

CABINET

17 November 2020

Title: Budget Strategy 2021/22 to 2024/25	
Report of the Cabinet Member for Finance, Performance & Core Services	
Open Report	For Decision
Wards Affected: All	Key Decision: Yes
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Accountable Director: Philip Gregory, Finance Director	
Accountable Strategic Leadership Director: Claire Symonds, Acting Chief Executive	
Summary <p>On 14 July 2020, the Cabinet approved a refreshed Medium Term Financial Strategy (MTFS) for 2020/21 to 2024/25. It showed how the delivery of a strategy for a new kind of council goes hand in hand with organisational financial health. It was 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.</p> <p>This report builds on that strategy and provides an update. However, the level of uncertainty throughout the public sector has increased in the absence of an Autumn Spending Review and the cancellation of the Budget by Government. As an interim measure we are expecting another one year funding settlement for 2021/22.</p> <p>It is in this context that the report updates Cabinet on changes to the Council's medium term financial position. It sets out how the remaining 2021/22 gap may be resolved and the implications for services and council tax-payers in the borough.</p>	
Recommendation(s) <p>The Cabinet is recommended to:</p> <ul style="list-style-type: none">(i) Note the continued commitment to delivering the savings proposed in the MTFS reports approved by Assembly in February 2017 and updated in subsequent years;(ii) Agree the proposed consultation process for the budget, as set out in section 9 of the report;(iii) Agree to consult the residents and taxpayers of the borough on the levying of a 2% General Council Tax increase and a 1% Social Care Precept to support the Borough's most vulnerable residents, subject to those thresholds being confirmed;	

- (iv) Note that London authorities are currently exploring the possibility of continuing the business rates pooling arrangement and approve, in principle, that the Council should continue to participate in such an arrangement if deemed appropriate; and
- (v) Delegate authority to the Finance Director, in consultation with the Cabinet Member for Finance, Performance and Core Services, to enter into the Memorandum of Understanding for any future London pooling arrangements.

Reason(s)

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; no one left behind and delivery of the priorities within available resources.

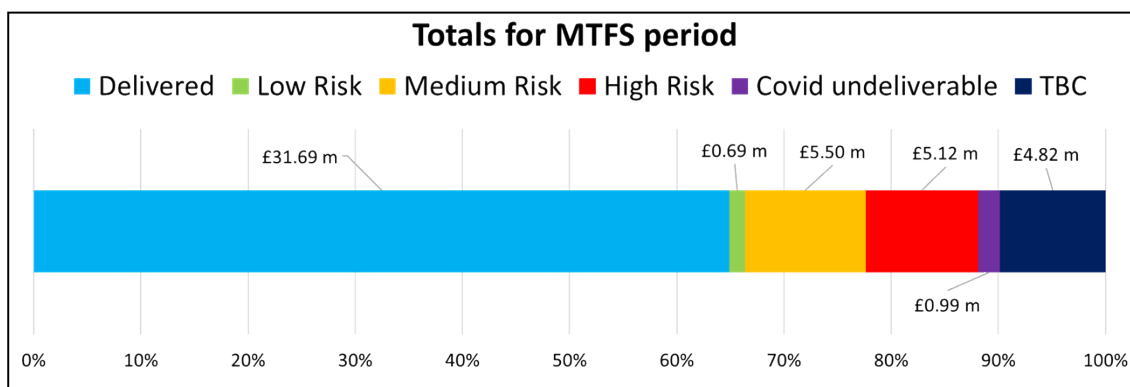
1. Introduction and Background

- 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 2020/21 is the fourth and final year of the original Ambition 2020 savings and transformation programme. The total programme savings target is £48.8m of which £36.129m was originally profiled as to be delivered by the end of 2019/20 and £12.696m is due to be delivered in 2020/21.
- 1.3 In July 2020, Cabinet approved an updated MTFS for 2020/21 including an indicative forward forecast for future years. This identified a cumulative savings gap of £39.6m during the MTFS period from 2021/22.
- 1.4 The COVID-19 pandemic has continued to have 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
- 1.5 The cost to the Council of the COVID-19 response is significant and the impact on the MTFS is unlikely to be contained to 2020/21 and will affect many years to come.
- 1.6 The wider context within which this update has been prepared is one of unprecedented uncertainty. The financial sustainability of the whole of Local Government has been tested like never before in the response to the COVID-19 pandemic. This Council has stepped up to provide support to the most vulnerable members of the community as they have shielded from COVID-19 whilst still continuing to deliver a full range of services to our residents and businesses.

- 1.7 There have been significant cuts over a number of years to revenue support grant from the Ministry of Housing, Communities and Local Government (MHCLG) which, combined with increasing demographic and demand led pressures and the cost of the COVID-19 response, result in the need to identify savings and transformation proposals to deliver a sustainable MTFS.
- 1.8 The fair funding reforms and 75% business rates retention proposals are expected to be a benefit the council when introduced. These reforms were due to be introduced in 2020/21 following the four year funding settlement. These reforms have now been delayed until 2022/23 at the earliest. The Council has therefore lost the financial benefit from these reforms in 2020/21 and 2021/22 resulting in a wider savings gap in these financial years.
- 1.9 In addition, the Government have delayed the publication of the 2020 Spending Review due to COVID-19. Whilst this is still expected to be announced in Autumn 2020 the delay creates further uncertainty with a knock-on impact on the Council's budget setting process for 2021/22.
- 1.10 The approach of the Council continues to be to invest in the borough to generate growth and prosperity, while redesigning and transforming council services to meet the needs of the community at a lower cost.
- 1.11 This report provides an update on the funding gap within the MTFS and potential routes to close it.

2 The Barking and Dagenham MTFS 2017/18 to 2020/21

- 2.1 The 2017-21 Transformation Programme identified £48.8m of savings to be delivered over the four years of the programme. The chart below summarises progress to date:



- 2.2 2020/21 is the fourth and final year of the original Ambition 2020 savings and transformation programme. The total savings for the programme is £48.8m of which £36.129m was originally profiled as to be delivered by the end of 2019/20 and £12.696m is due to be delivered in 2020/21.
- 2.3 The total delivered so far is £31.69m leaving £17.11m so far undelivered, of which £12.7m was planned to be delivered in 2020/21. The total savings yet to be delivered in 2020/21 were already high risk even before the COVID-19 situation arose and the response to the pandemic has considerably worsened the situation. A small number of savings have been assessed as impossible to deliver in the current year but may be possible to reinstate in future years. In addition, there are a

large number of savings where the original plans have been delayed or are much more difficult/high risk than first anticipated.

- 2.4 The progress of the delivery of approved savings is reported in the regular budget monitoring reports to Cabinet. Any savings that are not delivered in full will result in an overspend and an increased drawdown on reserves.
- 2.5 The delivery of agreed savings is essential to deliver a balanced budget for 2021/22 and beyond. Where agreed proposals are deemed to be unachievable these should be replaced with alternative proposals by the service responsible, subject to Cabinet approval.

3 COVID-19

- 3.1 The cost to the council of the COVID-19 pandemic response at the time of writing is estimated to be £44.2m in 2020/21. Government have provided emergency grant funding (un-ringfenced and ringfenced) of £16.7m and an income loss guarantee scheme with an expected benefit of £5.49m in addition to NHS funding of £0.8m leaving a residual cost pressure to the council of £21.2m. If council tax and business rates income losses of £8.5m are excluded the pressure on the general fund is £12.7m (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 £12.7m 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 and these assumptions may need to be revised, for example to take in to account the effect of a second wave of the pandemic or a significant change in behaviour within the community. Should the financial impact continue into 2021/22, it would be reasonable to expect that the Government will provide further support.
- 3.3 There are, however, instances 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.

4 Medium Term Financial Strategy Forecasts

- 4.1 The report to Cabinet in July 2020 set out the following financial forecasts over the medium term:

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Budget Gap (incremental)	13.180	9.791	10.777	5.905
Budget Gap (cumulative)	13.180	22.971	33.748	39.653

4.2 A review of the assumptions has been undertaken and the financial forecast has been updated as shown in the table below. These updates are best estimates of the impact of the changes and are subject to change before the MTFs is presented for approval in Feb 2021:

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Budget Gap (incremental)	13.180	9.791	10.777	5.905
COVID impact – OCT estimate	(2.934)	3.384	2.501	-
Fair Funding Review (MHCLG)	-	(5.081)	(5.082)	(5.905)
NDR Appeals Provision Review	(2.000)	-	-	-
IAS Financing Review	(5.000)	(1.500)	(1.00)	-
SUBTOTAL	3.246	6.774	6.746	-
New Savings Proposals*	(1.088)	(1.593)	(1.753)	(1.753)
Care & Support PIDS*	2.036	0.889	0.889	0.889
Care & Support Demand Pressure Growth*	3.303	0.250	0.250	0.250
REVISED BUDGET GAP	7.497	6.320	6.132	(0.614)
CUMULATIVE BUDGET GAP	7.497	13.817	19.949	19.335

*subject to consultation and approval

4.3 The strategy to address the funding gap is through the following routes:

- Savings proposals: those that have been identified and those that are still in development to include in the MTFs in Feb 2021.
- Delivery of the corporate plan priorities and agreed transformation programme to deliver sustainability in the longer term.
- Identify new investment opportunities to secure financial sustainability and deliver regeneration for the borough.

5 Government Funding Changes

5.1 The four year funding settlement ended in 2019/20 and a one year funding settlement was received for 2020/21. The Chancellor of the Exchequer has cancelled the Budget that was expected in September 2020 as a result of the COVID-19 pandemic and its impact on the economy. The Spending Review is expected before the end of the calendar year, though no date has been confirmed

for this. This is important as MHCLG can only allocate funding to local authorities through the settlement once they receive their allocation of funds through the spending review. It is expected that the draft local government settlement will be received in December.

- 5.2 The government have already confirmed that a new national funding formula will commence from 1 April 2022 at the earliest. The move to the 75% national business rates retention has also been pushed back to 1 April 2022.
- 5.3 In combination, there is an unprecedented lack of detail from government on which to plan the 2021/22 budget. The current assumption is that there will be a one year settlement which will effectively roll forward the settlement from 2020/21.
- 5.4 **Council Tax** – as yet there are no indications on whether there will either a council tax referendum threshold or an adult social care precept for 2021/22. The MTFs currently assumes a total 2.99% increase in council tax.
- 5.5 The taxbase for Council Tax will be reduced as the number of Council Tax Support claimants has increased as a result of COVID-19. This is a national issue and the Government may address this funding shortfall in the local government finance settlement.
- 5.6 **Social Care Funding** – new grants were made available in 2019/20 and 2020/21 our assumption is that this funding will be carried forward into 2021/22.
- 5.7 **Improved Better Care Grant** – the assumption is that this grant continues at 2019/20 levels which was the case in 2020/21 providing over £9m in funding.
- 5.8 **Public Health Grant** – this is a ringfenced grant worth £16.8m. Whilst we assume the grant will continue at current levels, there is a likelihood that additional funding will be provided to support ongoing public health initiatives related to COVID-19.
- 5.9 **New Homes Bonus** – as the expectation is that funding will be rolled forward from 2020/21 to 2021/22 we expect that new homes bonus will continue to fund legacy payments and make a new round of allocations for 2021/22. The mechanism to allocate a new round of funding will be contained within the consultation published by MHCLG with the draft local government finance settlement.
- 5.10 The total removal of New Home Bonus without replacement could have a catastrophic detrimental effect on the MTFs as it is a key element of the Be First business plan target and underpins our efforts to regenerate the Borough.
- 5.11 **Homelessness/Housing** – additional funding was provided in 2020/21 in an effort to reduce homelessness and rough sleeping in addition to new funding for Discretionary Housing Payments.

6 Business Rates Pooling 2021/22

- 6.1 The Council has participated in the London-wide business rates pilot which was introduced in 2018/19. Initially the pilot allowed London to benefit from retaining 100% of the business rate growth but this then changed in 2019/20 to 75%.
- 6.2 London Councils worked with London authorities to set up a new London pool based on the original 67% rates retention scheme for 2020/21 which we assume

will carry on in 2021/22. The estimated benefit to the council of participating in the pool is £400k from a total pool benefit of £21.0m.

- 6.3 Cabinet are asked to approve in principle the Council's participation in the London pilot if it is accepted by Central Government. Our membership of the existing pool has proved beneficial and demonstrated that London authorities can work together in this way.

7 Other Pressures

- 7.1 The General Fund budget for 2020/21 is £155.796m. As a result of underlying financial pressures including increased costs, demographic and other demand growth, savings not yet delivered and other risks there is an underlying budget overspend of £7.474m. In addition, as a result of the COVID-19 epidemic, the lockdown, and subsequent economic impacts the Council has experienced a high level of additional costs and pressures including loss of service income from fees and charges. The minimum impact from this is assessed to be £25.1m including £4.137m relating to delayed or reversed savings which are also in the main forecast – although this is offset by £3.5m of specific grant and NHS funding resulting in a net £21.512m. Including these COVID-19 costs, the Council's final net expenditure for the year is expected to be at least £184.782. This would be an overall expenditure variance of £24.849m.
- 7.2 Additional un-ringfenced grant funding in the region of £14.574m has been provided to support Local Government in its response to the challenges of COVID-19 and a compensation scheme for income losses. Taking into account this funding the expected outturn for the Council is an overspend of £8.231m.
- 7.3 As at the end of 2019/20 the budget support reserve stood at £6.3m with a further £0.74m in the restructuring reserve. This would mean that the majority of the overspend could be covered from these reserves. This scenario would also reduce the General fund reserve from £17.031m to £15.884m, compared to a £12m minimum level set in our reserves policy.
- 7.4 The reduction in reserves is unforeseen and is a direct result of the COVID-19 pandemic response. It is clear that, whilst the council can manage to fund the COVID-19 shortfall in 2020/21, should there be further cost pressure on the 2021/22 forecast outturn the options to mitigate such costs from reserves are limited. Without further government support additional savings or income would be required in-year to balance the budget.
- 7.5 It is also imperative that savings or income that have been approved must be delivered to protect our financial sustainability.
- 7.6 The council continues to closely monitor the 2020/21 forecast outturn and the impact of COVID-19 taking action where possible to reduce costs and/or increase income.

8 Capital Programme

- 8.1 The MTFS includes provision to fund a small corporate capital programme for operational requirements. The total pot available however is £5m. The allocation will be co-ordinated by the Capital and Assets Board. Once prior approved bids and the

£1m allocation for urgent works/health and safety are taken into account the funding available is around £3.4m in 2021/22 and following years.

9 Proposed Consultation Process

9.1 The Council will be undertaking consultation events as follows:

- An online budget consultation which will commence in the new year following publication of the draft local government finance settlement.
- Online events to which representatives of the business community and the voluntary sector will be invited (assuming that face to face events are unable to go ahead due to COVID-19 restrictions).

9.2 Cabinet will be asked to approve the 2020/21 budget on 15 February 2021 with Assembly being asked to formally approve on 24 February 2021.

10 Financial Implications

Implications completed by Philip Gregory, Finance Director

10.1 Financial implications are covered throughout this report.

11 Legal Implications

Implications provided by Dr Paul Feild, Senior Corporate Governance Solicitor

11.1 Local authorities are under an explicit duty to ensure that their financial management is adequate and effective and that they have a sound system of internal control and management of financial risk. This report contributes to that requirement. Specific legal advice may be required on the detailed implementation of any agreed savings options.

11.2 Where budgetary requirements proposals identify the need for the reduction of, or closure or discontinuance of a service or services, appropriate consultation will need to be carried out. The savings proposals that affect staff 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 because the Public Sector Equalities Duty ("PSED") set out in section 149 of the Equality Act 2010 obliges the Council in performing its functions "to have due regard to the need to:

- eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
- advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
- foster good relations between persons who share a relevant protected characteristic and persons who do not share it".

This means an assessment needs to be carried out of the impact of financial strategy measures and a decision taken in the light of such information within the PSED context.

11.3 Further clarification has been given by the Supreme Court has recently endorsed the following general principles of consultation:

- That consultation must be at a time when proposals are still at a formative stage;
- That the proposer must give sufficient reasons for any proposal to permit intelligent consideration and response;
- That adequate time must be given for consideration and response; and
- That the product of consultation must be conscientiously taken into account in finalising any statutory proposals.

11.4 If at any point a resort to constricting expenditure is required, it is essential that due regard is given to statutory duties and responsibilities. In particular the Council must have regard to:

- any existing contractual obligations covering current service provision. Such contractual obligations where they exist must either be fulfilled or varied with agreement of current providers;
- any legitimate expectations that persons already receiving a service (that is earmarked for reduction) 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 that 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 following a statement of special educational needs;
- the impact on different groups affected by any changes to service provision as informed by relevant equality impact assessments;
- the response to any consultation undertaken.

12 Risk Management

12.1 In each of the areas set out in this report, the significant risks have been identified with some of the impacts from those risks highlighted for consideration. Mitigation for those risks is alluded to within this report and have been integrated into the implementation plan to deliver the Budget Strategy.

13 Equality Impact Assessments

13.1 Full Equality Impact Assessments will be carried out on all applicable savings proposals.

Public Background Papers Used in the Preparation of the Report: None

List of appendices: None