Havering
LONDON BOROUGH

CABINET

13 February 2013

Subject Heading:	THE COUNCIL'S BUDGET 2013/14
Cabinet Member:	Councillor Roger Ramsey
CMT Lead:	Andrew Blake-Herbert
Report Author and contact details:	Mike Stringer Head of Finance & Procurement 01708 432101 mike.stringer@havering.gov.uk
Policy context:	The Council is required to approve an annual budget and this report sets out the proposed budget for 2013/14 and includes recommendations to Council for the formal budget-setting process
Financial summary:	This report deals with the overall budget position and sets out the detailed proposals for 2013/14 and recommends to Council the Council Tax level at band D as £1,498.18
Is this a Key Decision?	
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**

ALL MEMBERS ARE ASKED TO RETAIN THIS REPORT AND ITS APPENDICES FOR REFERENCE AT THE COUNCIL TAX MEETING ON 27TH FEBRUARY 2013

SUMMARY

This report outlines the context within which the 2013/14 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 Government has made a series of announcements, with the most recent being the Autumn Budget Statement, which preceded the announcement of the provisional Local Government Settlement. This sees the introduction of fundamental and complex changes to the funding regime for local authorities, probably the biggest in 20 years. Whilst this reflects the localisation of responsibilities, this also brings increased financial risk, and this has to be reflected as part of a robust budget setting process.

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 19th December. Details were included in the previous report to Cabinet. Although as Cabinet is aware, background information has continued to be issued, withdrawn and re-issued, which has made interpretation of the impact of the settlement extremely difficult. More recently, there has been speculation that the final settlement will not now be available until mid February. This is clearly too late for inclusion in this report and raises the prospect of either supplementary papers, or even a special Cabinet meeting, becoming necessary. This in turn has increased the level of uncertainty at a time when the pressure on public sector budgets has continued to grow.

In the light of the ongoing financial climate, and with the prospects for "more of the same" for the foreseeable future, 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 2013/14 budget.

The current position is that there would be no increase to the Havering element of the Council Tax, which would enable the Council to take advantage of the new Council Tax freeze grant on offer.

Final confirmation of the Greater London Authority (GLA) precept is not expected until the day on which the London Assembly meets, which is two days prior to the Council

budget setting meeting. The Mayor has proposed a small reduction 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.

On the assumption that this is approved by the London Assembly, there would be a small overall reduction in Council Tax. The band D figure would reduce to £1,498.18.

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 for 2013/14 as set out in Appendix E, formulated on the basis of:

   - an ELWA levy based on the anticipated budget and levy increase
   - the budget 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. Delegate to the Leader and the Cabinet Member for Value authority to approve spending plans for new sources of grant funding or for confirmed amounts where estimates have previously been used, as set out in paragraph 3.3.5, for both revenue and capital grant funding.

6. Delegate to the Cabinet Member for Children's Services, in conjunction the the Cabinet Member for Value, authority to take action to reduce Council spend resulting from the further transition of schools to academy status, as set out in paragraph 3.4.22.

7. 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.

8. Approve, with effect from 1st April 2013, that the financial assets and liabilities of the commercial properties currently held in the Housing Revenue Account

be appropriated to the General Fund, the final list of properties appropriated to be agreed by the Group Director Finance & Commerce.

9. Approve the schedule of Fees and Charges set out in Appendix L, with any recommended changes in year being implemented under Cabinet Member delegation.

10. Approve the Capital Programme for 2013/14 as set out in Annexes 2, 3 and 4 of Appendix I.

11. Delegate to the Chief Executive and Group Directors to implement the 2013/14 capital and revenue proposals once approved by Council unless further reports or Cabinet Member authorities are required as detailed.

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 27th February 2013.

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:

16. 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.

17. Recommend to Council the delegated schools' budget, also as set out in Appendix E.

18. 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.

19. 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

20. Recommend to Council the Capital Programme for 2013/14 as set out in Annexes 2, 3 and 4 of Appendix I.

21. Recommend to Council to agree that the Capital Programme be expanded for schemes during the year which are funded via grant funding under the authority of the Leader and the Cabinet Member Value.

That Cabinet note:

22. The monitoring arrangements for 2013/14.

23. The prospects for 2014/15 and beyond, which indicate a very challenging financial environment still lies ahead, with the continuation of the Government's austerity programme, and that the need for continued financial prudence is especially important.

24. The likely date for the announcement of the final settlement and the potential need for a further report, should the figures be materially different.

25. 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, as well as the final settlement itself.

26. 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.

27. That a further report will be brought to Cabinet setting out proposals to reduce spend associated with Early Intervention activities, in line with the reduced funding provided by Government.

28. That a report will be brought to Cabinet in March setting out the Council's proposed policy for dealing with business rates relief.

29. The effect of Council Procedure Rules with regard to the moving of any amendment to the Council Tax Setting report.

30. That consultation with the Trades Unions will continue in respect of any proposals within the Budget that have an impact on staff.

31. The virement and contingency rules set out in Appendix G.

32. That it has previously agreed that any future underspends from the Corporate Contingency Fund, from the Transformation budget, and from any service revenue underspends, are allocated to the Strategic Reserve.

33. The indicative Capital Programme for 2014/15 as set out in the report and Appendix I.

34. That the Treasury Management Strategy is being presented to Cabinet concurrently with this report as a separate agenda item.

35. That **Midnight on Monday 18th February 2013** 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 2014/15 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, known as the *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 corporate 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 2011's *Your Council, Your Say* survey and last year's *Spring Clean* survey which attracted over 8000 responses), 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, has previously been approved by Cabinet and was due to be considered by Council at its meeting in January. This sets out the key principles around the budget, and these are reflected in this report.

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 2013/14, it is essential that this is borne in mind. The scene for public sector funding was set by the CSR announcements, and the subsequent ABS and LGFS announcements have confirmed continuing major reductions in public sector 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 subsequently 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 2013/14, 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 such as the *Spring Clean* survey in 2012. 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 24th January
- Provided information on its website and through the press, inviting comment

2.1.2 A meeting was also held 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 Tuesday 22nd January.

2.1.3 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.

2.1.4 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 24th January 2013.

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. <u>Havering's Revenue Budget and Council Tax</u>

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 2013/14 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 previous report to Cabinet set out in some detail an analysis of the provisional settlement announcement. As Cabinet is aware, not only was the announcement extremely late, it has proved extremely difficult to interpret. The final settlement was originally expected to be announced around the end of January, following the close of consultation on 15th January, although there has been increasing speculation this will not be available until February. Almost certainly this will be too late to enable officers to incorporate this within this report. If there are any changes in the final settlement, an update will be provided to Cabinet members, otherwise a short note will be provided. Should there be a material difference in the figures contained in the settlement, it may become necessary to hold an emergency Cabinet meeting, to ensure Cabinet is properly informed when making recommendations to Council.

3.2.2 Further clarification on specific aspects of the settlement are set out in Appendix B; as indicated above, 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 a verbal update was given at the previous Cabinet meeting
(c) As a result of the settlement, Havering continues to receive a much lower level of grant funding than our neighbours.

3.2.3 As set out in the previous report to Cabinet, the provisional settlement announcement covered a two year period, for 2013/14 and 2014/15. However, there was considerable uncertainty over the calculation of the 2014/15 settlement figures, and a degree of uncertainty has remained. Further information has been provided and, on the basis of that information, officers have assessed what they believe to be the position in that year. The proposals made to Cabinet are based on that information and its interpretation; Cabinet is asked to be mindful of the ever-changing position with the settlement, and to be particularly aware that the budget proposed is based on the best information available at the point of concluding this report.

3.2.4 The key elements of the provisional settlement, and a comparison against the current funding level, indicates the following:

- The original settlement announced in 2011 gave Havering funding of £56.520m for 2011/12 and £51.357m for 2012/13. This meant that Havering's grant was cut by around £8m in 2011/12, with a further £5m in 2012/13
- Havering's provisional 2013/14 start-up funding is £75.569m (£69.311m for 2014/15); this includes £31.2m of rolled in grants
- The equivalent 2012/13 figure, incorporating the rolled in grants, is £79.7m. The 2013/14 figure is £4.1m lower due to the reduction in Early Invention Grant (EIG), indicators within the formula grant, and removal of the New Homes Bonus
- As part of the Start-up Funding allocation, Havering has been set a business rate baseline of £30.2m in 2013/14 (£31.1m 2014/15) which includes a £9m top-up grant (£9.3m in £2014/15).

3.2.5 The new funding system, as previously advised to Cabinet, reflects a new funding baseline, which is then allocated between mainstream grant, RSG, and business rates. For Havering, these figures are as shown in the table below:

	13/14 £m	14/15 £m
Individual Business Rates (BR) Baseline	21.157	21.806
BR Top Up	9.031	9.310
BR Baseline	30.189	31.116
RSG	45.379	38.195
TOTAL FUNDING	75.569	69.311

3.2.6 In considering these figures, it is important to bear in mind that there is an assumed rise of just over 3% in the business rates baseline; this is expected to be delivered through a rise in both the NNDR multipliers and in the overall yield, and in Havering's case, an inflationary rise in the Top Up sum. As this table shows, there is an expected rise in business rates locally of £649k. This therefore represents a budget risk, as if there is no increase in business rates yield, this will create a funding gap in 2014/15. Cabinet will be aware from the previous report that there is already a potential gap in funding for business rates of £100k.

3.2.7 As part of the submission of the Council's NNDR1 return, this has been reassessed, and mainly due to changes relating to academies, this potential gap has now increased to £430k. This rise in business rates masks a bigger rise in the reduction in RSG than the headlines indicate, with a net rise in BR of £926k being offset by a reduction in RSG of £7.184m. By 2014/15, the overall funding gap could exceed £1m. This represents a potential gap, the budget has been based on the estimated funding levels contained in the settlement; this gap would actually appear within the Collection Fund, most likely not until the end of 2013/14 or even well into 2014/15. The Council therefore needs to be at least mindful of the risk, even if explicit provision for this is not being made at this point in time. This aspect is dealt with later in this report.

3.2.8 Alongside this risk, the business rate calculations make allowance for a level of appeals. It is understood that there is a range of outstanding appeals currently with the Valuation Office. Whilst not all these appeals will succeed, any that do will immediately impact on the Council's financial position from April. If the level of appeals is higher than that allowed for in the calculations, there will be a loss of funds, as the gap between the actual business rate yield and the calculated one will grow. This will impact on the Council's ongoing financial position, aside from the one-off cost effect of any refunds that are needed. This is a significant risk and one which requires due consideration as part of the budget setting process.

3.2.9 Finally, the business rates baseline calculation, and therefore the actual yield, reflects the level of relief given on business rates. Both mandatory and discretionary reliefs are currently given and these have no financial impact at present, owing to the fact these all impact on the national pool. From April, relief will impact directly on each Council, and it will be necessary for councils to set their own reliefs policy. This is currently under development and will be presented to Cabinet for approval in March.

3.2.10 The settlement, as it currently stands, leaves Havering with an overall reduction in funding of around £4.1m in 2013/14 and a further £6.3m in 2014/15, or around £10.4m across the two years. Based on the further analysis undertaken by officers, this sum can be broken down as follows; further details are included in Appendix B:

	13/14 £m	14/15 £m	TOTAL £m
Reduction in formula grant	-2.033	-4.636	-6.669
Reduction in Early Intervention Grant	-2.288	-0.423	-2.711
Increase in Learning Disability Grant	0.192	0.195	0.387
Council Tax Support		-1.394	-1.394
Other adjustments	-0.015		-0.015
TOTAL	-4.144	-6.258	-10.402

3.2.11 This analysis indicates that the reduction in 2014/15 is due to a further reduction in formula grant and a reduction in funding available for localised Council Tax support, together with a further reduction in EIG, offset by a small increase in the LD grant. Although various statements have been made by the Government concerning the level of funding provided for Council Tax support (CTS), to confirm that there is no reduction in the overall level of funding, it is difficult to ignore the results of this analysis. Clearly, it is a matter of local choice how this further grant reduction is handled, but is a concern that this analysis strongly suggests that funding for Council Tax support is being reduced.

3.2.12 Taking into account that the formula grant includes a scaled increase in top-slicing to fund the New Homes Bonus, and in 2014/15, the additional 2% cut in departmental spending announced as part of the Autumn Budget Statement, the following comparison can be made:

	2013/14 £m	2014/15 £m
Total – Actual Funding Gap	**-4.1**	**-6.3**
Planned Budget Gap	-0.5	-3.0
NHB not in base budget	-1.8	-0.6
2% department spending cuts		-1.2
CTS funding reduction		-1.4
EIG reduction	-2.3	-0.4
Other adjustments	0.2	0.2
Total	**-4.4**	**-6.4**

3.2.13 As the table shows, after allowing for the inclusion of the New Homes Bonus, and the reductions in EIG, CTS and the spending reduction in the second year, there is little difference between the budget gap Havering had planned for and the position after settlement. The previous report to Cabinet identified a remaining budget gap of around £2.7m, and this, as the analysis above shows, can be largely attributed to the additional departmental spending cut and the adjustment to funding for Council Tax support, both in 2014/15.

3.2.14 Bridging this gap through further changes to the local Council Tax support scheme would be an option and therefore this would need to be taken into account in developing firm proposals to bridge this residual gap. This of course will be a matter for local decision-making in the run-up to the budget setting process for that year. As Council Tax support is being localised, each authority will be able to set the parameters for its own scheme. A review of the scheme will therefore be undertaken during the coming months, partly with this issue in mind, but also to assess the actual level of support payments being made.

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 various Cabinet reports, including most recently the January 2013 report, most of the funding streams that existed in 2010 have now disappeared. These have either been rolled up into the new local authority funding system or have simply ceased. In addition, as explained in the previous report, most grants are now unringfenced. This means that the resources can be deployed as the Council chooses, although the spending departments will usually set out how they would wish the funds to be used.

3.3.3 A schedule of the range of specific grants which the Council receives in the current year and what was anticipated in 2013/14 was included in the previous report to Cabinet. An updated schedule is set out in Appendix C. There still remain some gaps in this and there are likely to be further Government department announcements beyond the date of the Cabinet meeting.

3.3.4 Assumptions are made in setting the budget on what those grant levels will be. The actual announcements may lead to differing amounts of grant funding being available, and may in fact identify new, or increased, levels of funding. In addition, funds may become available, but on the basis of the submission of bids, one recent example being the successful bid made by the Council for waste collection. Such funds tend to be specific and ringfenced to the purpose of the bid.

3.3.5 To facilitate the usage of these unringfenced resources, it is proposed that the Chief Executive and Group Directors will review any such funds allocated to Havering, make proposals for their use, and then for this to be formally approved by the Leader and the Cabinet Member for Value, and Cabinet is asked to approve this. In addition, Cabinet is being recommended to delegate to the Chief Executive and Group Directors authority to make any necessary changes to service and the associated budgets relating to any subsequent grant announcements where delays may otherwise adversely impact on service delivery and/or budgetary control, subject to consultation as appropriate.

3.3.6 At the point of concluding this report, a further announcement was made by the Children's minister regarding funds that had originally been removed from the Early Intervention programme. These funds, £150m in total, will now be returned to Councils, through an Adoption Reform Grant. The details of this are now being looked into, but this is yet another example of a further change in the funding system. Whilst any additional funds are to be welcomed, this is adding to the difficulty of establishing a firm funding position.

3.4 **Dedicated Schools Grant and Schools Delegated Budgets - 2013/14**

3.4.1 Earlier in the year, the DfE (Department for Education) announced its plans for school funding reform in its document "School funding reform: next steps towards a fairer system". Since then final decisions have been made, there have been a number of data exchanges between LAs and the DfE, and officers in Havering have been considering the implications for schools and modelling formula options. The Schools Funding Forum has been kept informed of progress and has contributed to decisions taken on funding schools. The intention of the changes is to introduce a funding system for schools which is transparent, fair and simple and can be used for all schools including academies.

3.4.2 These new arrangements will apply for 2013/14 and 2014/15. For 2015/16, the DfE intends to introduce a national funding formula through which every pupil will attract the same basic level of funding wherever they are in the country with additional sums reflecting additional need, deprivation and area costs.

3.4.3 The main changes within the reforms are as follows:

- The allocation of grant to LAs
- The funding formula for schools
- The level of delegation – i.e. which costs schools have to meet and which are met centrally on their behalf
- High needs funding and commissioning arrangements
- Early years funding
- Strengthening of Schools Forum arrangements
- A scrutiny role for EFA (Education Funding Agency).

3.4.4 Funding to LAs for their schools and school related costs is through a ring-fenced Dedicated Schools Grant (DSG) which is currently calculated by multiplying the total number of pupils on roll, by a guaranteed unit of funding (GUF). For 2012/13, Havering's DSG is 36,344 pupils x £5,086.43 GUF = £184,611,000.

3.4.5 The DfE recoups grant from the total DSG allocation (the £184.6m) to fund academies for their General Annual Grant (GAG). From the DSG held by the LA, most is delegated to maintained (non-academy) schools through a formula with the remainder held centrally for provision such as early years education (to meet the costs of the 15 hours of free entitlement per week for 3 and 4 year olds) Special Educational Needs (SEN), Pupil Referral Units (PRU), insurance, and so on.

3.4.6 From 2013/14 the DSG will be allocated in three blocks:

- Schools block
- High Needs block
- Early Years block.

3.4.7 The grants and revised Guaranteed Unit of Funding (GUF) have been announced as follows:

Schools Block		Early Years Block		High Needs Block	Additions and cash floor	Total DSG
GUF per pupil (£)	Allocation (£m)	GUF per pupil (£)	Allocation (£m)	Allocation (£m)	Allocation (£m)	Allocation (£m)
4,726.54	£160.641	3,979.94	8.274	17.848	2.363	189.127

3.4.8 The £2.363M of additions is as follows:

	£m
Funding for increased target for 2 year old free entitlement	1.522
2 year old trajectory funding	0.598
Transition funding following ending of 90% protection for Early Years	0.192
Newly Qualified teacher Funding	0.052
TOTAL	2.363

3.4.9 Budgetary provision which, under the current arrangements are funded from the overall DSG, are now funded from the separate funding blocks. All early years provision including nursery provision in maintained schools is therefore funded from the Early Years Block and provision for children attending special schools and pupil referral units along with budgets to meet the costs of statements of educational needs (SEN), post 16 SEN provision and support services is funded from the High Needs Block.

3.4.10 The Schools Block funds a range of centrally held budgets such as School Admissions, Carbon Reduction Commitment and Pupil Growth and approval for central retention has been given by the Schools Funding Forum where this is required by the DfE. Other services funded by the Schools Block are initially delegated to schools but decisions have been made by the Schools Funding Forum on behalf of maintained primary and secondary schools for some of them to be de-delegated i.e. centrally retained. Delegation is not permitted for academies and special schools. The majority of the Schools Block funds the delegated budgets of schools and academies through a revised formula (see below). Once calculated, the EFA will recoup the budget share for each academy to allocate to academies in their financial year, September to August.

3.4.11 The number of factors that local authorities may use to delegate funding to schools is reduced from more than 30 to 12, three of which to do not apply to Havering. Of the remaining nine factors it has been agreed by the Schools Funding Forum that a further seven are used for Havering schools. These are as follows:

(i) A basic per-pupil entitlement –a single unit for primary aged pupils and a single unit for each of key stage 3 and key stage 4

(ii) Deprivation, measured by Free School Meals (FSM) and/or Income Deprivation Affecting Children Index (IDACI)

(iii) Prior attainment as a proxy measure for SEN (notional SEN budgets can still also include funding allocated through pupil numbers and deprivation)

(iv) English as an additional language, for a maximum of 3 years after the pupil enters the school system

(v) A standard lump sum for each school, with an upper limit between £100,000 and £200,000 (Havering has decided on £150,000)

(vi) Pupil mobility

(vii) Rates, which may be at actual cost.

3.4.12 In modelling a formula using a reduced number of factors, there is a risk of significant variance between the funding some schools received in 2012/13 compared to the funding the new formula would deliver in 2013/14. Havering's formula modelling has therefore set out to achieve a position of least turbulence.

3.4.13 Variances are protected by a national Minimum Funding Guarantee (MFG) which ensures that no school will have a budget reduction of more than 1.5% per pupil between the 2012/13 and 2013/14 and again between 2013/14 and 2014/15. For schools that gain, LAs may apply a cap to moderate the scale of the gain and also to afford the cost of applying the MFG. Havering's cap has been set at 2% per pupil with a scaling factor that allows a school to retain 12.5% of the difference between the 2% cap and the total funding calculated by the new formula prior to capping.

3.4.14 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 2013/14, the Pupil Premium provides schools with an additional £900 for every pupil aged 4 to 15 on roll at the January 2013 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 £6.4 million to Havering schools and academies, an increase from the £4.5 million allocation in 2012/13.

3.4.15 When schools convert to academies their calculated budget share and a share of the centrally retained DSG is recouped by the DfE. The numbers of academies in Havering are, as at 1st February 2013, 13 (of 18 secondary schools) and 2 (of 59 primary schools). As more schools consider their options that will best meet the needs of their pupils in the future, more may decide to become academies. Every additional academy will result in a further pro rata transfer of budget from the DSG held by the LA to the academy. This will provide an opportunity for LA services that were previously funded by centrally held DSG to trade with academies in order to meet their operational costs.

3.4.16 The DSG held by the LA after academy recoupment is summarised as follows:

	2012/13 £000	2013/14 £000
Total DSG	184,861	189,127
Schools Block	0	160,641
Academy Recoupment	-56,181	-62,838
Balance for LA Schools & Centrally Held	128,680	97,803
Early Years Block	0	8,274
High Needs Block	0	17,848
Additions (inc new 2 year old grant)	0	2,363
Total for LA Schools, Early Years providers & Centrally Held	128,680	126,288

Education Services Grant

3.14.17 There is a range of education services providing statutory and support functions such as school improvement, education welfare, pupil planning, special education needs and school admissions that sit within Children's Services. For those services falling within the definitions of eligible expenditure, funding is through the Dedicated Schools Grant (DSG). All other services are funded through DCLG formula grant as they are statutory functions of the local authority.

3.14.18 Since 2011/12, there has been a top slice of the DCLG formula grant to recognise statutory functions that transfer from local authorities to academies. This funding is referred to as LACSEG (Local Authority Central Spend Equivalent Grant). The previous reports to Cabinet have highlighted this issue and its impact on the Council. From 2013/14, LACSEG is to be replaced by an Education Services Grant (ESG); this will involve the transfer of grant from councils' DCLG start up funding to the Department of Education (DfE) and the allocation back to local authorities on the basis of the number of pupils in maintained schools. This adjustment was also highlighted in the previous report to Cabinet, in particular the impact of the settlement.

3.14.19 The amount of the transfer for Havering is £4.978m and it will be allocated back on the basis of £116.46 per pupil in maintained primary and secondary schools and £15 for all pupils regardless of whether they attend academies. The figures for pupils attending maintained special schools and alternative provision are £494.96 and £436.73 respectively. It estimated that this will initially provide £3.3m of ESG to Havering on the basis of the number of academies as at 1st February 2013. For each school that converts during the new financial year a pro rata deduction will be made to the ESG.

3.14.20 In anticipation of this reduced funding, a number of restructures have commenced within Learning and Achievement which will reduce expenditure by approximately £1.3m by 1st April. The reduced amount of funding to Education will also limit the amount of corporate costs that can be recharged by approximately £300k. There is also a small reduction (of approximately £150k) that will be met from Finance & Commerce relating to the Asset and Capital Management Team. These reductions are included in the schedule of items for 2013/14.

3.4.21 There is one particular complication with the new Education Services Grant that is allocated to the LA at the start of the year. The grant will be adjusted on a quarterly basis to reflect the actual number of schools converting to academy status backdated to the date of conversion. This therefore means that the net impact will also change on a quarterly basis. Whilst this may well necessitate further savings, it will be difficult to anticipate these and it will take time to develop and implement them. There is also an issue over the point at which the critical mass of the service means that it is not feasible to deliver any further savings and still deliver the Council's statutory responsibilities in this area.

3.4.22 To avoid delays in progressing further savings, should these become necessary, it is proposed that Cabinet should delegate to the Lead Member for Children's Services authority to initiate action to achieve those savings. The actions taken will be reported back to Cabinet at the earliest opportunity, but it is felt that this delegation will minimise any adverse financial impact on the Council arising from the establishment of further academies.

3.5 **Public Health**

3.5.1 As Cabinet will be aware, an announcement on the expected funding for the Public Health services transferring to local authorities was cancelled at the last minute. Funding details were finally announced on 10th January. Havering's allocation is £8,833,400 for 2013/14 and £9,716,700 for 2014/15. The 2014/15 figure has a higher opening baseline, based on the formula applied. Officers have been analysing the details of the announcement, as the level of funding is higher than previously expected, based on protracted discussions over many months. The initial baseline estimate announced in February 2012 was £6.912m, revised to £8.241m in July 2012.

3.5.2 The funding allocated is a specific, ringfenced grant, and therefore these funds can only be expended for the purposes of public health services. Further information on the grant is contained in Annex 1 to Appendix C.

3.5.3 A working group of officers has been in place for some time dealing with various aspects of the transfer, including the migration of staff and the future treatment of various commissioned services. This latter element is complicated as the existing arrangements tend to run across the whole of the PCT area, rather than simply settling into borough boundaries. In addition, Councils are required to appoint a Director of Public Health, and a recruitment process is currently underway. As a result, work is still being progressed on detailed spend and service plans, for which the new Director will be largely responsible, and a headline only budget has been established pending this work, although there is no net cost to the Council, as the grant balances the spend to be incurred.

3.6 **Early Intervention Grant (EIG)**

3.6.1 The previous report to Cabinet highlighted the reduction in this funding stream. As this report now identifies, over the course of two years, Havering will see a loss in funding of £2.7m. Some of these costs can now be directed to DSG, as the functions will fall under the definitions for that funding stream. However, that does leave Havering with an estimated funding gap over this period of around £2.1m.

3.6.2 Whilst changes to this funding stream had been anticipated, the scale of the reduction is far higher. Given the need to draw up detailed proposals, seek cabinet approval, undertake due consultation, and then implement the agreed proposals, it is not realistic to be able to conclude that process before September 2013. With that in mind, it is intended to bring a further report to Cabinet in March, setting out these detailed proposals.

3.6.3 It will not therefore be possible to achieve the full reduction of £2.1m in 2013/14. This will therefore be phased over the two years, with roughly an even split, and this is reflected in the budget for next year. Firm proposals, including a more precise assessment of the incidence of the savings, will be set out in the subsequent report. An assumed level of saving has been built into the budget, pending this more detailed work, but doing so obviously brings with it a degree of risk. However, it is not tenable to bring forward savings proposals at this point in time. In addition, this is a significant cut in funding (some £2.7m from an initial grant of £8.9m) and introducing savings without risking a marked service impact is not plausible.

3.6.4 In addition, children's services are already under pressure, as a result of continuing high levels of demand, and thus spend, on placements. This can be seen in the monitoring position for the current year. It may therefore prove difficult to deliver both the scheduled savings and those arising from the grant reduction concurrently, without creating serious service risks. This has been reflected in the final schedule of budget proposals and the updated risk assessment.

3.7 **Council Tax Freeze Grant**

3.7.1 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.

3.7.2 Whilst this grant is now being removed, and the original 2011/12 grant is being rolled into the new funding system, an additional, new freeze grant has been offered to authorities for 2013/14. This equates to 1% of the Council Tax yield, and for Havering this is worth £1.083m. As in previous years, this is only available to those authorities who freeze the Council Tax, or reduce it. The grant will be available at the same level for both 2013/14 and 2014/15, ie a base grant of £1m would apply in the first year and would remain in the budget in the second.

3.8 **New Homes Bonus**

3.8.1 The position with the New Homes Bonus (NHB) was set out at some length in the previous report to Cabinet. This funding is now being built into the base budget, with an estimated sum of £1.797m for 2013/14. As the previous report explains, the national funding for this is top-sliced prior to the distribution of grant funding, and as this increments over time, NHB will continue to rise whilst grant funding will reduce.

3.8.2 Government estimates assume a sum of £2.8m for 2014/15, although the Council’s own estimates are somewhat lower, at around £2.4m, and this lower figure is reflected in the budget schedules.

3.9 **General Inflation**

3.9.1 The previous report to Cabinet set out in some detail 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 further change to the approach set out in the previous report is envisaged.

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 for approval by Cabinet and the level of changes is being reflected in service budgets.

3.10 **Payments to External Bodies**

3.10.1 Details of the proposed contributions for 2013/14 for concessionary fares and the Taxicard scheme were included in the previous report to Cabinet; these will now be £7,661,487 and £150,000 respectively, both lower than had previously been anticipated for budget planning purposes (though the Taxicard figure is awaiting final approval). This represents a reduction of £57,000 and £155,810 respectively.

3.10.2 It was reported at the recent London Councils meeting that there will be a £1.25m underspend by TfL for 2012/13 for the Taxicard scheme; and using an already agreed formula this will be passed onto the Boroughs - Havering's likely share is around £74k. As this is a one-off contribution, it is proposed to take this sum into the Strategic Reserve.

3.10.3 The Council’s payments for the London Councils Subscription and London Boroughs Grants Scheme were also reported to the previous Cabinet meeting and the contributions will now be £142,744 and £260,979 respectively. This represents a net reduction in the Council’s actual contributions of around £89k, but against the existing budget, a reduction of £172,632. It has been assumed that this will be taken in full as a saving and this has been recognised as such in the schedule of new items. Solely for next year, there will be a one-off refund of £25k resulting from reserves now being made available. Given that this is such a small sum, and to avoid changing the base contribution, it is proposed to take this sum into the Strategic Reserve.

3.11 **Transformation Funding**

3.11.1 As set out in the previous report to Cabinet, to provide funding to enable the Council to deliver a sustained transformation programme, it is proposed to retain the existing base budget provision of £1m, rather than remove this as a saving. There are two main areas proposed for this investment; business development and the continuation of the transformation programme.

3.11.2 The Towns and Communities Goal of Living Ambition has always shown increased economic prosperity of the Borough as a key priority. A Business Development strategy will be presented to April Cabinet. The strategy, which has three key themes of encouraging business to grow, inward investment and transformation in customer services to business, has been developed following research and surveys undertaken last year. The strategy will be supported by a realignment of current resources, and the investment of some additional resources to support these priorities. They have a very sharp focus given the move to a business rates driven model of funding and the inbuilt assumptions that this yield will increase by 3% annually. The Council's financial well-being will depend to an increasing extent on its local taxation yield, and this investment is designed to support that objective.

3.11.3 In the interim, a number of initiatives have been commenced; these include:

- establishing up to date data and contacts on borough based businesses
- a range of initiatives to support local businesses
- reviewing procurement policies here and elsewhere
- highlighting the opportunities available for local businesses to bid for work, such as those outlined in the Capital Programme
- a review of investment opportunities for the pension fund
- a decision to take opportunities to invest in local infrastructure
- a decision to bring the administration of business rates back in house
- the creation of additional management capacity to develop this important area.

3.11.4 Alongside these business development initiatives, given the potential scale of budget gap over the period to the end of the decade, the Council will need to continue its investment in transformation. The council has invested heavily in new technology over the last 18 months and, as the peer challenge noted, it is essential to capitalise on this investment in order to make further efficiency savings to protect front line services. Further work will be undertaken to allow the whole of the homes and housing service and children's services to benefit from the new customer services technology. In addition the back office, or specialist services, will benefit from lean reviews to ensure our systems and practices are the most efficient possible. Work will also be undertaken to deliver more shared services in the Council's back office functions, again in order to maximise savings in back office services and to protect the front line. Given the ongoing pressure on Council budgets to 2014 and beyond it is considered essential to finance the mainstreaming of transformation resources in order to keep delivering savings at the current rate.

3.11.5 In broad terms, it is proposed to allocate £500k of this sum to the continuing transformation programme, and the remaining £500k to the business development initiative.

3.12 **Members Allowances Scheme**

3.12.1 The proposed Scheme for 2013/14 is being prepared concurrently with this budget report for consideration and approval by Council.

3.13 **Demographic Growth within Social Care**

3.13.1 In recognition of the impact of increasing demand for social care services, driven by an increase in both the size of the population and the needs of individuals, provision was first introduced in the 2011/12 budget to accommodate this. A similar sum was included in 2012/13, based on changes to population size. However, it is now some time since these figures were originally assessed, and it would therefore be prudent to revisit these.

3.13.2 Equally, since the original assessment, the Council has recently appointed a new Director of Social Care & Learning, is also appointing a new Director of Public Health, and will shortly assume responsibility for all Public Health functions. In addition, there have been various changes to the relevant services and there are significant savings to be delivered in the next year. The level of risk around these savings and current budget pressures are highlighted elsewhere in this report. Further developments within social care, for example arising from the Dilnot review, are also expected.

3.13.3 With that degree of change in mind, it is now proposed that the need for growth will be revisited in detail over the coming months. Therefore, the existing provision will be retained pending the outcome of that review.

3.14 **Levying Bodies**

3.14.1 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.

3.14.2 The ELWA budget is now due to be approved at the board meeting in early February 2013, and the relevant report was published on 29th January. The budget reflects both the latest tonnage information and the new Council Tax base calculations. Either of these factors can affect the distribution of the levy, and it is evident from the report that this has, in fact, been the case, with rises in the levy varying between 2.9% (Newham) and 6.9% (Redbridge), with the average rise being 5.4%.

3.14.3 The report indicates that Havering's levy for 2013/14 will now be £11.653m. This represents an increase of 6.4%. As previously advised to Cabinet, the overall levy, and Havering's share of it, has reduced from that previously anticipated, and this final figure is in line with the reduced sum now provided as part of the Council's budget planning. Subject to final approval by the Authority, this sum is reflected in the draft budget for 2013/14.

3.14.4 For planning purposes, an increase of 5% in the remaining levies had previously been anticipated, although in financial terms, this only equates to around £37k. The final figures are dependent on the Council Tax base for each funding authority, so the provisional levies for 2013/14 are currently awaited. The figures included in the Council Tax statement are therefore estimates.

3.15 **Collection Fund and Council Tax Base**

3.15.1 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.

3.15.2 From April, the Collection Fund will now encompass not only the collection of Council Tax, but Business Rates as well, and in addition, all payments for Council Tax support. This will see a significant change in the scale of transactions being processed through the Fund.

3.15.3 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.

3.15.4 At the point of finalising the 2012/13 budget, a surplus was forecast on the Fund. However, given the volatility with the Fund, a compensatory provision was created. Based on the latest available information, it is now anticipated that the Fund will in fact show a surplus at the end of this year, although this will be lower than had been anticipated.

3.15.5 For the 2013/14 budget, it is the forecast position on the Fund at the end of the current year that needs to be reflected in the detailed budget, as this is then fed into the precept payments for that year. Given the volatility within the Fund and the changes that the new funding system brings, predicting the position is extremely difficult. A prudent approach has been taken, and as a result a small deficit is now forecast, and this is reflected in the overall budget and Council Tax statement. As a result, the existing budget provision, created as part of the 2012/13 budget, has been removed. It must be emphasised that the position on the Fund in 2013/14 is a major area of risk and it is unlikely to reach a settled position until close to year end

3.15.6 The Council Tax base is reviewed each year to take account of new properties and changes to other factors, such as exemptions and discounts. As previously reported to Cabinet, there have now been changes in the way in which the base is calculated. For 2013/14, the base will be 79,401. One impact of this change in calculation has been on the distribution of levies, which has become evident with the ELWA levy.

3.16 **Proposals – Budget Savings and Budget Adjustments**

3.16.1 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 approaching £36m 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 2013/14 budget. An analysis of the services where these savings fall was included in the previous report to Cabinet.

3.16.2 The January report included a small number of unavoidable budget adjustments, mainly pressures, as well as a small number of additional savings items. The latter included both service and corporate items, with some changes to the elements already built into the Council's budget planning. 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 or where it has not proved possible to achieve the originally planned savings.

3.16.3 There have been only two additions to the schedule presented to Cabinet in January; these are as follows:

- Children's placements; there is a current budget saving of £300k expected to be achieved from a reduction in spend on placements. Given the position in the current year, the general pressures in this area, the further savings required from service transformation, and the issues around early years services, this saving is now not achievable. It has therefore been added to the unachievable savings list
- Pupil Referral Units; this issue was highlighted in the December Cabinet report. The issue is identical to that arising from the LACSEG adjustment, and as set out in the December report, there are unavoidable corporate recharge costs that can no longer be recovered. This has been added to the new pressures/growth items list, as it cannot be absorbed.

3.16.4 The previous report indicated that a budget gap of around £2.7m remained to be met. This is a reduction from the initial, pre-settlement assessment of over £8m, and is due in part to a number of factors moving in the Council's favour, such as the ELWA levy and the concessionary fares contribution. The subsequent analysis of the settlement covered earlier in this report shows that this gap is due largely to the increased funding reductions in 2014/15, and these in turn are attributable to the additional departmental spending reductions and adjustments to the funding for Council Tax support. There is, in addition, a significant reduction in funding associated with Early Intervention Grant.

3.16.5 Given that work on the EIG area is still underway, and given that, at the point of concluding this report, the final settlement announcement was still awaited, officers have focused on the known issues for 2013/14. It is the Administration's intention to bring a further report back to Cabinet in due course, setting out its proposals for addressing this remaining budget gap, bearing in mind that there is an additional funding gap relating to EIG, over 2 years, of £2.1m.

3.16.6 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 specific provision already made for this growth, it is not appropriate to provide specific growth or financial provision for any other pressures.

3.16.7 Finally, the assessed budget gap included the possibility of being bridged through Council Tax rises. By again freezing Council Tax for 2013/14, Havering can take advantage of the latest grant offered by the Government, accepting that whilst this is available across both settlement years, it has only been set at 1%.

3.16.8 Whilst these factors all work to the Council's advantage, all local authorities are, as has now become very apparent, facing unprecedented change in their future funding arrangements. The degree of uncertainty facing local authorities has, if anything, increased even further from this time last year. Aside from the potential impact of growth in both scale and need for social care services, local authorities will now carry additional risk resulting from the localisation of both business rates and Council Tax support. Changes in local taxation yield, collection rates, appeals and claims for Council Tax support may all lead to an adverse financial position, as these will now impact directly on the Council.

3.16.9 This is in addition to the difficulties in interpreting the outcome of the settlement, with millions of pounds in funding shifting from one stream to another. The first year under the new funding system therefore carries a higher degree of risk than usual, and it is essential, to ensure that the Council has a stable financial platform, with a robust approach to budget setting, due account is taken of this risk, and mitigation built in where possible.

3.16.10 Cabinet will be aware that, at the point of setting the 2012/13 budget, it was recommended that a Special Corporate Budget Provision of £2.5m should be created. This was intended to provide a suitable cushion that would 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. This Provision was 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.

3.16.11 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. There are in addition a number of areas that are at risk in the current year – in particular the two transformation programmes – as well as risks around the achievement of savings within the children's area, as mentioned elsewhere in this report. There are further risks around changes to the benefits system, with increased risks of higher demands on the Council's services, particularly in the area of homelessness, as well as the constant pressure caused by changing demographic issues.

3.16.12 A risk based assessment of the Provision was set out in the February 2012 Cabinet report as part of the Chief Finance Officer's assessment of budget robustness, and this has been updated accordingly; this is now set out in Appendix H. This indicates that the Special Budget Provision should be increased to £3m, given the greater degree of risk over savings delivery next year, which contains the bigger level of savings by far over the current four year period, aside from the issues referred to above.

3.16.13 The information contained in the settlement indicates that, over the next 2 years, Havering will lose over £10m in Government funding, although around £2.7m of this will either now be charged to DSG, or will delivered through further savings. This leaves an overall gap of £8.7m, ignoring any other factors. As the previous report to Cabinet indicated, the deployment of this Special Provision will be a significant help in bridging this gap. It is therefore proposed to retain the provision for a further year, with the intention of reconsidering the need for it as part of the budget setting process in 2014/15.

3.16.14 However, whilst the Special Provision has been reassessed, this now takes no account of the potential shortfall between the calculated business rate yield, and the actual yield, nor the potential impact of business rate appeals or relief allowances. Neither does it take any account of a shift in demand for Council Tax support payments. It will clearly take some time for the new, localised systems to bed down, but there is a significant risk for this first year. It is therefore proposed to maintain a separate Budget Provision of £1.5m to cover any potential shortfall in business rates income and any rise in CT support payments arising during the first year of localisation.

3.16.15 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, and given the ongoing state of flux over the settlement and the level of funding provided to the Council, allocating funds into service areas at this point in time is not seen as prudent or robust. The option of having no provisions in place at all could potentially leave the Council facing the combined issues of the anticipated loss of grant monies coupled with the risk of a further reduction in overall funding from Government, a reduction in taxation yield and a rise in Council Tax support payments. These would then inevitably have a major impact on 2014/15 and leave the Council facing potentially significant savings to balance its budget or the prospect of a big rise in Council Tax being needed – which would trigger a referendum, or in the worst case, both. It is the Administration's view that neither of these options is tenable or financially robust, nor in keeping with its aim of keeping Council Tax rises down to the lowest level possible.

3.16.16 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**.

3.16.17 As well as the proposals set out, the final budget reflects this element; more detailed information on this was contained in the January Cabinet report:

- Pension Fund; a change in the existing provision is being included in anticipation of the outcome of the actuarial review and given the current position with the Pension Fund.

3.17 Current Financial Position – Revenue

3.17.1 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. The January report set out a summary of the position at period 6 and this indicated an overall underspend of around £1.2m.

3.17.2 The most recent revenue monitoring reports cover periods 7 and 8, October and November. These are exception-only reports and neither shows any material change from the position previously reported to Cabinet as part of the January report.

3.17.3 Part of the planning process ensures that any in-year variances are fully assessed and taken into account. This was referred to in the January report. The analysis of variances has now been undertaken and this is set out in Appendix K.

3.17.4 The current position shows that there has been slippage in the delivery of savings from two of the major transformation programmes. Whilst further work is underway to seek to deliver these savings, there is a risk that this will not prove possible, at least in full; not the least because the development of other proposals may inhibit ability to achieve these as planned. This risk has been factored into the assessment for the Special Corporate Budget Provision.

3.17.5 That aside, the position at the end of November indicates that an overall underspend for the year is likely. This is currently under review and it is proposed that a further update as at period 9 will be reported to Cabinet, through a supplementary paper. Should the position remain the same, these funds will be transferred into the Strategic Reserve, as has already been agreed by Cabinet, and they would then be available for subsequent investment purposes.

3.18 **Fees & Charges**

3.18.1 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 L 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.

3.18.2 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.

3.19 **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 unknown effects from these changes, which are difficult to evaluate with any reliability at this point in time
- 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 2013/14, having regard to the level of risks and the mitigating factors, and taking into account the proposed additional budget provisions being established to provide sufficient capacity to absorb any adverse impacts arising under the new funding system. Any issues that have a longer term impact will need to be considered as part of the budget setting process for 2014/15 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, inspite 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 2012/13 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 2012/13 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.

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 Councils 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 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 a close watch on the cash flow position as 2013/14 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 **Commercial Properties**

3.22.1 Recommendation 8 proposes that with effect from 1st April 2013, that the financial assets and liabilities of the commercial properties currently held in the Housing Revenue Account be appropriated to the General Fund. There are around 180 commercial properties held in the Housing Revenue Account. These properties are not part of the landlord function; they have historically been managed by the Head of Property Services, on behalf of the Housing service. The properties were not recognised in the self-financing debt settlement; Havering was required to pay £165m to buy itself out of housing subsidy, and this figure was calculated by the government on the strength of the tenanted stock portfolio, without reference to any authority's commercial stock.

3.22.2 The proposal is to appropriate the benefits and liabilities of this portfolio to the General Fund. It is proposed that the final list of properties to be appropriated is delegated to the Group Director Finance & Commerce; issues such as any redevelopment plans, and the nature of individual properties, will need to be considered. It is currently anticipated that the stock may generate annual net income of around £1.27m. A valuation of the final stock will be required for the date of transfer – 1st April 2013. Debt to the value of that valuation will then pass from the HRA to the General Fund, creating an equivalent saving for the HRA. It is anticipated that the value will be between £19m and £20m. Taking a mid point of £19.5m, and applying the Council's current long term borrowing rate of 3.594%, would give an annual interest charge of £700k.

3.22.3 The General Fund would take the risk of future interest rate changes (but not much risk on long term as much loan is fixed), would carry this debt as a liability, and would be responsible for bearing the cost of any refinancing arrangement. Prior to self financing, the situation was different. Whereas now, appropriation will create a revenue saving to the HRA (estimated £700k above), under the previous subsidy regime, that saving would have been reversed by reduced subsidy. By appropriating the properties now, the Council can be sure that HRA savings will be generated.

3.22.4 For information, the HRA Business Plan approved by Cabinet 8th February 2012 assumed the appropriation of the commercial properties. The management arrangements of the properties will be unchanged given that, as reported above, they have always been managed by the Head of Asset Management.

3.22.5 It is anticipated that this will deliver a net benefit to the General Fund in the region of £500k. Whilst this sum will contribute towards bridging the remaining two year budget gap, it is not required to achieve a balanced position in 2013/14. It is therefore proposed that this sum will be reinvested, on a one-off basis, as follows:

- Firstly, to undertake any necessary improvements to the properties themselves, to ensure that they are all of a marketable standard, and environmental improvements works in the areas in which the properties are located. This investment should ensure that the Council is able to maximise its return from these properties
- Secondly, to continue work to tackle a growing issue with homelessness and empty properties. The funds will enable the existing Empty Properties Team to be retained for an extended period. The Team, which deals with empty private sector properties and brings them back into use by the provision of advice and grants to landlords, and by the use of enforcement powers, such as Compulsory Purchase Orders, is currently funded by a time limited grant, and if this is not funded from other resources, it would have to close. This would also have an impact on our ability to generate New Homes Bonus as this is payable when long term empty properties are brought back into use. Additional resources are also required to deal with homelessness. We are

assisting a greater number of households through the provision of private sector options (through rent deposits or rent guarantee schemes or private rented properties which we are managing ourselves). This has enabled Havering to target its resources at those in greatest need, and ensure that all homeless households are placed in temporary, and permanent accommodation within the Borough.

3.22.6 The position relating to empty properties and homelessness will be reviewed during the year, to reflect the impact of changes in the benefits system amongst other things, and firm proposals on the longer term resourcing of this area will be reflected in the budget setting process for 2014/15.

3.23 Draft General Fund Budget 2013/14

3.23.1 Based on the detailed budget proposals and other factors set out above, the Council's General Fund budget for 2013/14 will be as set out in Appendix E. This is summarised as follows:

	2012/13 £000	2013/14 £000
Havering's Services Levies	173,782 11,700	169,675 12,434
Total Expenditure	185,482	182,109
Unringfenced Grant	-22,698	-12,118
External Finance inc Collection Fund	-55,051	-75,092
Havering's Precept	107,732	94,899

3.23.2 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, net of impact of funding changes)	1,406
Inflation	1,728
ELWA & Other Levies (estimated)	734
Budget Provisions	2,000
Sub Total – Pressures	**5,868**
Savings (previously agreed, new items, impact of funding changes)	-17,346
Government Grants (mainstream grant, Council Tax freeze grant)	3,655
Other Changes in Funding Streams	-6,475
Sub Total – Net Increase	**-14,298**
Net Change in Council Tax Base	12,834
Change in Collection Fund	1,464
Net Total	**0**

3.24 Draft Schools' Budget 2013/14

3.24.1 A summary of the Dedicated Schools Grant (DSG) for 2013/14 is set out earlier in this report and the relevant Appendix.

3.24.2 The Schools' budget is also set out in Appendix E and is summarised as follows:

Estimated Allocations	2012/13 £	2013/14 £
Estimated Total DSG to Education Providers	115,066,357	114,845,391
Estimated Total DSG to be Retained Centrally	13,688,773	11,442,553
Total DSG Allocation	**128,755,131**	**126,287,944**

3.25 **Havering Council Tax Precept for 2013/14**

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.

3.26 **Expenditure Restriction by Government**

3.26.1 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.

3.26.2 As part of last year's settlement announcement, a requirement was 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.

3.26.3 The level relating to Havering has been set at 2%. However, as the previous report explained, this is assessed on the basis of an Alternative Notional Amount (ANA) calculation, rather than the actual band D sum. This calculation is designed to eliminate the impact of levies, which are generally set outside the control of the authority.

3.26.4 The figure assessed by DCLG as Havering's equivalent ANA is £1,048.66. This has been calculated from the current Council Tax requirement, adjusted for levies and the changes resulting from Council Tax support. Based on the forecast figures for 2013/14, using the anticipated levy levels, Havering's currently estimated ANA is £1,038.54. The reason for the reduction is that Havering's own spend is reducing. On this basis, Havering is clearly within the 2% level.

4. **Capital Programme**

4.1 The Council currently approves a three year rolling Capital programme, with a detailed programme for the first year and an indicative programme for the subsequent two years. The Programme has remained reliant on funding through the generation of capital receipts, although consideration had been given to a transitional process, with a gradual move towards the use of prudential borrowing to finance it.

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 included a detailed schedule of schemes within the core programme for the coming financial year, 2013/14, together with the overall programme areas for the following year. These are included in Appendix I. Detailed schemes within the remaining year 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. A further assessment has been undertaken on future needs, relating to both places and for maintenance purposes, and a detailed programme was included in the previous report. This was however based on assumed levels of grant funding, pending the actual funding announcements.

4.5 There are also some other areas where grant funding has already been announced, or where a level of funding for 2013/14 could reasonably be assumed. The major area of funding is from Transport for London (TfL), where the Council has been awarded a sum of £2.9m for next year. These grant areas are shown in the Appendix. Although these grants are allocated by individual Government departments, with a clear indication how they would expect these funds to be utilised, with the exception of the TfL funding – and consistently with revenue grants – these funds are unringfenced.

4.6 To ensure that specific schemes can be progressed, and bearing in mind that the actual sums announced may differ from those shown, it is proposed to adopt a similar approach with capital grants as that proposed earlier in this report for revenue.

4.7 With this in mind, Cabinet is asked to approve the capital programme as set out in Annexes 2, 3 and 4 of Appendix I for 2013/14 and to note the indicative programme for 2014/15.

4.8 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.

4.9 The Appendix indicates that the estimated sum for the Broxhill Park development has increased from the initial provision of £2m to around £3m. The reasons for this are set out in the Appendix. As this represents an overall increase, Cabinet is asked to agree this revised sum as part of the Capital Programme.

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 set out the Mayor's plan to reduce the GLA precept for 2013/14 from the current level of £306.72 at band D to £303, a reduction of around 1.2%. The Mayor's draft consolidated budget is due to be submitted to the London Assembly for discussion its meeting on 8th February with the final budget proposals being considered at the Assembly plenary meeting scheduled for 25th February. The Mayor's draft consolidated budget was published on 31st January and this indicates no changes from the proposed reduction set out above.

6.4 As this meeting falls two days before the Council meeting, the final figure approved by the London Assembly will need to be included in a supplementary paper to Council.

7. Overall Council Tax for 2013/14

7.1 The table below summarises the position:

	£	% Increase/ (Decrease)
Havering Precept	1,195.18	0.0%
GLA Precept	303.00	(1.2)%
Total	**1,498.18**	**(0.2)%**

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.

Guidance has recently been issued regarding the number of instalments over which Council Tax payers can now elect to pay by 12 monthly instalments, rather than just the current 10. In addition, the detailed supporting information can be provided online, rather than by default having to supply it in hard copy to taxpayers (although they can request a hard copy).

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

While the decision on the level of Council Tax financially directly affects councillors and their families, and is therefore a financial interest, the Council's current Code of Conduct for Councillors provides a specific exemption to permit councillors to determine the level of Council Tax.

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 Council Procedure Rules**

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 18th February 2013** 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%. There are currently approaching 1900 Tax payers who currently take advantage of the discount. Cabinet should note that a similar discount is not permitted under business rate regulations.

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 2014, 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 2013, 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.

8.7 **Managing the 2013/14 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. <u>Prospects for 2013/14 and beyond</u>

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 grant funding and in the cessation of a wide range of 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 The previous report to Cabinet set out the potential scale of budget gap in the period between 2015/16 and 2018/19. Whilst this is speculative, it does give a scale to the gap between forecast spend on services and Government funding over that period, and is a reasonable basis on which to develop a longer term financial strategy. The sheer scale of this gap – reckoned at between £40m and £50m – is significant, and as the previous report point out, it is highly unlikely that such a gap could be bridged by Council Tax rises alone.

9.3 The current Government CSR is scheduled to run to and including 2015/16, although further announcements on this last year are now expected. It is assumed that a new CSR will be developed by the incoming Government immediately after the General Election in 2015, and this would be expected to cover the period from 2016/17 through to 2020/21. Given the timing of the next local elections, and the lag between agreeing new proposals and their implementation, it would be prudent to develop plans over the next 15 months for immediate consideration by the new Administration in June 2014.

9.4 It is therefore proposed to commence work on developing a range of outline proposals for early discussion with the new Administration, with a report to Cabinet setting out the revised budget gap, the proposals to address it, and the relevant timescales. This report will be presented to Cabinet as soon as possible after the Administration takes office. These proposals will take into account not only the revenue position, but also the longer term approach to capital investment.

9.5 It will inevitably be necessary to refine those plans once the full details of the new CSR have become available, and further when these are reflected in the settlement for 2015/16 and for the years beyond it. However, accepting that a degree of change is inevitable, the scale of the gap makes it imperative that plans are in place to agree a strategy with the new Administration as early as possible after the local elections.

10. Housing Revenue Account

10.1 The report on the HRA budget for 2013/14 appears elsewhere on the agenda. This includes both the revenue budget and the associated capital programme.

Reasons for the Decision
The Council is required to set a budget for 2013/14 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.

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.

A specific exemption is included in the Code of Conduct for Councillors to permit them to take decisions on the level of Council Tax despite it being a financial interest which normally would bar them from being involved in the decision making process.

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. Consultation on the proposals has been carried out as part of the planning process, and all individual savings proposals, particularly those affecting levels of service delivery, are subject to equality analysis as part of the process. The Council publishes equality analyses regularly on its website at http://www.havering.gov.uk/Pages/Services/Equalities-and-diversity-assessment-and-consultation.aspx

Background Papers

Revenue monitoring report period 7 2012/13
Revenue monitoring report period 8 2012/13