

CABINET

19 February 2018

Title: Budget Framework 2018/19 and Medium Term Financial Strategy 2018/19-2020/21	
Report of the Cabinet Member for Finance, Growth and Investment	
Open Report	For Decision
Wards Affected: All	Key Decision: Yes
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Summary: This report sets out the: <ul style="list-style-type: none">• Medium Term Financial Strategy (MTFS) for 2018/19 to 2020/21;• Proposed General Fund budget for 2018/19;• Proposed level of Council Tax for 2018/19;• Funding reductions to 2020/21• Financial outlook for 2019/20 onwards;• Draft capital investment programme 2018/19 to 2021/22.• Update on the Strategy for the Flexible use of Capital Receipts <p>The General Fund net budget for 2018/19 is £145.368m and the proposed net budget for 2019/20 is £139.012m. The budget for 2018/19 incorporates changes in government grants, decisions previously approved by Members in the Medium Term Financial Strategy, savings approved by the Cabinet in July and November 2017 and other financial adjustments.</p> <p>The Council proposes to increase Council Tax by 2.99% (£33.85) Local Authority Precept Increase and 3% (£33.95) Increase for the Adult Social Care Precept. This 3% precept will be ring-fenced for this purpose. These increases which in total equate to £67.80 raise the level of Council Tax from £1,131.83 to £1,199.63 for a band D property.</p> <p>The Greater London Authority is proposing to increase their Council Tax by 5.1% (£14.20) for a Band D property, changing the charge from £280.02 in 2017/18 to £294.22 in 2018/19. The combined amount payable will therefore be £1,493.85 for 2018/19, compared to £1,411.85 in 2017/18. This is a total change of £82.00 for the Council Tax bill for 2018/19.</p> <p>The proposed draft 4-year capital programme is £360.362m for 2018/19 to 2021/22, including £196.690m for HRA schemes. Details of the schemes included in the draft capital programme are at Appendix E.</p>	

Recommendation(s)

The Cabinet is asked to recommend the Assembly to:

- (i) Approve a base revenue budget for 2018/19 of £145.368m, as detailed in Appendix A to the report, including the new savings proposals and other adjustments as detailed in this report.
- (ii) Approve the adjusted Medium Term Financial Strategy (MTFS) position for 2018/19 to 2020/21 allowing for other known pressures and risks at this time, as detailed in Appendix B to the report, including the additional cost of borrowing to accommodate the capital costs associated with the implementation of the MTFS;
- (iii) Delegate authority to the Chief Operating Officer, in consultation with the Cabinet Member for Finance, Growth and Investment, to finalise any contribution required to or from reserves in respect of the 2018/19 budget, pending confirmation of levies and further changes to Government grants prior to 1 April 2018;
- (iv) Approve the Statutory Budget Determination for 2018/19 as set out at Appendix C to the report, which reflects an increase of 2.99% on the amount of Council Tax levied by the Council, a further 3% increase in relation to the Social Care Precept and the final Council Tax proposed by the Greater London Assembly (5.1% increase), as detailed in Appendix D to the report;
- (v) Note the update on the Council's transformation programme;
- (vi) Approve the provision of a loan of £2.147m from the General Fund to the Barking and Dagenham Trading Partnership to cover the cost of new vehicles;
- (vii) Approve the Council's draft Capital Programme for 2018/19 to 2021/22 totalling £360.362m, of which £163,672m related to General Fund schemes, as detailed in Appendix E to the report;
- (viii) Approve the updated Strategy for the Flexible Use of Capital Receipts at Appendix H to the report and, in doing so, note that the some of the associated savings targets shall be subject to final business cases and confirmation at future meetings; and
- (ix) Approve the updated Dedicated Schools Budget for 2018/19, including the hourly rate payable to Early Years providers (3 and 4-year olds), as detailed in section 14 of the report.

Reasons

The setting of a robust and balanced budget for 2018/19 will enable the Council to provide and deliver services within its overall corporate and financial planning framework. The Medium Term Financial Strategy underpins the delivery of the Council's vision of One borough; one community; London's growth opportunity and delivery of the priorities within available resources.

1. Introduction and Background

- 1.1 The purpose of this report is to provide Cabinet with an update on our financial position and to seek agreement to proposals for the revenue budget for 2018/19 of £145.368m.
- 1.2 The report also sets out the Medium Term Financial Strategy (MTFS) for 2018/19 to 2020/21 and the Council Tax level for 2018/19 together with an update on our proposals to balance the books through to the end of the decade.
- 1.3 Local Government as a whole faces unprecedented financial challenges with year on year cuts to the funding from central government while the demand for services is rising. Councils can respond to this level of challenge in a variety of ways that reflect the scale of their ambition for their residents. This Council has chosen to take a bold, new and ambitious approach based on investing in services, maximising economic growth and the consequent opportunities and transforming the way the council runs.
- 1.4 This ambition has informed our approach to corporate strategic and financial planning since the summer of 2015 when the Council launched two key pieces of work:
 - A panel of independent experts – the Growth Commission - to review the Council's ambition to be London's growth opportunity, and to recommend how to maximise the contribution of the Borough and our people to the London economy. Their report was published in February 2016.
 - A new 'Ambition 2020' programme was initiated within the Council to re-examine every aspect of what the council does and how we are organised. The outcomes of this programme were reported to Cabinet in April 2016
- 1.5 Following extensive public consultation in the spring of 2016, Cabinet agreed the outputs and recommendations of both reports at its meeting in July of that year. Those recommendations were taken forward and embedded in the Council's MTFS approved in February 2017.
- 1.6 In 2017 the Borough Manifesto: Barking and Dagenham Together was published. This sets out a twenty-year vision for the Borough based on harnessing the energy, creativity and enthusiasm of its residents to make it "a place people are proud of and want to live, work, study and stay in"
- 1.7 As the above paragraphs indicate budget setting is no longer a simple financial matter. This report builds on the sound policy and strategic foundations put in place over the last three years and the regular financial updates on the MTFS presented to Cabinet in July and November. In addition, it provides an update on the implementation of the investment plans set out previously.
- 1.8 However, the MTFS is also a living document that is not set in stone but which needs to flex and adapt in the light of changes. This report therefore also brings forwards some new proposals to meet our current circumstances.

2. Our Medium Term Financial Strategy

People, money and politics

- 2.1 As a result of the deep cuts to our government funding, local authority budgets are under severe pressure. In our case this pressure is deepened by the real needs of our growing population. We have one of the fastest growing populations – for example Barking and Dagenham’s population increased by more than one-quarter (26%) between 2001 and 2016 from 163,900 to 206,500 residents: an increase of 42,500 people. This is a greater percentage change than England (12%) or London (23%).
- 2.2 Barking and Dagenham has a young population, with the highest proportion of 0–19s in the UK (32%). More than one in four (26%) residents is aged 0–14, compared with 18% across England and 25% in London, and this proportion has increased from 22% in 2001. In addition, the population is also more diverse and mobile than many areas of the country and indeed than traditionally was the case here. The ethnic make-up of the borough has also changed since the 2001 Census. The proportion of the population who are White British has decreased from 81% in 2001 to 49% in 2011. This is projected to continue to decrease to 38%. These characteristics can bring benefits and add to the vibrancy and creativity of the borough, but they also can make it more challenging for the Council to meet the needs of the changing community.
- 2.3 In addition it must be acknowledged that many of our residents live in more challenging circumstances than we would want for them. People in our borough die earlier, have poorer health, and lower levels of education and skills than in most other London boroughs. Barking and Dagenham remains among the most deprived areas in the country. In 2015, the relative deprivation of the borough (Index of Multiple Deprivation) increased from a rank of 20th to 11th in the country and from 7th to 3rd in London compared with 2010 index. In 2016, 67.3% of working-age residents (ages 16–64) were in employment, compared with 74.2% in England and 73.7% across London. These are the statistics that reveal the underlying reality for some of our residents: too many people are insufficiently skilled, too many are in low paid work and too many struggle to find suitable accommodation to live in. These and similar factors both drive the level of demand for services and also make it all the more important that the Council is ambitious to improve the lives of its residents.
- 2.4 There are particular challenges in Care and Support. Although the proportion of pension age residents is still relatively low, this is forecast to start to increase from 2020 onwards. However, the number of disabled people is increasing even now. This includes both people who become disabled in adulthood as a result of poor health or accidents and young people with severe disabilities from birth or infancy. The age profile of Personal Independence Payments (PIP) claimants suggests that Barking and Dagenham women suffer an earlier burden of chronic disease than women nationally. Our Care and Support services will work to support them to live full and active lives in the community, but this is resulting in increased demand for services.
- 2.5 In addition the child population is increasing which is leading to more demand for services including social care services to safeguard and support the most

vulnerable children. Nationally Children's Social Care services are under pressure and where sufficient investment is not made this can result in poor performance. This results in greater costs in the longer term as shown by the experience of authorities who are judged as failing by Ofsted who have faced additional costs in the millions to put right previous under investment. For these reasons we have been anxious to ensure that growth funding is provided for Care and Support.

- 2.6 Last year we began our growth focused transformation programme which means investing to meet local needs and deliver our ambitions. This is funded by making efficiency improvements and savings. However, to afford our ambitious plans we also need to make raise Council tax.
- 2.7 Since the beginning of the Government's austerity programme in 2010, Local Government has borne the heaviest share of cuts. Since 2010 Barking and Dagenham has already made over £131m of savings to date. This was largely driven by reductions in funding. The total funding (finance settlement) for LBBD has reduced from £115m in 2010 to £65.2m (2017/18), a reduction of £49.8m. It will further reduce by £8.5m to £56.7m by the end of the decade, a total funding reduction of £58.3m.
- 2.8 Along with these required savings as a result of funding cuts; the Council has faced and will continue to face severe demand pressures because of rapid population growth, demographic changes and high levels of deprivation which has resulted in a total savings requirement since 2010 to date of over £131m.
- 2.9 In February 2017, the Assembly agreed to set a balanced budget of £145.129m for 2017/18, which incorporated a number of one-off items and a transfer from General Fund balances of £2.8m. At that point, the Council's overall budget gap was £15m for 2018/19 and £22m overall to 2020/21.
- 2.10 Subsequent reports were reported to Cabinet in July and November 2017. The first of these reports amended the gap to £15.8m; this was largely achieved by removing a number of budget provisions such as the provision for demand pressures, inflation and legislative change.
- 2.11 The November report factored in a range of further adjustments for investment in key services and additional grant funding. It also set out new savings and efficiency proposals. The net effect of these proposals was to reduce the budget gap to £2.791m which it is proposed can be met by a planned drawdown from reserves.
- 2.12 Since then a number of further investments and adjustments have been identified. These together have a net nil overall effect and the final planned drawdown from reserves remains £2.791m.

3. Changes to Government Funding and Business Rates

- 3.1 The Government has begun a full-scale reform of the mechanisms for funding Local Government that changes the balance of locally and nationally raised funding. Under the existing arrangements Local Authorities receive a mixture of grant funding, business rates and Council tax funding to meet the main elements of their funding requirements.

- 3.2 Over the period of austerity, the main element of grant funding “Revenue Support Grant” has been reduced and will ultimately be phased out to be replaced by a system that relies more heavily on local taxes. These funding arrangements assume that authorities will raise council tax year on year in order to provide them with sufficient spending power to deliver services. As a result of the high levels of inflation, the expectation now is that authorities will raise council tax by up to 3%. This is in line with the December CPI figure of 3%.
- 3.3 In addition a number of other important grants received by councils have been reduced. This includes the Educational Services grant which has reduced from £3.4m to £0.6m over three years. The Housing Benefit Administration grant is also expected to be reduced following the introduction of Universal Credit. The additional funding provided by the New Homes Bonus to support increases in population and encourage house building has also been reduced in line with changes announced by the Government last year. Overall the reduction in non-ringfenced Government grant funding including RSG is expected to be £6.2m. This is still a provisional figure and will be confirmed by the Government in the final settlement published in February.
- 3.4 Additional funding for Adult Social Care has been provided in the form of the Improved Better Care Fund and the Adult Social Care support grant. However, the ringfenced Public Health grant has been reduced by £0.4m. The Adult Social Care allocation has allowed the Council to mitigate the substantial reduction in funding that would otherwise have to be borne by the adults’ care and support services and to make a series of investments in crisis response and hospital discharges, Mental Health services and our local market for the provision of social care services. As a result of the grant funding, the investment in adult social care services is able to increase, even as the resources that the Council has available to spend on it reduces. This will support us to continue our current high performance in supporting hospital discharge in which we were the fourth best performing council in the country according to the latest published figures.
- 3.5 The longer-term intention of the Government is to largely replace grant funding with business rates and other local taxation funding. As a step towards this longer-term reform a business rates pooling pilot across London has been established. Under this pilot the London authorities will retain 100% of their non-domestic rating income. London will not retain 100% of total rates collected, as it will continue to pay an aggregate tariff to Government. The London pool will retain 100% of any growth in business rate income above baselines and will pay no levy on that growth.
- 3.6 Cabinet has approved (in November 2017 and January 2018) joining this pool. Under this arrangement the Council expects to receive a share of the benefits of economic growth across London. The actual amount received will depend upon the level of growth and so cannot be guaranteed. An estimate of £1.1m was included in the MTFs in November. This has now been increased to £1.4m following confirmation of the methodology for sharing additional funding – **an increase of £0.3m since the November report.**

Investing in the Borough

- 4.1 In November 2016, the Cabinet agreed the Borough’s first Investment and Acquisition Strategy. The strategy set out proposals to leverage the Borough’s

growth potential over the coming 15 years to deliver both financial and community benefits. Over time the strategy will aim to be self-financing, with a pool of working capital to support acquisition costs funded from the disposal or refinancing of high value longer term assets. However, this medium term financial plan continues to support the initial implementation of the strategy by allocating funding in the Council's revenue budget for the borrowing costs of land acquisitions made during 2016/17 and 2017/18.

- 4.2 The Council will also continue to invest in the basic infrastructure of the Borough to ensure that it is a place where people want to live and work and feel pride in their environment. To this end, we have an annual capital programme of £10m and have allocated revenue funding to cover the associated borrowing and repayment costs. (For further information on our capital programme see section 12.)
- 4.3 As set out in November, altogether we have allocated £5.17m revenue funding to support our capital and investment programmes.
- 4.4 We have set aside £3.027m to invest in meeting increased demand for Care and Support within our growing population. This investment will be partly funded from the Adult Social Care precept. We have also set aside £0.750m to invest in services to prevent and reduce Homelessness and to meet our new obligations under the Homelessness Reduction Act. In doing this we have been aware of the needs of the most vulnerable of our community.
- 4.5 In November, we also outlined our plans to invest £7.077m to meet known budgetary pressures and to ensure services continue to meet our residents' expectations. This included increased funding for our Public Realm services. Since November these services have continued to examine how their performance and ways of working meet the needs of the borough. This has led to the development of a new service model that is more flexible and responsive and uses modern equipment and technology to get the best results. However, this work has also revealed that further investment is needed. We therefore propose to increase this budget by a **further £0.536m**.
- 4.6 In the July report, we removed the previous budgetary provision for the pay award and set out the expectation that this would be managed by services finding internal efficiencies. Since that time, the expected pay award has risen to a 2% increase with more for lower paid staff. However, this can still be managed by services in most instances. For those services where this is not a realistic expectation we have set **aside £0.472m** as a pay contingency budget.
- 4.7 The Council also recognises that staff are its biggest assets. Our approach has ensured that we can continue to invest in them and the organisation to improve services and their ability to do a great job. Examples of this are maintaining terms and conditions of employment including paying at, or above, the London Living Wage and continuing to offer a career average pension scheme and paid sick leave, season ticket loans, employee benefit package and flexible working arrangements. The London Living Wage will increase to £10.20 per hour from £9.75 per hour from October 2017. The impact to the Council is £0.012m which will also be managed from this pay contingency.
- 4.8 In its financial planning the Council has always prioritised expenditure in front line

services. However, having effective technology and systems is an integral part of modern service delivery. An in-depth review of spending on Core services has therefore been undertaken and this has identified the need to create a Core Infrastructure fund with an annual budgetary contribution of £0.8m to ensure that back office services continue to support our front line as effectively as possible. This will fund revenue costs of our IT services and also be a source of capital investment. Among other things this will be used to enable public access to computers in our libraries and other community venues.

- 4.9 These new proposals will add £1.808m to the £16.569m investments already set out in the existing MTFS presented to Cabinet in November

5 Transforming our Council

- 5.1 In April 2016 the Cabinet approved a set of ambitious proposals that taken together will result in the total transformation of the Council's operations and a total saving of £48m. This has now become an ambitious and challenging programme that is live within the Council. Implementation of these plans is proceeding well with many savings already safely delivered or well on track. The table below shows the expected savings by programme.

Area	2017/18 Saving	2018/19 Saving	4-year ongoing Saving
Care and Support	4,352	3,539	11,228
Community Solutions	243	2,481	4,571
My Place/Parks	1,298	807	5,584
Growth and Commercial	1,550	3,726	19,002
Cross Cutting	1,833	792	7,556
TOTAL	9,276	11,345	47,941

- 5.2 As we approach the end of 2017/18 we have already made significant progress on this programme. We have restructured the Council in April and November this year into new Service Delivery blocks shaped around the needs of our people, the place and our ambitions.
- 5.3 The Council's wholly owned development company, Be First, came into existence in October 2017. The next structural changes will take place in April when it is planned for a number of new trading entities to begin.
- 5.4 In addition to these structural changes we have begun to work in different ways. Care and Support services have adopted new Target Operating Models based on locality teams. These services will work with individuals in an enabling and strength-based way to support them to live full lives. Meanwhile Community Solutions has brought together a number of existing teams to provide an integrated prevention and early help service.
- 5.5 Given the importance of this programme and the substantial risks underpinning delivery the progress of these savings is monitored and reported monthly to the Council's senior management. All saving initiatives are categorised as either low, medium or high risk. Savings are categorised as high risk by the PMO and Finance if they are not specified in adequate detail; if there is no agreed delivery plan; or if

the timing or value of the agreed saving is unclear. This approach enables management attention to be focussed on these high-risk items to ensure timely mitigating actions are agreed and implemented.

5.6 Overall, the programmes are progressing well to deliver the savings / income target. The current risk profile is to be expected for a programme of this scale and sponsors remain confident this can be delivered, although a risk contingency has been incorporated in the 2018/19 MTFS to address potential shortfalls against this target as set out in paragraph 5.9 below. The current main risk factors and potential shortfalls are explained below

5.7 Update on the Current Risks and Issues for the Transformation programme

5.7.1 Customer Experience & Digital

Good progress is being made to design the new website, automate digital processes, improve telephone access and migrate customers to more effective channels whilst improving the customer experience. The value of realisable savings is to be confirmed as some savings are potentially double counted with other programmes and there could be contractual issues negotiating efficiency related headcount reductions with Elevate. Work is ongoing to confirm the actual value of savings that the programme will deliver.

5.7.2 Core Support Services

The Core Support Services Programme savings are not due until 2020/21. These savings will be achieved through the renewal of current Support and Customer services contract and right-sizing core services to support the new organisational structure. Work is progressing to understand the future core service requirements and to evaluate options for delivering these.

5.7.3 Parks Commercialisation

There are income opportunities in Parks from commercial activities. The feasibility study will be complete in March 2018 and further work will then be required to determine the investment required and realisable net income. This income is high risk as the scheme will be subject to consultation, planning and DCLG approval.

5.7.4 Be First

The Business Plan for Be First is the subject of another report to this Cabinet meeting. This sets out how Be First will provide an Be First will achieve a total cash return of £12.299m by 2020/21. In addition, there will be a Council saving of around £0.5m from deleting the current in-house service budgets. This currently leaves an annual shortfall of around £3.7m against the 2020/21 MTFS. As to be expected from a business of this nature, the savings and income profile is likely to be uneven with income being generated above target in some years and under target in others. It is therefore proposed that a smoothing reserve is established so that excess income generated in one year can be carried forward to support shortfalls in later years. However currently there is a cumulative shortfall of £2.8m for the Council after taking into account the Be First figures. Further information on how this will be resolved will be included in subsequent MTFS reports.

5.7.5 Investment Strategy

Overall, the Investment Strategy is scored medium risk and the overall Investment Strategy financial model is being reviewed. However, the Sponsor is confident that target income can be delivered.

The return from the purchase of Street Properties is currently scored high risk whilst the financial model for this initiative is being refined to reflect actual property purchase prices and target rents.

5.7.6 Public Realm

Work has progressed to determine the future service model, delivery costs and agree the additional funding required to enable Public Realm to be delivered within its base budget. The service is experiencing a £0.5m shortfall in savings which is contributing to an in year overspend. The growth funding provided above provides funding to write off these savings. The current service delivery model and budgets have been thoroughly reviewed this year and a number of savings have been identified as incompatible with future plans for the service and so in addition it is proposed to write-off of £1.8m future savings in this service.

5.7.7 Community Solutions

The service is established and the programme is progressing well and on track to exceed the 2017/18 saving target, but savings in future years from Employment and Skills, reducing temporary accommodation costs and streamlining services remain high risk.

5.7.8 Redesign Children's Social Care

This programme is also forecasting that 2017/18 and 2018/19 agreed savings targets will be exceeded, although there are also significant inherent base budget pressures. Work is in progress to deliver the future year savings, but some of these initiatives are high risk including: The PAUSE Programme, The Edge of Care Social Impact Bond; and EU Social Worker recruitment.

5.7.9 Redesign Adults Social Care

This programme is forecasting a £1.5m savings shortfall in 2017/18 that will be funded by grant. Other savings initiatives scored as high risk include: Assessment Reviews, which will commence in March 2018; Older People's Housing Pathway which is dependent on the Older People's Strategy being developed which should be complete in June; and Digital preventative measures which are being progressed, but savings are difficult to evidence.

5.7.10 Disability Service

The Disability Service has been established, but further work is required to determine the detail of how some savings targets will be realised. Work is progressing to develop this detail and these savings may be achieved by introducing additional mechanisms to scrutinise costs. This is rated as high risk until the detailed plans are agreed.

- 5.8 Following the detailed monitoring and review described above it is therefore proposed to write off the following savings:

	2017/18	2018/19	2019/20	2020/21	TOTAL
Customer Services	380				380
Public Realm	540	300	929	579	2,348
Total	920	300	929	579	2,728

- 5.9 In addition a £2m provision has been made for further write-off of savings if this is shown to be required. If this provision was fully used, 10% of the transformation savings would have been written off and 90% achieved which is a realistic but stretching target given the scale and scope of our ambitions.
- 5.10 The Barking and Dagenham Trading Partnership will be established on 1 April 2018. The Council has previously agreed a working capital credit facility to ensure the successful implementation of the new company. In addition, it is proposed that the Council will provide a loan of £2.147m from the General Fund. This will enable the company to purchase a new fleet of suitable vehicles to support its operations. Previously the Council has hired its fleet but an analysis of the financing arrangements for the new company has shown that it is more cost efficient to purchase the vehicles outright. The loan will incur an interest charge at 3% and repayment over five years payable by the company to the council. This equates to an annual charge of £0.59m a year. Cabinet is asked to approve this arrangement.

6. Further Savings

- 6.1 As set out in November the scale of government cuts and the high level of investment that we propose to make in the borough will require further savings. £9.6m of savings were identified and consulted upon. These are set out again as an appendix to this report.
- 6.2 However following the changes to business rates and council tax described elsewhere in this report it has become possible to reduce the level of savings required to £9.4m. As the residents' survey shows that the Summer festivals are highly valued it has been decided to allocate the additional funding to this programme. This programme is of great importance to our borough, supporting our aims of improving access to live music and culture, promoting community cohesion and creating civic pride and ownership. Retaining this programme is a symbol of our commitment to investing in the people of this borough and our determination to create services and opportunities for all our residents.

7. Council Tax

- 7.1 Barking and Dagenham maintained a Council Tax freeze from 2008/9 until Assembly approved an increase for the 2015/16 budget. The impact of not increasing Council Tax is cumulative over many years and this freeze has resulted in a tax base that is now £15m lower than it would have been had it risen by 1.99% every year.
- 7.2 Given that government funding is reducing in real terms every year while the Council's costs are increasing the Chief Financial Officer strongly advises that

council tax should as a minimum keep pace with inflation to ensure that the council can continue to meet the demands placed upon it.

- 7.3 The Chancellor has recognised the importance of this principle by allowing Councils to raise council tax by 2.99% without incurring any penalties or being required to hold a referendum. It is therefore proposed that the general Council tax increase should be 2.99%. This is expected to provide £1.651m of additional funding that will be used for the investments in services outlined above.
- 7.4 Government has also recognised that nationally there is significant pressure to fund the care need by the country's older population but has not chosen to fund this directly but rather has allowed councils nationally to introduce a 3% precept on their Council Tax to offset against the cost of Adult Social Care. In Barking and Dagenham, the budget reductions of recent years together with demand pressures arising from the impact of a population that suffers significantly poorer health as described above and rising provider costs mean that the budget does not meet demand. The Adult Social Care budget in recent years has been very narrowly balanced and overspends have only been prevented by the addition of extra monies from grants and previous council tax increases or by drawing on reserves. These reserves will be fully drawn down next year. The service has put in place a number of schemes and service improvements to reduce demand but it will not be able to stay within budget without additional funding.
- 7.5 It is therefore proposed that the Council increases Council Tax by a further 3% which will be ring-fenced to mitigate the pressures experienced by Adult Social Care.
- 7.6 These increases, which in total equate to £67.80, raise the level of Council Tax from £1,131.83 to £1,199.63 for a Band D property. This raises an additional £3.307m.
- 7.7 In addition as set out in a report to Cabinet in January the number of dwellings liable for Council tax has increased. This will result in £1.7m additional income to the borough.

8. The 2018/19 Budget

- 8.1 The net impact of the adjustments outlined is shown below.

	2018/19
Income/Funding Changes	
Minor Changes to Grant funding/growth pressures	-88
Increase in Council Tax Base	-1,119
Business Rates Pooling	-300
New costs/pressures	
Funding for Public Realm	536
Core Infrastructure funding	800
Pay Award	472
Remove Summer Festivals Savings	269
NET IMPACT	570
Additional Council tax increase	-570
NET IMPACT	0

8.2 The resulting MTFs is shown in the table below with further detail in the Appendices. The indicative service block budgets are provided in Appendix A and the Statutory Budget Determination for 2018/19 is set out in Appendix C of this report.

	2018/19 £000	2018/19 £000	2019/20 £000	2020/21 £000
	Nov' 17	Feb' 18	Revised	Revised
Prior Year (Surplus) / Deficit			0	13,716
Budget Increases				
Roll Forward of 2017-18 budget gap	8,129	8,129	-	-
Capital Investment	1,400	1,400	900	900
Financing	3,770	3,770	600	420
Inflation - Staff	-	472	1,000	1,000
Inflation - Non Staff	-	-	2,100	2,100
Levies	440	440	350	350
Demography/Demand	3,088	3,027	3,033	3,660
Legislation	795	795	2,377	2,000
Corporate/Other Service Pressures	7,717	9,053	260	260
Total Additional Costs	25,339	27,086	10,620	10,690
Changes in Income & Funding				
Government Grants	841	841	8,083	9,175
Council Tax	(3,299)	(5,015)	(1,727)	(1,786)
Business Rates	(1,100)	(1,400)	-	-
Total Changes in Income	(3,558)	(5,574)	6,356	7,389
In year Budget Gap	21,781	21,512	16,976	18,079
Savings				
Savings approved by Cabinet	(11,344)	(11,344)	(12,784)	(14,538)
Non-Delivery of Savings	2,000	2,000	929	579
Additional Savings	(9,646)	(9,377)	5,804	(2,221)
Total Savings	(18,990)	(18,721)	(6,051)	(16,180)
In Year Budget Gap Including Savings	2,791	2,791	10,925	1,899
Other Adjustments				
Revised Budget Gap after other adjustments	2,791	2,791	10,925	1,899
Use of Reserves in 2018-19	(2,791)	(2,791)	2,791	
Cumulative Budget Gap including Savings	0	0	13,716	15,616

8.3 Details of the levies (Environment Agency, East London Waste Authority, Lee Valley Park, London Pension Fund Authority) the Council is required to pay in 2017/18 are yet to be confirmed. The budget includes an increased provision for the cost of levies of £0.440m in respect of the ELWA levy.

8.4 It is proposed that authority is delegated to the Chief Operating Officer in consultation with the Cabinet Member for Finance to make the necessary adjustments using the funding provision or from reserves following confirmation of levy and final funding announcements.

9. Council Tax Requirement

9.1 As outlined in section 8 above, it is proposed to increase Council Tax by:

- 2.99% Local Authority Precept Increase; and

- 3% Increase for the Adult Social Care Precept.

9.2 These increases (£67.80) raise the level of Council Tax from £1,131.83 to £1,199.63 for a Band D property.

9.3 The Greater London Authority has provisionally proposed a 5.1% increase in its charge for 2018/19. The Council Tax charge would be increased from the 2017/18 amount of £280.02 to £294.22 in 2018/19

9.4 The calculation of the proposed Council Tax for 2018/19 is shown in Appendix D.

9.5 Under the Local Government Finance Act 1992, Council Tax must be set before 11 March of the preceding financial year.

10. Consultation

10.1 A public consultation was carried out in the spring of 2016 with regards to the A2020 programme and the council's future operating model. 89% of those who completed the consultation were supportive of the proposals.

10.2 The statutory budget consultation with the public and business on the proposals for 2018/19 ended on 24 January 2018.

10.3 Accompanying these surveys have been four roadshows in which members of the public and business can discuss the council budget proposals with Councillor Twomey. This year for the first time there was also two live webchats with the Cabinet Member facilitated by the Dagenham Post during which he took questions and comments from the public.

10.4 The face to face roadshows were attended by 15 people including representatives of the Community and Voluntary sector and Tenants and Residents' Associations. 82 responses were submitted to the consultation web portal and the webchat received around 4,600 views, 226 comments and 29 shares. One email was received by the Finance team.

10.5 The wide range of comments and questions received showed a high level of interest and engagement with the Council – some comments were quite critical of the Council, but many were supportive and sympathetic to our financial situation. In answer to the specific questions on the website consultation:

- 55% agreed or strongly agreed to an increase in Council tax to fund services
- 57% agreed or strongly agreed to the 3% Adult Social Care precept.

11. Update on implementation costs and flexible use of capital receipts

11.1 Given the scale and ambitious nature of the Transformation programme it was agreed to provide additional funding for its implementation and delivery. An implementation budget of £23.6m was approved in February 2017. The total forecast spend is currently £21.5m with an unspent £2.1m programme contingency comprising of the original contingency (£1.75m) plus retained programme underspends (£0.35m). Appendix I shows the breakdown of spend by programme together with the associated savings and income generated.

- 11.2 Underspends within the programme have also been used to fund additional activities that were not originally in scope of the programme, but support the Council's transformation agenda, including implementation of New Ways of Working and programme management support within Inclusive Growth.
- 11.3 In recognition of the level of risk involved in delivering a programme of this scale, it is considered prudent to retain this level of contingency within the programme for the time being. However, the next calls on this contingency will be resourcing to support delivery of the Core Support Services Programme, for which no original budget was sought, and any further resourcing that may be required to deliver additional savings.
- 11.4 This implementation budget is funded by a combination of capital receipts, capital borrowing, loans (for funding wholly owned B&D companies) and HRA. Last year the Secretary of State was empowered to issue Directions allowing expenditure incurred by local authorities to be treated as capital expenditure. Where such a Direction is made, the specified expenditure can then be funded from capital receipts under the Regulations. This dispensation has been extended for three years until 2020/21.
- 11.5 The Council welcomed the Government's Flexible Use of Capital Receipts dispensation and set out in last year's MTFS how it would help the authority deliver savings while protecting revenue budgets. The Council approved a Flexible Use of Capital Receipts Strategy last year and has been working within that framework. The updated strategy is included as an appendix to this report.

12 Capital Programme

- 12.1 The Council's current capital budget for 2017/18, inclusive of the Gascoigne Estate scheme (£35.560m), is £227.968m.
- 12.2 The budgets for the following five years are draft and may change because of budget roll-forwards from the 2017/18 financial year, for example if there has been programme slippage. A summary of these budgets is shown in the tables that follow. The HRA capital programme is the subject of another report at this meeting. The capital programme presented to Assembly will be updated for decisions taken in relation to that report.
- 12.3 The two most significant areas of the capital programme are the provision of school places and housing. This reflects the needs of the borough in terms of dealing with a high birth rate and high level of migration into the borough. School expansion schemes are funded by Central Government (via the Education and Skills Funding Agency), and the HRA programme is self-financed by the HRA using a mixture of Government grants, capital receipts and HRA revenue funding. Therefore, they do not pose a pressure on the General Fund, in terms of needing to borrow and servicing the cost of borrowing. The 2019/20 onwards Schools Programme is still under discussion and negotiation and is likely to expand from the low figures shown below.
- 12.4 Another significant area of the programme is the Corporate Accommodation Strategy. This will rationalise the corporate office portfolio, which will enable future

capital receipts and revenue savings to be realised.

- 12.5 The budget framework makes available £10m for capital schemes each year. The £10m made available in 2017/18 has been fully allocated to schemes, but for subsequent years the funding has only been partially allocated. The table below summarises the position on the currently approved capital programme updated for any changes to profiling or estimates. A full breakdown is also given as an appendix to this report. Cabinet are asked to approve this restatement of the programme.

Table 1: Five Year Capital Programme (2017/18 – 2021/22)

	2017/18	2018/19	2019/20	2020/21	2021/22	Total
Care & Support	1,870	400	400	400	400	3,470
Community Solutions	3,686	1,720	400	350	-	6,157
Core	9,202	100	438	172	-	9,912
Customer Access & Technology	3,992	-	-	-	-	3,992
Education, Youth & Childcare	25,323	52,937	10,912	946	-tbc	90,118
Enforcement	9,167	5,432	4,484	40	-	19,123
Culture, Heritage & Recreation	840	3,836	550	600	-	5,826
Investment Strategy	77,219		-	-	-	77,219
Growth & Homes & Regeneration	90,376	65,277	3,916	-	-	159,569
My Place	1,209	-	-	-	-	1,209
Public Realm	999	706	205	195	195	2,300
SDI Commissioning	4,085	1,112	480	-	-	5,677
NEW SCHEMES		1,695	2,524	2,550	300	7,069
General Fund Total	227,968	133,215	24,309	5,253	895	391,640
HRA Total	74,271	82,730	57,960	56,000	tbc	270,960
Total Capital Programme	302,238	215,945	82,269	61,253	895	662,600

Financed by:

	2017/18	2018/19	2019/20	2020/21	2021/22	Total
Capital Grants and S106	42,700	54,903	10,912	946		109,461
HRA/MRR	63,723	82,812	57,960	56,000	-	260,495
Borrowing	180,793	76,609	12,597	3,557	495	274,051
Revenue	400	400	400	400	400	2,000
Reserves	590	-	-	-	-	590
Capital Receipts	14,032	1,221	400	350	-	16,003
Total	302,238	215,945	82,269	61,253	895	662,600

- 12.6 Five bids were received during the latest round of bidding to access the Capital Funding programme amounting to £9.469m over the next five years, and £2.195m relating directly to 2018/19. After undertaking an assessment of all bids, the amount recommended to the board for approval was £7.369m over the next five years, with £1.695m relating directly to 2018/19. These bids are shown in the appendix. The Cabinet is asked to approve their inclusion in the programme.
- 12.7 If no further bids are received during 2018/19 the unused budget allocation will be rolled forward to the next financial year or may be used to fund emergency in-year capital submissions.
- 12.8 In January 2018 Cabinet approved three new schemes to be undertaken to support regeneration of the borough. The precise cost will be subject to negotiation but an overall budget of £67m has been added to the programme to fund these strategic acquisitions. These will initially be funded from borrowing.
- 12.9 On the same agenda as this report is the Be First business case. The report seeks approval for the creation of a credit facility for development activity. Subject to Cabinet approval this will be added to the Capital programme before final approval by Assembly.
- 12.10 The full list of schemes is included at Appendix E.

13 Impact on reserves

- 13.1 The Council's current reserves position is shown in the table below. Currently GF balances as at 31st March 2017 stands at £19m and £28m for earmarked reserves.

		31 March 2017	31 March 2018	31 March 2019
General Fund balances		19,330	17,030	15,115
Total Earmarked Reserves		28,439	11,879	11,014
Departmental Reserves	ACS Reserve	1,601	1,601	
	PSL Reserve	1,097	759	759
	Care Reserve	-	688	
Public Health		161	161	161
Corporate restructuring		2,006	-	-
Insurance		1,689	1,389	1,389

Budget Support Reserve	11,199	0	-
VAT Market Repayment	201	111	51
Capital Investment Reserves	3,575	1,000	500
Legal Reserve	563	563	563
Collection Fund Reserve	1,581	1,581	1,581
Elections Reserve	223	223	-
LEP Housing Rentals Reserves	1,394	1,394	1,394
Other Miscellaneous	905	-	-
Core Reserves	800	552	494
Council Entities	1,444	1,444	1,444
Be First			2,678

- 13.2 It is proposed that a Care Reserve is created using the former Butler Court reserve, transfer from Insurance reserves £250k, transfer from PSL reserve £100k and VAT reserve £50k. This will be used to contribute to the 2018/19 savings.
- 13.3 It is also proposed in this report to create two new reserves: a Core Infrastructure reserve and a Be First reserve. These are included in the table above.
- 13.4 The impact of drawing down the £2.8m of reserves to balance the 2018/19 budget together with the requirement to fund in the current years overspend will make it more difficult to meet the requirement of keeping the balances above £15m, as recommended by the Chief Operating Officer, in future years putting severe pressure on the Council to manage its finances and replenish balances.
- 13.5 Appendix F shows the medium term three-year position. If no further proposals were identified or any other mitigations identified, the potential cumulative draw on reserves over the next three years would aggregate to £32.1m. It is, however, recognised and expected that a business of the size of the Council will annually be able to identify new modernisation and efficiency proposals which will go some way to closing this gap. Further reviews of the 2019/20 position are planned as part of the Council's annual budget cycle.

14 Update on Dedicated Schools Budget

- 14.1 A report was presented to Cabinet in December setting out the principles for the Dedicated Schools Budget for 2018/19. Subsequently the DfE has published the expected DSG amounts. Following the publication of this information and further modelling of the expected impact, a number of changes to the DSB and the funding formula are proposed.
- 14.2 The December report proposed a transfer of £1.1m from the Schools block to the High Needs block in order to meet pressures in this area. However, the High Needs working group has now been tasked with identifying further savings in order to reduce the funding requirement. It is now proposed to transfer only £0.75m.
- 14.3 It is also proposed to reduce the growth fund to £2.9m (from £3.5m). This is sufficient to fund the planned growth. The impact of these two changes is to allow more money to be allocated to schools.
- 14.4 As set out in the December report a funding ratio of 1:1.34 has been maintained

between primary and secondary schools. In order to maintain this ratio, the Age Weighted Pupil Unit (AWPU) of funding for KS4 has been increased by £110 to £4,925, and there are no other changes to the AWPU compared to the rates previously approved by the Council.

- 14.5 The allocation of the Early Years block has also been announced. Following this the Finance team have modelled the impact for Barking and Dagenham and it is proposed that the base funding rate for 3 and 4 year olds is increased to £4.70 per hour. It is proposed that the deprivation rates remain at the same levels of between £0.22 and £0.30 per hour based on IDACI bandings. It is also proposed that the formula remains at £0.21 per hour for a flexibility factor for Private, Voluntary and Independent sector providers. There has been no increase in funding for 2 Year Olds, therefore no change is proposed to the funding rate of £5.35 per hour to settings with eligible two-year olds.
- 14.6 With the implementation of the Early Years National Funding Formula in 2017-18, there was a requirement for local authorities to establish a special education needs (SEN) inclusion fund where the local authority did not have one set up previously. Barking and Dagenham continued to hold £284k in 2017-18. It is proposed that this should be increased to £400k and support for two-year olds should also be managed from this fund.

15. Financial Implications

Implications completed by: Kathy Freeman, Finance Director

- 15.1 The detailed financial implications have been covered throughout the report. However, the key financial implications to note are:
- a) To balance the 2018/19 budget, it is planned that £2.791 of funding will be taken from reserves to ensure we meet our statutory responsibility.
 - b) The budget gap for 2019/20 is £13.7m, rising to £15.6m in 2020/21.

16. Legal Implications

Implications completed by Dr Paul Feild, Corporate Governance Lawyer

- 16.1 A local authority is required under the Local Government Finance Act 1992 to produce a 'balanced budget'. The current budget setting takes place in the context of significant and widely known reductions in public funding to local authorities. Where there are reductions or changes in service provision as a result of changes in the financial position the local authority is free to vary its policy and consequent service provision but at the same time must have regard to public law considerations in making any decision lawfully as any decision eventually taken is also subject to judicial review. Members would also wish in any event to ensure adherence as part of good governance. Specific legal advice may be required on the detailed implementation of agreed savings options. Relevant legal considerations are identified below.
- 16.2 Whenever there are proposals for the closure or discontinuance of a service or services, there will be a need for appropriate consultation, so for example if savings proposals will affect staffing then it will require consultation with Unions and staff. In

addition to that Members will need to be satisfied that Equality Impact Assessments have been carried out before the proposals are decided by Cabinet.

- If at any point resort to constricting expenditure is required, it is important that due regard is given to statutory duties and responsibilities. The Council must have regard to:
- any existing contractual obligations covering current service provision. Such contractual obligations where they exist must be fulfilled or varied with agreement of current providers;
- any legitimate expectations that persons already receiving a service (due to be cut) may have to either continue to receive the service or to be consulted directly before the service is withdrawn;
- any rights which statute may have conferred on individuals and as a result of which the council may be bound to continue its provision. This could be where an assessment has been carried out for example for special educational needs statement of special educational needs in the education context);
- the impact on different groups affected by any changes to service provision as informed by relevant equality impact assessments;
- to any responses from stakeholders to consultation undertaken.

16.3 In relation to the impact on different groups, it should be noted that the Equality Act 2010 provides that a public authority must in the exercise of its functions have due regard to the need to eliminate discrimination and to advance equality of opportunity between persons who do and those who do not share a relevant 'protected characteristic'. This means an assessment needs to be carried out of the impact and a decision taken in the light of such information.

17. Corporate Policy and Equality Impact

- 17.1 The Equality Act 2010 requires a public authority, in the exercise of its functions, to have due regard to the need to eliminate discrimination and to advance equality of opportunity between persons who do and those who do not share a relevant protected characteristic. As well as complying with legislation, assessing the equality implications can help to design services that are customer focussed, in turn leading to improved service delivery and customer satisfaction.
- 17.2 The Council's Equality and Diversity strategy commits the Council to ensuring fair and open service delivery, making best use of data and insight and reflecting the needs of the service users. Equality Impact Assessments allow for a structured, evidence based and consistent approach to considering the equality implications of proposals and should be considered at the early stages of planning.
- 17.3 For new savings proposals that have been put forward, EIAs have also been carried out for them to ensure the Council properly considers any impact of the proposal. The Council's transformation programme aims to redesign services to make them more person-centred and focussing on improving outcomes for residents. Therefore, in most cases the proposals have either a positive or neutral impact. However, where a negative impact has been identified, the Council will ensure

appropriate mitigations are considered and relevant affected groups are consulted.

Public Background Papers Used in the Preparation of the Report:

- Local Government Finance Settlement 2018/19
- Autumn Statement 2017

List of appendices

Appendix A – Revenue Budget 2018/19

Appendix B – MTFS 2018/19 to 2020/21

Appendix C – Statutory Budget Determination 2018/19

Appendix D – Calculation of the Council Tax Requirement 2018/19

Appendix E – Draft Capital Programme 2018/19 – 2020/21 including new bids

Appendix F – Transformation Savings summary

Appendix G – November Savings summary

Appendix H – Flexible use of capital receipts strategy

Appendix I – Transformation costs summary