Havering
LONDON BOROUGH

CABINET 7 NOVEMBER 2012	REPORT

Subject Heading:	The Council's Financial Strategy
Cabinet Member:	Cllr Roger Ramsey
CMT Lead:	Andrew Blake-Herbert Group Director Finance & Commerce
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Policy context:	The Council is required to approve an annual budget and this report provides information to enable Cabinet to make recommendations to Council in February 2013
Financial summary:	There are no specific financial issues, this report deals with the overall budget position and associated issues
Is this a Key Decision?	No
Is this a Strategic Decision?	No
When should this matter be reviewed?	December 2012
Reviewing OSC:	Value

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

Ensuring a clean, safe and green borough	[X]
Championing education and learning for all	[X]
Providing economic, social and cultural activity in thriving towns and villages	[X]
Valuing and enhancing the lives of our residents	[X]
Delivering high customer satisfaction and a stable council tax	[X]

SUMMARY

Over the course of the previous two years, Havering Council has agreed a package of savings to mitigate the impact of very significant cuts in central government funding to local authorities.

Government plans for radical changes to a number of areas were announced over this period. More detail is gradually emerging. These changes will fundamentally alter the way in which local authorities are funded. This report updates Cabinet on a number of developments.

This report also sets out the position in the current financial year, and a number of other relevant issues, as these need to be taken into account in developing the detailed budget for 2013/14.

RECOMMENDATIONS

Cabinet is asked to:

1. Note the current position with developments relating to the funding of local authorities and other related changes.

2. Note the Government announcement relating to a further extension to the Council Tax freeze grant and a change in the referendum level, as set out in Section 2.9.

3. Note that the budget strategy statements for the revenue and capital budgets, along with the procurement strategy, will be presented for Cabinet's approval at a future meeting.

4. Approve the corporate charging policy, as set out in Appendix A.

5. Approve the proposed standard rise in fees & charges for 2013/14 as 2%, subject to any exceptions, as set out in Section 5.9.

6. Note the position in the current financial year, as set out in Section 3.

REPORT DETAIL

1. BACKGROUND

1.1 In the light of the global financial climate and the decisions taken by the Coalition Government on public sector spending, the broad financial position and prospects for the future have been set out in previous reports to Cabinet. In very broad terms, the anticipated funding reductions were expected to lead to an overall budget gap of around £40m over a 4 year period. In response to this, Cabinet agreed two tranches of savings, totalling around £36m, and these were subsequently included in the budget formally approved by Council.

1.2 The Coalition Government had already previously announced proposals for fundamental changes to the funding system for local authorities, as well as a number of other proposals that will impact directly on the Council. A report was submitted to the previous meeting of Cabinet, setting out the latest position relating to the localisation of business rates. A number of other issues are covered as part of this report as these will affect the budget setting process for 2013/14.

1.3 A key element of the budget setting process is the forecast position for the current financial year. This includes an assessment of progress with the delivery of savings, both those included within the current year's budget and those planned for future years. A broad assessment of the financial position over the remaining years covered by the Comprehensive Spending Review (CSR) 2010, which currently runs through to 2015/16, and the prospects beyond that, also need to be taken into account.

1.4 As part of the budget setting process, strategy statements have been developed that set out the key elements of the Council's approach. These have been updated and are included as part of this report for approval and onward recommendation to Council. The report also includes an update to the Council's corporate charging policy as this requires Cabinet's approval.

2. FUNDING CHANGES

2.1 The Government had previously announced a variety of changes that will impact, either directly or indirectly, on the funding regime for local authorities. These have, to a greater or lesser extent, been reported to Cabinet previously, but progress towards the implementation of these changes is accelerating rapidly. Each of the following areas is considered further below:

- Localisation of business rates
- Localisation of Council Tax support
- The Social Fund Replacement Scheme
- School Funding Reform
- Academies
- Public Health Transfer
- Local Government Pension Scheme.

Localisation of Business Rates

2.2 This issue was covered at some length in the previous report to Cabinet. The Council has now submitted its response to the technical consultation. Since the previous meeting of Cabinet, officers have attended a DCLG roadshow and have received further information on the new means of funding, although the primary legislation is still in development and is not expected to become law until November.

2.3 The financial details will, as previously advised to Cabinet, be included in the Local Government Financial Settlement (LGFS). This will follow the publication of the Local Government Finance Report, which officers have been advised will now be issued on 4 December. The LGFS will now be announced some time between 5 and 20 December. This is extremely late in the budget-setting timetable. It is understood this "delay" is because the overall departmental spending levels are under review, and this in turn raises the prospect of additional reductions in funding. At this juncture, it is possible that information will only be available for digestion and analysis very close to the formulation of the January Cabinet report.

2.4 The information which will form the basis for the settlement and the allocation of funds to individual authorities will be collated through a return titled NNDR1. This is effectively the estimate of all business rates related transactions and has previously been prepared by local authorities to provide an estimate to DCLG. As this information will need to be reflected in local authority budgets, it will also need formal approval, in a similar manner to the setting of the Council Tax base. A provisional NNDR1 return is due for submission by mid December and the final one will require formal approval by 30 January. The Council Tax base is currently set under the authority of the Group Director Finance & Commerce and a similar approach for the NNDR1 is envisaged.

2.5 As part of these developments, it has become evident that there are a number of factors that will impact on the overall business rates yield (and the basis upon which this is then split between DCLG, the Council, and the GLA). This includes:

- Local economic environment
- Local and regional development plans
- Transitional relief
- Charitable relief
- Collection and bad debt levels
- Baseline position and calculation of tariffs/top-ups and safety net/levy payments.

2.6 It is becoming clearer that the localisation of business rates brings with it a shift in financial risk towards local authorities, and emphasises the need for even closer scrunity of the collection fund and the transactions flowing through it. Due provision for this increase in risk, and the need to have the appropriate financial contingencies/reserves in place, will need to be considered as part of the budget setting process, and this is examined later in this report.

2.7 The previous report to Cabinet highlighted the basis upon which business rates is being localised, with 50% being returned to the Government. The remaining 50% "local" element is to be further split between the local authority and the major precepting body in London, the GLA. This means that Havering – like other London boroughs – will only retain 30% of its business rates. One element of the new funding system will be a levy and safety net (which will in effect do the same thing as the current floors and ceilings). Authorities who experience a fall in business rates yield (currently expected to be set at between 7.5% and 10%) will be compensated by the Government through the safety net, which will be funded through levies on those authorities who experience significant gains.

2.8 Using the calculation basis which officers anticipate will be applied, the safety net level for Havering is estimated to kick in at around £3.3m (assuming the 10% level is used). This means that the Council could lose this level before attracting any compensatory funding. Should there be a reduction in business rates yield, this would necessitate either further spend reductions or rises in Council Tax. This factor needs to be reflected in the Council's budget planning process and risk analysis.

2.9 Finally, the Government has recently announced that it plans to extend the Council Tax freeze grant for a further year. This would provide the equivalent of a 1% rise in Council Tax through grant funding – equivalent to just over £1m in Havering – in return for a freeze in 2013/14. The funding would then be rolled over to the following year (to avoid the "cliff edge" effect). However, the one-off funding provided for 2012/13 is still expected to be removed. In addition, the Government has announced plans to reduce the level at which a referendum would be triggered from 2.5% to 2%. That would mean any rise in excess of that sum would need to be put to a binding referendum.

2.10 It remains unclear what is intended beyond 2014/15, when both the current base freeze grant and, assuming authorities choose to accept it, the "new" grant, are now both due to come to an end. If these are not funded by the Government, there is a significant gap in funding in that year. However, it is difficult to develop any firm plans to address this without clarity over what might be proposed.

2.11 Further developments are now awaited and updates will be provided to Cabinet once further information is available.

Localisation of Council Tax Support

2.12 The Government had previously announced plans to localise the financial administration of Council Tax Benefits, and for local authorities to set their own schemes. A key aspect of this approach would be a reduction in funding of around 10%, which in broad terms for Havering, equated to around £1.9m, based on this year's level of expected benefit payments.

2.13 Cabinet approved a report in July 2012 setting out options for a Havering scheme, and consultation with the GLA. A separate report, setting out the proposed scheme for public consultation, was agreed at Cabinet in Septmeber and the final scheme requires approval prior to 31 January 2013 and will need to be reflected in the budget for 2013/14.

2.14 There are various risks associated with the localised scheme, as changes in demand will impact on each authority individually, as will any changes to Council Tax levels, and may be difficult to predict. Recent claims levels show a significant increase during the early part of 2012/13, and whilst it is difficult to quantify the causes of this, this rise does heighten the potential impact of the change in funding, even if the value of claims changes at a disproportionate rate. There is likely to be a significant increase in workload over the transition period and it will be necessary to ensure sufficient resources are available to accommodate this. In addition, each authority has had to consider how the 10% funding reduction will be managed.

2.15 The funding for localised Council Tax support will be transferred to local authorities through the “new” formula grant. This will affect the overall level of base grant funding for 2013/14. Thereafter, formula grant will be driven by a number of factors, but there will be no direct link back to the level of claims, unless this is included as part of any future needs assessment. Any increase in the level of claims beyond current numbers, either due to a further downturn in the economy or an influx of claimants, would need to be dealt with locally – there is no indication to date this cost would be met by the Government, nor is it clear how the future allocation of grant funding might reflect needs, at either a national or local level. Given the current scale of payments – around £19m as indicated above – this will need to be factored into the Council’s budget risk assessment. A revised version of this is covered later in the report.

2.16 The Council also currently receives a grant to cover the costs of administering Council Tax and Housing benefit. This is in the region of £1.5m to £1.6m and forms part of the Customer Services budget. This grant is not currently split between the two types of benefit and it is as yet unclear what approach to this the Government will take. Officers are currently considering how the costs of administration can be separated between the two types.

2.17 Funding for localisation will be effected through inclusion as part of the localisation of business rates, so the funding will no longer be made direct, though this will probably not affect funding arrangements for Housing benefit. It is however not entirely clear exactly how this change will be implemented and it is possible that this funding will form part of both localised business rates and the replacement general grant.

2.18 If the existing administration grant is rolled up as part of the new funding system, this grant would cease. The equivalent funding would then form part of the overall distribution, which gives rise to an additional risk, as the level of funding allocated to the Council as part of this process may be at a different level to the existing grant payment. This is subject to confirmation but would be consistent with the treatment of other, existing grants.

The Social Fund Replacement Scheme

2.19 The Government will abolish the Department for Work & Pensions (DWP) Social Fund Scheme with effect from 1 April 2013 and replace the discretionary elements with a new locally based provision administered by local authorities. The discretionary elements cover one-off payments made by the DWP to customers primarily for emergencies, items that are difficult to budget for and to support vulnerable people to return or to remain in the community.

2.20 Local authorities are required to design, set up and implement the Social Fund Replacement scheme by 1 April 2013. The Government has recognised this as a new burden to local authorities and will allocate an unringfenced grant to them.

2.21 Details of the grant allocation for 2013/14 and 2014/15 is laid out in the DWP settlement letter. This states that Havering will be given programme funding of £604,178 in 2013/14 and the same amount in 2014/15. Administrative funding has also been allocated in the sums of £127,667 and £117,021 respectively. However, only £6,042 has been set aside to develop the local scheme in 2013.

2.22 Given this will become the Council's responsibility from next April, this represents an additional financial risk, as any increases in demand will fall to the Council to fund.

School Funding Reform

2.23 Revised funding arrangements for schools are being implemented by the DFE (Department for Education) for 2013-14 and 2014-15 prior to the introduction of a national funding formula at the start of the next funding cycle in 2015-16. There will be some significant changes from the current arrangements which will impact on Havering's schools, academies and some of the supporting services.

2.24 The Dedicated Schools Grant (DSG) which funds schools and some centrally retained services will continue to be ring-fenced but will be allocated in three blocks to fund Early Years, Schools and High Needs. The overall size of the DSG will be the same as in 2012-13, adjusted for pupil numbers.

2.25 There is a requirement for maximum delegation of funding to schools from current centrally retained budgets. The Schools Forum can agree on behalf of maintained schools for these budgets to be de-delegated where there are benefits in terms of economies of scale or pooling of risk. There is no option of delegation for academies or special schools which means, for academies, there is no longer a need for LACSEG (Local Authority Spend Equivalent Grant) for the DSG element. Some budgets for LA statutory services will be allowed to be retained. These are:

- School Admissions
- Servicing the Schools Forum
- Contribution to Combined Budgets
- Carbon Reduction Commitment
- Capital Expenditure Funded from Revenue
- Pupil Growth

The amount of funding that can be retained for these services is limited to the budgets set for 2012-13.

2.26 The formula through which funding is distributed to schools is to be limited to 10 factors from the 37 possible factors permissible currently. These are as follows:

a. A basic per-pupil entitlement

b. Deprivation, measured by Free School Meals and/or IDACI (Income Deprivation Affecting Children)

c. Looked after children

d. Prior attainment as a proxy measure for SEN

e. English as an additional language, for a maximum of 3 years after the pupil enters the school system

f. A standard lump sum for each school, at a value between £100,000 and £200,000

*g. Split sites

h. Rates, which may be at actual cost

*i. Private finance initiative (PFI) contracts

*j. For the 5 local authorities who have some of their schools within the London fringe area, an uplift to enable higher teacher pay scales in those schools to be reflected

*Does not apply to Havering schools.

Allocating resources to schools through these factors will result in significant differences to the funding allocated through the formula and protections will therefore apply. No school will lose by more than 1.5% per pupil and these protections will be funded from placing a cap on the gaining schools.

2.27 A proforma for the documentation of LA budget information will be introduced for 2013-14 which will need to be submitted to the Education Funding Agency (EFA) by the end of October; the EFA will check that the pro-forma complies with amended regulations and will use them to calculate budgets for academies.

2.28 There are revised arrangements for funding pupils and students with high needs which includes pupils aged from birth to 19 with high levels of SEN in schools, academies or other settings; those aged 16-25 with high-level learning difficulties or disabilities (LDD) in FE; and school-age pupils placed in alternative provision. High needs pupils and students are defined as those requiring provision costing more than around £10,000 per year or £8,000 if in alternative provision. 'Place-Plus' funding arrangements will apply comprising three elements: (1) core education funding (2) additional support funding - a budget for providers to support high needs pupils/students up to an agreed level; (3) top-up funding. These costs would be met from the High Needs Block. It is expected that education providers will work with partners in social care and health services to pioneer innovative and effective provision and support, and that the appropriate support to meet a child's health and social care needs would be funded by the appropriate agencies

2.29 Schools will continue to receive the Pupil Premium which is allocated as a separate grant outside the DSG. It is paid for pupils known to be eligible for free school meals at any point during the last six years. The 2012-13 rate is £600 per eligible pupil.

2.30 There will some changes to Schools Forums and regulations will be amended to: remove the requirement for at least 15 members; limit the number of LA attendees; confine voting arrangements so that only schools members and providers from the PVI sector can vote on the funding formula; require LAs to publish Forum papers, minutes and decisions promptly on their website; and require Forums to hold public meetings. The EFA will be given observer status at Forum meetings.

Academies

2.31 The shift of schools to academy status involves transfers of funding from their home local authorities which take into account the transfer of responsibilities. The funding transfers relate to a local authority's allocation of Dedicated Schools Grant and its formula funding from the Department of Communities and Local Government (DCLG). There are changes to both of these from April 2013.

2.32 Transfers from the DSG are currently based on the funding the academies would have received through the LAs' funding formulae if they were maintained schools plus an apportionment (based on pupil numbers) of centrally retained services such as behaviour support, support to underperforming ethnic minority groups and bilingual learners, insurances etc. Many of these services then become available to the academies through trading although they are free to purchase from wherever they choose or arrange their own in house provision. From 2013-14, although an academy's funding will continue to be based on the home LA's formula, the formula will have already absorbed the budgets from previous centrally retained services through maximum delegation (see 2.20 above) so there will no longer be a need for a separate calculation of LACSEG. Academies will also receive their funding based on the most recent LA funding formula rather than the lagged arrangements as at present.

2.33 There has also been a top slice of the formula grant to LAs from the DCLG. This was originally calculated on a national estimate of the number of academies there were likely to be in a financial year and applied across all LAs whether they had any academies or not. The top slice is intended to reflect the transfer of statutory responsibilities from LAs to academies. A significant number of authorities registered complaints over this treatment and the arrangements for 2011-12 and 2012-13 have been reviewed. The top slice for each LA has been recalculated based on the number of pupils actually attending academies and if a lower figure than the original top slice, the LA would receive a refund. If the revised calculation produced a higher figure then the original top slice would apply. For Havering, during 2011-12, 11 secondary schools converted to academies and no refund is due. The top slice of £630,000 and £1.12m for 2011-12 and 2012-13 respectively will therefore stand.

2.34 From April 2013 there are to be further changes with a transfer of funding from DCLG to the DFE. The proposals are for £1.2bn of money collected by councils through business rates in order to fund "central services" to be reallocated by the DFE as a grant to whichever organisation is responsible for the children, be it LAs, academies, free schools etc. The grant will be distributed based on the number of pupils they are responsible for.

2.35 There is a risk that current funding in local authorities for central services through formula grant is actually less than the £1.2bn intended for removal. This would mean that more funding would be removed in total than the actual level of cost currently incurred. As it appears likely that a national rate will be used to make any adjustments, rather than using councils' own calculations of their savings, there is a risk that some individual authorities will be adversely affected.

Public Health Transfer

2.36 The Health and Social Care Act (2012) sees fundamental changes taking place to the provision of health services. As part of these changes, some public health functions will transfer from the NHS and will become the responsibility of the Council on 1 April 2013 and work is well advanced with migrating these functions into the Council. The majority of spend on public health is on contracted or commissioned services, although a number of staff would also transfer across. The estimated value of these functions as far as Havering is concerned was originally assessed as around £7m (for the original base year of 2010/11), although a more recent assessment has now put this figure as in excess of £8m.

2.37 A separate report, covering this issue in more detail, is being prepared for consideration by Cabinet. The Council will become responsible for the costs of these functions and these will be funded through a ringfenced specific grant. This means that those funds can only be expended for specific purposes, although the Council may choose to spend more if it wishes.

2.38 A number of these services are demand-led, which means that demand can fluctuate, and the associated costs with it. Although this will be covered in more detail in the separate report, under the current arrangements, these fluctuations can be addressed across a much bigger budget, but that option ceases at the point of transfer. This risk will need to be taken into account within the Council's overall risk assessment.

Local Government Pension Scheme (LGPS)

2.39 Following protracted discussions, a negotiated position between the Government, the employers and the trade unions has been agreed. This will see further changes to the LGPS with effect from 2014, including these key changes:

- A shift to a career average basis of calculation
- A 1/49th accrual rate with revaluation based on Consumer Prices Index

- Retirement linked to State Pension Age (SPA)
- Contributions based on actual pay with the average employee contribution remaining at 6.5%
- No change to the expected overall net yield from employee contributions
- Retention of banded employee contributions, but with an extension to the number of bands with little or no increase in the employee rate at the lower bands but more significant increases at higher pay bands, even after allowing for tax relief
- Benefits for service prior to 1st April 2014 are protected, including remaining 'Rule of 85' protection; protected past service continues to be based on final salary and current retirement age.
- 50/50 option – members could decide to pay half the contributions for half the pension.

2.40 Although the level of contributions for lower paid employees broadly remains the same, for higher paid employees, there are escalating increases in the level of contribution. The proposed bands also create a "cliff-edge" aspect, where there may be a disincentive from seeking higher paid jobs, as the level of increase in pension contribution may negate any additional pay. These elements may either deter potential entrants to the LGPS, or cause existing members to drop out, thus reducing the overall level of contributions. However, with the new introduction of a 50/50 option, members could decide to pay half the contributions for half the pension. This may deter members from opting out as, while they are in the scheme, they will retain the full value of benefits.

2.41 At this point in time, it is difficult to assess whether these changes will impact on the cost to local authorities of the scheme. It does however remain true that pension funds are heavily affected by the value of the assets in which those funds are invested. The general economic environment shows no indication of a material improvement for the foreseeable future, with interest rates remaining at their historic low and with no sign of any upward movement. It will therefore be necessary to assess the position during 2013 and to reflect this as part of the budget setting process for 2014/15.

2.42 It also needs to be borne in mind that the next actuarial review of the Pension Fund is due in 2013. This will need to take into account the proposed changes referred to above. The outcome from the review is not expected until well into the year and the conclusions will not be implemented until April 2014. However, it would be prudent to reflect this in the risk analysis.

3. FORECAST POSITION 2012/13

3.1 A key aspect of the budget development process is an assessment of both the outturn position for the previous financial year and the position in the current year. This is particularly important as it ensures that any potential ongoing issues are identified and considered as part of the planning process, and that close attention is paid to the achievement of savings targets when the Council, like all local authorities, is facing such a significant gap to be met. Each of these aspects is considered below.

Outturn Position 2011/12

3.2 Throughout most of the year, an overall underspend on the revenue position was forecast. The reasons for these were set out in the monthly revenue monitor reports, but the main items contributing to these were underspends on corporate provisions, offset by pressures in a small number of areas, of which children's placements was by far the most significant.

3.3 The outturn position identified in May showed a significant increase in the overall level of underspend. A number of services that had previously reported overspends during the course of the year were now reporting an improved position. This in turn meant that a large element of the Corporate Contingency Fund, which had previously been held in anticipation of release to cover overspends reported by services, was no longer required for that purpose, and was now declared as a further underspend.

3.4 The overall underspend totalled £6.7m and this included the elements shown in the table below:

Item	£000
Corporate Contingency	(1,400)
Corporate Provisions including Housing Benefits Subsidy Account	(4,000)
Adults & Health Services	(1,300)
Legal & Democratic Services	(600)

3.5 Aside from the main variances shown above, the position in Children's Services was better than had been previously forecast, with an overspend on placements being finally contained within the overall service budget. One of the key factors behind the improved position within both Adults and Children's was the fact that the level of growth provided ultimately proved not to be needed. This factor in particular will need to be carefully assessed as part of the budget development process, especially given the proportion of the budget comprised by these services.

3.6 There were a number of adverse variances that had been anticipated earlier in the year and these were included as part of the detailed budget proposals for 2012/13, for example in Asset Management and Development & Building Control.

3.7 Some of the Corporate Provisions have been reduced as savings as part of the 2012/13 budget setting process. The underspend is due to a number of elements; this includes income from interest (£700k) and a surplus on the Housing Subsidy account (£600k), which historically have only been declared towards year end owing to the volatility of both areas. This is in addition to various elements identified during previous monitoring reports, including the Insurance provision (£500k), balances on the ELWA and concessionary fares provisions (£308k and £436k respectively), and the transformation programme budget (£500k), offset by an income shortfall from advertising hoardings (£230k). The Corporate Contingency Fund is considered later in this report.

3.8 The underspend has been allocated into Earmarked Reserves as part of the closedown of accounts process. Cabinet will be aware that funds have previously been allocated into a Corporate Transformation Reserve, which is maintained as part of the Strategic Reserve, to finance the costs of the Transformation Programme. As time has passed, officers have become more concerned about the uncertainty of the Council's budget situation post the new settlement, the fact that the Government started signalling more cuts and the fact that we have already started to plan for 2015/18. It is therefore important that funds are allocated into the Reserve where these become available through prudent financial management, as the scale of the change is even greater than the one first planned for back in 2010 (in advance of most other authorities) and so the level of activity to deliver transformation and a growing savings target needs to increase accordingly.

Forecast Position 2012/13

3.9 The programme of savings approved by Council as part of the overall financial strategy assumed a further level of savings would be achieved during the year, around £9.5m in total, as part of the overall savings programme of around £35m. The 2012/13 budget approved by Council in February included savings of nearly £9.7m.

3.10 The initial forecast for period 3 indicates that there is an overall underspend of around £1.4m. The main elements of this are:

- Pressures within children's placements approaching £860k, partially offset by underspends within Youth Services of around £470k
- A surplus on the Borough Catering account of around £550k
- A forecast underspend from the Special Corporate Budget Provision of around £2m and from the Insurance Provision of £500k.

3.11 It is still however quite early in the financial year and the position will become clearer in the coming months. There are several areas of significant savings this year and some of these are now classed as at risk, although work is continuing on these and they may be fully delivered in time, or covered overall within budgets by services where it is not possible to deliver them during the current year. It is however proving difficult in a number of cases to fully achieve these, and this was one of the reasons for the creation of the Special Provision.

3.12 The position in Children's Services indicates that there are still pressures arising from placements. This is due in part to general pressures arising from high cost care needs and in part to what seems to be evidence that placements are now being made into the borough externally, and this aspect in particular is being looked into. These continued pressures will have to be considered in more detail to assess whether these are likely to continue beyond the end of the year, as there are further savings proposals in this service area which may become difficult to deliver.

3.13 At this point in time, there are two savings proposals that service management now advises can no longer be delivered. These are both within Children's services, £250k in relation to Adoption services and £100k in relation to the Implementation of the SEN Green paper. Alternative proposals have been drawn up by the services to compensate for these and these will be included as part of the detailed budget proposals later in the year.

3.14 There are also several savings proposals that are proving difficult to achieve and these are now classed as at risk. One of these is now felt to be not achievable given the pressures being faced and alternatives are now being considered; this item is as follows:

Service Area	Description	2012/13 £000	Comments
Children's Services	LAC Joint Funded Placements.	200	Ongoing pressures in this area make this saving unachievable

3.15 The other areas at risk are more likely to be achieved in the longer term. For the current year, these are being covered through management action and through funds available from the Special Corporate Budget Provision. This was created for a number of purposes, one of which was to address any savings shortfalls.

3.16 The position for capital spend is still being assessed, and will be reported to Cabinet in due course. This will take into account the funding sources available to the Council and planned future spend. A separate report on the investment in school places has already been considered by Cabinet.

4. FUTURE FINANCIAL PROSPECTS

4.1 The report to Cabinet in February 2012 emphasised that, not only was the financial climate volatile and unpredictable, there remained a future budget gap. Previous reports to Cabinet have indicated an overall gap of around £40m, although this was dependent on a number of variable factors. The overall savings sum agreed to that point was around £35m, but there are clearly risks over whether these can be delivered in full.

4.2 The future position is being kept under review by officers. Some of the issues examined as part of this process are addressed in section 7 of this report. The imminent changes to the funding system, coupled with the other areas covered in section 2, mean that any assessments of the position over the remaining years covered by the CSR need to be treated carefully. As indicated earlier in this report, details of the funding that the Council will receive under the new system will not be known with any certainty until around December. This makes it difficult to assess what the remaining budget gap will be until then.

4.3 In considering the future delivery of social care services, whilst various announcements have been made, these have not looked into how these services will be funded in future. The Government has said that such plans will be considered as part of a broader review of the CSR, which they intend to undertake in the Autumn of 2013. It is not clear when the outcome from this review will be announced, but it is likely to impact on 2014/15. Given this announcement, and the ongoing economic position, there is clearly a high degree of risk that further reductions in public sector funding will be introduced.

4.4 The current savings plan is intended to deliver the vast majority of savings by 2014/15, and therefore the Council needs to be mindful of the longer term position when considering its financial strategy. However, until there is much greater clarity over the impact of the new funding system, projecting the financial position beyond the current time window is not only an imprecise science, but is extremely difficult and prone to a high level of volatility.

4.5 There has been a broad indication that the current austerity programme will need to continue well beyond 2015; should that be the case, then further reductions in Government funding are very likely. This does underpin the continued need for careful financial management and for prudent budgeting.

4.6 With this in mind, it is likely that additional financial resources will be needed to deliver a continuous programme of service transformation. As part of the longer term budget strategy, it would be prudent to set aside funds for that purpose where the opportunity arises; the revenue budget strategy has been redrafted with that in mind.

4.7 A further assessment of the future position will be undertaken once the details of the LGFS have been announced and evaluated.

5. MEDIUM TERM FINANCIAL STRATEGY (MTFS)

5.1 The Council has operated a medium term financial plan for a number of years. The MTFS has formed the bed-rock of the Council's financial management approach, and has enabled a high degree of financial stability to be achieved.

5.2 The principles of the MTFS are encapsulated in strategy statements. These have been developed to cover, separately, the revenue and capital budgets, and the procurement strategy. These strategy statements underpin the Council's budget setting and budget management processes. The current statements were approved as part of the budget-setting process for 2012/13. These are currently under review and, as these require formal approval by Council, in accordance with the Budget Framework Procedure Rules, Cabinet is asked to note that these will be presented to a future meeting of Cabinet for approval.

5.3 The Council also requires a basis on which its fees & charges are set. This is encompassed within the Corporate Charging Policy. This has recently been reviewed and refreshed. The proposed Policy is set out in Appendix A for Cabinet's approval. All fees & charges must be set in accordance with the corporate charging policy and with the relevant service charging policy.

5.4 There are various inflationary elements which have in the past been built into the development of the budget. For the purposes of budget planning, these are the factors currently being adopted:

Item	2013/14
Inflation – pay cost	1.0%
Inflation – contracts	3.0%
Inflation – other costs	1.5%
Inflation – income	2.0%

5.5 Local government pay is negotiated between employers and unions, via the National Joint Council for local government services. An announcement has recently been made that, after three consecutive years of pay freezes, the National Employers have invited trade unions to start discussions on a range of pay related issues, terms and conditions, and a reform of national negotiating procedures, to be in place on 1 April 2013.

5.6 The Chancellor of the Exchequer has previously announced that a public sector pay freeze, due to end in 2013, would be followed by a one per cent cap on rises for the following two years. The provision proposed for the budget is in line with this policy.

5.7 The increase for contracts broadly follows rises in the level of the Retail Price Index (RPI). The RPI has been hovering around 3% for some time, and as many contracts use this as an annual inflator, this is felt to be appropriate. The rise in other costs is felt to be more controllable and realistic in the current financial climate. Increases in prices will only be progressed where these are contractually unavoidable and the opportunity to discuss rises with providers will be taken wherever possible

5.8 Finally, the rise in fees & charges broadly reflects the overall rise in costs, which are a mix of local and national elements. This rise is applied to all base budget areas where fees & charges give rise to income. It is felt that this level of risk is appropriate, and given it is inextricably linked with the corporate charging policy, Cabinet is asked to approve this level of increase. Any exceptions to the application of this broad level of increase will be advised to Cabinet as part of the detailed budget setting process. Each service will consider locally how the overall increase will be applied and any specific service or equalities issues will be addressed at that juncture.

6. RISK LOG

6.1 As part of the budget setting process, a financial evaluation is carried out. This relates to both the level of reserves maintained by the Council and the level of contingency built into the base budget. These assessments were included in the report to Cabinet in February. Alongside this, a separate assessment was undertaken relating to a range of specific issues and circumstances, which lead to the creation of the Special Corporate Budget Provision.

6.2 Given the high level of uncertainty surrounding public sector finances in general, and local authorities in particular, the financial evaluations for both reserves and contingency levels have been revisited. These are set out in Appendix B.

6.3 Whilst this assessment has been undertaken much earlier than usual, it indicates that increases in both the level of reserves and base budget provisions may become necessary. This will be kept under review in the coming months, and some of this uncertainty may be removed once the LGFS has been announced, but this does serve to underpin the need for prudent and robust financial management as part of a long-term strategy.

7. OTHER ISSUES

7.1 There are four other factors that will need to be taken into account as part of the budget setting process:

- Freedom passes
- ELWA
- London Borough Grants Scheme
- General economic climate.

Freedom Pass

7.2 The cost to Havering of the freedom pass scheme is now around £7.8m. Whilst this represented an increase of around 5.6%, this was below the overall increase across London of 7.9%.

7.3 Given that increases in the cost of the scheme have been significant, although this is partly due to the removal of a special grant applicable to London boroughs, provision has been made in the financial strategy for future increases. The actual increase will depend on usage, population numbers, and attributable costs, and the individual borough contributions are not likely to be known until November or December.

ELWA

7.4 The largest levy paid by the Council is for the disposal of waste, which is managed by the East London Waste Authority (ELWA). The levy for the current year is around £10.6m.

7.5 The most recent ELWA budget report indicated continuing significant rises in the overall cost of the Authority, which in turn is reflected in the levy contributions from each of the constituent authorities. Again, the financial strategy reflects these anticipated increases. The ELWA budget is normally set around late January/early February, although financial prospects for the year would usually be set out prior to this.

London Borough Grants Scheme

7.6 In July 2011 Cabinet received a report on the implications for Havering of changes to the London Borough Grants Scheme (LBGS). The effect of the changes was that only high-priority London-wide services would receive funding centrally from the LBGS, with the decision whether to continue funding for other services being devolved to individual boroughs.

7.7 The Council's contribution to the scheme is currently £377k, as set out in the report to Cabinet in January 2012. Plans for the scheme for 2013/14 are not likely to be considered by London Councils until later in the budget cycle.

General Economic Climate

7.12 The general prospects remain gloomy. The world economy remains unstable, there are highly publicised issues across the Eurozone, employment figures within the UK have worsened, the UK has officially entered a "double dip" recession, and there are risks the Government's target for eliminating the budget deficit may not be achieved.

7.13 This increases the risk that it will be necessary for the Government to revisit its financial plans. So, although the plans within the Comprehensive Spending Review (CSR) already map out a significant reduction in Government funding, it is possible that further reductions may be implemented. The Government has announced that it intends to review CSR during 2013, although it is not expected that this will take place until the Autumn. Any changes to funding will therefore only affect the remaining two years of the CSR period, ie 2014/15 and 2015/16. However, there is a prospect that the Government will "re-open" the current CSR; this would suggest there is potentially further bad news to come.

7.14 This factor, alongside the changes already known about, but for which the financial impact is so far impossible to assess, make forecasting the financial position beyond 2012/13 extremely difficult. What this does, however, emphasise, is the need for continued prudence and robust planning of savings.

REASONS AND OPTIONS

Reasons for the decision:
It is essential that the Council's financial strategy takes due account of Government plans, and any other material factors where these are likely to have an impact on the Council's financial position. This report provides an update to Cabinet on issues relevant to the budget setting process.

Other options considered:
None. The Constitution requires this as a step towards setting the Council's budget.

IMPLICATIONS AND RISKS

Financial implications and risks:
The Council's budget process will ensure that financial implications and risks are fully met. There are continuing risks given the uncertainty over the transition to localised business rates, and to the associated announcement of the LGFS, and the potential impact on funding, together with the other aspects referred to in the body of the report. The steps already taken by the Council should mitigate this, but to what extent remains unclear. It will therefore be necessary to assess the position once the funding levels are finally known.

There are considerable risks in the medium to longer term, with the continuing economic uncertainty as well as the imminent changes. The Council therefore needs to maintain a prudent approach over its financial management and the budget setting process.

Legal implications and risks:
There are no direct legal implications from the updates on the various external factors that will impact on the final formulation of the budget, but their existence will complicate the process of setting a budget and a council tax that is lawful in terms of properly reflecting the amount needed to be raised and spent. The proposed strategies and policies have to reflect the Council's wider duties and obligations as well as its financial ones.

Human Resources implications and risks:
The Council continues to work closely with its staff and with Trades Unions to ensure that the effects on staff of the savings required have been managed in an efficient and compassionate manner. Lessons learned and shared with the trades unions will be used as the Council moves forward with the savings proposals. This will include serving the appropriate statutory consultation notices and ensuring that there is a clear communications process and support mechanisms in place to support staff through the change process. The Council's Consultation and Negotiation Forum (CCNF) will deal with any industrial relations issues that arise from transformation and other organisational change initiatives that can not be resolved at a local level. It is no longer felt necessary to retain the separate Transformation Consultation Forum (TCF) so this has recently been dis-banded. There are a number of management restructures planned and given that some of these have cross directorate implications, CMT will determine the exact timing of these restructures over the next few months.

As previously, compulsory redundancies will be minimised wherever possible and the scale and level of redundancies, will be carefully monitored by the Group Director Finance and Commerce against the overall business case for the Council in terms of delivering the Transformation Strategy and budget savings targets.

All savings proposals or changes to the funding regime that impact on staff numbers, will be managed in accordance with both statutory requirements and the Council's Managing Organisational Change & Redundancy policy and associated guidance.

Equalities implications and risks:
As there are no explicit decisions being taken on the Council's budget at this stage, there are no immediate equalities implications or risks. There will inevitably be specific issues that will arise further into the budget-setting process that will however give rise to equalities implications and risks. An equalities impact assessment has been undertaken on the proposed corporate charging policy, similarly there is an assessment relating to the Council Tax support localisation scheme. The proposed increase in overall income levels does potentially lead to specific equalities issues, these will need to be addressed by each service as they determine how they anticipate achieving the higher income levels in the context of the policy, assuming it is approved by Cabinet. Forthcoming decisions to be made regarding the Local Government Pension Scheme and any savings that need to be considered following publication of details of the Local Government Financial Settlement may carry equalities implications and risks and accordingly, these will need to be analysed at the appropriate time.

Other Risks:
There are no particular other risks arising, other than a significant increase in workload is likely to implement the new legislation as and when it is enacted. This is being planned for but much of the detail will have to await the final announcements and publication.

BACKGROUND PAPERS

Outturn report 2011/12
Budget monitoring report period 3 2012/13

APPENDICES

APPENDIX A

CORPORATE CHARGING POLICY

Introduction

There are four key reasons why the Council has a corporate charging policy in place:

- Charging has a significant role to play as a policy instrument, contributing towards the achievement of corporate and service objectives
- Charges can be used as a tool to manage demand or influence behaviour, through encouraging/discouraging the use of services and/or the patterns of use of services
- The policy can provide clarity over why different charges are set for different user groups e.g. through the use of discounts/concessions
- Charging as an income source can contribute towards the achievement of financial objectives, linked to the Medium Term Financial Strategy.

The corporate policy is subject to formal consideration and approval by Cabinet and then Council.

The aims of the corporate charging policy are to:

- Set a clear, flexible and equitable framework for applying charges and fees to relevant council services; and to maximise income from charges
- Promote a unified corporate approach to the levying of charges, including defined processes for the setting of fees
- Develop standards and procedures for charging in respect of discretionary and statutory services for both individual users and community groups
- Set out the basic corporate principles which are relevant to most services but which enable innovation and experimentation and provide a clear basis for decisions where the Council has discretion in setting charges.

To achieve these overall aims, the following corporate objectives need to be satisfied:

- The Council will seek to increase the annual level of income from fees and charges with a view to recovering the full cost of providing council services
- All services should over time be reconsidered for their potential to raise income and new, or revised, charges applied where appropriate
- The level of charges applied to services should, wherever possible, support the Council's priorities
- A clear and consistent approach, recognising different market profiles, will underpin the setting of charges.

This policy applies to the setting of fees & charges for Council services. All such fees & charges are subject to formal approval as part of the budget setting process. The policy does not apply to the setting of rents, service charges or other local taxation.

Why the Council Charges for Services

Fees and charges represent an important source of income, providing finance to assist in achieving the Council's objectives. However, there are potential conflicts between raising additional income by increasing charges, and promoting access and usage of local services, particularly by vulnerable groups on low income.

The appropriate fee structure will therefore depend on the overall intention for that service area as far as Council policy is concerned. By setting charges at appropriate levels, the Council is exercising its stewardship role of public funds properly. Where income is foregone, without good reason, the burden of funding will unfairly transfer to the tax-payer.

Generally the law requires specific or implied statutory authority for the making of charges for services, and there are very many such provisions in place, some of which contain quite detailed restrictions, while others are more openly worded.

What the Council Should Charge for Services

The Council's fees and charges fall into 4 main categories:

- Charges set by statute law which are fully outside the Council's control
- Charges set by statute law where the amount charged has to be within certain parameters
- Charges that are applied by partners managing Council owned buildings and other services commissioned by the Council, where the Council may wish to exercise some control over these charges
- Charges that are fully within the Council's control in determining the amount that should be charged.

The first step is to decide whether the Council should provide the service. Many of the services the Council charges for are required by statute. However, others are discretionary and consideration should be given to whether providing the service is the best way of meeting the Council's objectives, especially if the Council will not recover its costs.

Additional services may be provided where the Council has the discretion to charge for them, although equally, the Council may choose to provide services at no charge to some or all potential service users. The risk to the Council of making a loss must be considered when deciding whether the service should be provided.

Administration

Charges should be simple to understand and to administer. They should be easily located by service users through the Council's website, through any other form of literature provided, or directly from Council services or establishments.

Where possible reasonable notice should be given to service users before any new or revised charges are implemented.

Methods of payment should be flexible and convenient, and take into account the needs of those on low income and people's ability to pay. The easier it is to pay, the more likely it is that payment will be made. Consideration should be given to:

- Payment in advance: which should be the preferred means of recovery wherever possible
- Frequency of payment: having regard to the budgetary patterns of those reliant on benefits or low incomes
- Format of payment: including alternatives to cash.

The costs of collection should be evaluated. Potentially, they may make the charging proposal uneconomic or require charges to be raised further. Costs of collection must be identified and budgeted for.

The corporate charging policy will need to follow corporate and service policy and financial procedure rules regarding the collectability of the income and debt recovery strategy.

Local Service Application

The corporate charging policy should be reflected in the local fees & charges policy statement of each service. This statement should set out the basic principles being applied to setting fees & charges within each service area, and especially where these deviate from the core principles of the corporate charging policy.

The local policy statement should be subject to an annual review within each service area, though this only needs to be amended if local principles have changed. The statement should be agreed in consultation with the relevant Cabinet Member.

The local statement should reflect the level of consultation required with service users.

Principles for Charging

The corporate charging policy establishes the Council's key principles in relation to charging. Once agreed, these principles should be adhered to by all directorates, with any deviations from the charging principles set out requiring appropriate approval. Such principles are reflected in any local, service-based charging policies. Local charging policies are subject to approval by the relevant Cabinet member.

This policy sets out a number of principles that are considered to be those which are most relevant. It should be noted that these principles will generally apply to services for which the Council has discretion over the level of charging, rather than services where charging is prevented or where charges are required to be set within statutory limits.

Corporate Charging Principles

Charges for Council services are set so as to:

1. *Contribute to the achievement of corporate and service objectives*

2. *Maximise potential income, to achieve financial objectives, unless there is an explicit policy decision to subsidise the service*

3. *Be capable of being justified, in comparison with other similar providers*

4. *Take account of the ability of different users to pay, through the use of discounts and concessions*

5. *Differentiate between differing levels of a service being provided e.g. faster turnaround*

6. *Take account of the views of and minimise the impact upon users, where new or significantly higher charges are proposed, and where this is possible*

7. *Maximise the ease of collection of charges and minimise the costs of collection*

8. *Be regularly reviewed on at least an annual basis, using the latest available market information, and revised where appropriate*

The rationale for each of these charging principles is set out in Appendix 1.

Standard Principles

The standard principles that will be applied to all fees & charges set by the Council will be as follows:

- Fees & charges will be set to recover full cost AND to maximise income recoveries, where this is likely to lead to a higher yield
- Payment will be sought in advance of the supply of goods or services using the most appropriate payment channels
- Customers will be encouraged to self-serve in both ordering and payment for goods or services
- Discounts and/or subsidies will be permitted and the basis for these will be determined locally
- The recovery of debts will take into account both ability to pay and the cost of recovery
- Comparisons will be undertaken to ensure that the proposed level of fees & charges can be justified against other, similar providers
- Fees & charges will be subject to an annual review in accordance with the budget-setting timetable, unless new or revised services are introduced
- The setting of fees & charges will take into account the ability of customers to pay and any relevant socio-economic factors

- Fees & charges will be subject to a local equalities impact assessment.

Where a local service policy deviates from these principles, a local policy statement will be prepared, setting out the basis and reason for any such variations. This will include an equalities impact assessment covering both the fees & charges, and the policy, in each local service area.

APPENDIX 1

CORPORATE CHARGING PRINCIPLES

1. Contribute to the achievement of corporate and service objectives

1.1 Charges are clearly not an end in themselves, but should be used as a means to contribute towards the achievement of specific corporate and service objectives. Managers should therefore be able to identify whether or not a service can legally be charged for and, if so, clearly articulate how, through charging for the service and in the level and application of the charge, they are contributing towards these objectives.

1.2 There will be instances where charging is prohibited or restricted; however, even under such statutory frameworks, it is still good practice to make the link between the level of service provided e.g. basic, enhanced, and the policy objective being addressed.

1.3 A summary of the types of financial policy for charging that may be adopted and the policy objective that it is primarily intended to achieve has been summarised in the table below.

Financial Charging Policy	Policy Objective
Commercial trading	The Council seeks to maximise revenue within an overall objective of generating as large a surplus from this service as possible e.g. the collection of commercial waste.
Commercial with discounts	As above, but with discounted concessions being given to enable disadvantaged groups to access the service e.g. fees for the use of golf courses.
Fair charging	The Council seeks to maximise income, but subject to a defined policy constraint. This could include a commitment made to potential customers on an appropriate fee structure e.g. charges for car parking, hire of council premises. Alternatively, a full commercial rate may not be determinable or the Council may be a monopoly supplier of services.
Cost recovery	The Council wishes to make the service generally available, but does not wish to subsidise the service e.g. rental charges for market trading.
Cost recovery with discounts	As above, but the Council is prepared to subsidise the service to ensure that disadvantaged or other groups have access to the service e.g. certain social care charges, play schemes.

Financial Charging Policy	Policy Objective
Subsidised	Council policy is to make the service widely accessible, but believe users of the service should make some contribution from their own resources e.g. leisure charges.
Nominal	The Council wishes the service to be fully available, but sets a charge to discourage frivolous usage e.g. fines for late returns of library items.
Free	Council policy is to make the service fully available and funded through corporate resources, rather than specific fees e.g. free access to parks/public open spaces.
"One Off" Offers	A "one off" ofer (or discount) is made to encourage future business, resulting in a loss of income in the first instance, but an overall increase in income in the longer term.
Statutory	Charges are set in line with national legal requirements and there is no local discretion over the level of the charge e.g. planning application fees.
Statutory constraints	Charges are set within a national legal framework within which there is some, but not complete, discretion over the level of the charge e.g. recovering costs for licensing houses in multiple occupation.
Charges not permitted	Charges cannot be levied for statutory reasons e.g. core education services in schools.
Other	This should be identified, if not included under one of the above areas.

Charging Principle 1. *For each service area, the manager responsible for the service should summarise the legal basis, financial policy for charging, and relevant policy and service objective(s), to ensure that charges are in line with these objectives and that there is clarity over the purpose of the charge. These should be set out in an annual statement of the local service fees & charges policy, as a precursor to the formal setting of specific fees & charges. This policy statement will require approval by the relevant Cabinet Member.*

2. Maximise potential income, to achieve financial objectives, unless there is an explicit policy decision to subsidise the service

2.1 There will clearly be a need for charges to contribute towards the achievement of financial objectives, particularly in the context of the current financial climate (assuming that these do not conflict with the overall policy framework). If the legal powers exist to charge, managers will need to justify the reasons for any instances where charges are not being made.

2.2 Generating/maximising income not only has financial benefits, but can also allow the service to develop capacity, deliver efficiency and sustain continuous service improvement. The example financial policies for charging/constraints set out in the table above should assist in identifying what financial objective is intended to be achieved from the charge and, as can be seen, there will be a range of circumstances where it is not appropriate to maximise potential income.

2.3 However, the key issue for the Council in financial terms, is to ensure that managers do not inadvertently provide a subsidised service where there is no explicit policy objective to do so. This could take place for a number of reasons, such as:

- Not taking account of the full costs of service provision e.g. capital costs, overheads/recharges, costs of collection, as well as direct costs of provision
- Simply rolling forward historic charges by inflation annually and not taking account of the increased costs of service provision e.g. where fuel costs increase significantly above inflation
- Charging the same amount for different types of service user e.g. a commercial operator and a member of the public
- Instances where the charge is set inappropriately low, resulting in over-use or abuse of the service

2.4 For charges to be set at an appropriate level, therefore, this will require managers to have a robust understanding of the full range of costs associated with the provision of the service.

2.5 In addition, when setting charges, managers will need to be aware of the relationship between the level of charge and the potential impact upon demand, in terms of optimum price sensitivity e.g. as a higher charge may not necessarily maximise total income, if usage decreases disproportionately.

2.6 The Council's agreed charges should be viewed as a maximum charge; but managers should have the flexibility to introduce "one off" discounted charges if they believe this will generate more overall income in the longer term. This approach, if it is to be adopted, should be set out and justified in the annual policy statement.

2.7 In certain service areas it may be appropriate and advantageous to identify a range of charges to maximise potential income, for example in relation to private and commercial hires. This should be set out and justified in the annual policy statement.

Charging Principle 2. *The default position is that a charge should be made where legally permitted, any charge should take account of the full direct and indirect costs of service provision and is set at a level so as to maximise income, taking account of price against demand. This will also include setting charges at maximum levels/cost recovery where statutory constraints apply. Where there is an explicit policy objective to subsidise the service, and therefore to deviate from this principle, this reason should be clearly set out, together with the financial consequences of the subsidy, where identifiable.*

3. Be capable of being justified, in comparison with other similar providers

3.1 Clearly, where Councils have discretion over the level of their charges, they are free to exercise local political and service choice, taking into account factors such as the type and quantity of chargeable services that they provide and therefore the level of charges and associated subsidy.

3.2 Charges often vary considerably, even between similar authorities, and there may be reasons why charges may vary in this manner e.g. the use of alternative models of service provision. However, there are equally areas for which authorities are unable to explain why their service charges (or even expenditure as a whole) differs so widely from other, similar providers and where they may not even be aware of such differences in the first instance.

3.3 There is therefore a need to compare charges, both with other authorities and with private sector providers, where there is an external market, and understand reasons for any differences. Such differences are not necessarily a cause for concern e.g. higher charges may have been levied as a result of a deliberate policy to provide a higher level of service, to seek to discourage excessive use etc., but should be capable of being validated.

Charging Principle 3. *Where it is available, benchmarking information should used by managers to compare their charges against other, similar authorities and private sector providers when setting charges annually. Where charges differ significantly from other such comparators, managers should be aware of and be able to explain the main reasons for such differences.*

4. Take account of the ability of different users to pay, through the use of discounts and concessions

4.1 As identified previously, there will be a number of instances where it is appropriate for charges to be subsidised for different types of users. These could include, for example:

- To achieve a specific policy objective e.g. encouraging healthy living through subsidised use of leisure facilities

- Structuring charges differently e.g. a lower rate per hour for car parking at off-peak times, to ration service use at peak times when demand exceeds supply
- Where users have limited financial means e.g. as measured by receipt of certain types of benefit and/or reduced rates for children and older people
- To encourage the use of a service by specific groups where take-up is under-represented e.g. ethnic minorities, disabled people
- Applying concessions for certain types of users e.g. free parking for local residents, lower burial charges for residents
- Discounts linked to loyalty/take-up of the service e.g. for frequent users

4.2 The Council may have a corporate policy on service user groups which receive subsidised access to all (or many) services e.g. children's and older people's discounts. For certain services, such as social care, eligibility criteria for services will also be clearly established. In other cases, there may be a specific area where take-up is particularly low amongst certain groups and a service therefore wishes to increase use, e.g. hire of leisure centre halls by clubs encouraging participation from minority groups.

4.3 Key factors that the Council will need to take into account when considering the use of eligibility criteria/discounts/concessions include:

- The link between the discount/concession and the policy/service objective that the charge is intended to contribute towards
- The link between the discount/concession and the Council's diversity/equalities policies
- Whether a generic concession should be applied for all services e.g. those in receipt of means-tested benefits, or whether the concession should be targeted towards a specific user group, depending upon individual service issues
- How the discount/concession will be funded e.g. from other users of the same service, from Council Taxpayers more widely, and the financial implications of the subsidy
- The need to review the degree to which eligibility criteria/discounts/concessions remain appropriate over time e.g. as take-up increases by a previously under-represented group
- Minimising the burden upon those applying for discounts/concessions e.g. ensuring that they do not have to provide duplicate information to more than one Council directorate
- The link between take-up of benefits and maximising overall Council resources e.g. where benefit take-up contributes towards funding received from central government

- Whether the concession or discount is funded through cross subsidy by other service users through higher charges or whether it is funded corporately.

Charging Principle 4. *Managers should:*

- *Identify the nature of discounts/concessions that are in place for services where charges are made*
- *Identify the types of users intended to benefit in terms of the link between discounts/concessions and policy/service objectives*
- *Identify the level of subsidy provided/cost of the discount*
- *Review discounts/concessions to ensure that they remain appropriate.*

5. Differentiate between differing levels of a service being provided e.g. faster turnaround

5.1 Where the Council has discretion over the level of charge and also the level of service provided, it is important that the charge reflects the degree of usage of service resources and value added.

5.2 For example, charges for providing birth certificates where these are needed for a passport application may differ between the basic fee and the fee for a quicker return. Whilst the same level of staffing resources may be required for both, the service user is receiving higher added value under the latter option and therefore pays a premium for the service.

Charging Principle 5. *Charges set should be differentiated so as to fairly reflect the differing demand placed upon service resources and the value provided to the service user.*

6. Take account of the views of and minimise the impact upon users, where new or significantly higher charges are proposed, and where this is possible

6.1 Where the Council is operating in a competitive environment, users have the freedom to use alternative providers if similar services are provided at lower cost. Consultation is most important, however, where the Council is in a monopoly position and needs to provide equity to service users.

6.2 Where charges are being regularly reviewed, there will be instances where the review identifies that higher service charges are required e.g. to take account of higher service costs. This may be even more of an issue where service charges have not been reviewed for some time, and have not therefore kept pace with increasing costs.

6.3 It is important that the impact upon service users of any proposed changes to charges is identified, both from an individual perspective e.g. affecting their ability to pay/use the service, and also from a Council-wide perspective e.g. affecting the extent to which policy objectives will now be achieved and the potential demand for, and therefore the level of income received for, the service.

6.4 This will be assisted by an understanding of the impact of previous changes in charges on levels of service use for different groups of service users; although, as such information may not be readily available, it will be important that this is collected in future, whenever such changes are made. In addition, consultations on services (and on Council finances more generally) should take account of user views on levels of charges and the perceived value for money received.

Charging Principle 6. *Any significant proposed changes to charges should be consulted upon with key service users and groups. Managers should seek to ensure that they are aware of the potential impact upon differing service users of changes to charges, considering whether any such changes to pricing policies could potentially be phased in over time, if possible, where the impact is high.*

7. Maximise the ease of collection of charges and minimise the costs of collection

7.1 The efficient collection of charges clearly has significant benefits in terms of minimising potential arrears levels i.e. the easier that it is made for charges to be paid, the more likely that payment will be made in practice.

7.2 In terms of administering charges, there are a number of areas which should be explicitly considered:

- Service charges and the way in which they will be paid/collected should be transparent to users
- The costs of collection should be taken into account against the actual level of income being collected
- A range of alternative payment methods e.g. format, frequency, venues, should be offered to users, with potential incentives being considered for the most efficient payment methods e.g. electronic payment
- Procedures for the collection of arrears and write-off of debts should be clearly set out and consistently followed for all service users
- Where arrears have built up, this information should be reported to managers responsible for providing the service, in order that they are aware of service users experiencing difficulties in paying for the service or who are refusing to pay for the service

Charging Principle 7. *Charges should be administered so as to maximise the ease of collection of charges and minimise the costs of collection, considering both the Council and service user perspective, in order to optimise the likelihood of payment.*

8. Be reviewed on at least an annual basis, using the latest available market information, and revised where appropriate

8.1 As identified previously, service charges should be contributing to the achievement of defined policy, service and financial objectives and it is therefore vital that charges (and eligibility criteria/discounts/concessions) are reviewed on at least an annual basis to ensure that this continues to be the case.

8.2 The Council approves a schedule of fees & charges annually as part of its budget-setting process. As part of this process, managers should take into account any intelligence gathered on costs, demand and market intelligence. Reviews may take place outside this timetable, although these would generally be on an exceptional basis, unless new services are being introduced.

8.3 It is important that areas not currently charged for (but which could potentially be) are also considered. In terms of scope, all external charges should be considered, and it may also be appropriate to include charges made through external SLAs e.g. to schools.

8.4 For such review to be effective, managers will need to take into account relevant market information e.g. changes in legislation, patterns of service use, benchmarking data, price sensitivity, opportunities to introduce or extend charges etc.

8.5 This need not necessarily be a highly detailed exercise, but managers should at least be certain that charges are achieving their intended objective(s) and have been set appropriately. If this is not the case, clearly managers will need to amend charges accordingly e.g. increasing charges if the costs of provision have increased or amending discount/concession schemes if they are no longer relevant.

Charging Principle 8. *Managers must review all charges for which they are responsible on at least an annual basis as part of the budget process and confirm that charges have been reviewed on a systematic basis. Heads of Service should ensure that their service area has completed an annual policy statement on charging, to be signed off by the relevant Lead Cabinet Member, prior to the completion of the Council's annual budget setting process.*

APPENDIX B

RISK ASSESSMENT FOR RESERVES / CONTINGENCY 2012/13 REVIEWED AT 31 AUGUST 2012

Risk (incl Corporate Risk Register entry XXX 2012)	Risk Owner	Risk Description	Assess-ment of Risk (counter measures in place)	Contingency		Reserves	
				Value of Assess-ment £000	Value Having Regard to Risk £000	Value of Assess-ment £000	Value Having Regard to Risk £000
1. Reduction in Grant Funding CR8 Financial Challenges CR4 Business Growth	GDF&C	Grant levels do not materialise and/or are reduced or cut, eg further withdrawal of Specific Grants, further reductions to Revenue Support Grant, reduced funding following changes to funding system, further reductions within CRS period, leading to need to scale down/cease services.	Medium to High	Covered by specific budget provision	Covered by specific budget provision	3,500	1,750
2. Reduction in Income Levels CR4 Business Growth CR8 Financial Challenges	GDF&C/ GDC&C/GDSC&L	Income levels do not materialise and/or debts are not collected at forecast levels, e.g. (a) Increasing arrears (b) Falling income (c) Falling recovery rates.	Medium	500	250	1,000	250
3. Increased service demand CR5 Change Management CR10 Social Care and Public Health	CE/ GDSC&L/ GDF&C/ GDC&C	Demand led services increase over budget assumptions, e.g. Children's placements, Adult's social care, homelessness, benefits.	Medium	1,000	500	5,000	2,500
4. Savings Shortfall CR5 Change Management CR8 Financial Challenges	CE/ GDF&C	Major savings/efficiency programmes are not delivered in accordance with plans, e.g. efficiency programmes fail to achieve expected savings, unable to deliver full value of savings, within expected timescales	Medium	Covered by specific budget provision	Covered by specific budget provision	3,500	1,000
5. Workforce Issues CR1 Workforce Planning	CE/ GD F&C	Workforce issues, e.g. (a) Vacancies/cover needs resulting in higher cost (b) Support to statutory officers	Low to Medium	1,000	250	2,500	1,250

Risk (incl Corporate Risk Register entry XXX 2012)	Risk Owner	Risk Description	Assess-ment of Risk (counter measures in place)	Contingency		Reserves	
				Value of Assess-ment £000	Value Having Regard to Risk £000	Value of Assess-ment £000	Value Having Regard to Risk £000
		(c) Equal pay matters (d) Disputes (e) Recruitment/retention (f) Residual costs (g) Succession Planning (h) Single Status					
6. Management of Capital Programme CR4 Business Growth & Investment CR5 Change Management	GDF&C	Changes in Capital Programme/cash flow assumptions, e.g. (a) Capital receipts are not forthcoming in time (b) Receipts do not materialise at all (c) Interest rate market works against Havering (d) Interests from Capital Programme slippage	Medium	1,000	500	2,500	1,250
7. Supply Chain Resilience CR7 Partnerships, Shared Services & Contractor Arrangements	GDC&C	Increase in costs or financial risks in partnership arrangements (including shared services/service collaboration). Failure in key supplier, eg financial failure, liquidation, failure in supply chain	Medium	500	250	2,500	1,250
8. Budget Management CR8 Financial Challenges CR10 Health and Social Care CR2 Community Engagement & Communications CR6 Business Continuity & Emergency Planning	GDF&C	Arrangements for budget and financial management, e.g. unexpected overspends, increase in costs above rate of inflation such as pay awards, contracts, utility bills, variances not identified by monitoring system. Business continuity, eg flu pandemic, terrorism, network virus, legionella outbreak, adverse weather	Medium	1,000	500	3,500	1,750
TOTAL POTENTIAL				5,000	2,250	24,200	11,000
ASSESSMENT HAVING REGARD			**Overall**		2,000		10,000

Risk (incl Corporate Risk Register entry XXX 2012)	Risk Owner	Risk Description	Assess-ment of Risk (counter measures in place)	Contingency		Reserves	
				Value of Assess-ment £000	Value Having Regard to Risk £000	Value of Assess-ment £000	Value Having Regard to Risk £000
TO RISK LIKELIHOOD – MINIMUM LEVEL REQUIRED			**Medium Risk**				

CE = Chief Executive GDF&C = Group Director Finance & Commerce GDC&C = Group Director Culture & Community	GDSC&L = Group Director Social Care & Learning ACEL&DS = Assistant Chief Executive Legal & Democratic Services

RISK ASSESSMENT FOR SPECIAL CORPORATE BUDGET PROVISION 2012/13 REVIEWED AT 31 AUGUST 2012

Potential Factor	Factor Owner	Factor Description	Assess-ment of Risk (counter measures in place)	Provision: Value of Assess-ment £000	Provision: Minimum Value Having Regard to Risk £000
1. Revenue impact of pressures in Children's Placements if these cannot be contained within existing budgets	GDSC&L	Demand led services increase over budget assumptions, and this cannot be contained beyond the immediate financial period, ie there is a base, ongoing increase in costs that cannot be contained elsewhere	Medium to High	2,500	500
2. 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	GDF&C/ GDC&C	Migration to the new system may lead to higher reductions in funding than previous assessments have quantified. Elements of the new system may work against Havering's position. Funding may be needed to attract or retain businesses within Havering, preserving or improving business rate yield	Medium to High	2,000	1,000
3. The potential impact of migration to the localised Council Tax benefits system	GDF&C/ GDC&C	Again, migration to the new system may be affected by changes in need and a consequent rise in benefit payments. The impact of moving to a localised system of benefits may lead to changes in demand. There may be pressure to compensate for the expected reduction in funding at the point of transfer	Medium to High	2,000	500
4. Unexpected consequences of any further adjustments to academies' funding	GDF&C/ GDSC&L	Funding has already been adjusted, but not directly related to the actual shift to academy status. A change in basis, coupled with a higher than average migration locally, could impact on funding levels	Low to Medium	1,000	250
5. Possible shortfalls in achieving the full range of	CE/ GDF&C	The full level of savings identified in Cabinet reports may not prove to be attainable and it may not be possible to	Low	1,000	250

Potential Factor	Factor Owner	Factor Description	Assess-ment of Risk (counter measures in place)	Provision	
				Value of Assess-ment £000	Minimum Value Having Regard to Risk £000
savings already approved by Cabinet		compensate elsewhere owing to other pressures. This may impact on the base budget position			
6. The potential impact of the imminent transfer of Public Health functions to local authorities	CE/ GD F&C/ GDSC&L	It is not clear exactly which functions and what level of resources will transfer, nor whether there are any obvious financial pressures that will shift across. It is broadly assumed funding will be compatible with need, but this may not be the case locally	Medium	1,000	250
7. Financial consequences arising from changes to the local government pensions scheme	GDF&C	Various discussions are underway concerning potential changes to the scheme. Whilst the objective is to reduce the cost to the public purse, this also depends on the level of returns pension funds achieve	Medium	1,000	250
8. Funding to bridge any shortfalls in capital receipts and/or additional spend required to maintain capital assets in line with any needs analysis	GDF&C	The continued gloomy financial impact may affect both the timing and scale of capital receipts. Lack of investment may lead to higher costs being incurred to maintain assets	Low	1,000	125
9. Funding required to sustain the corporate transformation programme to ensure the ongoing deliver of savings previously approved by Cabinet	CE GDF&C	The delivery of the major transformation programme, which is driving the savings programme, requires a range of resources. Further funds may be needed to maintain these resources, or to extend them should a longer term programme be required	Medium	500	125
10. The one-off impact of reversing the 2012/13 Council Tax freeze grant	GDF&C	The funding is only available – at present – for a single financial year. The removal of the funding will need to be accommodated within the 13-14 budget setting but will impact on the base budget position	Medium	2,000	500
11. Rises in utility bills that create a permanent,	GDF&C	Utility bills have risen sharply for several years and there appears little prospect of this trend reversing, and any rises	Medium	500	125

Potential Factor	Factor Owner	Factor Description	Assess-ment of Risk (counter measures in place)	Provision	
				Value of Assess-ment £000	Minimum Value Having Regard to Risk £000
ongoing base budget effect		are generally permanent			
TOTAL POTENTIAL				14,500	4,000
ASSESSMENT HAVING REGARD TO RISK LIKELIHOOD – MINIMUM LEVEL REQUIRED			**Overall Medium Risk**		2,500
CE = Chief Executive GDF&C = Group Director Finance & Commerce GDC&C = Group Director Culture & Community		GDSC&L = Group Director Social Care & Learning ACEL&DS = Assistant Chief Executive Legal & Democratic Services			
Note : the assessment of value having regard to risk takes into account the availability of the Contingency Fund to address in-year issues but not base budget ones, the likelihood of all of the factors occurring, and the overall provision assessed as being required to ensure financial stability is maintained					