

CABINET

11 July 2017

Title: Medium Term Financial Strategy Update 2018/19 to 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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Accountable Strategic Director: Claire Symonds, Chief Operating Officer	
Summary This report updates the Medium Term Financial Strategy presented to Assembly in February 2017. The report updates Members on the process for the 2018/19 budget gap.	
Recommendation(s) The Cabinet is recommended to: (i) Note the budget gap between 2018/19 to 2020/21 which increased from £22.167m, as reported in February 2017, to £23.003m at July 2017; (ii) Note the budget gap of £15.79m for 2018/19 the process for closing that gap, as outlined in section 8 of the report; (iii) Delegate authority to the Strategic Director of Growth and Homes, in consultation with the Cabinet Member for Finance, Growth and Investment, the Chief Operating Officer and the Director of Law and Governance, to commence the purchasing of street properties which would form part of the Council's overall Investment Strategy, as outlined in section 5 of the report; (iv) Approve additional capital spend on the Council's leisure services of £1,694,075; as outlined in section 6 of the report; (v) Approve a loan of up to £3,394,075 to Sports and Leisure Management Ltd, who have been appointed to manage the Borough's leisure centres and athletics stadium, including Becontree Heath Leisure Centre, in accordance with the loan schedule at Appendix C to the report; and (vi) Delegate authority to the Chief Operating Officer, in consultation with the Cabinet Member for Finance, Growth and Investment, to agree contractual terms, including the rate, duration and security as part of the loan agreement with Sports and Leisure Management Ltd.	

Reason

Financial planning is key in supporting the Council to deliver its vision of “One borough; one community; London’s growth opportunity.”

1 Background

- 1.1 Assembly approved a balanced budget for 2017/18 and the Council’s Medium Term Financial Strategy (MTFS) to 2020/21 on the 22nd February 2017.
- 1.2 The position reported in February was an increase of the gross budget gap to £70.109m, with savings of £47.942m from the Transformation Programme, leaving a revised budget gap of £22.167m to 2020/21.
- 1.3 The budget gap for 2018/19 in February 2017 was £14.954m.

2 Delivery of the 2017/18 Budget

- 2.1 The delivery of the 2017/18 budget will be reported regularly to Cabinet and an update at Month 2 features elsewhere on the agenda of this meeting. Whilst this report seeks to primarily focus on the Council’s financial position from 2018/19 onwards, it would be incomplete not to briefly reflect the pressures on the current and next few financial years. In some instances, where the pressures are thought to be uncontrollable due to changes in service requirements and demand pressures, these will be factored into the MTFS.

Children’s Care and Support

- 2.2 There has been significant progress made since 2015 when Children’s Care and Support projected an overspend of £9.6m which was managed down to c£5m by the 2015/16 outturn. During 2016/17 further progress has been made by the service in bringing this overspend down and the outturn position was a much reduced overspend of £2.6m. There are however risks in the Children’s Care and Support budget around the recruitment of permanent social workers as this remains highly challenging for the service. Therefore, it is expected that pressures of c£1m are likely to continue into 2018/19.

Community Solutions

- 2.3 Alongside other London Boroughs, Barking and Dagenham has seen a large increase in demand on the Homelessness budget. The 2016/17 outturn position reported an overspend of £3.1m and for 2017/18, the MTFS recognised the demand increase by allocating £1.8m of growth monies toward the pressure, with the remainder of the pressure being managed through a service recovery plan. Despite the recovery plan, additional demand pressures of £0.9m that will continue into 2018/19. Community Solutions going forward will not only tackle what the resident’s housing needs are but ask why they are homeless?

Public Realm

- 2.4 Following a series of service re-configurations and funding applied to the Public Realm budget in 2017/18 of £1m, additional resources have been brought in to support the delivery of the waste and cleansing services.

Enforcement

- 2.5 Following the introduction of the De-Regulation Act 2015 which restricted the use of mobile CCTV cameras to issue Penalty Charge Notices, there has been a steady decline in the parking income being generated. This income shortfall is estimated at c£1m which may continue into 2018/19.

Commissioning structure

- 2.6 To reflect the revised structure of the Council, a number of posts have been established in the commissioning core to ensure that the Council is able to effectively client/contract manage the wholly owned trading companies that are being set up. The other element of the commissioning structure will be to create capacity within Culture and Commissioning so the team is able to deliver the cultural objectives in the Growth Commission report. The increased cost of the commissioning structure is c£0.4m which will be built into the MTFs. The director of transformation role has now been formally established to support the Council in delivery of the £48m savings and the cultural change required. This post will be funded as part of the Council's Transformation Programme, through the Government's dispensation of the flexible use of capital receipts.

Shortfall of court costs income

- 2.7 The impact of Welfare Reform and the introduction of the Local Council Tax Support Scheme has made it increasingly difficult for the Council to collect debt that is due for Council Tax and Council Tax arrears. The impact of this has led to a £0.3m income shortfall.

3 Risk Update on the Transformation Programme

- 3.1 In July 2016, Members formally agreed to the launch of the Council's Transformation Programme which seeks to deliver £47.9m savings through a fundamental review of the Council's operating model that looks at how to sustainably transform services to support our residents to live independently.
- 3.2 The other angle of the Transformation Programme focuses on how the Council can grow its income base, and making the most of the space available and its accessibility to London. The setup of Be First, the Council's wholly owned regeneration and development company will be key in driving through the growth, delivering up to 2,500 homes a year.
- 3.3 The scope and scale of change the Council is expected to deliver is not without risk. As stated above, savings of £47.9m were agreed over the next four years as a product of the transformation programme. Savings totalling c£9m have been included in the balanced 2017/18 budget with the remainder forecasted to be achieved over the following three years.
- 3.4 The vast majority of savings are on track to be delivered. Inevitably however in a programme of this scale there are certain areas which have associated risks to delivery both in timing and quantum. Due to the sheer complexity and scale of what the transformation programme is trying to achieve, there are risks attached with the programme being able to deliver fully against its target. Therefore, an adjustment of c£2m has been made to recognise potential non-delivery of savings/income shortfall for 2018/19. Risks to future years' savings proposals will be RAG rated in the following years thereafter.

3.5 Going forward, the budget monitoring report will review not only the 17/18 in year savings but the savings across the entire programme to 2020/21, assessing the risks associated with delivery and implementation of the proposals. This will be reported to Cabinet on a quarterly basis.

4 Government Funding and changes in legislation/new burdens

4.1 The Government announced a four-year Local Government Finance Settlement in December 2015 that the Council accepted in February 2016.

4.2 In February 2017, following significant campaigning and lobbying by ADASS (Association of Directors of Adult Social Services), the Government recognised the rising demographic and demand led pressures for Adult Social Care. Barking and Dagenham received c£8.3m for the Adult Social Care grant, with £4.3m being paid in 2018/19. This additional funding was much welcomed and will help alleviate a number of pressures experienced by Adults Care and Support.

4.3 Following the General Election on the 8th June, there is been little announced in terms of major policy changes that will directly impact on funding/changes in legislation for Local Government. The Queen's speech announced on the 21st June 2017 provided no further clarity on the roadmap towards 100% business rates retention.

4.4 However, discussions are progressing on the London Business Rates Devolution pilot and it is too early to model the potential implications for the Council at this stage. The premise for the discussions will be that no Council will be left worse off in the London Pool than not being part of the London Pool. The Council is currently part of a Business Rates Pool with LB Havering, Thurrock Council and Basildon District Council.

4.5 The speech did announce the intention to carry out a review of the Adult Social Care system and bring forward new proposals as to how as a society we enable all adults to live well into later life and how we deliver sustainable public services that support them to do so. This is an important piece of work that may have far reaching consequences for the borough. Although currently our population is relatively young compared with the national average, there are significant numbers living with ill health and disabilities and the proportion of the population over 65 will start to increase over the next decade resulting in significant demographic pressures. The Council's finance and commissioning teams will engage with the national debate in order to ensure the needs of our local residents are heard.

4.6 The speech also repeats the commitment to introduce a new national funding formula for schools. The Department of Education has not yet responded to the second stage of the consultation carried out over the winter and so we do not yet know if there will be significant changes. However regardless of the formula itself the education budget has been subject to a real terms reduction. It is possible that some additional funding may be provided but whether this will address the full scale of the pressures is not known. Schools and wider education funding therefore remains a major risk for this borough and many others.

4.7 The Homelessness Reduction Act was passed on 27th April. This brings into effect a wider range of duties for local authorities including responsibilities to provide help and support to people threatened by homelessness and duties to relieve homelessness for a wider group of people. The cost of meeting these

responsibilities are estimated by the service to be at least £0.75m. Under the New Burdens Doctrine, the Government have indicated there will be some additional funding provided but the allocation has not been confirmed. However, the indications are that it is likely to be grossly inadequate at a national level to meet the scale of need.

- 4.8 The recent tragic events at Grenfell Tower have highlighted the importance of fire prevention and other safety measures in social housing especially high-rise blocks. The council has been able to confirm that no Housing Revenue Account (HRA) dwellings in the borough have the same type of cladding or fitting as Grenfell and additional fire assessments have been carried out. We are also carrying out checks on non HRA buildings such as schools. The safety of our residents is our top priority and any recommendations arising from the investigations will be closely studied for their implications and will be built into our Capital programme or the HRA business planning as appropriate with resources identified if adequate additional funding is not made available from central government to support Councils with this important work.
- 4.9 At the time of writing, DCLG have given no indication of a consultation relating to the local government finance settlement 2018/19. DCLG carried out a consultation relating to 2017/18 and this was undertaken during September and October 2016. The authority will anticipate the possibility of a similar consultation being carried out, and ensure it is able to respond appropriately if any such consultation is undertaken.
- 4.10 At the time of writing this report, no further changes to funding or policy changes have been announced.

5 Investment Strategy update

- 5.1 In November 2016, Cabinet approved the Investment and Land acquisition strategy which was forecast to deliver £5.2m of investment income by 2020/21, with £1.6m deliverable in 2018/19. The original premise of the Investment Strategy was to generate an index link rental yield income from Council constructed Private Sector Affordable Rented units, linked to the regeneration and development of 43 major schemes across the borough. A further report on the investment strategy will be presented to Cabinet in September, however in the meantime, Members are asked to approve for officers to commence with the Street Purchasing programme as a further aspect of the Investment and Land acquisition strategy that will further enhance the income generated.
- 5.2 It is expected that the Street Property purchasing scheme will be used to provide accommodation for the borough's care leavers which will support the reduction of the demand pressures on the Children's Care and Support budget. Other objectives of the Street Purchasing programme also include delivering a positive financial return, providing accommodation for homelessness people, as well as provide key worker housing for social workers and teachers.

6 Loans to Sports and Leisure Management Ltd

- 6.1 By Minute 82(vii) (19 January 2016), the Cabinet agreed to fund an additional demountable 50m swimming pool, at a cost of £1.70m and with an approximate 15-year life, at the Becontree Heath Leisure Centre site on land already owned by the Council and set aside for leisure use.

- 6.2 Subsequent to this decision, and as part of the Council's drive to get the borough in shape, Sports and Leisure Management Ltd (SLM) have been appointed to manage the borough's leisure centres and athletics stadium, including Becontree Heath Leisure Centre.
- 6.3 As a result, from 1 September 2017, SLM will take over the Management of Becontree Heath Leisure Centre and will be responsible for managing the construction of the demountable pool and its management thereafter.
- 6.4 Since the decision in January 2016, construction costs have increased from the originally agreed £1.70m to £1.95m and Members are asked to agree the additional £250k now required to construct the demountable pool.
- 6.5 The demountable pool will be the first 4 lane 50m modular pool in the country. The additional investment is required following a detailed review of costs by SLM resulting in their offer of a new and improved facility which will allow increased participation in swimming over the next 25 years.
- 6.6 Members are also asked to agree that the full £1.9m is transferred to SLM as a loan from the Council. The duration of the loan will be 25 years, with repayments made by SLM in equal annual instalments of £76k per year plus interest on the remaining balance.
- 6.7 As the contract with SLM will only be for 10 years the remaining 15 years of the loan will:
1. Be transferred across to a new provider after the 10-year contract with SLM terminates; or
 2. Be transferred back to the Council; or
 3. Remain with SLM if the contract is extended or they are reappointed.
- 6.8 In addition to agreeing to lend SLM £1.95m for the demountable pool construction, Members are asked to agree two further loans, as outlined below:
1. Building Investment - £298,124 at 4.5%, repaid in equal instalments over a 10-year period; and
 2. Equipment Investment - £1,145,951 in four tranches in Years 1,2, 4 and 5 at 4.5%, repaid in equal instalments over a 5-year period per loan tranche.
- 6.9 These funds will initially allow for a Gym expansion at Becontree and the creation of a spin studio. The initial equipment cost will be to buy kit for the gym expansion and there is an allowance for equipment replacement and plant renewal thereafter across the life of the contract.
- 6.10 The total value of the loans to SLM will be £3,394,075, although this includes the £1.70m already agreed by Members in January 2016. Therefore, Members are asked to agree a total of £1,694,075 in capital spend on the Council's leisure services.
- 6.11 Members are also asked to agree the total capital spend for leisure is transferred across to SLM as a loan of £3,394,075, with payments to SLM as per the schedule in Appendix C.

7. Proposed changes to the MTFS

7.1 The pressures outlined in sections 2 to 4 of this report have been incorporated into the MTFS and the revised budget gap is now £20.520m for 2018/19 and £27.733m to 2020/21. Appendix A details the MTFS agreed by Assembly in February 2017, with Appendix B detailing the current position.

7.2 The table below highlights the proposed changes to the MTFS incorporating the pressures.

Pressure	2018/19 £000	2019/20 £000	2020/21 £000	Total £000
Gross Budget Gap – February 2017	26,298	16,716	17,819	60,832
Savings	(11,344)	(12,784)	(14,538)	(38,666)
Net Budget Gap – February 2017	14,954	3,932	3,281	22,167
Budget Pressures				
Children’s Care and Support Pressure	1,000			1,000
Community Solutions Demand Pressures	880			880
Waste and Cleaning Budget Support (Public Realm)	1,009			1,009
CCTV income shortfall	1,000			1,000
Commissioning Structure	400			400
Court Costs Income Shortfall	300			300
Healthy Lifestyle and Leisure	550			550
Customer Access Strategy	380			380
Adult’s Care and Support inc Disabilities Pressure	47			47
Revised Budget Gap July 2017	20,520	3,932	3,281	27,733

7.3 In order to manage down the pressures for 2018/19, a number of adjustments to the MTFS are proposed to reduce the budget gap

Staff inflation and pay awards

7.4 The MTFS incorporates £1m for staff inflation and the national pay award of 1%. Following discussions, it is felt that this increase can be absorbed within existing budgets by managing vacancies within the Council. It should be noted that this is the second year that services will be containing staff pay awards without the increase being reflected in their budget.

Non-staff inflation

7.5 There is currently a £2.1m provision within the MTFS relating to non-staff inflation for contracts/commissioned services. Given the demand led pressures elsewhere across the Council, an assessment has been made that containing inflationary

pressures within existing budgets will not be detrimental to current contractual arrangements with service providers.

Impact of legislative changes

- 7.6 There has been little in terms of policy changes/legislative burdens that will have a quantifiable impact on the MTFS at the time of writing this report. Removing this provision (£2.0m) entirely from the MTFS is not without risk as any policy changes should they arise will then need to be dealt with as a funding pressure in year or will increase the budget gap, leaving very short notice on how it can be resolved.

Demand increases

- 7.7 In order to reduce the level of demand for services, the Council has set up Community Solutions which will act as an early intervention service that supports residents by signposting them to more appropriate services that can provide targeted support to our residents to help themselves. Therefore, on the basis the Community Solutions will effectively manage down demand pressures (£1.630m), this provision has been stripped out from the MTFS.
- 7.8 The adjustments above removes £6.730m of pressures/growth items from the MTFS. This revises the 2018/19 budget gap to £15.790m as show in Table 2 below:

Pressure	2018/19 £000	2019/20 £000	2020/21 £000	Total £000
Gap – February 2017	14,954	3,932	3,281	22,167
Revised Budget Gap - July 2017	20,520	3,932	3,281	27,733
<i>MTFS adjustments</i>				
Staff inflation and pay award	(1,000)			
Non–Staff inflation	(2,100)			
Impact of legislative changes	(2,000)			
Demand Increases	(1,630)			
Non-Delivery of Savings	2,000			
Revised gap after MTFS adjustments – July 2017	15,790	3,932	3,281	23,003

8. Process for closing the 2018/19 budget gap and beyond – Next steps

- 8.1 Having taken into account the risks and pressures outlined in section 2 above, and the adjustments made to the MTFS, the revised budget gap is now £15.79m for 2018/19.
- 8.2 The current transformation programme is forecasted to deliver £47.9m over the next four years by 2020/21. In order to balance the 2018/19 budget gap, there are proposals in place to stretch the performance targets where possible, for each of the workstreams to deliver further savings where possible. In order to determine the size and scope of the savings required, the £15.79m gap has been allocated across each of the three main commissioning functions based broadly on the size of net controllable budget.

8.3 Details of finalised proposals will be put forward to Members in the November 2017 Budget Strategy report with the public consultation process commencing thereafter. Where the proposals form part of the existing transformation programme, they will be indicated as such and will not be subject to further consultation.

9. Financial Implications

9.1 Financial implications feature throughout this report.

10. Legal Implications

Implications provided by: Paul Field, Senior Corporate Governance Solicitor

10.1 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 in due course on the detailed implementation of savings options.

10.2 Where there are proposals for the closure or discontinuance of a service or services, appropriate consultation will need to be carried out. In the event that savings proposals affect staff, 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 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.

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

List of appendices:

Appendix A: MTFs February Assembly (2017-18 to 2020-21)

Appendix B: MTFs July 17 Update (2018-19 to 2020-21)

Appendix C: Schedule of proposed capital works by Sports and Leisure Management Ltd