Havering
LONDON BOROUGH

CABINET
25 September 2013

Subject Heading:	The Council's Financial Strategy
Cabinet Member:	Cllr Roger Ramsey
CMT Lead:	Andrew Blake-Herbert Group Director Resources
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 to establish a financial strategy and this report forms the initial part of that process
Financial summary:	There are no specific financial proposals, this report sets out the impact of the Comprehensive Spending Review on the Council's financial position, the final outturn for 2012/13, and the proposed approach to the development of a long term financial strategy
Is this a Key Decision?	No
Is this a Strategic Decision?	No
When should this matter be reviewed?	July 2014
Reviewing OSC:	Value

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

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

SUMMARY

The previous report to Cabinet set out the key elements of both the National Budget and the subsequent Comprehensive Spending Review (CSR) announcement. These have now been analysed and their impact on the Council's financial position has been assessed. It is therefore now possible to review and update the longer term financial prospects set out in the report to Cabinet in February 2013. These need to be set in the context of the current strategy and savings plan, and the current financial position; both of these are also covered in this report

This report sets out the proposed approach to the development of a long term financial strategy, progress with the budget strategy for 2014/15, and the financial position in the year just ended and the initial forecast for the current year. Whilst accepting that any forecasts that run to the end of the current decade are open to change, the need for the development of a strategy is quite clear. This report sets out the proposed approach to doing so.

RECOMMENDATIONS

Cabinet is asked to:

1. Note the impact of the Comprehensive Spending Review and associated announcements on the Council's financial position.

2. Note the final outturn position for 2012/13 and the initial forecast for 2013/14.

3. Agree that a detailed long term financial strategy, covering the period from 2015/16 to 2018/19, should be presented for consideration by Cabinet by August 2014, taking into account the announcement of the Local Government Finance Settlement, which is not expected until after Christmas.

4. Instruct officers to prepare a range of proposals to deliver a stable financial position over that four year period as part of the budget strategyfor consideration at that meeting.

5. Approve and recommend to Council the adoption of the revenue budget strategy statement set out in Appendix A.

6. Note that options are being assessed for potential Pension Fund investments and this will be brought back to Cabinet at a future meeting

7. Approve the principle of the 2014/15 schools' maintenance programme, as set out in Appendix C, being funded up to the level of grant funding, ie £2.9m, and

to delegate to the Lead Member for Children's authority to approve any additional schemes should further funding become available.

8. Agree to allocate Havering's allocation of £422,197 for the Early Education Entitlement (EEE) for 2 Year Olds to fund works as set out in paragraph 7.6 of the report, and to delegate to the Lead Member for Children's & Learning authority to approve individual schemes.

REPORT DETAIL

1. BACKGROUND

1.1 The general financial climate has been widely reported nationally and has been reflected in a number of reports to Cabinet previously, and particular since the General Election of 2010. The previous report to Cabinet dealt at some length with both the National Budget, announced in March, and the subsequent Comprehensive Spending Review (CSR), which followed in late June.

1.2 The report to Cabinet identified further reductions in Government funding, with a particularly significant impact in 2015/16. With these latest figures in mind, officers have reviewed both the financial prospects for the coming year, 2014/15, and the subsequent four year period, running to 2018/19. In broad terms, this has indicated a prospective budget gap of at least £20m for the latter period arising from Government funding cuts, with an emphasis on funding reductions being front-end loaded. Faced with such an unprecedented reduction, and given the increasing impact on the Council's budgets of demographic growth, and an ageing population is likely to increase this gap still further, it is essential that the Council sets out a long-term strategy for tackling this. This report is the first step in that process.

1.3 This report proposes that such a strategy is developed over the coming year, as suggested in the February report, and for this to be presented by officers to Cabinet for consideration by August 2014. As part of the background to that approach, the position for both the year just ended, 2012/13, and the current year, are considered in this report.

2. GOVERNMENT FUNDING ANNOUNCEMENTS

2.1 As stated above, the previous report to Cabinet considered both the annual National Budget and the Comprehensive Spending Review. Briefly, the key elements of these were as follows:

- A 1% spending reduction for most Government departments for 2 years
- An exemption for local government from this, with the impact only being felt in 2014/15
- A 10% spending cut for the Department for Communities & Local Government in 2015/16

- The likelihood of additional funding cuts for Havering in that year, with potentially a further reduction arising from changes in the treatment of New Homes Bonus
- Extension of the Council Tax freeze grant for a further two years, based on a 1% rise, together with a continued “cap” on rises at 2%.

2.2 Officers have completed their analysis of this information, and the outcome is set out below. This covers the potential impact on Havering’s grant funding, and in turn, how that impacts on the potential budget gap over the four year period from 2015/16 onwards. A further assessment has been made of the position for the coming year, 2014/15.

2.3 Based on the 10% reduction in departmental spending and previous announcements, the table below shows the potential impact of RSG to Havering:

RSG	**2013/14 (£m)**	**2014/15 (£m)**	**2015/16 (£m)**
CSR position			
- grant	45.634	37.927	28.484
- reduction		-7.707	-9.443
Previous position			
- grant	45.4	37.9	31.8
- reduction		-7.5	-6.1

2.4 Based on the allocation seen in previous settlements, this recent announcement could remove £9.4m from Havering’s RSG in 2015/16. At this stage it is still unclear on the level of impact to Havering’s funding as the treatment of the pooled NHS funding creates another level of complexity which will not be known until the autumn at the earliest. In comparison with the previous analysis, based on earlier announcements, these figures indicate an additional grant reduction of around £3m in 2015/16, above previous forecasts, with a broadly similar position – ie minimal change to forecasts – in the preceding year.

2.5 However, subsequent to the main CSR announcement, there was a further announcement regarding the treatment of New Homes Bonus (NHB). It is proposed to remove £400m from NHB in 2015/16 to fund the new national infrastructure pot; our current assessment is that this potentially removes a further £1m from Havering in that year, as shown in the table below, although it is understood there are different options being looked at to manage this funding shift.

New Homes Bonus (£m)	2013/14	2014/15	2015/16	2016/17	2017/18
	(£m)	(£m)	(£m)	(£m)	(£m)
2011/12 actual allocation	0.397	0.397	0.397	0.397	-
2012/13 actual allocation	0.440	0.440	0.440	0.440	0.440
2013/14 actual allocation	0.961	0.961	0.961	0.961	0.961
2014/15 forecast allocation		0.700	0.700	0.700	0.700
2015/16 forecast allocation			0.700	0.700	0.700
2016/17 forecast allocation				0.700	0.700
2017/18 forecast allocation					0.700
£400m Reduction			(1.119)	(1.119)	(1.119)
Total New Homes Bonus (£m)	**1.797**	**2.498**	**2.079**	**2.779**	**3.083**

2.6 In broad terms, therefore, the CSR could lead to a further funding reduction for Havering of around £4m in 2015/16.

2.7 The other factor to consider is the ongoing impact of successive Council Tax freeze grants. The Table below shows the amount of Council Tax freeze grant Havering has received and forecasted on a pro-rata basis:

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Year 5					1.0832	
Year 4				1.0832	1.0832	
Year 3			1.0832	1.0832	1.0832	
Year 2		1.0832				
Year 1	2.6802	2.6802	2.6802	2.6802	2.4122(1)	2.2916 (2)
Total	**2.6802**	**3.7634**	**3.7634**	**4.8466**	**5.6618**	**2.2916**

(1) Assuming the year 1 council Tax freeze grant reduces in line with spending reductions in 15/16 of 10%

(2) Assuming the year 1 council Tax freeze grant reduces in line with spending reductions in 16/17 of 5%

2.8 Unless the Council Tax freeze grants continue or are rolled into the formula, in 2016/17 Havering would be left with a further £3m plus hole within its budget from the freeze grants alone let alone the other reductions announced. The position is further complicated by the differing approach, as some years have been or will be rolled into formula grant, and others will not, or it is simply unknown what will actually happen. Given this degree of uncertainty, it would be prudent to plan for a “worst case” position until greater clarity becomes available.

2.9 What these figures do strongly indicate is that savings over the “new” 4 year CSR period from 2015/16 onwards will be heavily front-end loaded, as was the case with the current four year period. Potentially as much as £20m in funding could be removed from Havering in the first two years, although this depends on the eventual treatment of the Council Tax freeze grant. The loss of grant will however still be substantial.

3. REVIEW OF FINANCIAL PROSPECTS AND PROPOSED APPROACH

3.1 The projected budget gap for the current four year period was assessed as £40m, as Cabinet will be aware. Given an expectation that Government funding will fall at the rate identified above, it would be reasonable to assume a reduction of at least £22m in funding. This in turn would need to be fed into the overall budget position over the coming four years. This suggests a budget gap at least equivalent – but more likely higher than – the one currently being met through the Council's financial strategy.

3.2 On that basis, for planning purposes, it would be prudent to plan for at least a similar scale of budget gap. Further work on assessing this is underway and this will be reflected in subsequent reports to Cabinet, although this will remain speculative, at least until the settlement itself has been announced early in 2014. It also needs to be borne in mind that any such forecast will reflect a significant number of assumptions, and given that this runs over a period until 2019, these may turn out differently, but this would provide a reasonable position for planning purposes.

3.3 To give this figure some context, the main elements of the current 2013/14 budget are set out in the table below:

	£m
Gross service spend (including contingency)	427.2
Gross service income (including ringfenced grants)	-257.7
Net service spend	169.5
Levies	12.4
Unringfenced grants	-12.4
Revenue Support Grant	-45.4
Business Rates (locally retained + top-up funding)	-29.7
Collection Fund	0.5
Total Council Tax Precept	**94.9**
Note 1 : the gross figures include schools' budgets and the associated Dedicated Schools Grant, but excludes any figures relating to Academies, as these fall outside the Council's finances	

3.4 Government projections over this period assume rises of 2% in Council Tax and 3% in business rates. Should these not be achieved, then it is likely that the budget gap could potentially increase even further. An annual rise of 2% in Council Tax would generate around £10m over a four year period; whilst this makes a significant contribution to any future gap, other measures would clearly need to be taken. As indicated, the gap could potentially increase should some of the funding being provided for the various freeze grants be removed in 2016/17; this would have to be addressed once the future treatment of that funding – which may well not become clear until the next CSR announcements in the latter half of 2015 – has been decided on.

3.5 It is clearly not possible to assess the impact of the 2015 General Election on Government spending plans, even with the broad national position as set out in the Budget and the CSR. There is thus a considerable amount of uncertainty over the years that follow 2015/16, the last year in the current CSR period. A further CSR would be expected during the latter part of 2015, covering the period from 2016/17 to 2020/21. With such a significant level of uncertainty in mind, it is not felt prudent to commit to a detailed long term financial strategy at this point in time, as it may become necessary to radically alter such plans.

3.6 However, with the potential scale of the funding reduction in mind, it would be appropriate to commence work on the development of a financial strategy with a range of options identified. These would be quantified during the Autumn and Winter and then presented back to Cabinet by August 2014. These plans would then be taken through any subsequent consultation with local stakeholders. This would allow at least 6 months to implement any proposals affecting the first budget setting process for 2015/16.

3.7 The strategy would then need to be reviewed in the light of the outcome of the 2015 General Election, and the subsequent CSR announcement. Any revisions to the strategy would then be presented to Cabinet for consideration through the budget setting process for 2016/17. It appears unlikely at present that any of the major political parties intends to depart from the spending plans now set out, but there may be changes in priorities within those plans. This could see changes in funding for Government departments, although of course there is no way of assessing in which direction funds allocated for local government would go.

3.8 It is evident that a sustained period of reductions in Government funding is going to continue for a number of years. It is therefore proposed that the Council's financial strategy, and the resultant spending plans, will reflect that reduction in funding. Funding cuts will therefore be reflected in a similar level of savings proposals. Where Council spending is affected by pressures or other factors within the Council's control, the Council will develop proposals and consult our local community on the choice of further cuts, increases in fees & charges, Council Tax rises, or a combination of these measures.

3.9 The Council's revenue budget strategy statement has been amended to reflect this approach. This is attached at Appendix A for Cabinet to recommend for adoption to Council.

3.10 In arriving at an assessment of the potential future long term budget gap, there are three major specific areas of risk; these are still being assessed but further information on these is included at Appendix B:

- Business rates
- Care reforms
- Benefits cap and housing rents.

3.11 Aside from these specific issues, there are broader potential implications arising from changes in demography, for example, in the population and property make-up of the borough. This aspect is considered further in the next section of this report.

3.12 None of these factors has been included in the current assessment of the budget gap, as they are difficult to quantify and it is likely to be some time before sufficient detail becomes available to properly assess them. However, the sheer scale of the gap already identified and volatility of the elements within it may see these as being additional factors within the overall budget gap, rather than increasing it, though they do represent additional risks, if nothing else.

3.13 The last area to be considered concerns schools' funding. In 2013/14, the Government implemented its School Funding Reforms with some significant changes to the methodology used to allocate DSG (Dedicated Schools Grant) to local authorities, the formula factors through which funding to schools is distributed and the responsibilities for which DSG may be centrally retained. The values attributed to the funding factors along with minimum funding guarantees and gains capping minimised turbulence in schools funding in the first year.

3.14 The structure of the 2013/14 reform remains in place for 2014/15 and the changes are relatively minor. The DSG settlement is expected to be "cash flat" and will be calculated largely on a per pupil bases with grant recouped for academies. The simplified local formula is still at the centre of the system with continued guaranteed funding for schools that restrict any reduction in funding to -1.5% per pupil.

3.15 The changes for 2014/15 are a development of 2013/14 and continue the journey towards a national funding formula for pre-16 from 2015/16.

4. BUDGET STRATEGY FOR 2014/15

4.1 As part of the previous budget cycle, the overall assessment of the financial position across the two years covered by the last financial settlement – 2013/14 and 2014/15 – was set out. In broad terms, the remaining gap to be bridged was around £2.7m, which fell into the second of these two years. This gap was largely due to changes in funding, caused in part by further reductions in funding levels – in particular the Autumn Budget Statement – and in part by the continued impact of those changes in grant calculations, including the localisation of Council Tax support. Financial planning for the 2014/15 budget has therefore been progressed with that scale of gap in mind.

4.2 The subsequent announcements within the CSR have indicated that the Government intends to provide further funding to those authorities who choose to maintain their Council Tax as its existing level. For Havering, this would equate to around £1m. Accepting a further freeze grant is not without potential consequences; if the funding made available is not extended beyond the current window of 2015/16, then authorities would be faced with either a higher level of savings or Council Tax rises, or potentially both. However, the degree of uncertainty is already significant, as indicated in the previous section of this report, and acceptance of the grant would enable the Council to continue to hold down its Council Tax whilst economic conditions remain difficult for our local community.

4.3 If the Administration accepts the freeze grant it would further reduce the budget gap. This may require other measures to be identified, in the future if the grant was to end, but given a range of proposals will now be developed by officers, as proposed in this report, these could be brought forward to accommodate any remaining budget gap.

4.4 There will be some uncertainty until the local government financial settlement for next year is announced. The previous report to Cabinet indicated that the Secretary of State has already advised that the settlement will not be announced until after Christmas. There will therefore be a considerable amount of work to be done in a very short space of time to feed this information into the Council's budget setting process, and it is unclear what issues this might then give rise to. Further work will continue in the coming months to assess any relevant intelligence to better inform the development of the 2014/15 budget.

4.5 As Cabinet will be aware, the vast majority of the current savings plans were drawn up some time ago. There have been significant developments over the intervening period, with a fundamental change to the funding system, as well as changes in demand for a range of services. This arises from changes in the make-up of the borough, which includes the mix and type of property already in Havering and potentially arising from new developments etc, and in the population of the borough, and the demands these in turn make on the Council's services. These need to be taken into account in determining the shape and direction of the Council's future financial strategy.

4.6 With this in mind, officers are now undertaking an assessment of the impact of such changes on both the delivery of services and the Council's ability to complete the savings plans. This will in turn feed into the development of longer term plans. Further information on this aspect will be included in future reports to Cabinet, further into the budget cycle.

4.7 A significant amount of work has however already been undertaken in collaboration with other authorities to develop shared support services, cut the costs of bureaucracy and therefore reduce the pressure on frontline service budgets. Assuming formal approval is given, this would be expected to start to deliver savings from 2014/15 onwards. Such savings would help address any remaining balance for 2014/15 and make an initial contribution towards the budget gap beyond it. A report on progress with these discussions will follow to Cabinet in due course.

5. PROVISIONAL OUTTURN POSITION FOR 2012/13 AND MONITORING POSITION FOR 2013/14

5.1 As part of the development of the future financial strategy, due account needs to be taken of the position in both the previous and current financial years. These are summarised below.

Outturn Position 2012/13

5.2 The audited accounts are due to be presented for approval by the Audit Committee at its meeting on 26th September. These accounts reflect the revenue and capital outturn position for the year. In broad terms, there was an overall revenue underspend of around £5m. Further details of this are set out in the Revenue Outturn report, which is available in the Members' area on the intranet, but this comprises the following elements:

Item	£m
General service revenue underspend	-1.292
Unallocated contingency	-1.718
Unallocated demographic growth	-1.361
Housing benefits surplus	-0.644
TOTAL	**-5.015**

5.3 The service position has not changed materially from that reported to Cabinet in both January and February, although the detailed monitoring reports did highlight that there were a number of corporate variances potentially occurring that fell outside the main service forecasts, in common with previous years. The last period review for the year, period 11, which was a "by exception" report (material variances only), indicated an overall service underspend of around £1.8m, so the final position is slightly down on this.

5.4 The period 9 report also identified that there was an unallocated balance held on the contingency fund, which was felt unlikely to be required to balance the overall revenue position. For a similar reason, the demographic growth sum included within the budget was not allocated to the service, as spend was contained within budget, although this was largely due to the early delivery of savings. Much of this base budget sum has been allocated to Children's Services in 2013/14 to alleviate pressure on those budgets. The housing benefits surplus is not usually quantifiable until year end, and in any event, is a very small variance in the context of an account with an overall throughput in excess of £100m.

5.5 The overall net underspend of £5m has been allocated into earmarked reserves, as is customary. The overall position on reserves and the expected flow of funds from them is considered below.

5.6 The position on capital is also set out in the Capital Outturn report, which is held in the same area. Final spend was lower than had been previously forecast, although this is now expected to occur in the current financial year, as a number of schemes have slipped over into the new year.

5.7 The impact of both the revenue and capital outturn is reflected in the level of earmarked reserves held at the end of the year. This has increased from around £38m to around £48m and includes the final net underspend of £5m identified above. These figures also include a substantial level of Government grant funding not utilised during the course of the year, which has to be accounted for in this way. The other main cause for the increase was that the extent of spend on both transformation and capital was lower than expected. A significant level of reserves is expected to be expended during the current year, and Cabinet needs to be mindful of the fact that reserves can only be used once, and that it is not prudent to seek to balance the ongoing revenue budget through the use of one-off monies – this in any event is precluded by the Council's revenue budget strategy.

5.8 Havering's year end position is consistent with that being reported by other boroughs, who have also seen a rise in reserves. This has been a mix of planned contributions and in-year underspends, and as with Havering, spend occurring at a slower pace than had been anticipated. Equally in common, most authorities anticipate these reserves being expended over the next couple of years, reducing the overall balance, as various transformation programmes and specific projects are taken through to completion. A full assessment of the likely cash flow for Havering is being undertaken and this will be reviewed in due course by the Section 151 Officer.

5.9 There is also an opportunity to utilise reserves to supplement the Council's Pension Fund. These items, amongst others, were highlighted in the report to Cabinet in February, setting out the Council's proposed budget for 2013/14:

- a review of investment opportunities for the pension fund, and
- a decision to take opportunities to invest in local infrastructure.

5.10 That report went on to state "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". The preceding report to Cabinet covered the position in more depth. In particular, the need to make additional, and rising, revenue contributions to the Fund, with the pending actuarial review in mind.

5.11 Given the current position with earmarked reserves, and since the Pensions Committee has now agreed a protocol to facilitate investment in infrastructure projects, it is proposed to consider making a lump sum contribution from those reserves to the Pension Fund. Decisions on the deployment of those funds would be made by the Pensions Committee. This measure should help ameliorate the impact of the actuarial review and thus mitigate the potential impact on the Council's revenue position.

5.12 Previous reports to Cabinet have highlighted the potential revenue effect of the level of contributions needed to the Pension Fund. Aside from this proposed investment, officers are in discussion with the actuary over the future level of funding and means of achieving this. One option is to make a capital contribution to the fund from reserves. Whilst this would reduce both reserves and cash, there is significantly more scope to deliver higher returns through the Fund than there is from treasury management. Such an investment would also potentially reduce the necessary level of revenue contributions, which in turn could then reduce the overall budget gap.

5.13 Officers are continuing to explore possible options and to develop specific proposals for investments into the Pension Fund, including where appropriate an appropriate business case. The outcome of this review, including any specific proposals, will be included in a future report to Cabinet, as part of the coming budget cycle.

Current Monitoring Position 2013/14

5.14 The initial revenue monitoring report for the year, as at period 3, has been produced; this is also held in the Members' area. In broad terms, this indicates an overall overspend of around £2.1m, which reflects the risks associated with this budget as identified in the budget strategy report, the key adverse variances of which are as follows:

- Adults £1.517m
- Learning & Achievement £535k
- Asset Management – Transport £471k (note this is being offset by a positive variance of £499k from the Property service)
- Business Systems £203k
- Regulatory Services £102k.

5.15 However, this position takes no account of the following:

- Funds are being held from the NHS support for social care grant to offset any shortfalls in savings delivery within Adults. If deployed, these would eliminate the current overspend, although only in-year; this is not a permanent solution to any savings shortfall. Work is ongoing to determine the extent to which these savings can be delivered, given the level of demand for services
- There are still shortfalls in the delivery of savings for both Customer Services and Shared Services; whilst work on the former is ongoing, there are likely to be residual balances of around £380k and £220k respectively. These have not been included in the period 3 service forecast pending further work to determine how these residual balances can be delivered
- No account has yet been taken of either any excess interest or surplus on the housing benefits account; being prudent, these would not be anticipated until closer to year end.

5.16 There is one other issue worthy of mention at this point, arising from the changes to the funding system introduced with effect from April 2013. This relates to reductions in Early Years Grant (EIG). This issue was covered at some length in previous reports to Cabinet, and the latest position on this is also set out in Appendix B.

6. HOUSING REVENUE ACCOUNT (HRA)

6.1 The HRA has been subject to a Self Financing Regime since April 2012, and this new financial regime introduced a level of stability and provided local authorities with the ability to plan on a long term basis for their housing assets. The Business Plan is based on a number of assumptions which include the numbers of properties, the level of rent that can be collected, interest rates and other variables. Where these assumptions prove to be wrong, then these present challenges to the Business Plan. Changes in Government policy can affect the Business Plan significantly. For example, when the Government changed the level of discount available on the Right to Buy, this increased the level of take up of the Right to Buy, and as a consequence, instead of the 15 properties that we had assumed that we would lose every year, we actually sold nearly 50 properties in the first year of the Plan. Each property sold represents rent foregone, and there is also debt attached to each property.

6.2 The assumptions in the Business Plan about rent, is that the current rent restructuring regime will continue, and that rents will rise at a rate of RPI + 0.5% thereafter. However, the Government has announced that it intends to end rent restructuring in 2016, and that rents will be expected to rise at the rate of CPI + 1% thereafter.

6.3 Rent restructuring sets for each property a target rent, based on a formula combining the effect of its capital value and local incomes. Most rents at the start of the regime in 2002 were below target rents, and the Government set a limit of the amount by which rents could rise to target rents at RPI + 0.5% plus £2. Because Havering's rent are much lower than target rents, only 32 properties will reach target rents by 2015/16 and 51% of properties will not reach target rents until after 2017/18. The Government announcement therefore has two significant effects on Havering's Business Plan: firstit could result in the Business Plan will lose an estimated £100m over the 30 year life of the Plan; and second target rents will never be reached. This means that tenants living side by side in similar properties will continue to pay different rents.

6.4 The Government's guidance on rent policy is only guidance, and it is not clear at this stage what sanctions the Government may put in place to enforce the proposed policy. Many local authorities have departed from rent restructuring guidance in the last few years, and officers are therefore examining ways that Havering could adopt to mitigate the impact of this change of policy. Proposals will be brought forward as part of the rent setting process in February 2014.

7. CAPITAL PROGRAMME

7.1 The capital programme for 2013/14 was agreed as part of the budget setting process; this included a detailed two year programme for Streetcare. The report to Cabinet in February also set out an indicative programme for 2014/15.

Detailed proposals within that indicative sum are currently being developed and these will be set out in subsequent reports to Cabinet.

7.2 The original schools programme agreed by Cabinet totalled £15.155m, as set out in the February report (Annex 3 of Appendix I), and anticipated the availability of Basic Need Grant of £4.1m for 2013/14 as part of the overall funding. The overall programme allowed around £3.5m for the potential inclusion of additional schools in the programme to meet pupil projections – to be confirmed subject to feasibility studies.

7.3 The funding announcements in March, subsequent to the budget setting process, included a two year settlement for schools' capital spend. For Havering, this comprised an overall sum of £12.8m, of which £8.9m was for Basic Need and £2.9m for Maintenance.

7.4 Given the lead-in times for schools' works, and given the degree of certainty that now exists over Government funding, a further programme of works has been developed for 2014/15. This is set out in Appendix C and covers the proposed maintenance programme for that year. This is funded directly through grant and there are therefore no costs falling on the Council. Approval of the proposed programme in principle will enable officers to plan for these works and to undertake the relevant tender processes, although no commitments to spend will be entered into at this stage. The full programme will be included as part of the budget setting report to Cabinet in February. Cabinet is therefore asked to approve this programme in principle, as set out, up to the level of grant funding, ie £2.9m, and to delegate to the Lead Member for Children's authority to approve any additional schemes should further funding become available.

7.5 The Government has provided £100m of capital funding nationally to support expansion of places for the Early Education Entitlement (EEE) for 2 Year Olds. Havering's allocation is £422,197. This funding allocation is not time limited and is not ring-fenced. Its use is however subject to term monitoring by the DfE to ensure it is used to support the authority in meeting the EEE targets.

7.6 The proposal is to allocate this funding to the Priority Schools Building Programme (PSBP) to ensure that these schools have sufficient capacity on-site for nursery provision, i.e. are able to deliver the 2 Year Old EEE and to therefore increase the availability of places, as the DfE's estimate of qualifying 2 Year Olds in Havering in September 2013 is 506 and 1,100 for September 2014. The PSBP does not provide funding for nursery provisions so there is a risk that nurseries currently on these sites would be lost if this funding was not available to provide these places. Any remaining capital will be used to provide additional financial support to other providers wishing to take two year old children.

7.7 All Early Education Provision must meet the requirements of the Early Years Foundation Stage Statutory Guidance. The requirements for 2 year olds vary significantly in relation to those for older children. Specifically the following requirements must be met:

- Additional space within buildings, rest/sleep areas, separate areas from older children, with access to older areas when children gain confidence, toilet and nappy changing facilities, private areas for parents/carers, meetings, smaller furniture and play equipment, including outside areas, separate from older children and age specific disabled facilities (Disability is expected to be a qualifying criteria from September 2014).

7.8 Cabinet is therefore asked to approve the allocation of these funds for works as set out above, and to delegate to the Lead Member for Children's & Learning authority to approve individual schemes.

7.9 Given the proposed approach to the revenue budget, and in particular, the development of a long term strategy, it is proposed to adopt a similar approach for the capital programme. The plans for capital spend during the current and subsequent year will broadly remain unchanged from those set out in the report to Cabinet in February.

7.10 Longer term plans – which will include the identification of need, assessment of asset condition, and residents' priorities, as well as the priorities of the new Administration – will be drawn up, and based on these, the identification of potential funding options will also be compiled. These will take into account the Council's ability to generate further capital receipts as well as the impact of recent changes in the generation of Section 106 receipts. It will also be necessary to assess how Government proposes to make grant funds available beyond next year, for example, for schools.

7.11 Plans for capital spend over the years from 2015/16 onwards, together with funding options, will also be presented to Cabinet in July 2014, as part of the Council's overall financial strategy. This will ensure that any revenue consequences arising from the programme – which may include a transition to prudential borrowing as a means of funding capital investment – are properly reflected in the revenue budget strategy.

REASONS AND OPTIONS

Reasons for the decision:
It is essential that the Council's financial strategy takes due account of Government plans, and any other material factors where these are likely to have an impact on the Council's financial position. This report provides an update to Cabinet on a range of Government announcements that impact on the Council's funding for coming years, which are particularly relevant to the budget setting process, as well as further information on both the previous and current financial years.

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

IMPLICATIONS AND RISKS

Financial implications and risks:
The Council's budget process will ensure that financial implications and risks are fully met. There are continuing risks with the potential impact on funding arising from both the Budget and CSR announcements, as highlighted in both this and the previous report to Cabinet. The steps already taken by the Council should mitigate this, but it is evident that a longer term approach now needs to be considered, as the potential scale of the future budget gap could prove to be even bigger than the gap the Council is currently addressing.

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

Legal implications and risks:
The Council is subject to a number of duties in relation to revenue, capital and procurement. For instance, as a Best Value Authority the Council is under a duty to "make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness." s 3 Local Government Finance Act 1999. The Council is also under an implied duty to set a balanced budget. Otherwise there are no apparent specific legal risks in adopting the Recommendations set out in the Report.

Human Resources implications and risks:
The Council continues to work closely with its staff and with Trades Unions to ensure that the effects on staff of the savings required have been managed in an efficient and compassionate manner.

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

Equalities implications and risks:
There are no equalities implications or risks at this stage. However any savings that need to be considered following publication of details of the Local Government Financial Settlement may carry equalities implications and risks and accordingly, these will need to be analysed.

Other Risks:
There are no particular other risks arising, other than a very short timescale to properly analyse the LGFS announcements whenever they eventually occur. This is being planned for but much of the detail will have to await the final announcements and publication.

BACKGROUND PAPERS

There are none.

APPENDIX A

REVENUE BUDGET STRATEGY

The Council will ensure that there is an effective Medium Term Financial Strategy in place to drive forward the financial planning process and resource allocation. The financial strategy will be determined by priorities set out in the Council's Living Ambition vision and detailed in its Corporate Plan.

The Council is clear about, and remains committed to, its *Living Ambition*, the long-term vision for the future of the borough, which is to provide Havering's residents with the highest possible quality of life, in a borough that thrives on its links to the heart of the capital, without ever losing the natural environment, historic identity and local way of life that makes Havering unique.

Underpinning the *Living Ambition* are five key goals: Environment, Learning, Towns and Communities, Individuals and Value, with a number of strategic objectives under each Goal. The Council is committed to allocating resources in a way that will support the achievement of these objectives.

The Council recognises the pressures on its budget, and while seeking to protect and enhance front-line services as far as possible, will aim to contain these pressures within existing resources. Cabinet Members will examine all budget pressures and seek reductions where possible.

The Council will wherever possible seek new funding and explore new ways of working. The Council will continue to look at new methods of service delivery to improve services to the public and the value for money that they provide, including working in connection with a range of other organisations and groups.

By becoming an increasingly 'connected council', Havering will continue to seek to improve efficiency and deliver better value for money. In particular, the Council will aim to identify efficiencies that will not impact on the delivery of key services to local people. Its focus will be on identifying ways to reduce the cost to tax payers of running those services.

The Council will ensure that, given the severe financial pressures it has already faced and is continuing to face, growth will only be supported in priority areas, and only where these are unavoidable. However, the Council will expect the Government to ensure that adequate funding is made available to fund any additional costs arising from new burdens placed on Havering, or from services transferred to it.

The Council will ensure that the most vulnerable members of its community are protected, will continue to lead in the development of social cohesion, and will ensure that the services provided and resources allocated reflect the diverse nature and needs of our local community and our responsibilities to the local environment.

The Council will lobby to ensure that the Government provides adequate funding to take on any new responsibilities and to illustrate the impact of the low funding basis for Havering and its residents, but will ensure that, in broad terms, its spending is in line with the basis on which the Government allocates grant funding, and that spending levels will be realigned against any reductions in funding. The Council will therefore continue to reduce its spending where the Government removes funding, in line with the relevant level of reduction.

The Council will engage with its local community, its partners and individual stakeholders in developing financial plans, and will reflect on the outcome of its consultation process in the identification of priorities and the allocation of resources.

While addressing its priorities and setting a balanced and prudent budget, the Council will seek to keep any increase in the Council Tax to the lowest possible level and in line with its stated aspirations whilst maintaining reserves at the minimum level of £10m.

And as part of that process, the Council will not utilise those reserves, or any reserves earmarked for specified purposes, to subsidise its budget and reduce Council Tax levels as this is neither a sustainable nor a robust approach.

The Council will seek to ensure that sufficient financial resources are available to enable it to deliver a long-term savings plan within the constraints of funding available to it from both local taxpayers and the Government, and will seek to utilise any unallocated funds with that purpose in mind.

The Council will adopt a prudent capital programme designed to maintain and where possible enhance its assets, in line with the Living Ambition.

The Council will finance capital expenditure through a combination of external funding and receipts from the sale of assets that are deemed surplus to requirements, and will only apply prudential borrowing as a last resort, unless a business case can be made to finance investment through borrowing, or where there is an income or savings stream arising from the investment.

The overarching objective of the Council's financial strategy remains to deliver high quality, value for money services to our community, whilst ensuring that the cost of those services is compatible with the level of funding provided to it by the Government.

APPENDIX B

POTENTIAL BUDGET RISKS

Business Rates

As Cabinet is aware, the funding system has now changed, with authorities in London now retaining 30% of their business rates. There is increasing pressure on Government to offer incentives to business, and in particular small businesses. If this leads to an increase in rate relief and/or a reduction in the annual inflator, this will impact directly on the local yield, and if this is not compensated for through Government funding, this will further reduce that yield, and thus the funding retained by local authorities.

For Cabinet's information, statistics indicate that 7% of small businesses pay more in business rates than in rent, with a further 6% saying both cost the same; this conversely means that 87% are paying more on rent than business rates. This would seem to weaken any argument for changing the system further.

It would also take major developments within the borough for any marked increase in yield; by way of example, using supermarkets or large DIY stores as a comparator, then rateable values (RVs) for the bigger sites range from £250,000/£400,000 and £150,000/£200,000 respectively. So even using the bigger site values, a joint development (similar to Roneo Corner) would only yield Havering around £81k (applying the 30% yield to a combined RV of £600,000 and a rate in the pound of 45p).

Finally, officers have been alerted to potential reductions in rateable values in Romford, arising from the impact of the Westfields development. It had been understood that these had been factored into the nationally-assessed business rates figures for the current year, but that does not appear to be true. Whilst the impact in cash terms may not be not large, it nevertheless widens the gap between the Government's forecasts and what is actually generated locally. To qualify for any safety net payments – which kick in at the 7.5% mark – Havering would need to lose around £2.3m in business rates yield. The initial information available suggests changes in RV will be significant, but not enough to trigger such a payment. This will also make it even harder to create additional funding to offset any overall budget gap.

Care Reforms

Under the care reforms proposed by the Government, the proposed Care Bill will see a cap applied to costs arising from the provision of care once users reached the proposed lifetime limit on of £72,000. London Councils has assessed that this, together with the planned rise in the means testing threshold for eligibility in April 2016, would potentially see London boroughs face a collective bill of £877m. Their report indicated that the proportion of people paying for residential care in London who would reach the £72,000 limit could be as high as 27%, against only 3% in other areas where residential care costs are lower.

In addition, there is a funding allocation of £335m to help councils prepare to deliver the proposed changes from 2015/16 but this could well be too late to be effective. Councils may therefore have to incur costs in preparing for these changes well before the funding becomes available – assuming, of course, that it remains available.

Welfare Reform

There are three key changes to welfare benefits which will have an impact on Havering residents. These are the under-occupation charge; the introduction of an overall cap on benefits as part of Universal Credit, and the introduction of direct payments of benefit to claimants, instead of paying rent directly to council landlords.

The Welfare Reform Impact Group have contact all those affected by the Under occupation charge, and there are very few claimants who cannot mitigate their financial circumstances in Havering. We are in the fortunate position, to be able to offer a down sizing move to all those willing to move who have spare accommodation. However, not all those in this situation have been willing to apply for smaller accommodation, but it has been made very clear to them, that if they do not choose to move, that they will be expected to pay the full rent, even where they are not receiving full Housing Benefit. 47 households have moved to smaller accommodation since April. Discretionary Housing benefit has been used where households are willing to move, but have not yet had an offer of alternative accommodation.

As a result the collection of rent has been creeping up since April, but only gradually. Rent arrears as a percentage of debit in July was 2.53% against a target of 2.5%. Outturn at the end of 2012/13 was 2.18%. Provision for increased bad debt was made as part of the budget setting process.

The benefit cap has been introduced since 15th July and there are 49 Council tenants affected by this. This therefore has not had a significant effect of Council rent collection at this stage. The benefit cap affects private tenants more severely and therefore it is likely that this may lead to increased homelessness.

The biggest challenge for the Housing Revenue Account will be when direct payments to claimants are introduced. Whilst the pilot authorities have shown that arrears are likely to rise as a result of these changes – in some authorities by as much as 40% - this has not yet been introduced in Havering, and there has been no financial impact from this change yet.

Currently the homeless numbers have started to increase since April 2013. Whilst not all of this impact is directly due to welfare reform, it is a worrying trend and officers are considering strategies to mitigate the housing demand, and to maintain a strong portfolio of temporary accommodation to avoid cost pressures appearing on the General Fund.

Early Intervention Grant (EIG)

The EIG funded activities such as: Early Years (previously funded through Sure Start) Children's Centres, Short Breaks, Youth Offending, Connexions, Think Family and funding for voluntary organisations supporting early intervention work in the borough.

The first year of EIG funding was 2011/12. The non-ring fenced grant was introduced to replace a number of previously specific ring fenced grants, including Sure Start. 2011/12 grant funding was £8.2m compared to 2010/11 equivalent funding of £10m, equating to a funding reduction of £1.8m.

The 2012/13 allocation was £8.9m. The uplift was partly due to the increased target for free entitlement of early years provision to two year olds, which is a responsibility that has now transferred to DSG.

Due to the grant being rolled up into the Revenue Support Grant from 2013/14, a loss of funding of £2.3m has occurred.

The reduction is largely due to £1.5m being passported back to the Local Authority as Dedicated Schools Funding Grant, although the equivalent spend within the 2012/13 EIG budget is only £590k, meaning the equivalent loss to general fund is £1.7m.

Some transition funding was built into the 2013/14 budget model, of £849k, meaning the service had to find savings of £859k. A review of commissioned activity was carried out over several stages, as budgets were realigned to target agreed activity. The 2013/14 gap is being managed through the Early years restructure and the reduction of some commissioned services after discussion and review.

The 2014/15 provisional announcement is £6.2m which equates to a further funding reduction of £423k. Therefore, at present there is an expected 2014/15 budget gap of £1.3m which the service are actively working to address.

APPENDIX C

PROPOSED SCHOOLS MAINTENANCE PROGRAMME 2014/15

Capital Scheme Name	**Scheme Description**	**Required Additional Funding 2013/14**	Cumulative total
Various Schools/ PRU's/ Children's Centres	Emergency Repairs	£450,000	£450,000
Various Schools *	Urgent / Unplanned Hygiene Water Works Programme	£175,000	£625,000
Various Schools *	Education Capital Projects - Asbestos Removal	£400,000	£1,025,000
Various Schools	DDA works	£100,000	£1,125,000
Crownfield	Replace Gas Fired Boiler	£200,000	£1,325,000
Scotts Primary	Replace Gas Fired Boiler	£150,000	£1,475,000
Mead Primary Inf & Junior Buildings	Replace Gas Fired Boiler	£200,000	£1,675,000
Engayne	Replace Gas Fired Boiler	£200,000	£1,875,000
Newtons	Upgrade Electrical Distribution	£150,000	£2,025,000
Towers Infants	Upgrade Electrical Distribution	£200,000	£2,225,000
Harold Court Primary	Replace Windows and Doors	£150,000	£2,375,000
Newtons	Upgrade Electrical Distribution	£30,000	£2,405,000
Corbets Tey School *	Roof replacement main block	£200,000	£2,605,000
Clockhouse Primary *	Roof Replacement A Block Corridor	£90,000	£2,695,000
Engayne Primary *	Roof Covering Replacement	£40,000	£2,735,000
The James Oglethorpe *	Roof Covering Replacement	£145,000	£2,880,000
Clockhouse	Various Roof Works	£150,000	£3,030,000

Capital Scheme Name	**Scheme Description**	**Required Additional Funding 2013/14**	Cumulative total
Ravensbourne	Replace Roof Covering	£150,000	£3,180,000
Whybridge Junior School *	Window replacement	£50,000	£3,230,000
Gaynes	Window replacement	£110,000	£3,340,000
Whybridge Inf	Replace Pipework & Heat Emitters	£200,000	£3,540,000