



## CABINET

**20 November 2013**

**Subject Heading:**

Future Financing Member Project

**Cabinet Member:**

Cllr Roger Ramsey

**CMT Lead:**

Andrew Blake-Herbert

**Report Author and contact details:**

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**Policy context:**

To provide information to residents, partners and businesses about the changes to how Local Government and Havering in particular is funded, and the risks and opportunities that this provides.

**Financial summary:**

This project was delivered within existing resources.

**Is this a Key Decision?**

No

**When should this matter be reviewed?**

N/A

**Reviewing OSC:**

Value

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

Ensuring a clean, safe and green borough	<input type="checkbox"/>
Championing education and learning for all	<input type="checkbox"/>
Providing economic, social and cultural activity	
in thriving towns and villages	<input type="checkbox"/>
Valuing and enhancing the lives of our residents	<input checked="" type="checkbox"/>
Delivering high customer satisfaction and a stable council tax	<input checked="" type="checkbox"/>

<b>SUMMARY</b>
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At the beginning of this term, ten Strategic Administration Projects were established to help deliver services more effectively and in new ways. The Projects were each to be driven by a Member of the Cabinet, working with a select team of officers, representing a diverse variety of disciplines within the Council.

The projects were:

**Council Effectiveness**  
**Think Family**  
**Open Government**  
**Community Action**  
**Harold Hill Ambitions**

**Neighbourhood Responsibility**  
**Civic Pride**  
**Future Financing**  
**Rainham Compass**  
**Romford Regeneration**

In the last year of this Administration, each Project will be reporting back to Cabinet, to note the achievements attained and the progress made.

The **Future Financing** project was established to better understand the most significant change in Local Government funding in recent history and what implications this would have for Havering.

The project focused on the impact of the following:

- How to maximise Council resources under the new Grant Regime, with the return of Business Rates to Local Authorities.
- The New Homes Bonus and changes to Housing Revenue Account funding.
- Promoting Business Investment.
- The Comprehensive Spending Review & Grant Changes.
- The Corporate Office Property Strategy (COPS), in particular the move from Scimitar House.
- The review of Council Assets.

<b>RECOMMENDATIONS</b>
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That the Cabinet note the outcomes delivered by the Future Funding project.

<b>REPORT DETAIL</b>
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## **1. BACKGROUND**

- 1.1. The future funding project was formally initiated in July 2011 and was substantially completed in February 2013.
- 1.2. Although the project was initiated in July 2011, it crystallised senior level discussions on the budget strategy, which had been taking place since the Administration came back to power in May 2010.
- 1.3. The project looked at what changes were being made to the way local authorities were funded, the threats and opportunities it brought and how the Council might achieve the best possible outcome for Havering.
- 1.4. It also considered the best use of the Council's property assets.

## **2. OUTCOMES FROM THE PROJECT**

### **BUSINESS RATES**

- 2.1 The key objectives of this area of the project were to:
  - Understand the implication of the Government's proposals
  - Maximise the opportunities to Havering of the proposed new model.
- 2.1 The implications of the changes to the way Local authorities were funded in respect of business rates was reflected in the budget strategy.
- 2.2 As the control and maximisation of the Business Rate is a key element within the Council's funding, a number of opportunities have been identified. The first was the return of the Business Rate service to an in-house arrangement, disbanding the previous partnering arrangement with the London Borough of Barking and Dagenham from 1<sup>st</sup> October 2013. This has been successfully achieved with a new team now in place.
- 2.3 A dedicated property inspector post has been created with access now available to LLPG GPS software to ensure the property base can be accurately checked and mapped. Similarly, the recovery roles have been centralised to enable best use of resources.
- 2.4 A new project is due to commence to undertake a forensic analysis of the local Valuation List and other data sets, coupled with an audit to identify missing or inaccurately listed property.

**BUSINESS RATES POOLING**

- 2.5 Discussions on a potential business rates pool have been ongoing and a report was submitted to Cabinet in October. This authorises officers to progress these discussions with the aim of reaching agreement on the creation of a pool. Officers have been meeting finance and economic development colleagues in Barking & Dagenham, Thurrock and Basildon on a regular basis. Agreement has been reached on the basis on which a pool would operate and this will include the creation of a small pot of money to fund economic development activity across the four boroughs.
- 2.6 The detailed submission has been submitted to DCLG. A decision on whether the Department agrees to the establishment of the pool is expected sometime in January.

**NEW HOMES BONUS & HRA FUNDING**

- 2.7 They key objectives of this area of the project were to:
- Try to determine the level of new completions expected over the coming years and the impact of this on the Council tax base
  - Balance planning policies, the Borough's housing needs and the potential return from the new homes bonus
  - Develop the business case for a self financing HRA
  - Carry out the necessary borrowing to support the HRA going forward.
- 2.8 The Council Tax base is reviewed annually as part of Council Tax setting.
- 2.9 The introduction of Self Financing for the Housing Revenue Account (HRA) in April 2012 has led to a number of significant changes to the way in which the Council's housing is managed. There is now a thirty year business plan, which looks at the finances of managing the stock in a more planned and effective way. The Council calculates its income and expenditure using a range of assumptions about stock condition, inflation, interest rates and stock numbers.
- 2.10 As a result of the introduction of Self Financing for Council housing, Havering has been able to accelerate its Decent Homes Programme. This will bring all the Council's housing stock up to Decent Homes standard by March 2015.
- 2.11 In addition, the Council has become an approved provider of new homes as registered by the GLA, and in that capacity has bid successfully for funds. The grant of £1.8m, put together with funds from the HRA Business Plan, and Right to Buy receipts will deliver 70 new homes over the next 2 years. Further opportunities for development which meet the Council's housing needs will be considered as part of the Council's future HRA Business Plan.

- 2.12 However, there are a number of risks to the Business Plan, some of which were anticipated, and others which have arisen unexpectedly. The major risks that have materialised have been changes to Government policy. The first change to have a significant impact was the increase in the Right to Buy discount which has led to an increase take up of the Right to Buy. The Business Plan anticipated only 15 sales on average a year, whilst the sales in 2013/14 are likely to reach around 100. The Department of Communities and Local Government have recently informed Havering of their intention to target Havering with additional advertising in order to increase the take up of the Right to Buy.
- 2.13 The second major change in Government policy is that the Government are proposing to end rent restructuring, and the formula for increasing rents from RPI + 0.5% + £2 to a formula of CPI + 1%. For Havering, where rents are below target, this will have a significant impact. The Council will consider options on how to address the challenges that this presents, in the budget round setting rents for 2014/15 and beyond.
- 2.14 Other risks, which were anticipated, have been managed. The risk in changes to interest rates has been managed by fixing most of the Council's borrowing of housing debt over 15 years at low rates. Inflation on costs has also remained low, and therefore the Housing Revenue Account is in a relatively stable position.

### **PROMOTING BUSINESS INVESTMENT**

- 2.15 The key objectives of this area of the project were to:
- Model the financial benefits of retaining and growing businesses in particular sectors and/or locations, in terms of both impact and probability
  - Establish whether there is a strong business case for devoting resources to attracting new investment and assisting existing businesses to grow.
- 2.16 Economic growth has become Central Government's top priority and Local Authorities have been incentivised to drive forward the agenda through the localisation of business rates.
- 2.17 The Council's commitment to the business community is reflected in the Living Ambition goal for Towns and Communities; to provide economic, social and cultural opportunities in thriving towns and villages. Recognising that a strong business community is a prerequisite to achieving a better quality of life for Havering residents, the Living Ambitions strategy goes on to state 'We will let enterprise and entrepreneurship open the door to prosperity for more Havering residents and we will work with partners to support local business and attract new jobs'.
- 2.18 The Council has a well-established programme of support for businesses, from advice and guidance, and procurement programmes through to

networking events and the Business Awards. To strengthen this activity, Cabinet approved a Business Growth Programme in March 2013, which established a comprehensive programme of business support to contribute towards the delivery of the Living Ambition goal to create prosperity for local residents. This programme seeks to build on existing services, to provide a co-ordinated programme to grow the business base, create jobs, improve the effectiveness and efficiency of service delivery and increase business rates income to support local services.

### **COMPREHESIVE SPENDING REVIEW & GRANT CHANGES**

2.19 The key objectives of this area of the project were to:

- Develop and deliver a balance revenue budget strategy
- Ensure Council Tax increases are kept to minimal levels
- Develop and deliver a balanced capital budget strategy.

2.20 Officers have worked with Cabinet to deliver options to set a balanced budget. This was borne out through the MTFS to deliver £40m of savings between 2010 and 2014/15.

2.21 Officers have continued to monitor developments in the funding system and will respond to the announcement of the Local Government financial settlement, which is expected in early January. A review of information feeding into the Council Tax base setting is underway and this is being linked with the projected level of New Homes Bonus, as both are heavily impacted by property numbers. This intelligence is being fed into the development of the 2014/15 detailed budget, although it is speculative until the settlement details are available.

### **LOCAL COUNCIL TAX SUPPORT SCHEME**

2.22 In April 2013, Government abolished the national Council Tax Benefit scheme and challenged local Councils to design their own local council tax support schemes with a 10% reduction in funding. For Havering, the 10% reduction was estimated at £1.9 million. The Local Council Tax Support Scheme (LCTS) has been in place since April 2013 and robust monitoring takes place to ensure expenditure remains within budget. The budgeted amount for LCTS is £18.6 million and forecast expenditure remains in line with the budget.

2.23 The Council Tax Reforms which came into effect from April 2013 allowed local authorities to reduce or remove certain exemptions for Council Tax, therefore increasing the collectible debt. These reforms have been implemented by the Council to offset the reduction in Government funding for the LCTS scheme.

### **CORPORATE OFFICE PROPERTY STRATEGY – SCIMITAR HOUSE**

2.24 The key objectives of this area of the project were to:

- Plan moves and ensure accommodation could cater for relevant staff numbers
- Work with relevant staff teams to ensure buy-in and understanding of the changes
- Ensure property, and ICT requirements were managed to deliver successful moves
- Ensure that Scimitar house was vacated before the lease expired

2.25 Work was completed to Mercury House and the moves from Scimitar House were planned and executed on time. Staff were moved on a phased basis each weekend, with all staff up and running on the following Monday morning causing minimal, if any, disruption to services.

2.26 Scimitar house was successfully handed back before the lease expired.

### **REVIEW OF COUNCIL ASSETS**

2.27 Asset transfer can enable Councils to shed responsibility for asset-related costs namely:

- Non domestic rates – many community organisations have charitable status, making them eligible for a minimum 80% reduction in NNDR liability
- Repairs and insurance – whether transferred via freehold sale or granting of a lease, responsibility for repairs, maintenance and other elements of statutory compliance (subject to the lease terms) can be transferred to the community organisation.
- If the asset includes a community service, there are potentially further opportunities to reduce operation costs of that service.

2.28 In addition, by securing a freehold or significant leasehold interest, community groups are often able to access external funding e.g. Big Lottery Fund, Heritage Lottery Fund, Community Asset Transfer Fund which is otherwise unavailable to local authorities, to enable investment into community facilities e.g. Upminster Windmill Preservation Trust. Such a move also supports capacity building within local communities.

2.29 The on going rationalisation of the Council's operational property portfolio (and associated cost reduction) has seen the Authority shed leasehold liabilities associated with Purfleet Depot, Portman House, Midland House and shortly CEME in the two year period since the surrender of Scimitar House. Future partnership working will allow further reviews of the occupation arrangements for staff.

## **3 Conclusion**

3.1 The Future Financing project looked at the unprecedented changes in Local Authority funding and the risk and opportunities it presented for Havering.

- 3.2** New ways of funding Local Authorities were understood and reflected for a Havering perspective and the best options on how to manage the changes were presented though to Cabinet as required.
- 3.3** The changes were far reaching and although largely implemented, it will take a number of years for them to fully bed in, and for the Council to understand the full impact.
- 3.4** Any future work required on Future financing will be delivered by services in line with the principles established throughout this project, to ensure that Havering is making the best use of its assets and continuing to have a solid financial base from which to provide services to residents and businesses of the Borough.

## **REASONS AND OPTIONS**

### **Reasons for the decision:**

This report is being brought to cabinet to provide Members with an overview of the Council Future Financing project.

### **Other options considered:**

N/A

## **IMPLICATIONS AND RISKS**

### **Financial implications and risks:**

This project was delivered using existing resources.

### **Legal implications and risks:**

There are no legal implications or risks arising from this report.

### **Human Resources implications and risks:**

There are no HR implications arising from this report.

### **Equalities implications and risks:**

There are no Equalities implications arising from this report