

## CABINET

14 July 2020

<b>Title:</b> Medium Term Financial Strategy and Reserves Policy 2020/21 to 2024/25	
<b>Report of the Cabinet Member for Finance, Performance and Core Services</b>	
<b>Open Report</b>	<b>For Decision</b>
<b>Wards Affected:</b> All	<b>Key Decision:</b> Yes
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<b>Accountable Director:</b> Philip Gregory, Finance Director	
<b>Accountable Strategic Leadership Director:</b> Claire Symonds, Acting Chief Executive	
<b>Summary</b> This report sets out a draft Medium-Term Financial Strategy (MTFS) and Reserves policy for the period 2020/21 to 2024/25 for key council (General Fund) services. It shows how the delivery of a strategy for a new kind of council goes hand in hand with organisational financial health. It has been prepared recognising the financial uncertainty as a result of the COVID-19 pandemic and from uncertainty facing the sector in light of plans to delay fair funding reforms and 75% business rates retention until 2022/23 at the earliest, whilst taking into account anticipated demands and pressures.  The MTFS identifies a cumulative gap of £39.6m during the MTFS period. This gap is to be closed through targets for both short term and longer-term interventions which will require budget savings to be delivered to ensure a medium term financially balanced position. The report also sets out principles for a robust reserves policy.	
<b>Recommendation(s)</b>  The Cabinet is recommended to approve the Medium Term Financial Strategy and Reserves Policy 2020/21 to 2024/25 as set out in Appendices A and C to the report and the approach proposed to ensure the financial health of the Council over the medium term.	
<b>Reason(s)</b>  The setting of a robust and balanced Medium Term Financial Strategy 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. This report sets the context for the future financial position for the London Borough of Barking and Dagenham. The Medium Term Financial Strategy (MTFS) is a statement on the council's approach to the management of its financial resources to meet its Corporate Priorities. The MTFS also considers the appropriate level of reserves that the Council holds to mitigate current and longer term risks.
- 1.2. In February 2020, Assembly approved the budget for 2020/21 including an indicative forward forecast for future years.
- 1.3. Since then the COVID-19 pandemic has had a profound and unprecedented impact on the activity and finances of the council. The pandemic has resulted in three major financial effects on the council's financial position:
  - Additional costs
  - Income loss
  - Agreed savings at risk
- 1.4. The financial effects of the pandemic are affecting the whole of local government and whilst the council is not alone in facing these challenges this does not lessen the scale of the challenge.
- 1.5. The last decade has seen significant changes to local government and its financial position, with a huge reduction in the amount of funding provided by central government alongside increasing demographic pressures, initially from an aging population but recently increasingly also from housing, children's and disability services. The financial framework was anticipated to change as a result of the Ministry of Housing, Communities and Local Government (MHCLG) Fair Funding review from 2021/22 but this has been delayed by at least a year. The impact on the council is by no means clear. However, the MTFS brings together anticipated demands and pressures and sets out how the council will ensure a balanced medium-term position.
- 1.6. Medium term financial planning must make assumptions about the future demand profile and cost pressures on expenditure and on factors that affect income sources. The MTFS represents a summary of these assumptions and their impact on the funding of the council.
- 1.7. The MTFS sets the financial envelope within which the council must fund its activities in order to set a balanced budget in each of the next 4 years. In order to begin the budget setting process for 2021/22 and beyond it is therefore prudent to revise the MTFS at the beginning of the budget setting process. Throughout the summer and autumn services plans and budgets will be produced to deliver a balanced budget for 2021/22. In addition, this process will allow the council to identify where savings may be achieved in future years and begin planning their delivery.
- 1.8. The MTFS provides assurance on the intended use and the overall level of reserves and the extent of underpinning commercial and financial planning risk.

## 2. Council Priorities and Strategic Framework

- 2.1. The MTFS is underpinned by three key strategic priorities for the council to ensure that resources are aligned with their delivery:
- **Inclusive Growth.** All activity related to homes, jobs, place and environment will be organised into a single strategy, focused on intervening in our economy in order to improve economic outcomes for all residents.
  - **Prevention, independence and resilience.** All activity relating to people facing public service will be organised into a single strategy, focused on intervening in society in order to improve health and wellbeing outcomes for all residents, at every stage of life.
  - **Participation & engagement.** All activity related to community engagement and social infrastructure will be organised into a single strategy focused on giving every resident the power to influence local decisions, and to pursue their version of the good life.
- 2.2. These strategic priorities will sit alongside our continued efforts to build and embed our **new kind of council** and will drive all council activity in the years ahead. Critically, each has an important part to play in managing future demand on council services. The financial position set out in the MTFS is designed to reflect this position.
- ## 3. COVID-19
- 3.1. The cost to the council of the COVID-19 pandemic response at the time of writing is £41.3m in 2020/21. Government emergency grant funding of £12.1m has been received leaving a residual cost pressure to the council of £29.2m. If council tax and business rates income losses of £13.0m are excluded the pressure reduces to £16.2m (council tax and business rates losses are accounted for within the Collection Fund where deficits are accounted for in future financial years). The council can manage this cost pressure of £16.2m by utilising reserve balances.
- 3.2. The working assumption is that there are few additional costs that will continue beyond 2020/21 and that the majority of income will return to pre-pandemic levels in 2021/22. The impact of the continued lockdown will continue to be closely monitored, should a second wave of the pandemic materialise or behaviour within the community alter substantially these assumptions may need to be revised.
- 3.3. There are, however, exceptions where COVID-19 is driving greater demand for particular services and consequently increases in costs. Anticipated latent demand is expected to emerge in some Care and Support services as lockdown and shielding restrictions ease, e.g. domiciliary care in Adults and LAC support in Children's.
- 3.4. In addition, costs that are not yet quantified may arise and these maybe dependant on the actions that partner organisations take or avoid which results in increased costs for the council. We work closely with partner organisations to ensure that our plans do not cause each other unintended financial consequences.
- 3.5. There are a number of savings proposals that were agreed and built into the 2020/21 budget. Some of these savings proposals are unable to be delivered whilst

the council is focused on the pandemic response. Where these savings are not achieved they will be funded from reserves as described above and the planned saving achieved in 2021/22.

- 3.6. The council is in discussions with our leisure centre provider to support their business through the pandemic and recovery period. The operator of 2 of our hotel investments has progressed to issue a company voluntary arrangement (CVA) which will limit the amount of income received over the next two years. Both of these are fluid and rapidly moving situations and a verbal update on the latest position will be provided at the Cabinet meeting.

#### 4. **Medium Term Financial Strategy Forecasts**

- 4.1. The budget report to Cabinet in February 2020 set out the following financial forecasts:

**Table 1: Financial position reported in February 2020**

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Expenditure	155.796			
Funding	(155.796)			
<b>Budget Gap (incremental)</b>	-	<b>4.623</b>	<b>4.468</b>	<b>3.340</b>
<b>Budget Gap (cumulative)</b>	-	<b>4.623</b>	<b>9.091</b>	<b>12.431</b>
<b>Council Tax assumption</b>	<b>3.99%</b>	<b>2.99%</b>	<b>2.99%</b>	<b>2.99%</b>

- 4.2. A review of the assumptions within the MTFs has been undertaken to inform this update, rolling forward these to 2024/25 to present the updated MTFs position. As shown in Table 2 the budget gap has increased from £12.431m to £39.653m.

**Table 2: Recommended changes to the MTFs**

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Budget Gap (incremental)	4.623	4.468	3.340	-
Updates	8.033	5.323	7.437	5.905
<b>Budget Gap (incremental)</b>	<b>13.180</b>	<b>9.791</b>	<b>10.777</b>	<b>5.905</b>
<b>Budget Gap (cumulative)</b>	<b>13.180</b>	<b>22.971</b>	<b>33.748</b>	<b>39.653</b>

- 4.3. The CFO has assessed the minimum level of general fund balances at £12m and the Council currently holds £17m. It is proposed to utilise £2m of the general fund reserve to mitigate the COVID-19 cost to the council in 2020/21

#### 5. **Key Assumptions**

- 5.1. There are a number of assumptions that underpin the updated MTFs including:
- 5.2. There is an assumption of full achievement of previously approved transformation savings of £12.7m. These savings were planned to be realised in 2020/21 however, £5.4m of these savings will be funded from reserves in 2020/21 and reprofiled into 2021/22 as a result of the COVID-19 pandemic.

- 5.3. Settlement funding from Government will continue on the same principles that were applied in 2020/21 without the continuation of the London Business Rates Pool in its current 75% retention form. The Government will bring forward the fair funding review and business rates reset in 2022/23. The impact of the delay to the business rates reset is a reduction in income of c£5m per year across the MTFS period.
- 5.4. Indicative council tax increases of 2.99% have been included. This may include a proportion of Adult Social Care Precept although the Government are yet to publish guidelines on council tax referendum limits. Growth in the council tax base each year of 1.5% is included.
- 5.5. New Homes Bonus funding will continue to be allocated until the Fair Funding review is implemented on a single year basis. Legacy payments from previous years will continue to unwind.
- 5.6. Growth in budgets has been included where this has previously been agreed by Cabinet. This has also been updated to take into account forecast budget pressures in Care and Support as a result of expected continued increases in demand in Children's and Disability services totalling £20.5m across the MTFS period.
- 5.7. An inflation budget of £3m has been included in each year, £2m of which will be used to offset salary inflation (though this does not compensate services in full). Services are otherwise expected to absorb inflationary pressures within existing budgets. £1m per year has been included to allow for risks to the budget, e.g. cost pressures which can't be managed within a service, delays to savings or other unexpected items.

## 6. **Budget Risks**

- 6.1. There are a number of risks that continue to influence the MTFS including the following:
- 6.2. **Recovery from COVID19:** The impact of COVID-19 on the finances of the Council is an evolving position. Broadly we are assuming that costs and income will return to pre-COVID-19 levels but this will need to be monitored with care throughout 2020-21 to ensure that emerging risks are brought to the attention of Members in a timely way.
- 6.3. **Brexit:** The impact on Local Government upon leaving the EU may have significant impacts on funding from Government, especially as the economic, social and financial implications of Brexit become clearer. There will be a continued assessment of the impact to the council as a result of the referendum vote to leave the EU which could include impacts on interest rates, migration, employment and business.
- 6.4. **Capacity to deliver approved savings:** If Agreed savings are not achieved this will result in overspends and budget shortfalls in future years. Regular monitoring and reporting takes place, however, non-achievement of savings will require compensating reductions and management action to find compensating cost reductions where savings are no longer possible.
- 6.5. **Government funding:** The Government intends to change current funding mechanisms to reflect an increased emphasis on need and to reset the current business rates retention system. These proposals have been delayed by at least a

year which carries a high degree of uncertainty into the quantum of Government funding in 2021/22 and beyond. In the light of the extreme uncertainty surrounding Government funding the MTFP has included forecast income in 2021/22 based on current assumptions.

- **Budget and Spending Review:** A Budget update from the Government is expected in early July followed by a Spending Review in the autumn. It is unclear whether this will be a single year or multi-year Spending Review and therefore whether local government will receive a single year or multi-year Settlement.
- The **Fair Funding Review** of local government is likely to shift resources away from London. The design of new funding formula is predicated on moving to a more dynamic, realistic method of allocating funding that is able to respond to demographic changes. On this basis and considering the demographic changes within Barking and Dagenham, this approach may prove beneficial to us. We expect the new funding formula to be used to allocate funding from 2022/23 at the earliest.
- The **Business Rates Retention** scheme is also being redesigned and is expected to be introduced from 2022/23 at the earliest. It is anticipated that the implementation of 100% business rates retention will be accompanied by additional responsibilities and therefore an increase in the costs borne by Local Government. The details of these responsibilities are to be confirmed.
- The **New Homes Bonus** funding for 2021/22 is expected to be allocated for one year only and will not result in legacy payments in future years. It is expected that the New Homes Bonus funding will be wrapped up within the Fair Funding Review. It is unclear how the Government will incentivise local authorities to deliver additional housing within the new funding regime.

- 6.6. **Achievement of Council Priorities:** a new strategic framework has been developed. This will require appropriate oversight and governance to ensure it is delivered through effective programme management. Where performance indicators are not on target, corrective action will be required.
- 6.7. **Commercial Risks** arise from undertaking investments and from action taken by the Council's subsidiaries. These risks can be mitigated through effective due diligence on new commercial investments and continued robust appraisals of subsidiary business plans and forecast returns.
- 6.8. **Demand Pressures** arise from changes within the population and economic activity within the Borough. Assumptions on future demand for services have been included in the MTFP. Exceptional demands that emerge will result in spending control within departments or corporate budgets.
- 6.9. **Pension Fund** risks include changing economic conditions and investment returns less than assumptions in the Pension Fund's investment strategy increases the risk of a deterioration in the Pension Fund's funding position and as a consequence there is a risk of an increase in the employer's contribution.
- 6.10. **Legislative changes** or the imposition of new responsibilities upon the council without adequate funding remains a risk.

- 6.11. Impact of variations to forecast **interest rates**, both in terms of investment returns and also on assumptions made on borrowing costs. Interest rate risks are managed through effective treasury management and the use of fixed rate loans where appropriate.

## **7. Review of Reserves**

- 7.1. Reserves are used to manage risks and are either usable or unusable. Unusable reserves arise from statutory accounting transactions and cannot be used to fund revenue or capital expenditure. This report only considers the Council's usable reserves. The Council's Reserves Policy is included in **Appendix C**.
- 7.2. A review of reserves has been carried out as at 31 March 2020 and balances based on the draft final accounts are summarised in **Appendix D**.
- 7.3. General fund balances are set aside to provide an emergency fund for exceptional circumstances. This fund is reviewed regularly and assessed as a minimum of £12m. Currently, the Council has some £17m in this reserve.
- 7.4. The forward forecast of reserves is maintained by the CFO using assumptions on certain investment decisions and no additional budget pressures emerging during the course of the current financial year. Due to the exceptional nature of the COVID-19 pandemic there may be a call on the general fund reserve if there is no further significant Government funding.
- 7.5. The aim of the Medium Term Financial Strategy is to set out an affordable financial plan that provides for sustainable levels of spending, not dependent upon the use of one-off reserves, whilst providing for a prudent level of reserves for contingencies.

## **8. Approach to Budget Setting for 2021/22**

- 8.1. The Medium Term Financial Strategy identifies a savings requirement of £39.7m by 2024/25. Proposals to meet this savings requirement will be presented to Cabinet in December alongside a public consultation for all proposals members are happy to proceed with as part of the Budget consultation process. The proposals, along with consultation results will be presented again to Cabinet in advance of Assembly in February.

## **9. Financial Implications**

Implications completed by: Philip Gregory, Finance Director (S151 Officer).

- 9.1. The detailed financial implications have been covered throughout the report. Members are asked to note the revised MTFs position as set out in section 4 of this report.

## **10. Legal Implications**

Implications completed by: Dr Paul Feild, Senior Governance Solicitor

- 10.1. 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 challenges to the funding of local authorities. As the time of the composition of this report the United Kingdom is under the unique

pressures on resources cause by the Covid 19 pandemic. This has inevitably brought with it unplanned for expenses, additional costs and a negative impact on income streams and uncertainty with investments. This in turn means that the MTFs is being called to address a period of negative economic uncertainty calling for the MTFs to maintain flexibility to provide resilience. As a result it will be anticipated that priorities may be forced by events to change and consequently resource allocations be revised. 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 any agreed savings options. Relevant legal considerations are identified below.

10.2 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.

### 10.3. **Corporate Policy and Equality Impact**

10.4 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.

10.5 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.

- 10.6 There are no new savings proposals that put forward and EIAs have also been carried out for all existing saving 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: None**

**List of appendices:**

- Appendix A – Medium Term Financial Strategy 2020/21 to 2024/25
- Appendix B – Budget Growth and Savings
- Appendix C – Reserves Policy 2020/21 to 2024/25
- Appendix D – Reserve Balances as at 31 March 2020