanded for schemes during the year which are funded via external funding under the authority of the Cabinet Member Value and the relevant service area Cabinet Members.

That Cabinet note:

1. The monitoring arrangements for 2012/13.
2. That further reports on the proposed new funding system, based on the localisation of business rates, will be brought to Cabinet as further information becomes available.
3. The prospects for 2013/14 and beyond, which indicate a very challenging financial environment still lies ahead, with little indication of any significant change, and that the need for continued financial prudence is especially important.
4. That supplementary information will be provided to Cabinet where information is awaited, such as from external bodies such as the GLA and the other levying bodies.
5. That any further reductions in grant funding introduced by the Government subsequent to the setting of the budget will be reported back to Cabinet, together with any consequent recommendations on maintaining financial stability.
6. That a further report will be brought to Cabinet setting out detailed plans for investment in primary school places.
7. That the Government has provisionally set the multiplier for National Non Domestic Rate at 45.8p in the pound standard and 45.0p in the pound for small businesses.
8. The effect of Council Procedures with regard to the moving of any amendment to the Council Tax Setting report.
9. That consultation with the Trades Unions will continue in respect of any proposals within the Budget that have an impact on staff.
10. That service budgets will be adjusted to reflect latest inflation estimates.
11. The virement and contingency rules set out in Appendix G.
12. That the expected one-off New Homes Bonus grant funds will be used to finance further Streetcare works and Business Investment activity.
13. That any reductions in the expected level of the levies will be applied in a similar manner.
14. The indicative Capital Programme for 2013/14 to 2014/15 as set out in the report and Appendix I.
15. That the Treasury Management Strategy is being presented to Cabinet concurrently with this report as a separate agenda item.

16. That **Midnight on Monday 13th February 2012** is the deadline for amendments to the Council Tax Setting and Budget Report.

REPORT DETAIL

This report is split into the following parts:

1. Overall Policy Direction and Strategy
2. Consultation and the Overview and Scrutiny Committees
3. Havering's Revenue Budget and Council Tax
4. Capital Programme
5. Treasury Management Strategy
6. GLA Budget
7. Overall Council Tax Impact
8. Other Matters
9. Prospects for 2013/14 and beyond
10. Housing Revenue Account.

Appendices provide more information in certain areas and are cross referenced to the relevant text below.

1. Overall Policy Direction and Strategy – Achieving *Living Ambition*

- 1.1 The Council's driving vision, Called *Living Ambition*, seeks to deliver a better quality of life for local people, by focusing the Council's effort around five broad goals:
- Goal for *Environment* : to ensure a clean, safe and green borough
 - Goal for *Learning* : to champion education and learning for all
 - Goal for *Towns and Communities* : to provide economic, social and cultural opportunities in thriving towns and villages
 - Goal for *Individuals* : to value and enhance the lives of our residents
 - Goal for *Value* : to deliver high customer satisfaction and a stable council tax.
- 1.2 The five goals have been adopted as the Council's new over-arching strategy and are enshrined in the corporate planning process for the new financial year. The Council's financial planning – both in terms of investment and savings, reflects this focus and are structured to support the Council's progress towards the goals.
- 1.3 The proposals in these papers follow on from the range of savings agreed in July 2010, and again in July 2011 to cover the period to 2014/15. As such they continue to reflect the local priorities as defined by the Administration in the light of a range of factors including the results of public consultation (notably the nearly 12,000 responses to last year's *Your Council, Your Say* survey), the general economic climate, the outcome of the Comprehensive Spending Review (CSR) and Local Government Financial Settlement (LGFS), and the future prospects for public sector funding.

- 1.4 It is important to note that the Council's financial strategy and budget development process is an iterative one, taking on board a wide variety of issues and enabling forward planning. These include:
- Responding to the difficult and fluid financial climate
 - Ensuring that the Council's policy priorities drive resource allocations
 - Ensuring there remain clear links between revenue and capital budgets;
 - Continuing to ensure that all budgets have defined outputs
 - Continuing to seek greater efficiencies – including through working in partnership and prioritising effectively
 - Seeking funding from external agencies and/or partners
 - Continuing to benchmark and deliver value for money.
- 1.6 There will continue to be difficult decisions to make in future years. However, the overall planning process will ensure these decisions will take place in an informed manner to ensure resource allocation matches policy and service priorities.
- 1.7 A statement, setting out the Council's revenue budget strategy, is set out in Appendix B, and Cabinet is asked to endorse this and recommend its adoption to Council.
- 1.8 It is important for the Council that our financial strategy continues the success achieved in recent years and the thrust therefore continues so that it:
- reflects the economic climate and the need for financial prudence
 - ensures the level of reserves is appropriate
 - links service planning with financial planning
 - identifies service delivery trends, changes in legislation etc. that will have a financial impact
 - accurately predicts levels of spend in the future to avoid further overspends
 - identifies revenue costs resulting from capital expenditure
 - matches resources to priorities
 - costs areas of new or increased priority
 - provides savings to balance the books
 - provides savings to fund new investment and areas of increased priority
 - costs new investment and estimates any subsequent payback
 - increases value for money
 - manages risk and uses risk assessment to inform decision making
 - ensures all projects are adequately funded and resourced.

Partnership Working

- 1.9 Partnership working is strong in Havering and the Council continues to work with key public, private and community groups to shape the development of the Borough.
- 1.10 The Council has also continued to look for potential opportunities to collaborate with other local authorities, especially those within its immediate vicinity. Havering participates in an alliance of North East London boroughs and is actively engaged in an ongoing dialogue over potential collaborations. East

London Solutions has been established as part of this process as a means of governing the collaborative opportunities, and officers are working jointly in a number of areas which offer potential scope for further efficiencies.

Economic Climate

- 1.11 Cabinet will be aware that the general economic climate has been both highly volatile and extremely unpredictable – although it could probably now be argued there is a degree of certainty since the successive CSR and LGFS announcements. Markets have fallen, interest rates have reached unprecedented lows and remained at those levels, inflation has remained volatile and broadly above Government targets, and the economic turmoil has required a massive level of intervention from the UK Government and elsewhere. The scale of the budget deficit, and the actions that would inevitably be needed to be taken to address this, have been the subject of much discussion, and have been covered in full in reports to Cabinet, starting in July 2010. Subsequent reports to Cabinet have provided updates.
- 1.12 In setting the budget for 2012/13, it is essential that this is borne in mind. The scene for public sector funding was set by the CSR announcements, and the subsequent LGFS announcements have confirmed a major reduction in local government funding. Local government is clearly heavily affected by this and has therefore needed to both plan and be able to respond accordingly. The steps already taken during 2010 and earlier this financial year have meant that the Council is well-placed to respond to the CSR and LGFS. The approach to the development of the detailed budget proposals, and the budget itself for 2012/13, has had these factors firmly in mind.

Conclusions

- 1.13 The position of the Council is that Havering is likely to continue to have severe resource constraints for the next few years, and beyond, and as anticipated, these constraints are even more marked than anticipated in previous years. This has inevitably placed severe restrictions on the resources for services even further and leaves the Council facing the need for further savings plans to meet the expected financial position arising from the CSR. Whilst this may be seen as a continuation of the experience of recent years, the scale of reductions needed in public sector spend have, as has been seen, had a major impact on funding for local government.
- 1.14 The aim of the planning process is being achieved, i.e. to establish a stable financial position, to adopt a prudent approach to the continuing development of the Council's financial strategy, and to reflect the views of our local community on the impact of budgetary pressures and Council Tax increases subject to any changes in national priorities that are outside of the Council's control. The Council is able to demonstrate that it is prioritising finance according to its business objectives and in the context of the general financial climate.

2. Consultation and Overview and Scrutiny Committees

2.1 Consultation

2.1.1 The *Your Council, Your Say* consultation at the start of 2011 asked the local community to set out its priorities for the years ahead, to help shape future spending decisions. Since then, the Council has continued an ongoing dialogue with residents and other stakeholders, in addition to more formal consultation processes. Since the publication of the budget proposals in January, the Council has:

- Scrutinised the proposals through a joint meeting of all Overview & Scrutiny committees on 19th January
- Provided information on its website and through the press, inviting comment
- Undertaken a follow-up survey sent to approximately 1,500 residents who had responded to the Your Council, Your Say survey and expressed an interest in being kept informed about services in their area. As this report went to press, almost 500 responses had been received which reinforced previous survey results – showing that the top three priorities for residents were: levels of crime, road and pavement repairs and clean streets. The results so far also indicated that satisfaction with Havering as a place to live is holding firm. 76% agreed with the statement “I am satisfied with my local area as a place to live”, against 10% who disagreed.
- Held a meeting with local business representatives (Chamber of Commerce and Federation of Small Businesses) to discuss the impact of the Council’s budget for the business community, on Monday 30th January.

2.1.2 A range of meetings with the Trades Unions and staff has taken place since the July Cabinet report, including consultation on a number of organisation restructure proposals.

2.1.3 Where possible, the proposals in this report take account of the views given by our local community.

2.2 Overview and Scrutiny Committees

2.2.1 The budgetary pressures and savings proposals were presented to a joint meeting of the Committees on 19th January 2012. This follows an earlier joint meeting following the July 2011 Cabinet.

2.2.2 The proposals have been considered by the Committees, and whilst a number of issues have been raised for discussion, no issues or comments have at the point of preparing this report been formally referred to Cabinet for its consideration. A summary of the draft minutes arising from the joint Committee meeting is set out in Appendix J.

3. **Havering's Revenue Budget and Council Tax**

3.1 **Introduction**

3.1.1 Mindful of the outcome of the consultation on the proposals, set out below are the issues and factors taken into account in developing the 2012/13 budget. As well as the results of the consultation and budget finalisation, it is important to note that the position on the levies, if significantly different from the provisional sums, could affect the final level of the Havering Council Tax.

3.1.2 The impact of the Greater London Authority precept is covered separately in section 6.

3.2 **Government Grant**

3.2.1 The final settlement was expected to be announced around the end of January, following the close of consultation on 16th January. This is likely to be too late to enable officers to incorporate this within this report. If there are any material changes in the final settlement, an update will be provided to Cabinet members, otherwise a short note will be provided. Appendix B contains summary information in respect of the provisional settlement as a backdrop to the council tax setting process; full details were included in the January report. Key matters are:

- (a) The Council submitted a written response to the consultation on the provisional financial settlement and this response is included as part of Appendix B
- (b) A meeting was held with the Local Government Minister to set out the impact of the settlement on Havering and how this in turn will affect the new future funding system
- (c) As a result of the settlement, Havering continues to receive a much lower level of grant funding than our neighbours.

3.2.2 The provisional settlement announcement identified the levels of Revenue Support Grant (RSG). For 2011/12, Havering currently receives £56.520m in formula grant. The provisional settlement gives Havering funding of £51.363m for 2012/13. In effect, Havering's RSG has been cut by around £8m in 2011/12, and a further £5m in 2012/13; this equates to a grant cut of around 20% over the two years.

3.3 **Specific Grants**

3.3.1 In the past, there was a wide range of specific grants that were received outside the general grant. Specific grants were for specific purposes and many (though a reducing number) have been subject to external audit verification prior to claim submission. They are not for mainstream funding and, hence, increased levels of specific grants have not assisted in reducing the overall Council Tax level, as they reflect a similar level of spend by the Council. These have historically changed year on year and in some cases the details have not been known until after Council Tax setting.

- 3.3.2 As explained in the Cabinet report of January 2011, there were major changes to the specific grant funding stream. Many grants ceased, either because they were ending altogether, or because they were being rolled into formula grant. This had been anticipated from the CSR, but the level of reduction was higher than had been anticipated. There was also a fundamental change, in that the new specific grant regime meant that the few grants that remained were unringfenced; this meant that it was up to local authorities to decide how to utilise them. That said, there was undoubtedly an expectation from the funding Government department of the uses to which the funding they provide would be put.
- 3.3.3 Details of the range of specific grants which the Council receives in the current year and what is now anticipated in 2012/13 are set out in Appendix C. There remain some gaps in this and there are likely to be further Government department announcements over coming months.
- 3.3.4 The budget in the past has broadly been based on services managing with the relevant levels of specific grant announced by Government departments, and, hence, amending spending plans to match the funding provided. This principle remains, although it is now applied to a much reduced range of funding.
- 3.3.5 Further announcements on grants are likely to follow the setting of the Council's budget. Assumptions are made in setting that budget on what those grant levels will be. The actual announcements may lead to differing amounts of grant funding being available. Cabinet is therefore being recommended to delegate to the Chief Executive and Group Directors to make any necessary changes to service and the associated budgets relating to any subsequent specific grant announcements – and any relating to local support services grant funding, covered below – where delays may otherwise adversely impact on service delivery and/or budgetary control, subject to consultation as appropriate.
- 3.3.6 Whilst the majority of announcements from Government will relate to existing sources of funding, there is the possibility that new sources of funding will be identified. Should this be the case, the likelihood is that such funding sources may be unringfenced, ie it is within the Council's discretion where such funds may be expended. To ensure that an effective process is in place, it is proposed that the allocation of such funds, where these fall below £250k, is at the discretion of Group Directors. However, it is recommended that any new funding in excess of this amount requires formal approval by Group Directors, in consultation with the relevant Cabinet Member, and Cabinet is asked to approve this approach.

3.4 Local Services Support Grant

- 3.4.1 The Council has also previously received an Area Based Grant (ABG) which consisted of several grants that were previously specific grants. Under the 2011/12 settlement, in effect the existing ABG broadly ceased to exist.
- 3.4.2 It had been expected that ABG and the associated grants would cease in their entirety as part of the outcome of the CSR. However, there were still a handful of grants continuing, with a value of £632k, although these became known as

Local Services Support Grant (LSSG). These have now been rolled up as part of unringfenced grants, and are shown as such in both the Appendix and the Council Tax statement.

3.5 Dedicated Schools Grant

3.5.1 Details of the Dedicated Schools Grant (DSG) were not included in the report to Cabinet in January as the approach within the settlement did not follow that in previous years. As advised to Cabinet last year, it is down to individual authorities, at least at this stage, to assess this.

3.5.2 The estimated figures for Havering are summarised below. Any changes in respect of DSG and associated specific grants have to be managed within the context of the overall budget available to schools. The provisional figures for 2012/13 are subject to change based on pupil numbers, and are as follows:

	2011/12 Adjusted £m	2012/13 £m
Overall allocation	184.739	184.462
Less Academy recoupment	(18.804)	(55.707)
Total funding	165.935	128.755

3.5.3 More details of the DSG are included later in this report, and in Appendix B.

3.6 Council Tax Freeze Grant

3.6.1 As indicated in previous reports to Cabinet, this grant was originally introduced for 2011/12, available as permanent grant funding across the whole of the CSR period. A further announcement followed, indicating an additional level of grant funding would be made available, but only for financial year 2012/13, to any authority either reducing their Council Tax or holding it at the current level.

3.6.2 On the basis of the range of factors set out in this report, the overall financial position of the Council is such that the offer of this additional grant can be accepted. This is not without a degree of risk, as the withdrawal of this funding after a single year potentially delays the need for a rise in Council Tax, and impacts on the Council's base revenue position.

3.6.3 However, given the overall financial climate, and the ongoing need for austerity, it is both prudent and sensible to hold Council Tax at the existing level for a further year. This approach will undoubtedly be welcomed by the local community. There are already a number of uncertainties over the budget setting process for 2013/14, this is simply a further factor to be taken into account at the appropriate time.

3.7 New Homes Bonus

3.7.1 The New Homes Bonus (NHB) was introduced last year with the aim of encouraging Local Authorities to support housing growth within their respective areas and in doing so, receive an unringfenced grant as a reward. In broad terms, local Authorities who increase the number of properties / bring properties

back into use would benefit. Information on the NHB was included in the report to Cabinet last February.

3.7.2 Based on the latest estimates and the latest Government proposal, the grant for Havering would be £395k for the current year and a further, estimated, sum of £442k for 2012/13, making a cumulative sum of £837k in that year.

3.7.3 The Bonus is a cumulative grant thus increasing each year for a six year period. As stated within the New Homes Bonus Consultation, funding for the 2011/12 grant was announced in October's CSR, however funding beyond this will only be partially funded from Central Government and the remainder will come from the Revenue Support Grant. This will have the potential effect of reducing Havering's RSG / Redistributed Business Rates in future years. It remains unclear whether this funding will remain in place throughout the whole CSR period, nor what effect these payments will have as and when the new funding system is introduced.

3.7.4 It is not therefore felt to be sufficiently robust or reliable to incorporate as base budget funding, although clearly any funds received are available on a one-off basis. Once there is some clarity over the impact of the new funding system, it will be possible to assess whether this will become a long-term source of additional funding. This will be reviewed as part of the budget setting process for 2013/14.

3.7.5 The funds due to be received for 2011/12 and 2012/13 are understood to be guaranteed. As this is an unringfenced grant, it can be expended as councils choose. It is proposed that these funds will effectively be treated as an earmarked reserve, available for use on a one-off basis. The aggregate sum available in 2012/13 will be £1.232m, including funds received in 2011/12. It is proposed that these funds will be deployed on:

- Further investment in Streetcare, which has remained the key priority for residents, and
- Business investment, aimed at both bringing new businesses to Havering and encouraging those already here to remain in the borough.

3.8 Future Grant Funding

3.8.1 The future position was covered at some length in the reports to Cabinet in December 2010 and January 2011. These set out details of, firstly the CSR, and secondly the LGFS. The latter was announced only for financial years 2011/12 and 2012/13 whereas the former covers a four year period. It had been made clear that changes to the settlement system were expected, and these would apply from 2013/14 onwards.

3.8.2 The anticipated effect of the CSR was set out in the December 2010 report. Very broadly, the level of reduction in funding anticipated for Havering was subsequently reflected in the detailed LGFS announcements for both 2011/12 and 2012/13. The figures published also indicated a flattening out in likely grant reductions in 2013/14, but a further fall in the last year of CSR. However, this would not only depend on the actual overall level of funding available to

DCLG for local government, it would also depend on the funding system in place to distribute it.

- 3.8.3 Cabinet has previously been advised of the Government's intention to revert to a system where local authorities retain their business rate income, whereas under the current system, this is operated as a national pool. Further announcements were made prior to Christmas as part of the publication of the Local Government Finance Bill. At this stage, although details are still awaited, this transition will occur. It is unclear precisely how this will impact on funding, although it is understood that the information within the existing system will be used as the basis for migrating to the new system. This has been confirmed in the guidance issued as part of the publication of the Bill.
- 3.8.4 Alongside the Bill and the expected move towards localised business rates, Cabinet will be aware from previous reports of a number of other developments that will inevitably impact on the Council's financial position. These include the localisation of Council Tax benefits, further academies adjustments, and changes to the local government pension scheme.
- 3.8.5 This leaves considerable uncertainty over future funding levels. Whilst Havering has a long term plan in place, it will clearly be necessary to revisit this plan once more information becomes available. Further reports will be brought to Cabinet as and when this information is published, and as more details become available, once these have been fully analysed and the impact assessed. This degree of uncertainty does emphasise the need for prudence and sufficient capacity within the Council's budget to deal with the introduction of the new funding system, which may bring unexpected changes, and the other factors.

3.9 **General Inflation**

- 3.9.1 The previous report to Cabinet set out the broad approach being adopted. In essence, provision is being made for pay awards in line with Government announcements, whilst provision for inflationary rises in contracted services and income reflect the relevant circumstances in each case. Separate provision has been made for rises in utility costs, as these tend to be significantly higher than any general provision. The situation will be kept under review as the year unfolds, though at this stage, no change is envisaged. Inflationary rises remains an area of risk running into 2012/13 and will need to be carefully monitored.
- 3.9.2 A modest increase in fees and charges has been built into the annual review process as indicated. Account is, as usual, being taken of any fees set statutorily, as these are outside the control of the Council. The schedules of fees and charges are set out in Appendix K and the level of changes is being reflected in service budgets.

3.10 **Concessionary Fares**

- 3.10.1 Havering's contribution for 2011/12 is just under £7.4m. Details of the proposed contribution for 2012/13 were included in the previous report to

Cabinet. The overall increase for Havering has been confirmed as £342k. As indicated in that report, this is a further area of budget risk for future years.

3.11 Carbon Trading

3.11.1 The Carbon Reduction Commitment Energy Efficiency Scheme (CRC) brought in the UK's first mandatory carbon trading scheme, starting in 2011/12.

Provision was made in the budget for an estimated cost of around £450k, as indicated in the report to Cabinet in February 2011.

3.11.2 Whilst this is still in its early stages, initial forecasts indicate that the majority of this budget will be required. It is therefore proposed to retain the budget at the existing level, but to further review this once the position for 2011/12 is clearer.

3.12 Members Allowances Scheme

3.12.1 Given the financial climate and the challenging nature of the outlook for public sector finances, it is essential that the Council's democratic processes are reviewed to ensure that they deliver value for money to the local community. It is therefore proposed to undertake a further review of the Members Allowances Scheme and make recommendations to Council. The outcome of the review of the Scheme will be presented to Annual Council in May.

3.13 Levying Bodies

3.13.1 The levies are part of the local government settlement and therefore need to be taken into account when setting the Havering element of the Council Tax. The latest information in respect of levies is set out in Appendix D; at this stage the figures are shown as either provisional or estimated, with final figures expected shortly.

3.13.2 There are a number of levies, but the predominant levy relates to the East London Waste Authority (ELWA). The current overall levy budget is around £11.65 million, of which ELWA accounts for £10.9 million. As has been previously reported to Cabinet, ELWA's budget continues to identify further increases over the duration of the Council's financial strategy.

3.13.3 The ELWA budget is now due to be approved at the board meeting on 6th February 2012. The papers for that meeting may not be available in time for this to be reflected in this report; that being the case, supplementary information will be provided as necessary. However, early indications from ELWA are that both the overall levy increase, and Havering's element of it, will be in line with that previously reported to Cabinet.

3.13.4 For planning purposes, an increase of 5% in the remaining levies had previously been anticipated, although in financial terms, this only equates to around £38k. The final figures are dependent on the Council Tax base for each funding authority, so the provisional levies for 2012/13 are currently awaited. The figures included in the Council Tax statement are therefore estimates.

3.13.5 It is understood that the final ELWA budget proposals, due to be published at the same time as this Cabinet report, will recommend a reduced levy for

2012/13, below the level now assumed. Clarification is being sought from the Authority. With this in mind, should there be any reductions in the estimated position with the levies, including ELWA, it is recommended that this is applied for the non-recurring purposes proposed for the New Homes Bonus, as set out in paragraph 3.7.5. Supplementary information will be provided to Cabinet ahead of the Cabinet meeting.

3.14 Collection Fund and Council Tax Base

3.14.1 As part of the administration and management of Council Tax, the Council is required to maintain a separate Collection Fund Account into which its Council Tax receipts are paid. Each year, any surplus balance on this fund must be used to reduce the Council Tax in the following year, and any deficit must be met by increasing the Council Tax, or if significant by making a contribution to the Fund to keep it in balance. The budget setting process must take the position on the Fund into account, although clearly the final year end position will not become known for some months. So a prudent assessment is made of the forecast position and that is then reflected within the budget.

3.14.2 The Collection Fund is operated on behalf of both the Council and the GLA. Any contribution to and from the Fund is split on the basis of their respective responsibilities. The Fund operates in such a way that even very minor variations in recovery levels will affect the Fund balance. Thus, a shortfall in recoveries can lead to a deficit on the Fund, as will changes in discounts and bad debts.

3.14.3 For 2011/12, based on the latest available information, it is currently anticipated that, for the first time in several years, the Fund will show a surplus at year end. This is therefore reflected in the Council Tax statement, as required. Given the volatility in this area, the position can change. Therefore, although this surplus is reflected in the overall budget and Council Tax statement, a matching budget provision has been made. This is a prudent approach and will ensure that, should the Fund revert into a deficit position, this will not adversely impact on the medium term financial position.

3.14.4 The Council Tax base is reviewed each year to take account of new properties and changes to other factors, such as exemptions and discounts. Following this review, the Council Tax base for 2012/13 has been set at 90,139.

3.15 Proposals – Budget Savings and Budget Adjustments

3.15.1 As set out in the January Cabinet report, the financial climate has meant that scope for any further investment, or ability to absorb additional pressures, is extremely limited. The reports to Cabinet in July 2010 and 2011 set out a range of savings proposals aimed at bridging the forecast gap expected to arise from both the Emergency Budget and the CSR, and designed to deliver savings of £35.1m over a 4 year period. These savings proposals are in the process of being implemented, subject to consultation where appropriate, and are being included in the 2012/13 budget. The proposed phasing of this was as follows:

	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m
Cumulative Savings	9.5	19.0	32.3	34.6	35.1

- 3.15.2 The January report included a small number of unavoidable budget adjustments, mainly pressures. The final proposals are set out in Appendix F. As previously reported to Cabinet, only those budget adjustments that are unavoidable have been included. These have generally resulted from circumstances outside the control of the Council.
- 3.15.3 In assessing the overall financial position at the point that the Emergency Budget, and subsequently the CSR, was announced, provision was made for a number of factors, including potential budget pressures, inflation, the Council Tax base, and levies. This enabled an assessment to be made of the potential budget gap, and formed the basis on which the savings proposals included in the July 2010 and July 2011 Cabinet reports were compiled. Those proposals were designed to deliver most, but not all, of the projected four year gap. Clearly, these factors were assessed some time ago, and it is now appropriate to revisit those impacting on the coming financial year, 2012/13.
- 3.15.4 A number of factors have moved in a positive direction, either due to external circumstances or resulting from decisions made by the Council as part of its budget setting process. The material elements of this include a reduction in the proposed contribution to the ELWA levy for 2012/13, the continuation of the pay freeze within the public sector, and growth in the Council Tax base.
- 3.15.5 Alongside these, the forecast gap anticipated a degree of budget pressure arising on an annual basis, alongside the expected demographic budget growth required for adults services. Given the ongoing financial climate, it is felt that, other than the two items set out in the January report, it is not appropriate to provide specific growth or financial provision for any other pressures.
- 3.15.6 Finally, the assessed budget gap included the possibility of being bridged through Council Tax rises. By freezing Council Tax for 2012/13, Havering can take advantage of the additional grant offered by the Government, accepting that this – at least currently – is only available for 2012/13.
- 3.15.7 Whilst these factors all work to the Council's advantage, all local authorities are facing unprecedented change in future funding arrangements, let alone the potential cost that will be incurred in handling the changes. This is a significant financial risk and one which, if possible, the Council should make specific financial provision for.
- 3.15.8 With that in mind, it is proposed to create a Special Corporate Budget Provision of £2.5m. Further reports will be brought back to Cabinet on the planned utilisation of this Provision, but it is intended to cover the following:
- Revenue impact of pressures in Children's Placements if these cannot be contained within existing budgets

- The potential impact of migration to the localised business rates system, including any investment needed to retain the existing business rate base and/or to attract new businesses to locate into Havering
- The potential impact of migration to the localised Council Tax benefits system
- Unexpected consequences of any further adjustments to academies' funding
- Possible shortfalls in achieving the full range of savings already approved by Cabinet
- The potential impact of the imminent transfer of Public Health functions to local authorities
- Financial consequences arising from changes to the local government pensions scheme
- Funding to bridge any shortfalls in capital receipts and/or additional spend required to maintain capital assets in line with any needs analysis
- Funding required to sustain the corporate transformation programme to ensure the ongoing deliver of savings previously approved by Cabinet
- The one-off impact of reversing the 2012/13 Council Tax freeze grant
- Rises in utility bills that create a permanent, ongoing base budget effect.

3.15.9 Although a Contingency Fund exists within the budget – which is covered elsewhere in this report – this is fundamentally provided to deal with in-year issues, and not base budget ones. The proposed Corporate Provision is being established to provide a firmer, long term, permanent budget to deal with a wide range of issues that will have a financial impact, albeit at this point in time one that cannot be financially evaluated nor for which specific timings can be quantified. A risk based assessment of the Provision is set out in Appendix H as part of the Chief Finance Officer's assessment of budget robustness.

3.15.10 The degree of uncertainty facing local authorities remains at a very high level. To ensure that the Council has a stable financial platform, with a robust approach to budget setting, it is recommended that this Provision is created at this point, as part of the budget setting process for 2013/14. This provides a suitable cushion that will provide funding to ensure that the Council is well-placed to absorb the impact of fundamental changes to its funding base, as well as the other issues listed above, to avoid what could potentially be a very difficult year. Not the least because of the high risk details of the funding available to the Council may not be known until around Christmas.

3.15.11 There are alternatives; to allocate some or all of these funds directly into service areas, to retain no provision at all, or to use the provision to reduce council tax. Given that it is not possible to properly evaluate most of these issues, allocating funds into service areas at this point in time is not seen as prudent. The option of having no provision at all could potentially leave the Council facing the combined issues of the loss of one-off grant monies coupled with the risk of a reduction in overall funding from Government, through the new system. Savings plans for the proposals included in the successive July reports are now so well advanced – or have already been delivered – that there is little scope for now delaying them. Reducing Council Tax would in turn reduce base income as well as causing cash flow issues and is not considered to be prudent, not the least because of the scale of the potential list of issues. Finally, any prospect of offering residents a rebate by a direct payment to them

has been ruled out as other authorities have taken advice and this has not been ruled to be legally possible.

3.15.12 Should all these factors work against the Council, there are very real prospects of a big rise in Council Tax being needed – which would trigger a referendum – or the need to make urgent savings. The Administration do not believe that any of these options is either tenable or in keeping with its aim of keeping Council Tax rises down to the lowest level possible.

3.15.13 The budget proposals, which have been open for public consultation since January, and the information set out in this report, explain how the Council will prioritise funding for next year, while enabling the Council Tax to be held at the same level as the previous year, ie **no change is being recommended to Council.**

3.15.14 As well as the proposals set out, the final budget reflects these elements; more detailed information on these was contained in the January Cabinet report:

- Pension Fund; the existing provision is being maintained pending greater clarity over the long term future of the Scheme
- Social Care services; provision has been included to reflect the ongoing impact of demographic changes
- Interest levels; the planned increase is now being deferred until 2013/14 given there is no indication of any rise in interest rates occurring
- London Borough Grants Scheme; part of the unallocated balance has now been allocated to the Citizens Advice Bureau, there is a small residual sum which is being held for the time being.

3.16 Current Financial Position – Revenue

3.16.1 The development of the financial strategy and detailed budget needs to take recognition of the financial position in the current year. Previous reports to Cabinet have set out the position for the current financial year; these have shown an overall underspend position, although a number of adverse variances have been effectively covered by underspends in corporate provisions.

3.16.2 The most recent revenue monitoring report covers period 8, November. This shows one major change from the position previously reported to Cabinet as part of the January report, when an overall underspend was forecast at £888k. There has been an overall reduction of £350k in the forecast for adults social care services. The current position now shows an overall underspend of £1,297k. However, this includes a number of adverse variances, as previously been reported to Cabinet, which are being offset by underspends in a range of corporate provisions, most of which are of a one-off nature and will only benefit the current financial year.

3.16.3 Part of the planning process ensures that any in-year variances are fully assessed and taken into account. This was covered as part of the January report.

3.17 Fees & Charges

3.17.1 The fees and charges will broadly increase by an average of 1.5%, allowing for those set outside the Council's control, as highlighted in the January report. A complete Schedule of Fees and Charges is set out in Appendix K and is presented to Cabinet for approval as part of the 2012/13 budget. The Schedule will be held on the Intranet and will be available via the Council's website.

3.17.2 Fees and Charges continue to be reviewed and amendments made in line with strategic priorities, and the results of the consultation process for services to be paid for at the point of delivery, rather than through Council Tax increases.

3.18 Redeployment and Redundancy/Early Retirement Costs

3.18.1 Broadly speaking, the Council's usual policy is that any redeployment, redundancy or early retirement costs arising from finalisation of the budget that cannot be met from other funds available will be met from the contingency. Costs that arise in year from service reviews must be met by the service and generate additional savings over the medium term. However, any such costs arising as a result of the Corporate Transformation programme are being met from the Corporate Transformation Reserve.

3.19 Contingency Provisions

3.19.1 The level of contingency has been reviewed in the context of the budget set out for Cabinet. The Chief Finance Officer (CFO) has set this by having due regard to:

- The budget as proposed
- An assessment of unquantifiable pressures and unforeseen events that could arise during the 2012/13 financial year
- The experience in previous years
- The degree of uncertainty as well as known impact of changes to funding streams
- The potential effect of changes to both the Council Tax system and Council Tax benefits, there will inevitably be transitional costs which the Council will incur as well as unknown effects from the changes themselves
- The overall budget strategy.

3.19.2 A risk assessment is set out for Members within Appendix H as part of the CFO's statement on budget robustness, having due regard to the controls in place that will mitigate both the severity and likelihood of the risk happening. In arriving at the risks included, consideration has also been given to such factors as the:

- Financial risks in any significant new funding partnership arrangements
- The ongoing economic climate
- The potential withdrawal of and/or reduction to grant funding
- Treatment and delivery of savings
- Level and timing of capital receipts

- Arrangements for budget and financial management
- Adequacy of the authority's insurance arrangements
- Impact of the loss of both general and specific grant
- Overall financial standing of the authority
- Capacity to manage in-year budget pressures.

3.19.3 The result of the assessment is that it is the view of the CFO that a sum of £2m continues to provide a sufficient revenue contingency to deal with any issues arising during the course of 2012/13, having regard to the level of risks and the mitigating factors. Any issues that have a longer term impact will need to be considered as part of the budget setting process for 2013/14 and beyond; the purpose of the Contingency Fund is to provide funds to address issues that impact specifically on that year.

3.19.4 This is critical given that, in spite of the LGFS announcement, there are issues as yet still unclear, and the need for further decisions relating to the LGFS outcome cannot be discounted. It is important to note that some of the risks have again changed this year, and in addition, consideration of the impact on the Council Tax level has also been considered. On the basis of experience in the recent years with respect to such matters as Adult Social Services, utility prices, and various income categories, it will continue to need careful monitoring during the year.

3.19.5 The Constitution of the Council incorporates specific requirements in respect of budget virements and use of the contingency; full details are repeated in Appendix G for Members to note.

3.20 Budget Robustness/Reserves Position and Opportunity Cost

3.20.1 The Local Government Act 2003 sets out requirements in respect of Financial Administration, and in particular to the robustness of the budget and the adequacy of General Fund reserves. The Act requires the CFO to report to an authority when it is making the statutory calculations required to determine its council tax or precept. The Act also suggests the advice should be given prior to the formal statutory calculation. This advice has therefore been given to both Cabinet in formulating proposals and to members of Overview and Scrutiny in considering the proposals. The Act also gives the Secretary of State the power to specify a minimum level of reserves that an authority must provide for when setting its budget, although there have been no indications that the Secretary of State will use this power.

3.20.2 In line with the requirements of the Act, the formal report of the CFO is appended as Appendix H. The Council is required to take the report into account when making the calculations.

3.20.3 The Council's financial strategy sets out that the minimum level of General Fund reserves held will be £10m. Prior to making a final recommendation to Council, there is a need to further consider the current financial position for 2011/12 and its potential impact on reserves. Equally, the importance of retaining sufficient reserves has been emphasised by the variances that have arisen in service areas with large and volatile budgets and service demands, and with the impact of the economic climate within recent years.

3.20.4 After having regard to the consideration of the impact on reserves of the 2011/12 outturn, the existing reserves are likely to be sufficient to maintain this level. For information, this provides a level of reserves which gives limited cover for unforeseen circumstances that may have financial consequences, either one-off or across financial years.

3.20.5 The more detailed advice of the CFO in respect of reserves is also set out in Appendix H. This covers both the assessment of the level of reserves needed, and the opportunity cost arising from holding reserves.

3.21 **Balance Sheet Position**

3.21.1 The focus of the revenue budget strategy is on the Council's income and expenditure. However, regard also needs to be given to key balances included in the Council's Balance Sheet. The Council faces a number of risks and uncertainties which can be mitigated by:

- ensuring that it maintains an appropriate level of liquid resources, and
- maintaining an adequate level of general fund reserves and balances.

Liquidity

3.21.2 The Council has historically held approximately £100 million in cash on average during the course of the year. This represents the value of the Council's revenue reserves, net current assets, unapplied grants and unapplied capital reserves. Other than reserves, this is money that is committed and is being held pending such expenditure. Given gross expenditure in the region of £600 million, this represents around two months of expenditure.

3.21.3 It is possible that the average cash holdings of the Council will reduce owing to the significant changes in grant funding, although where there are further savings being introduced, this will to some extent offset this. It will be necessary to keep close watch on the cash flow position as 2012/13 rolls out.

3.21.4 The Treasury Management Strategy agreed by the Council at its annual budget setting meeting sets out the parameters for investment of this cash and includes the measures to be taken to ensure the creditworthiness of the Council's counterparties. The draft prudential indicators included in the Strategy also set out the limit for investments on terms of more than one year. In practice longer term lending is minimised to ensure that a high level of liquidity is maintained.

Earmarked Reserves

3.21.5 An earmarked reserve is a sum set aside to fund known items of anticipated expenditure for which the liability is not chargeable to the current year's accounts. The Council holds a number of these, the most significant of which are for the Corporate Transformation programme, funds to deliver strategic projects, insurance claims, capital bridge funding and invest to save resources.

3.21.6 The earmarked reserves are reviewed on a quarterly basis to ensure that they are still required. As a one off resource, any funds deemed to be surplus would be reallocated to support one off projects such as support to the capital programme, contributions to the pension fund or service initiative pump priming.

3.21.7 The Council's financial strategy precludes the use of reserves to finance known and ongoing financial liabilities, as this is the financially prudent approach required to ensure a stable financial position is achieved. Reserves can only be used once, and the Council's reserves have been established for specific purposes; their use as a one-off means of financing the Council's ongoing revenue budget falls outside the strategy previously approved by Council, and is not therefore recommended.

3.21.8 It is not proposed that any use should be made of existing earmarked reserves to support the Council's revenue budget, as this is not felt to be prudent and not in line with the Council's revenue budget strategy. As stated in the January report, the current advice of the Group Director Finance & Commerce is that the existing level of general reserves can be considered to be adequate, but issues in previous years over adult social care spend, and the recent major reductions in grant funding and imminent changes to the funding system, emphasise the need for prudence with the management of reserves.

3.22 Draft General Fund Budget 2012/13

3.22.1 Based on the detailed budget proposals and other factors set out above, the Council's General Fund budget for 2012/13 will be as set out in Appendix E. This is summarised as follows:

	2011/12 £000	2012/13 £000
Havering's Services	170,905	173,285
Levies	11,646	12,183
Total Expenditure	182,551	185,468
Unringfenced Grant	-19,309	-22,685
External Finance inc Collection Fund	-56,034	-55,051
Havering's Precept	107,208	107,732

3.22.2 The budget has been produced on the basis of the factors set out in this report. The movement between this year and next is analysed as follows:

	£000
Pressures	
Budget Pressures (New items, Adults, Freedom Pass, etc)	3,148
Inflation	1,541
ELWA & Other Levies (estimated)	538
Special Corporate Provision	2,500
Sub Total – Pressures	7,727
Savings	-9,691
Government Funding	2,489
Sub Total – Net Increase	525
Increase in Council Tax Base	-525
Net Total	0

3.23 Draft Schools' Budget 2012/13

- 3.23.1 A summary of the Dedicated Schools Grant (DSG) for 2012/13 is set out earlier in this report and the relevant Appendix. DSG funds education from 3-16 years and is based upon a unit of funding multiplied by the number of pupils. The final allocation will not be known until June and as this is after the start of the financial year, officers base the calculation of school budgets on an estimated settlement.
- 3.23.2 Local authorities, in consultation with their Schools Forums, distribute the DSG locally subject to various rules and taking into account local circumstances and Government priorities. The DSG is split into two, the centrally retained schools budget and the individual schools budget. The centrally retained schools budget can be spent on various "pupil related" items which are defined by government. They include, provision for pupils with special educational needs, pupil referral units, behavioural support services and provision of school meals and milk.
- 3.23.3 The budgets are set by identifying the requirements (eg staffing/resource levels) of the centrally retained areas with budgets for individual schools being calculated through a complex formula which takes account of factors such as age and number of pupils, size of school, number of pupils receiving free school meals, deprivation, whether the school has a swimming pool, playing fields etc.
- 3.23.4 In addition to the funding provided to schools from the DSG, they receive additional funding through the Pupil Premium to address low attainment of pupils from low income families and areas of high deprivation. For financial year 2012/13 the Pupil Premium provides schools with an additional £600 for every pupil aged 4 to 15 on roll at the January 2012 school census date who has been eligible for free school meals at any point over the previous 6 years. It is estimated that this will bring in an additional £4 million to Havering schools, an increase of £2 million above the Pupil Premium allocation in 2011/12.
- 3.23.5 When schools convert to academies their calculated budget share and a share of the centrally retained DSG is recouped by the Department for Education. An estimate has been made based on 11 secondary schools that became academies in 2011/12 and an additional one expected to convert in March 2012.
- 3.23.6 The Schools' budget is also set out in Appendix E and is summarised as follows:

Estimated Allocations	2011/12 £000	2012/13 £000
Total DSG	184,739	184,462
Academy Recoupment	-18,804	-55,707
Balance in support of LA Schools	165,935	128,755
Allocation for schools	151,608	115,066
Centrally retained	14,327	13,689

3.24 Maximising Benefits Take Up and Assisting the Community in the Current Economic Climate

3.24.1 The Council is very mindful of the economic climate and have had regard to this in setting the budget. It has also continued to undertake a range of activities to assist the community through this difficult period. This has included:

- Paying invoices quicker
- Arranging additional CAB advice
- Promoting ways to manage debt
- Diverting resources to ensure benefits are assured as soon as possible
- Publicising money saving ideas.

3.25 Havering Council Tax Precept for 2012/13

3.25.1 On the basis of the information set out in this report, including the levies being those as set out in Appendix D, there would be no change in the Havering element of the Council Tax. Havering's band D figure would remain at £1,195.18.

3.25.2 A summary statement, along with further information to support the setting of Council Tax, is set out in Appendix E.

3.25 Expenditure Restriction by Government

3.25.1 As set out in the previous report to Cabinet, the Government has made it clear that they intend to ensure that council tax payers are protected against Councils that reject the offer of the Council Tax freeze grant and impose what they consider to be "excessive" council tax rises. They have also confirmed their intention to proceed with the introduction of powers to enable residents to veto council tax rises.

3.25.2 As part of the settlement announcement, a requirement is being introduced for local authorities to undertake referenda should their proposed Council Tax rise exceed a pre-determined level. Any proposed rise in Council Tax at or above these levels would trigger a local referendum. The outcome is based on a simple majority of those voting, either in favour or against.

3.25.3 These levels are:

- 3.5% for most principal authorities;
- 3.75% for the City of London;
- 4.0% for the Greater London Authority, police authorities, and single purpose fire and rescue authorities.

4. Capital Programme

4.1 The Council approved the adoption of an eight year Capital Programme as part of the planning process at its meeting in October 2008. This Programme was based on the gradual move towards the use of prudential borrowing to finance it and provision for this was reflected in the budget proposals. This Programme was subsequently approved by Council in February 2009.

- 4.2 Changes in the cost of prudential borrowing through the Public Works Loans Board were previously announced as part of the CSR. Given the ongoing financial climate, it is now felt that the Council's immediate budget strategy should not incorporate the use of prudential borrowing, with minor exceptions. It is therefore proposed that the Capital Programme for the foreseeable future should rely on the use of capital and Section 106 receipts and any sources of external funding only.
- 4.3 With this approach in mind, the proposed overall programme was submitted as part of the report to the previous Cabinet meeting. This includes a revised core programme over the remainder of the current year, and an indicative core programme for subsequent years, ending in 2014/15. A detailed schedule of schemes has been compiled within each of these programme areas for the coming financial year, 2012/13, and this is included in the relevant Appendix to this report. Detailed schemes within the remaining years of the core programme will be brought forward at the appropriate time. This will reflect any changes in the forecast position with capital receipts, and other funding flows where appropriate.
- 4.4 As part of the development of the Capital Programme, the need to provide investment in primary school places has been identified. This reflects projected pupil numbers over coming years. To ensure that funding is available on a timely basis, an initial assessment of needs has been undertaken for financial year 2012/13. This is included as part of the programme recommended to Cabinet.
- 4.5 More detailed work is currently being undertaken and a specific report on this aspect of the programme, along with information on the background and including a fully detailed programme, will be brought to cabinet in the near future.
- 4.6 With this in mind, Cabinet is asked to approve the capital programme as set out in Appendix I for 2012/13 and to note the indicative programme for 2013/14 and 2014/15.
- 4.7 It is proposed, to enable any specific schemes to proceed in a speedy and timely manner, that the relevant service area Cabinet Member, together with the Cabinet Member Value, be delegated authority to commence tender processes and accept tenders for capital schemes that previously were agreed by Cabinet. Cabinet is asked to approve this as part of this report.

5. **Treasury Management Strategy**

- 5.1 The Council is required to agree annually a Treasury Management Strategy including the setting of borrowing limits, and to reaffirm the Council's Treasury Management Policy.
- 5.2 Given the importance of the Investment Policy, this is repeated below:

"The Council will have regard to the (then) ODPM's Guidance on Local Government Investments ("the Guidance") issued in March 2004 and CIPFA's

Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities are: -

- (a) the security of capital and*
- (b) the liquidity of its investments.*

The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity."

- 5.3 The Council's Strategy for investment of funds prior to use or held for contingencies is agreed by the Council as part of the budget-setting process. The Treasury Management Strategy Statement, Minimum Revenue Provision Strategy and Annual Investment Strategy are set out in a separate report to Cabinet that appears elsewhere on this agenda.

6. Greater London Authority

- 6.1 The Greater London Authority (GLA) precept covers services of the Metropolitan Police, the London Fire and Emergency Planning Authority, the London Development Agency, as well as the core functions of the GLA and Transport for London.
- 6.2 This precept is outside of the control of the Council and as such does not form part of the strategy of the Council. The Council is concerned with the budget and level of Council Tax and of course lobbied to ensure any precept increases are reasonable and add value to the community of Havering.
- 6.3 The GLA budget was published for consultation in late December. The proposals confirmed the Mayor's plan to continue to freeze the GLA precept for 2012/13 at the current level of £309.82 at band D. The Mayor's draft consolidated budget was submitted to the London Assembly for discussion its meeting on 25th January with the final budget proposals being considered at the Assembly plenary meeting scheduled for 9th February. A recent Statutory Instrument extends the deadline for the Mayor to present his budget to the Assembly until 11th February, it is not expected that the current date will change however.
- 6.4 As this meeting falls a day after the Cabinet meeting, the final figure approved by the London Assembly will be as far as possible included in the report to Council.

7. Overall Council Tax for 2012/13

- 7.1 The table below summarises the position:

	£	% Increase/ (Decrease)
Havering Precept	1,195.18	0.0%
GLA Precept	309.82	0.0%
Total	1,505.00	0.0%

8. **Other Matters**

8.1 **Council Tax Bill**

The Council Tax bill will show the charges for Council services and the Greater London Authority. It must be served on or as soon as practicable after the day the Council Tax is set, and at least 14 days before the first instalment is due where the bill requires payment of instalments.

The requirement for local authorities to include efficiency information on and with council tax bills has been removed, although guidance has been issued regarding specific information that now needs to be included. This includes calculations for an authority's gross expenditure and council tax requirement, which are defined in the guidance.

8.2 **Restriction On Voting**

Section 106 of the Local Government Finance Act 1992 imposes restrictions on voting in respect of any Member for whom any Council Tax has remained unpaid for at least two months. This affects voting (but not speaking) on any calculation required for the Council Tax and on any recommendation, resolution or other decision which might affect the making of any such calculation

Any Member in doubt as to the position may seek advice from the Group Director, Finance & Commerce, or the Assistant Chief Executive, Legal & Democratic Services, before the meeting.

8.3 **Effect Of Standing Orders**

A Member wishing to move an amendment to this report of Cabinet which is recommending the Council Tax to the Council must be mindful of the provisions in Council Procedure Rules:

Rule 11.8(a)

"An amendment to a motion/report at the annual Council tax setting must be submitted to the Chief Executive no later than 6 clear days before the Council tax setting meeting, and must be such that the amendment would, if passed, in the view of the Chief Finance Officer enable a robust budget to be set".

This means that **Midnight on Monday 13th February 2012** is the deadline for amendments to the Council Tax Setting and Budget Report.

Rule 11.8(b)

“Upon receipt of such amendment, the Chief Finance Officer shall consider whether it meets the “robust budget” test, and:

- (i) If it does meet the test, the Proper Officer shall include it on the agenda for the meeting.
- (ii) If it does not meet the test but the Chief Finance Officer considers that, duly altered, it will do so, that officer shall consult the proposers and, if they accept the alteration(s), the Proper Officer shall include it, as altered, on the agenda for the meeting.
- (iii) If it does not meet the test and the Chief Finance Officer considers that, whether or not altered, it will not do so, that officer shall refer the amendment to the Proper Officer who shall proceed with it as an improper amendment under Rule 11(3)(b).”

8.4 Discount For Council Tax Payers Paying In Full

The Council has agreed in the past, to offer a discount to Council Tax payers who pay their Council Tax in full. It is necessary for Cabinet to recommend Council to agree a specific resolution for this purpose or for any change proposed as the current assumption is that the discount remains at 1.5%.

Resolution

“Any Council Tax payer who is liable to pay an amount of Council Tax to the authority in respect to the year ending on 31st March 2013, who is served with a demand notice under Article 20(2) of the Council Tax (Administration and Enforcement) Regulations 1992 and who makes payment to the authority of the full balance of the estimated amount shown on that demand by 1st April 2012, may deduct a sum equivalent to 1.5% from the estimated amount and such reduced amount shall be accepted in full settlement of that estimated amount”.

8.5 Resolution for Council Tax

The Council meeting in February will receive a resolution in the form required reflecting the recommendations of Cabinet.

8.6 National Non Domestic Rates (NNDR)

Under Schedule 7 to the Local Government Finance Act 1988 (“the 1988 Act”), as amended by section 62 of the Local Government Act 2003, there are two multipliers. The small business non-domestic rating multiplier, which is applicable to those that qualify and successfully apply for the small business relief, and the non-domestic rating multiplier, which includes the supplement to pay for the small business rate relief scheme.

The DCLG has advised that the provisional 2012/13 multipliers have been calculated as:-

- Non-Domestic Rating Multiplier 0.458 (ie 45.8p)

- Small Business Non-Domestic Rating Multiplier 0.450 (ie 45.0p).

In accordance with Schedule 7 to the 1988 Act, the provisional multipliers will be confirmed by DCLG after either the local government finance report for 2012/13 has been approved by Parliament or 1st March 2011.

8.7 **Managing the 2012/13 Budget**

As illustrated in the approach adopted to the setting of the revenue budget, the Council is committed to continuing the robust financial management of the current financial year. This includes:

- Significant budgets being linked with outcome activity
- Financial and non financial information, i.e service outputs, being monitored together
- Using risk assessments to inform budget monitoring activity and detail
- Focusing resources on the areas of highest risk
- Reporting on an exception-only basis
- Monitoring delivery of the savings programme
- Monitoring income separately
- Maximising income recovery
- Monitoring and taking action to mitigate the risks identified in Appendix H.

9. **Prospects for 2012/13 and beyond**

- 9.1 The report to Cabinet in July 2010 anticipated to a large extent what has now been revealed by the successive announcements of the CSR and the provisional LGFS. In very broad terms, there has been as expected a major reduction in funding from Government for local authorities, through reductions in both general (formula) grant and in specific and area based grants. Whilst the Council's early start in approaching the expected reductions has meant Havering is well-placed in responding to CSR and LGFS, the scale of the reductions has proved to be even higher than had been anticipated.
- 9.2 Although a long-term plan has been in place for well over a year, the detailed position has gradually become clearer through various announcements, culminating in the most recent LGFS announcement. Further reductions are expected in the remaining years of CSR, as outlined previously to Cabinet. The impact of changes to the LGFS itself are impossible at this stage to predict.
- 9.3 Although the Council has successfully delivered departmental and service savings over a number of years, this has not created any long-term financial headroom, and there has always been a constant process of savings year on year required to deliver a balanced budget, given the level of pressures faced and continuing to arise. The Council's track record does however demonstrate a long history of successfully delivering savings, which means it is well-placed to continue to deliver these in the future.
- 9.4 The Council's transformation programme is aimed at a more ambitious and structured approach to transform the way the Council functions and deliver

significant levels of efficiency savings. The programme has become a key element of achieving a stable Council Tax over the CSR period. What will need to be considered is how to sustain a similar level of savings in future years beyond the culmination of the programme.

- 9.5 There is no doubt that the ongoing climate requires not only a high degree of financial prudence, but also a robust budget setting process. The level of risk arising from the breadth of changes that will affect all local authorities is significant. This emphasises the need to prepare for the remaining years within the current CSR period, and for consideration to be given during that timescale to the next CSR period beyond it. Further reports will be brought to Cabinet as greater detail on the Government's plans becomes available, and the forecast position will be refined as part of that process.

10. Housing Revenue Account

- 10.1 The report on the HRA budget for 2012/13 appears elsewhere on the agenda. This includes both the revenue budget and the associated capital programme.

Financial Implications and Risks

The Council's budget-setting process will ensure that financial implications and risks are fully met. Any financial implications or risks are covered in this report as necessary. There are significant risks given the continuing degree of uncertainty over the future funding regime for local authorities, and a number of other changes planned by the Coalition Government, but the steps already taken by the Council should mitigate much of this. It will however be necessary to continually refine the financial forecasts underpinning the Council's budget to ensure that any necessary actions can be taken at the appropriate times, allowing for consultation as appropriate.

It has been made clear by the Government that the need for austerity within the public sector remains. This may now cover a longer period than previously envisaged. There is a risk that further reductions in funding may become necessary. This emphasises the need for ongoing prudence, whilst maintaining sufficient capacity within the Council's budget to respond to both external pressures and changes, balanced against the needs of the local community.

Legal Implications and Risks

Any implications are set out above, or in the appendices.

Section 106 of the Local Government Finance Act 1992 imposes restrictions on voting in respect of any Member for whom any Council Tax has remained unpaid for at least two months.

Any Member in doubt as to the position may seek advice from the Group Director, Finance & Commerce, or the Assistant Chief Executive, Legal & Democratic Services, before the meeting.

Human Resource Implications and Risks

Any HR issues which occur as part of any change processes will be dealt with according to the Council's HR procedures and employment legislation, and will be subject to consultation with staff and their union representatives, as appropriate.

Equalities and Social Inclusion Implications and Risks

The Council's Corporate Plan and MTFS affect all residents and organisations within the community. Full consultation on the proposals has been carried out as part of the planning process, and savings proposals are subject to an equalities impact assessment as part of the process.

Reasons for the Decision

The Council is required to set a budget for 2012/13 and, as part of that process, undertake relevant consultation in respect of the proposals included within the budget.

Alternative Options Considered

There are no alternative options in so far as setting a budget is concerned. However, there are options in respect of the various elements of the budget. These are considered in preparing the budget and cover such things as alternative savings proposals, the totality of budgetary pressures and different levels of Council Tax.

Background Papers

Attached as appendices.

Various Government and other body correspondence.