

CABINET

13 November 2018

Title: Budget Strategy 2019/20 to 2020/21	
Report of the Cabinet Member for Finance, Performance and Core Services	
Open Report	For Decision
Wards Affected: All	Key Decision: Yes
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Accountable Strategic Director: Claire Symonds, Chief Operating Officer	
Summary	
<p>This report sets out the Council's budget strategy from 2019/20 to 2020/21 and the approach to preparing the next Medium Term Financial Strategy for the period after the end of the Revenue Support Grant.</p>	
<p>The Council is now half way through its current four-year Financial Strategy 2017/18 to 2020/21. This strategy was developed in order to support the Council meet unprecedented financial challenges resulting from deep cuts to its funding from central government. This was at a time of high population growth and increasing demand for services. The strategy was based on the principles of investing in the borough to generate growth and prosperity, while redesigning and transforming council services to better meet the needs of our citizens at a lower cost.</p>	
<p>The strategy included an initial £48m of savings and transformation proposals which were supplemented by a further £9.6m of savings proposed in July and October 2017 and finalised in the February 2018 Budget Setting report to Cabinet and Assembly. At that point there was a residual £13m gap in 2019/20 and £15m in 2020/21. These figures were revised down in the July 2018 Medium Term Financial Strategy Update report to £4.6m and £8.6m based on a strategy of consolidating the organisational changes made alongside significant service demand management.</p>	
<p>It is in this context that this report updates Cabinet on changes to the Council's medium term financial position since July 2017 as further information, particularly about funding, has become available and as the current savings proposals have been discussed, further tested and refined. It sets out how the remaining 2019/20 gap can be resolved and the implications for services and council tax payers in the borough. It should be noted that this report was written in advance of full details of the Chancellor's Autumn budget and the Local Government Settlement being available.</p>	
<p>To meet the increasing challenge of setting a balanced budget, the Council is continuing its strategy of a balance sheet led investment approach which generates income in order to protect front line services.</p>	

Recommendation(s)

The Cabinet is recommended to:

- (i) Note that no new savings proposals are being brought forward for 2019/20 but the Council remains committed to delivering the savings proposed in the MTFs reports approved by Assembly in February 2017 and 2018;
- (ii) Support the drawdown of £0.570m from Collection Fund surpluses in order for the Council to set a balanced budget for 2019/20, which shall be reflected in the Council's statutory budget setting report in February 2018;
- (iii) Agree the proposed consultation process for the 2019/20 budget proposals, as set out in section 6 of the report.
- (iv) Agree to consult on the levying of a local 1% "Social Care Precept" to support the Borough's most vulnerable residents; and
- (v) Note the proposals for the development of a new MTFs for the period 2020/21 to 2023/24.

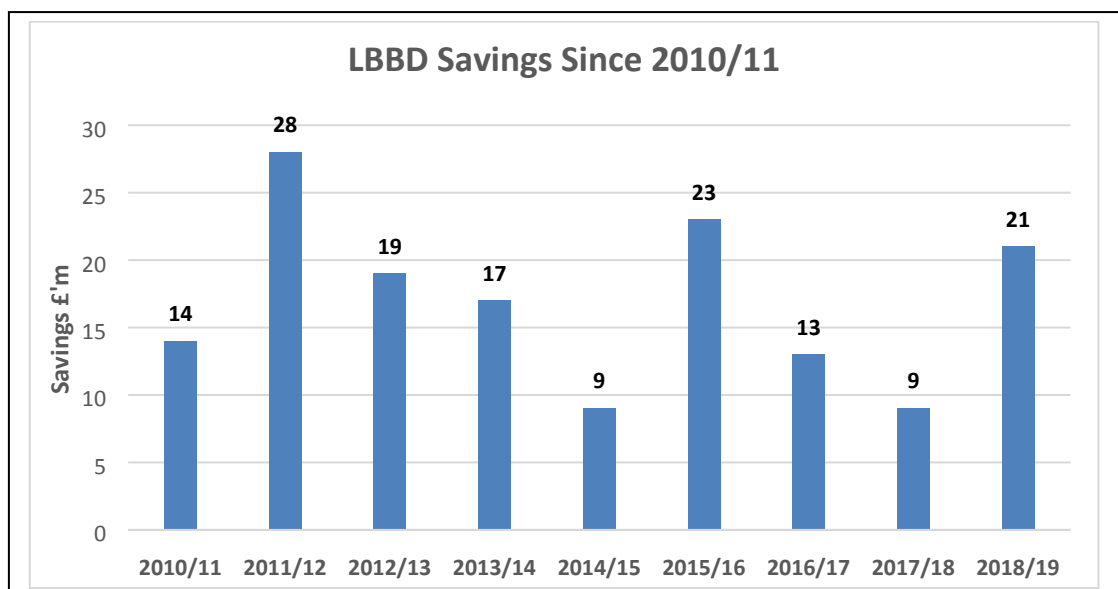
Reason

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

1. Introduction and Background

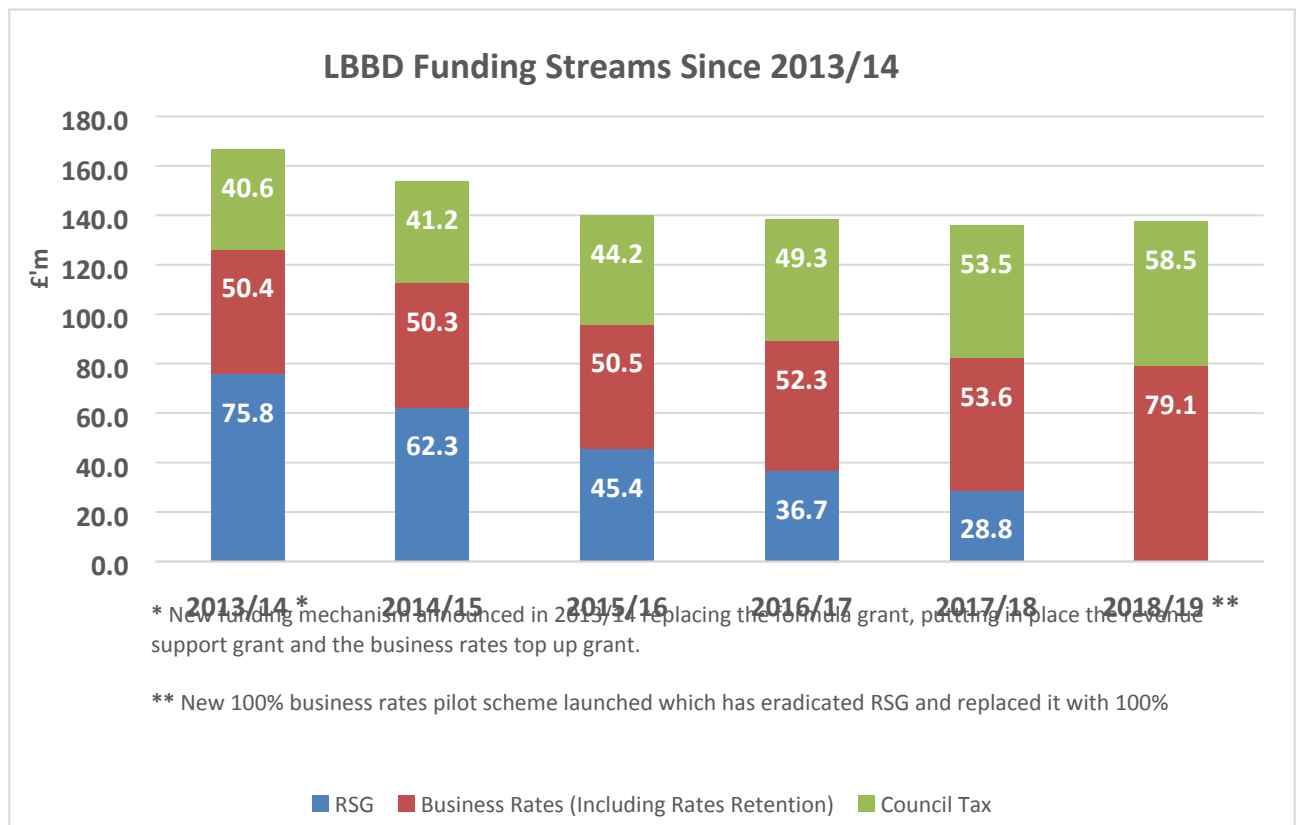
- 1.1 The Council continues to face significant challenges of cuts to revenue support grant, and increasing demographic and demand led pressures. This report is written at the point when the Council has already made over £122m of savings since 2010 and has identified further savings of £58m between 2017/18 and 2020/21 through its transformation programme.

Chart One: Barking and Dagenham Savings Made Since 2010/11



- 1.2 The total funding (finance settlement) for LBBB reduced by £49.8m between 2010/11 and 2017/18. The Council no longer receives Central Government funding in 2018/19 following the decision to enter into the London Business Rates pool – however its “tariff” share of business rates will further reduce by £8.5m between 2018/19 and 2020/21 as the Central Government share of Business Rates increases. (This mechanism effectively replaces the reductions in the Revenue Support Grant.) The Government has declared its intention to remove Central Government funding of Local Authorities altogether by 2021, while allowing the sector to retain the full amount of business rates. However, it is clear that there will be still an element of redistribution between regions and also that there will be no immediate financial benefit to authorities as the Government intends to remove other elements of funding such as the Public Health Grant.
- 1.3 The other component of the Government’s intentional shift from Central redistribution to local funding of Councils is an increased reliance on Council tax. Although Councils were encouraged to freeze this tax between 2011 and 2016, from 2016/17 onwards the Government has assumed that they will raise the maximum possible allowed under the capping rules ie 1.99%. In the Government’s Autumn budget of 2017 this was raised for two years to 2.99%. Barking and Dagenham froze Council tax for seven years from 2009/10 until the impact of central funding reductions made this unsustainable.
- 1.4 The relative share of Local Government funding for LBBB between the three main contributing funding streams has changed as shown below.

Chart Two: Barking and Dagenham Funding Streams Since 2013/14



1.5 These sustained reductions in Central Government funding have been taking place at a time when Barking and Dagenham has been facing and will continue to face severe demand pressures because of rapid population growth, demographic changes and high levels of deprivation. In addition, Local Authorities are subject to inflation and other cost increases, so the cash impact of funding reductions actually understates the real terms impact. In particular after a long period of pay freeze, public servants have now been awarded pay increases (1% in previous years and 2% + depending on grade in 2018/19 and 2019/20).

2. The Barking and Dagenham MTFs 2017/18 to 2020/21

2.1 In February 2018, Assembly agreed to set a balanced budget of £145m for 2018/19, which incorporated a transfer from general fund balances of £2.8m. At that point, the Council's overall budget gap was £13.7m for 19/20 and £15.6m for 2020/21. A large proportion of this gap - £10m was the result of growth and demand pressures within the Council while £6m was the result of changes to the Council's external funding. Effectively the Council had already identified sufficient savings to meet the loss of funding, but demand pressures were creating a gap.

2.2 There was a high risk that the identification of new savings at this point would serve to weaken the focus on the implementation of the Council's existing ambitious savings programme and the creation of the New kind of Council. There was also a risk that it could amount to a return to short term "salami slicing" which the council has explicitly rejected, rather than the strategic transformation envisaged that would enable us to meet the needs of our residents better in the medium term.

2.3 A further report was presented to Cabinet in July 2018, updating the position reported in February which included a number of adjustments to the Medium Term Financial Strategy. The revised budget gap for 19/20 was amended to £4.6m, however, this incorporated the removal of a number of items of growth such as budgeted increases for staff awards, the provision for legislative changes, demand pressures and other adjustments amounting to £6.7m. It was concluded that these items could be removed for 2019/20 with the accepted risk that any pressures emerging in these areas would need to be contained during the year as part of the monitoring process.

2.4 The Council has set in place a number of arrangements to ensure that these risks can be managed. The Council will be implementing the pay award negotiated successfully with the unions at a national level. This awards a minimum of 2% in 2019/20 with higher increases for lower graded staff. This could possibly result in some changes to our pay and grading structures which will be outlined in the Council's annual pay policy report.

2.5 It should be noted however that the Council's directly employed workforce has reduced over recent years with some groups of staff being transferred to the Council's subsidiaries and partners. These new entities will have commercial freedoms to manage the impact of the pay award through their own processes.

2.6 For the Council's own services and departments, there is a strong framework of control now in place to help managers manage their salary budgets. The Council maintains a Workforce Board to oversee cross cutting issues and develop strategies for effective management and organisational development. In addition,

the Workforce Governance Group scrutinises individual recruitments and small scale changes and challenges managers to review and reduce their staffing costs.

- 2.7 The Council also has a Procurement Board that oversees the Council's purchasing and contracting arrangements and helps managers ensure that they are obtaining value of money.
- 2.8 On the strength of these arrangements it has been agreed that the budgets for pay and contractual inflation can be removed with no adverse impact on service delivery. However, a small contingency of £0.5m has been retained for those exceptional circumstances where this cannot be managed.
- 2.9 The Council's transformation programme is strongly based on developing prevention services and working effectively with our residents to help them to help themselves. This is expected to result in more effective demand management and allows us to remove growth funding for demographic and demand pressures.
- 2.10 Funding for legislative changes has also been removed as there are no new statutory commitments expected to be introduced in the next financial year.
- 2.11 The removal of these items has reduced the growth requirement in the budget to £3.33m which for unavoidable financial commitments such as waste and flood prevention levies, pension fund payments, minimum revenue provision and interest on capital borrowing. However, these last items have been slightly reduced by a reduced capital programme in 2018/19 and 2019/20.
- 2.12 In addition, there is a requirement to remove £4.4m of one-off savings and income from the 2018/19 budget. The Council is committed to making £10.7m of savings in 2019/20 and £14.01m in 2020/21.
- 2.13 The revised reduction in funding is now estimated to be £3m. The reduction in the guaranteed tariff income from the business rates pool is offset by the expected benefit from retained NNDR growth which is estimated to be worth £2.4m additional income in 2019/20. This is included for one year only as the pool is a pilot which will come to an end at 31st March 2020. In addition, there is a revised estimate of the Council tax base reflecting the growth in the number of households paying council tax.
- 2.14 The net impact of the above changes reduces the gap between service budget requirements and funding to £1.758m in 2019/20 and £12.663m in 2020/21.
- 2.15 The Council's agreed MTFs has an assumed 1.99% Council tax increase in each year. If this is confirmed for 2019/20 then the gap will reduce to £0.57m. It is proposed that this be funded by use of collection fund surpluses resulting in an in year balanced budget.
- 2.16 However, it should be noted that although this is a balanced budget it does not address the pressures within Care and Support. We know from our own borough but also from evidence gathered by the Directors of Adults Services and Directors of Children's Services that demand for Care and Support services continues to grow. Many factors contribute to this including rising life expectancy, improving medical care that means that individuals are able to survive severe illness and

accidents albeit with significant disability and for our borough high levels of deprivation that is exacerbated by the impact of austerity and welfare reform.

- 2.17 The table below shows the current MTFS proposals including revised growth figures and the approved savings proposals.

Table 1: The Revised MTFS 2018-21

	Budget 2018/19	MTFS 2019/20	MTFS 2020/21
LBBD Net General Fund Base Budget	148.159	148.159	144.038
Budget Gap b/f	0.000	0.000	0.000
Pressures			
Current Budget Pressures		6.676	15.395
Savings			
Current Savings		-10.797	-13.718
Total Expenditure	148.159	144.038	145.714
Funding			
Retained Business Rates Pilot (Formula Grant-Baseline Funding Level)	-78.793	-74.463	-69.667
Retained Business Rates Pilot (Surplus)	-2.378	-2.459	0.000
Council Tax based 0% increase in Council tax	-58.521	-59.707	-60.917
Specific Grant	-5.676	-5.651	-2.467
	-145.368	142.280	-133.051
Budget Gap before increase in Council Tax and use of Reserves	2.791	1.758	12.663
Use of General Reserves	-2.791	0.000	0.000
Council Tax Increase at 1.99%	0.000	-1.188	-2.400
2018/19 Council Tax - Collection Fund Surplus	0.000	-0.570	0.000
Budget Gap	0.000	0.000	10.263

- 2.18 In recent years the Government has recognised the pressures affecting social care for Older People and additional funding has been provided. This is due to increase again in 2019/20 and the Council will passport this additional money through to Adults and Disability Care and Support.

- 2.19 However, the Government has not previously recognised the pressures relating to social care for Children, Young People and Younger Disabled Adults. These

particularly affect a borough such as Barking and Dagenham with a very young population. The budget announcement on 29th October suggested there would be some funding available but full details have yet to be provided. It is unlikely that the grant will be sufficient to make up for the years of underfunding.

- 2.20 It is therefore proposed to make use of the one-off flexibility to raise council tax by up to 2.99%. The additional 1% will be used as a “Barking and Dagenham Social Care Precept” and will be ring fenced to services for Children and Younger Adults with Disabilities. The amount of funding raised will be £0.597m. This is not sufficient to fully meet the size of the challenge but it will offer some mitigation against the worst of the pressures.

3 The MTFS for 2020/21 to 2022/23

- 3.1 The development of a Medium Term Financial Strategy for 2017/18 to 2020/21, which was genuinely multi-year and linked to a high level strategic transformation of the Council, has enabled the Authority to effectively meet its challenges and continue to deliver for its residents. However, as the table above shows there is still a significant remaining funding gap for 2020/21.
- 3.2 In addition, we know that there are planned changes to Local Government finance from 2020 onwards. The current Business Rates system is due to be “reset” taking into account population and economic changes and the Government is expected to consult on changes to the methodology that underpins the redistribution systems “the fairer funding review.” It has also announced the intention to completely phase out a number of central government funding streams including Revenue Support Grant and potentially the Public Health Grant.
- 3.3 At the same time Barking and Dagenham, the place itself will still be changing as new housing and developments are being built and finished. The Council also will be very different in 2020 than it was in 2017 – having moved to new ways of working. Some of its investments will already be bringing in returns but others will only just be coming on stream which could result in a short-term phasing gap that will need to be planned and prepared for.
- 3.4 Moreover, it must be acknowledged that there are wider economic risks including those inherent in the general economic cycle and those arising from any short term impact of Brexit.
- 3.5 It is clear therefore that the Council will require a new MTFS for 2020/21 onwards which will need to be as ambitious and far reaching as the current one. It is also likely to be based on refining the work already done in redesigning the council and services to meet resident needs as best as possible within the available budget than on a traditional savings and growth approach.
- 3.6 The work on this strategy will begin in the New Year and will be informed in the first instance by the Borough Manifesto and this year’s budget consultation in the first instance.

4 Capital strategy

- 4.1 As part of the budget round a review of future Capital requirements will be undertaken. New Capital proposals can be included where there is a funding source available. Any further Capital needed over and above proposals already in the medium-term financial plan will need to be funded from borrowing. This will have a direct impact on the revenue position.
- 4.2 The MTFS has set aside £0.9m to fund the cost of borrowing, which enables the Council to invest £10m in its capital programme each year. The capital programme in 2018/19 did not fully utilise this money allowing the requirement in 2019/20 to be reduced. It is not proposed to ask for more bids except where required for essential health and safety or legislative compliance.

5 Proposed consultation process

- 5.1 There are no new specific savings proposals for 19/20 this year and no new changes to public facing services. There is therefore no explicit requirement to consult on these proposals.
- 5.2 However, we are interested to hear our residents' views on the proposed social care precept and their views on the type of service we will need to deliver in the future in order that this can feed in too the next MTFS. We are also interested in understanding which services residents regard as most valuable to them. We will therefore be undertaking consultation events as follows
- An online budget consultation which will run for 6 weeks commencing in November;
 - Facebook events enable real time comments from residents;
 - Face to Face events in Dagenham and Barking to which we will invite resident groups;
 - A specific event for the Chamber of Commerce.

6 Timetable and process to Assembly

- 6.1 The Chancellor's Autumn Budget which sets out the government's plans for the economy based on the latest forecasts from the Office for Budget Responsibility took place on 29 November 2018. The full details of the implications for this borough may not be clarified until the provisional Local Government Settlement on the 6th December.
- 6.2 Cabinet will be asked to approve the 2019-20 budget on 20th February 2019.
- 6.3 Assembly will be asked to formally approve the 2018-19 budget on 27th February 2018.

7 Financial implications

Implications completed by: Katherine Heffernan Group Manager service Finance

- 7.1 Financial implications are covered throughout this report

8 Legal Implications

Implications provided by: Dr Paul Feild, Senior Corporate Governance Solicitor

- 8.1 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.
- 8.2 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:
- a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
 - b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
 - c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it”
- 8.3 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.
- 8.4 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.
- 8.5 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.

9. Risk management

9.1 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.

10 Equality impact Assessments

10.1 Full Equality Impact Assessments have been carried out on all applicable savings.

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

List of appendices: None