

Medium Term Financial Strategy 2019/20 to 2023/24



Reserves policy 2019/20 to 2023/24

Message from Cllr Dominic Twomey, Deputy Leader and Cabinet Member for Finance, Performance and Core Services



This government's cuts to funding for local councils, continues to have a negative impact on services and affects people up and down the country. Here in Barking and Dagenham, we are no different and, in some instances, I would say we are significantly worse off.

We are working hard to deliver the services our community need and deserve, but we are facing huge financial challenges that mean we will be required to make tough decisions. We also face uncertainty in our funding with anticipated changes by national government not fully known. This makes it even harder to accurately budget but despite this, we need to plan and give our communities the best possible life chances both now and for the future.

In the last few years, we have done everything possible to protect key services, but the reality is we have had to save £153 million since 2010 and need to save even more over the next three years and beyond.

Back in 2014, we faced our graph of doom and considered what the bare minimum provision of services would look like and we decided this was not an option for our staff, our residents or us and we embarked on another path.

We decided that while cutting services might save the organisation, it would mean we could not deliver on our promise – the promise we had made to residents back in 2014 – to deliver a better future.

Our vision is one of a future where families are proud to call Barking Dagenham home; where they can have dreams and aspirations for their children and themselves and where no one is left behind.

Since 2014 we have taken a different path – a new form of civic socialism. In the last 5 years, here at Barking and Dagenham we have been experimenting with new and innovative forms of service provision and this in turn is breathing new life into the borough. We have created a new kind of council, not the traditional hierarchy but one created to meet the needs of our communities, it is made up of in house services as well as a number of wholly owned companies.

We created Community Solutions by bringing together 16 services that are there to help people help themselves and in 2018 they prevented 35% more households from becoming homeless compared to the previous year and the use of temporary accommodation has also dropped by 12%, yet we also achieved over £3m savings in service provision.

Today our uniqueness lies in our potential to grow - and grow rapidly – it is harnessing that potential and making sure everyone gets the benefit that is the challenge we face today.

To do this, we need to encourage genuinely inclusive growth and shape a new local economy that, first and foremost, makes Barking and Dagenham an affordable, desirable, safe and empowering place to live for people of all incomes and backgrounds.

To achieve this we formed Be First a brand-new council owned regeneration company. It uses the flexibility of the private sector to speed up regeneration while maintaining the ethos of the public sector to ensure all growth is inclusive and on our terms. This company will, over the next four years bring inward investment and financial returns into the borough alongside significant and lasting place making.

We have created Reside, a new form of council-owned affordable landlord that currently offers over 800 private rented properties all at sub market rental levels with rates dependent upon the income of those renting. We are on track to increase the Reside stock by another 2,000 truly affordable homes for local people over the next 4 years.

Our Medium Term Financial Strategy does not dodge the financial challenges that we face and we will continue to apply the principles that have held us in good stead these past years:

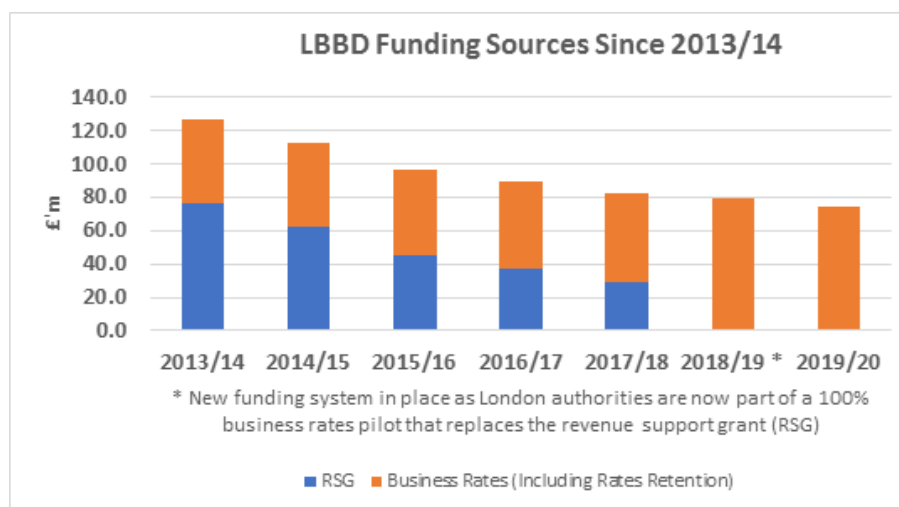
- ↘ No more salami slicing
- ↘ Taking the community with us
- ↘ Innovation in delivery
- ↘ No stone unturned
- ↘ No one left behind
- ↘ A financial strategy that grasps opportunities.

1. Background

- 1.1. This strategy sets out an overarching framework to be used to give context to future decisions for resource allocation in the pursuit of our strategic objective of ensuring One borough; One Community, where no one gets left behind.
- 1.2. Fundamentally, by bringing together our strategic intent and current understanding of financial direction of travel, we are able to not only fulfil our responsibilities to achieve the objectives of the Borough Manifesto but we are able to do this sustainably over the medium term.
- 1.3. Medium term financial planning serves as a key strategic planning tool that will be refreshed annually and will form the foundation of the annual budget setting process for the General Fund up to and including 2023/24.
- 1.4. This is a core council document and is part and parcel of a much wider ambition for Barking and Dagenham. To fully appreciate the ambition of the Council, the MTFS should be read in conjunction with the following key documents:
 - ↘ Barking and Dagenham Together – the Borough Manifesto
 - ↘ Corporate Plan 2018-22
 - ↘ Health and Wellbeing Strategy 2019-23
 - ↘ The Capital Investment Strategy and prudential indicators 2019 -2023
 - ↘ The Capital Programme 2019-2023
 - ↘ The Treasury Management Strategy Statement 2019/20
 - ↘ Housing Revenue Account 30 year Business Plan
- 1.5. In recent years, local government as a whole has faced changing and challenging times with continuing government austerity drastically reducing core funding yet with increasing demand for services. Not surprisingly, national headlines have highlighted concerns over the financial resilience of some councils. By setting out our key challenges and more importantly how they will be addressed in an open and transparent way, it helps to inform our community in the way in which available public money will be used, and protected, sustainably.
- 1.6. Similarly, the national direction towards sectoral financial self-sufficiency has resulted in an emerging and growing appetite for commercialisation and commercial investment. This is an approach that is not without risk. Again, this MTFS is intended to provide an overview and highlight any decisions made by Barking and Dagenham Council that are commercial in nature and how related risks are understood and managed.

2. The National Picture and its impact on Barking and Dagenham

- 2.1.** Public sector austerity has been with us following the Great Recession in 2008, with the local government sector having been hit particularly hard. A recent NAO report¹ highlighted the following key facts
- ↘ 49% reduction (real terms) of government funding between 2010-11 and 2017-18;
 - ↘ 29% reduction (real terms) in spending power (ie after increases in council tax have been considered) over the same period;
 - ↘ 33% real terms reduction in spending on non-social care services;
 - ↘ 66% of local authorities with social care responsibilities drew down their reserves in 2016/17;
- 2.2.** Given the financial challenge in the system, the government offered to guarantee a minimum level of funding to council's, subject to submitting a council approved "Efficiency Plan" for the period 2016/17 to 2019/20. These plans are now reaching the end of their useful life and medium-term financial uncertainty for the period beyond 2019/20 has now returned to the sector. That said, even the adoption of an efficiency plan did not protect funding levels for Barking and Dagenham, which have reduced by £52m since 2013/14, a reduction of 40%:



- 2.3.** At the time of writing, there is also uncertainty as to whether the next three-year Spending Review from 2020/21 will go ahead as planned, perhaps opting for a one-year position instead, given Brexit turmoil. Notwithstanding this the LGA have submitted to government² a strong case for additional funding of £7.8bn by 2025. This represents a funding gap based on the same standard of service as at 2017/18 effectively keeping services at stand still. It does not include any extra funding for investment in services nor does it reverse reductions that have been made previously. The outcome of the Spending Review and overall national control totals is not expected to be known until the end of 2019 and given other political priorities in the public sector such as the NHS, police and security, the expected outlook is one of continuing financial pressures particularly affecting social care, children's services and homelessness.

1. Financial Sustainability of Local Authorities 2018

2. Local Government Funding moving the conversation on, June 2018

- 2.4.** The government is also undertaking a review of the distribution of resources across local government, the Fair Funding review. This review focusses on how resources are distributed between local authorities rather than providing additional new monies. However, the outcome of any Fair Funding review will only provide a sustainable position if it does go hand in hand with additional resources to help plug the future funding gap. Further information on how the Fair Funding model will be rolled out from 2020/21 is expected during the summer of 2019. Consultation processes to date indicate that less emphasis will be placed on resource allocation using deprivation with a greater emphasis on general population distribution, how this will impact on Barking and Dagenham with high levels of deprivation but also with population growth is by no means clear.
- 2.5.** Local government is increasingly expected to be financially self-reliant through the generation of its own sources of funding primarily council tax and business rates. Whilst there is some local discretion on how these revenues can be raised locally, these are in essence national schemes with strict controls in place.
- 2.6.** The council tax scheme was introduced following the demise of the community charge in 1990. Council tax income is in effect the product of the number and type of dwellings; and, the council tax charge. The council tax charges can only be increased within permissible limits each year; these limits are set by government. Any authority wishing to increase its rate above the limit is required to undertake a referendum. Here at Barking and Dagenham, we are committed to keeping council tax increases as low as possible mindful of the financial burdens many households face, although the current working assumption is for council tax increases to continue at about 3% each year.
- 2.7.** Council tax income can be increased by increasing the number of dwellings in the borough, a key council priority for the borough. In essence, the more homes we create, the more revenue we obtain for core services, a win-win.
- 2.8.** In 2013/14, the government introduced a 50% business rate retention scheme, which meant councils could keep half of any additional business rates over a “baseline” figure as an incentive. Local authorities do not have any power to apply general increases in business rates in their area, subsequently business rates income grows essentially by promoting growth and increasing business space. A core council priority here at Barking and Dagenham.
- 2.9.** Since then, local pools have formed with many models in place to promote devolution. As a result, the business rates system is complex and varies across the country. For 2019/20, Barking and Dagenham is a constituent member of the London pool where 75% of business rates are retained. This precedes national plans to implement a 75% retention scheme from 2020/21. From next year, under current proposals however as part of the rollout of the 75% business rate retention scheme, the government intends to phase out core government funding and transfer new responsibilities to local authorities. The impact on Barking and Dagenham on this is unclear at this stage although indicative figures on the new model have been developed through an advisory group and these have been used to inform the MTFs projection.
- 2.10.** The ability to grow and raise business rates depends on the type and nature of businesses in the area and the attractiveness of the place for inward investment. In recent years, there has been a marked change in the nature of business with the government offering reliefs for certain business sectors such as retail and small businesses. Increasingly, the local government bodies are raising concerns over the longevity of this form of tax to fund local services.

3. Barking and Dagenham

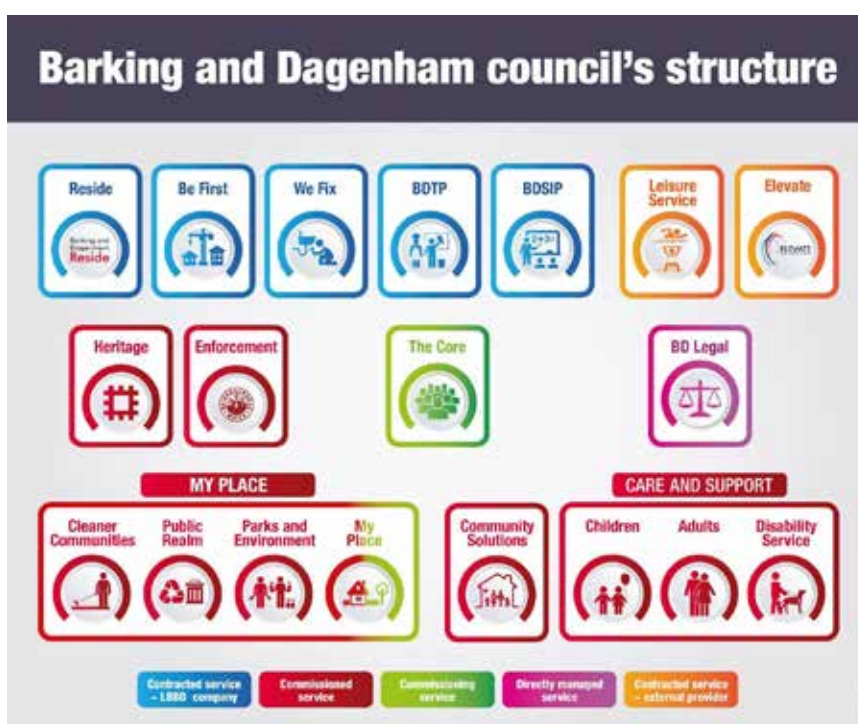
- 3.1. Barking and Dagenham is at a key moment in its history. London has grown unprecedently in the last 20 years and Barking and Dagenham is the next obvious growth point as London continues to move East. The Council's Growth Commission report entitled 'No-one left behind in the pursuit of growth' (2016) confirmed this and the borough has already started seeing growth accelerate in recent years. The Council has a unique opportunity to ensure growth is inclusive and leads to improved outcomes for residents, where no-one is left behind.
- 3.2. Over the past 15 years, Barking and Dagenham has become one of the fastest changing communities in Britain. Between 2001 and 2017 the population rose from 164,000 to 210,000 and is projected to rise to £275,000 by 2037. Within this overall increase is a picture of rapid movement of people. Between 2012 and 2014 approximately 50,000 new residents made the borough their home and roughly the same number left, meaning that – in line with the average London rate – the turnover was almost a quarter of the total population.
- 3.3. The population is also more diverse than 15 years ago. While the borough was previously predominantly White British, since 2001 the proportion of the population from minority ethnic backgrounds has increased from 15% to 50%. The population is also very young - the birth rate is the highest in London and we have the highest proportion of 0-16 years in the UK.
- 3.4. People in our borough are more likely to die earlier, have poorer health, and lower levels of education and skills, than across London. Too many are insufficiently skilled, too many are in low paid work, and too many struggle to find suitable homes that they can afford. Economic hardship combined with population diversification has challenged community cohesion in Barking and Dagenham.
- 3.5. In July 2017, Barking and Dagenham Together: The Borough Manifesto was launched. It was borne out of the Growth Commission recommendation to develop a long-term vision for the Borough, outlining how it will grow, prosper and be transformed into a place people are proud to live, work, study and stay. Over 3,000 residents came together to shape this shared, 20-year vision, which is owned and delivered by stakeholders from the public, private and voluntary sectors through the Barking and Dagenham Delivery Partnership (BDDP).
- 3.6. The targets set out in the manifesto are ambitious and require the Council along with its partners to play their part. The manifesto is structured around ten key themes:
 - ↘ Employment, Skills and Enterprise
 - ↘ Education
 - ↘ Regeneration
 - ↘ Housing
 - ↘ Health and Social Care
 - ↘ Community and Cohesion
 - ↘ Environment Priorities
 - ↘ Crime and Safety
 - ↘ Fairness
 - ↘ Arts Culture and Leisure.

3.7. The Corporate Plan 2018-22 sets out the Council’s contribution to deliver the Borough Manifesto, consolidating the progress made with the New Kind of Council and achieving real change for residents. The priorities focus on four key themes:

- ↳ A New Kind of Council – including building a well-run organisation, ensuring relentlessly reliable services and developing place-based partnerships
- ↳ Empowering People – including enabling greater independence whilst protecting the most vulnerable, strengthening services for all and intervening earlier
- ↳ Inclusive Growth – including developing an aspirational and affordable housing offer, shaping great places and strong communities through regeneration and encouraging enterprise and enabling employment.
- ↳ Citizenship and Participation – including harnessing culture and increasing opportunity, encouraging civic pride and social responsibility and strengthening partnerships, participation and a place-based approach.

3.8. Work is now underway to build on these themes and develop overarching strategies that allow the council to “turn the curve” to deliver sustainable change and achieve the mission that **by 2037, Barking and Dagenham residents have the same opportunities and life chances as others in the capital.**

3.9. The Council has made considerable progress in its transformation programme which has significantly changed the way services are delivered. This New Kind of Council (shown below) created a raft of new service blocks and companies to fundamentally change the way we deliver public services and meet the needs of residents. These companies are generating vital revenues, protecting jobs and intervening in private markets that are failing both local workers and the wider community. It will combine the enduring core values of the public sector, with the community involvement and flexibility of the voluntary sector, and the commercial mindedness of the private sector.



4. An overview of financial performance 2018/19

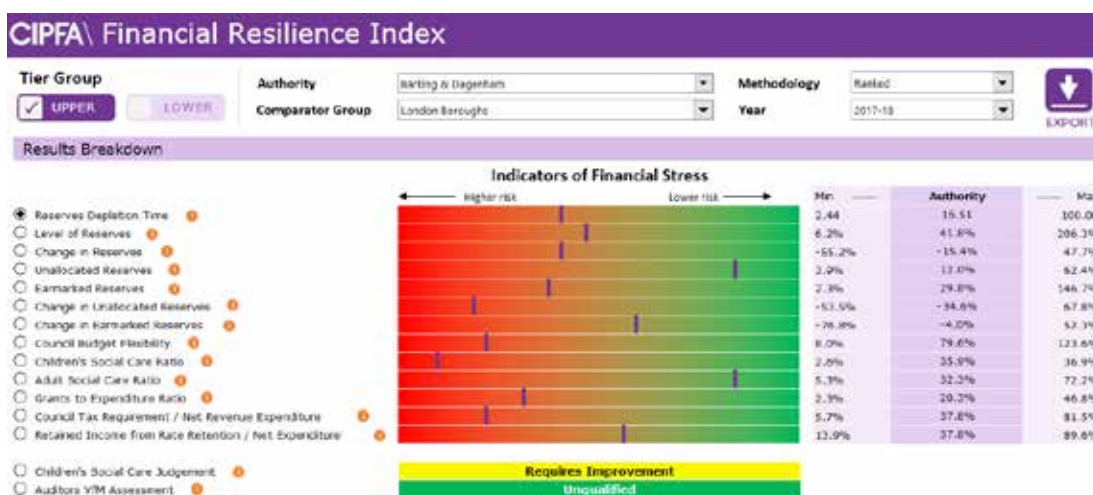
- 4.1. The overall end of year position for the general fund was an overspend of £2.9m, about 2% of the budget. Whilst this is an improved position from that presented in the monthly reports to Cabinet during the year, overspends are significant in the demand led services of Adults, Children's and Disabilities which together have an overspend of £9.9m in 2018/19. The impact of this increased demand to protect the most vulnerable and to provide the right support is expected to continue into the future years with some additional funding having been provided in 2019/20 as part of budget setting; with further increases to be considered as part of this MTFS.
- 4.2. Offsetting savings have been achieved through an improved position on the Collection Fund as we have received more council tax and business rates than we had expected of £3.4m. In addition, the Council had set aside a small contingency in the event of savings and income targets not being fully achieved of £3m; and also, slippage in the capital programme resulted in reduced financing costs.
- 4.3. The net overspend of £2.9m has been met by using the budget support reserve. At the end of the 2018/19, this reserve stood at £12.3m. Overall non ringfenced reserves increased during the course of the year by £2.7m and now stand at about £63m, equivalent to 43% of the budget.



5. Financial Resilience

5.1. During 2018, CIPFA introduced a Financial Resilience Index in the wake of the high-profile financial failure of one county council and following NAO³ concerns of heightened risks of more councils over the next four years falling into financial difficulty as a result of budget pressures. The CIPFA Resilience Index is not intended to provide comparative ranking of council's financial health but identify areas where the Council may come under financial stress. The Resilience Index focusses on key areas and the output is shown below:

- The overall level of reserves in relation to spend
- The rate at which reserves are being spent or run down
- The amount of budget that is demand led or fixed cost such as social care or debt repayment
- The council's ability to grow its own local sources of finance either through council tax or business rates

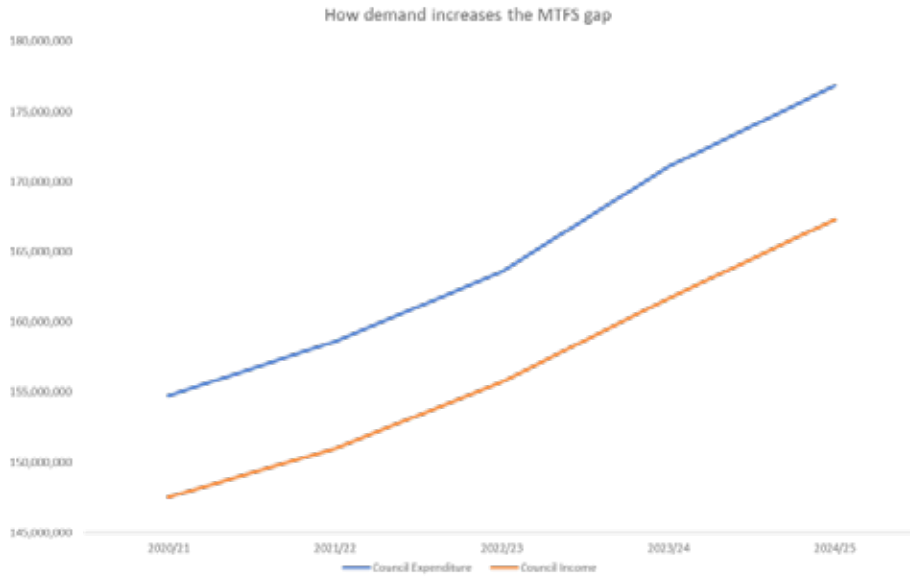


5.2. Fundamentally, an overall adequate level of reserves forms the bedrock of financial health providing a key buffer to deal with any shocks that may arise. The Council has increased non ringfenced reserves during 2018/19 by £2.7m, they now stand at nearly £63m. This includes general balances of £17m which remain unused, the current CFO view is general balances should be set at a minimum of £12m.

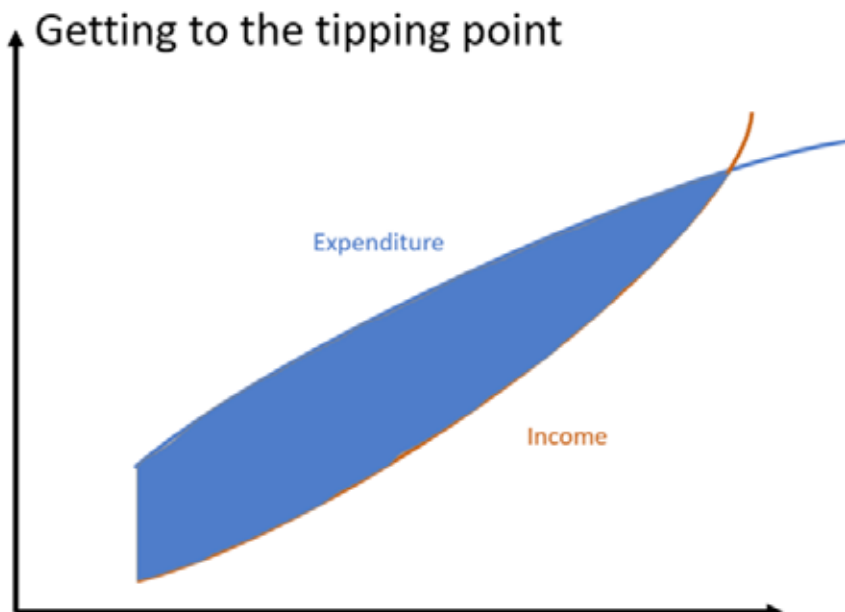
5.3. The Financial Resilience Index further strengthens our strategic intent of turning the curve though those priorities encompassed within the Borough Manifesto and Corporate Plan. The best way to deliver sustainable change and reduce demand led cost pressures is through an approach that delivers our objectives and mission to promote personal resilience, independence, and opportunity; and also, through the creation of a better place to live and work.

6. The Councils approach to sustainability

- 6.1. We recognise that the current trajectory given the reality of the national position cannot continue. In essence, if we continue as we are we will have a budget deficit each year as demand for services continues to outstrip any additional income we can generate. If we do nothing, as the graph below illustrates, we will continue to have financial pressures, effectively creating a downward spiral of circumstances in Barking and Dagenham the place, our people and our council, calling heavily on reserves:



- 6.2. The Council has created a set of strategic interventions through the borough manifesto, corporate plan and related frameworks that will in time enable the fulfilment of our ambition to improve life chances but will also deliver a strong financially resilient council. The Council aims to turn the curve and reach a place where demand led expenditure starts to fall and income starts to increase, a tipping point where the impact of austerity starts to be reversed and overcome.



- 6.3.** Until the tipping point is reached, a series of savings will be made to maintain an annually balanced budget, these could include options to review the way the budget has been constructed by reviewing base budgets and income streams but could include return on commercial activity and investments.
- 6.4.** If we accelerate the delivery of our Borough Manifesto and Corporate Plan, the tipping point can be brought forward earlier, if there is a delay to delivery the tipping point will be put back and further savings will need to be made.



7. Financial Forecast 2020/21 to 2023/24

Cost

- 7.1. A refreshed base financial position is summarised below. This reflects the current trajectory of unavoidable cost increases; service demands and strategic investment as well anticipated population and housing growth.

£m (in year)	2020/21	2021/22	2022/23	2023/24
Unavoidable costs	3.1	1.1	1.2	1.3
Pay and Price inflation	3.0	3.0	3.0	3.0
Service Demands	12.0	3.0	2.9	2.6
Strategic Investment	0.8	-0.1	-0.1	0
Total cost increases	18.9	7.0	7.0	6.9

- 7.2. Unavoidable cost pressures include the revenue impact of the capital programme, the ELWA levy as well as possible pension costs. With regard to pension costs, the local government pension scheme is currently under its three year (triennial) actuarial review with new contribution rates to be determined from 2020.
- 7.3. Pay award has been assumed at 2% per annum and the council currently runs with an average 5% vacancy factor. Price inflation has been included for contractual obligations only, such as the annual uplift on care provision.
- 7.4. We are seeing evidence of the growing impact of the rollout of universal credit on the borough, in particular affecting demand for our community solutions and housing services with growing homelessness requests. These are placing £1m pressure on the budget from 2020/21, along with the continuing demands that we have seen in previous years affecting demand for adults, children's and disabilities services of about £9m in 2020/21 and additional £2.1m thereafter. Further, to deliver sustained improvement within children's services, a new operating model to improve social work provision and practice requires an additional £1.5m from 2020/21. Finally, due to expected population growth in the borough we expect to see additional demand over the MTFS for public realm (refuse collection and street cleansing) of about £1m.
- 7.5. Strategic investment is required to pump prime the delivery of the strategic themes required as part of delivering the Borough Manifesto and Corporate Plan. These relate to investment in participation and engagement activity of about £0.4m in 2020/21 but reducing in future years and also investment on community safety and regulatory services of £0.4m from 2020/21.

Core Funding

- 7.6. A forecast position given the uncertainty in the national position for funding is shown below. In essence, the council tax forecast position is based on expected growth in housing over the MTFS period and an assumed general council tax increase of 3%, there are no assumptions factored into the funding forecast around social care precept.

- 7.7.** The forecast position with regard to business rates has been developed using the LG Futures model for a 75% business rate scheme. In this model, it has been assumed that certain grants such as winter pressures and social care grant will no longer continue.

£m (in year)	2020/21	2021/22	2022/23	2023/24
Additional Council Tax	-2.8	-2.9	-3.0	-3.0
Additional Business Rates/ Grants	2.3	-1.6	-1.7	-1.7
Total funding increase	-0.5	-4.5	-4.7	-4.7

Transformation

- 7.8.** Since 2016/17, the council has made significant progress in its transformation to create a New Kind of Council. The current transformation programme includes savings of £48.8m between 2016/17 and 2020/21. We have now delivered over £28.5m up to the end of 2018/19 and expect to deliver £7.6m during 2019/20 and a further £12.6m in 2020/21.
- 7.9.** The transformation programme is wide ranging. The most significant area for further transformation during 2020/21 is the improvement to the core functions of the Council and the transfer of the Elevate services inhouse. This is expected to deliver total transformation savings of £4.3m in 2020/21. Be First, a wholly owned council company is expected to contribute a further £2.2m in 2020/21 along with an additional £1.4m from the Investment and Acquisition strategy. Savings within demand led services are also expected through £1.5m in Children's and £0.3m in Disability services. Whilst work is progressing to deliver the previously approved transformation programme, the urgency will need to be maintained to ensure that these savings are delivered in a timely way. Programme governance arrangements are in place to ensure oversight and ensure pace and visibility of progress.

Gap analysis

- 7.10.** The Council aims to turn the curve and reach a place where demand led expenditure starts to fall and income starts to increase, a tipping point where the impact of austerity starts to be reversed and overcome. To get us to that position, several short-term interventions are required. These include developing commercial investments that will deliver investment income over the medium term and additional returns from our wholly owned companies. The delivery of these is already in hand. Further technical changes particularly around some of our treasury management and accounting policies are also being reviewed and can be adopted too.
- 7.11.** The potential gap position before any new savings is shown below. This is based on our latest understanding of the current financial planning position:

Gap in year £m (in year)	2020/21	2021/22	2022/23	2023/24
Cost increases	18.9	7.0	7.0	6.9
Funding increases	-0.5	-4.5	-4.7	-4.7
Approved transformation	-12.6			
Commercial and technical	-1.0	-6.2		
Gap in year	4.8	-3.7	2.3	2.2

7.12. There is the potential for changes in the financial planning assumptions used and the gap may be affected as follows:

- Every 1% change in pay award will impact the position by about £1m, either up or down;
- Every 1% fluctuation in business rates income will add or reduce about £0.6m.
- Every 1% change in council tax increases will add or reduce about £0.7m.



8. Our approach to balancing the budget over the medium term 2020/21 to 2023/24

8.1. Our approach to balancing the MTFs over the period as shown below will be through three routes:

- ✘ Savings that will be generated to get us to the tipping point of sustainable growth, a short-term bridge;
- ✘ Delivery of the strategic mission and corporate plan priorities that turn the curve sustainably for the long term;
- ✘ The prudent use of reserves to bridge funding shortfall and give capacity to the delivery of corporate plan priorities.

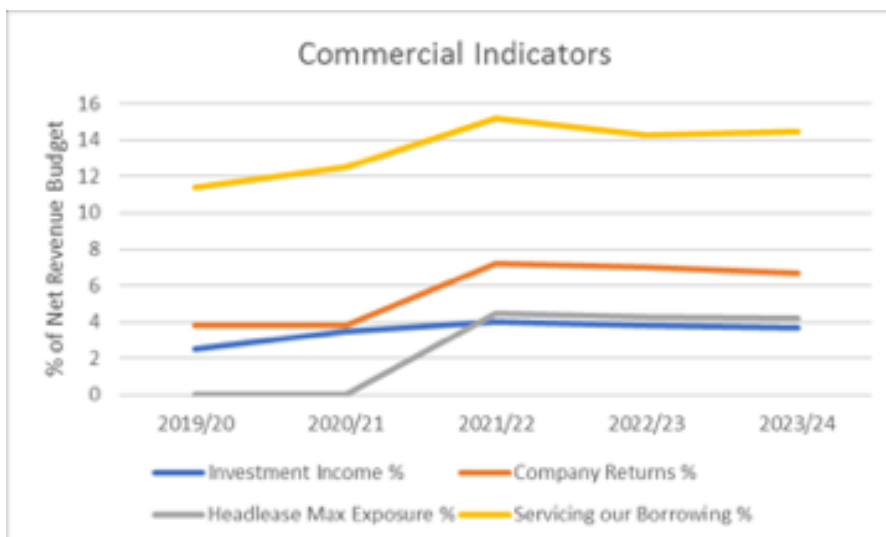
£m	2020/21	2021/22	2022/23	2023/24
Gap in year (- headroom)	4.8	-3.7	2.3	2.2
Getting to the tipping point	-1.6			
Turning the curve			-2.0	-2.0
Cumulative Gap	3.2	-0.5	-0.2	0
To (+) From (-) Reserves	-3.2	0.5	0.2	0

9. Reserves policy 2019/20 to 2023/24

- 9.1. Reserves can be classed as general reserve or earmarked reserves and they represent funds that are not part of the normal recurring budget but are distinct “pots” of finite funds.
- 9.2. The level of reserves is a key component of a robust and prudent medium-term financial strategy ensuring that funds are set aside for a specific purposes or can be called upon to provide a buffer in the event of any unforeseen financial pressure. They are in effect the “shock absorbers” of the council’s finances and are the last line of defence to ensure resilience.
- 9.3. The council has a statutory duty under the Local Government Finance Act 1972 to determine the level of General Fund balances and reserves it maintains before it decides on the level of council tax. The level of balances should be based on the council’s own specific circumstances taking into account the risk exposure of the Council.
- 9.4. General reserves are set aside to provide an emergency fund for exceptional circumstances. This fund has recently been reviewed and assessed as having a minimum requirement of £12m. This money is set aside as a fund of last resort when all other reserves or budgets have been depleted. Currently, the council has some £17m in this reserve.
- 9.5. Other earmarked reserves are held for specific purposes. Some reserves such as dedicated schools grant are held for statutory purposes outside the direct control of the Council. Other non-ringfenced reserves are held for strategic purposes or to support operational delivery of services. For us, the key strategic reserve is the budget support reserve, which is intended to even out fluctuations year on year in the council financial performance. The use of this reserve is overseen by the CFO.
- 9.6. The day to day running of operational reserves is managed by the relevant budget holder under council delegation arrangements. These cover a wide range of activity – from elections, to replacing IT, to having an insurance fund.
- 9.7. Reserves should not be used to pay for continuing expenditure but are available as funding for one off items, invest to save initiatives or to provide time-limited support to manage transition.
- 9.8. As part of the Council’s review of risk and recognising the increasing commercial environment the Council is embarking on, an additional investment risk reserve is proposed to be created once the council has entered into commercial investment arrangements, this would be of a size to ensure risks are mitigated.
- 9.9. The forward forecast of reserves is maintained by the CFO. Using assumptions on certain investment decisions and no continuing budget pressures emerging during 2019/20, the Council anticipates the budget support reserve being no lower than £8m over the MTFS period with the general fund balance being maintained at £17m.
- 9.10. A more adverse budget position in 2019/20 could see the budget support reserve being exhausted by the end of 2020/21 and requiring top ups from the General Fund in 2021/22. This adverse position however will not result in the minimum level of general fund balance being breached during the MTFS.

10. Using our balance sheet

- 10.1.** In recent years, and in responding to government funding reductions, some authorities have sought to replace lost revenues by taking a more commercial approach defined as “undertaking activities which involve risk with the expectation of generating additional income or capital gain.”
- 10.2.** As a result, there has been some concern nationally by government over the extent to which councils are taking long term risks and whether the extent of commercial activity is proportionate. In response, the government revised its guidance to local authorities on investments in early 2018.
- 10.3.** Concerns over local authorities’ extent of borrowing in advance of need to invest into property for commercial gain has prompted a NAO inquiry into local government practice. The findings are awaited.
- 10.4.** The Council understands these concerns and recognises the need to put in place additional controls and indicators that complement the existing prudential indicators contained with the treasury management strategy statement. These provide extra safeguards and inform the extent of stress on the revenue budget. These new metrics will be factored into a revised TMSS and are intended to support an overall judgement on the balance of risks, they include:
- ✘ The proportionality test of how much commercial income we receive both from our council owned companies and from our Investment and Acquisition Strategy in relation to other income;
 - ✘ The maximum risk exposure arising from head lease or income strip deals. These are arrangements where the Council acts as an intermediary between an operator and investor to obtain a return;
 - ✘ The cost of servicing borrowing levels. This includes the Minimum Revenue Provision (revised) and interest payable for the debt in relation to general fund activity.
- 10.5.** The current trajectory of our commercial activities suggests the impact on our revenue budget as shown. The biggest impact being the overall level of borrowing, which is expected to peak at 15% in 2021/22:



- 10.6. Significantly to mitigate against commercial risk, the Council will be creating a new investment risk reserve, which will be proportionate to the extent of risk and possible loss on returns or head lease arrangements.
- 10.7. In addition, to further understand the extent of borrowing in relation to revenue budget, the non HRA Capital Financing Requirement is shown below:

Non HRA	2019/20	2020/21	2021/22	2022/23
CFR £m	584	790	924	874
Ratio of CFR to NRE	3.9	5.3	6.2	5.9

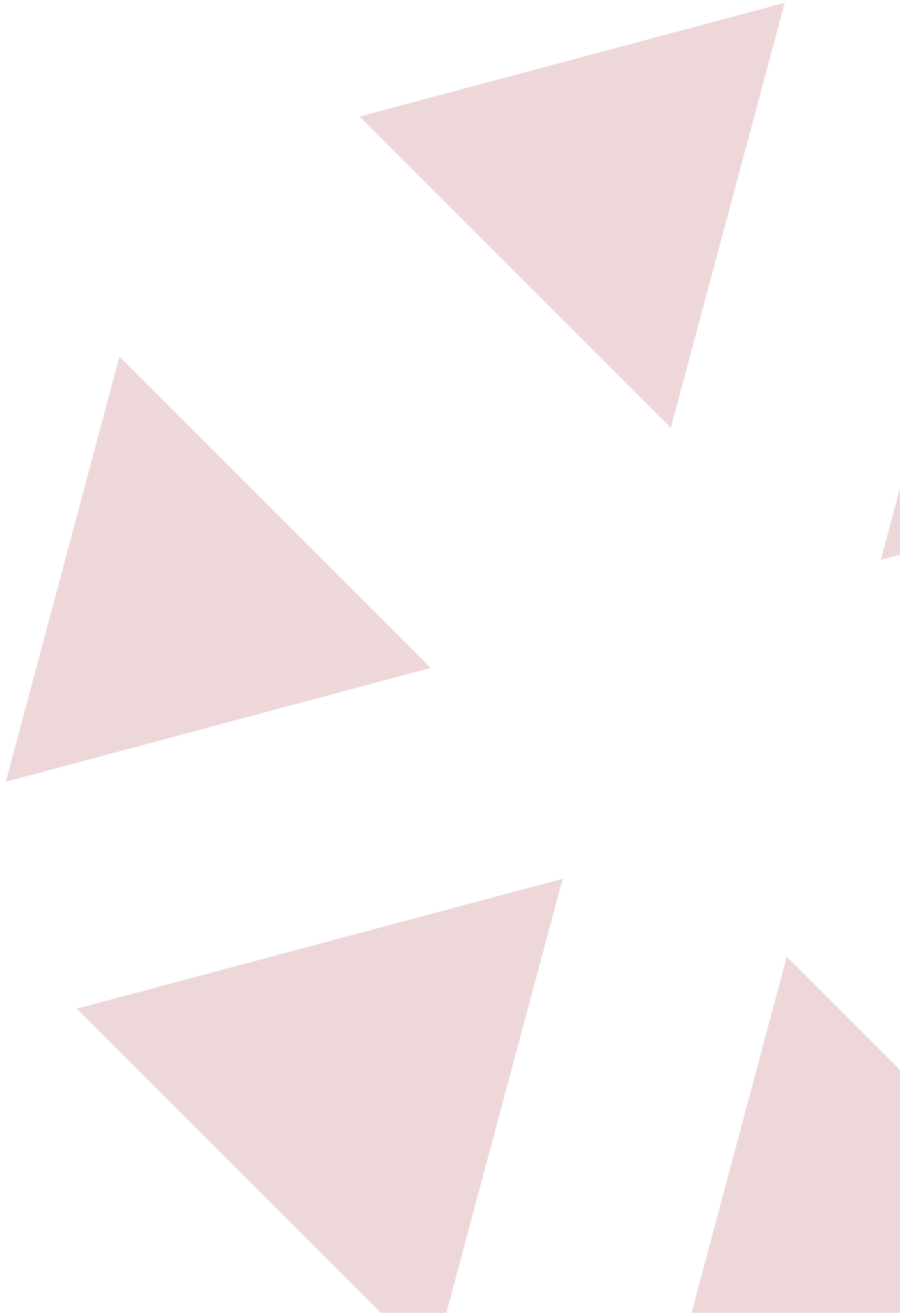


11. Risks

11.1. Significant risk areas to this MTFS are:

Risk	Mitigation	Assessment
Funding uncertainty given the SR 2019, Fair Funding Review and 75% business rates scheme	<p>To horizon scan and maintain intelligence on national developments seeking to influence the debate</p> <p>Maintain an up to date rolling MTFS</p> <p>Refresh gap analysis along with saving plans</p>	HIGH
Delivery of the approved transformation programme	<p>Ensure effective programme management to ensure timely delivery</p> <p>Appropriate governance oversight and corrective action where necessary</p>	HIGH
Achievement of the Borough Manifesto to turn the curves	<p>Development of strategic frameworks with SMART deliverables. That will deliver the budget targets, perhaps with rapid result measures to expedite or early implementers to stress test.</p> <p>Alternative savings to be found in the event of delay</p> <p>Governance arrangements to monitor progress</p>	HIGH
Commercial risk	<p>Effective due diligence on new commercial investments</p> <p>Robust appraisal of company business plans and returns</p> <p>Adequacy of reserves as a back stop</p>	MEDIUM

Risk	Mitigation	Assessment
Growing demand	<p>Assumptions have factored into the MTFS demand increases in line with current demands and anticipated population growth.</p> <p>Exceptional demands will require spending control within department or against corporate items</p> <p>Use of departmental or budget support reserve</p>	MEDIUM
Interest rate exposure	Council borrowing currently all fixed rate	LOW
Company buy back of support services	Up to date the MTFS, reduce marginal costs	LOW
Council tax – tax base and increase	Monitor tax base returns plus government capping rules and refresh MTFS	LOW



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