

CABINET

18 December 2019

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| Title: Update on Budget Strategy 2020/21 to 2023/24 | |
| 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, Director of Finance | |
| Accountable Strategic Director: Claire Symonds, Chief Operating Officer | |
| Summary <p>On 16 July 2019 (Minute 30), the Cabinet approved a refreshed Medium Term Financial Strategy (MTFS) for 2020/21 to 2023/24. This showed how the delivery of a strategy for better outcomes goes hand in hand with organisational financial health and was prepared recognising the financial uncertainty facing the sector. The MTFS offered a framework to close the budget gap ensuring resources are aligned to the Borough Manifesto and corporate plan. This report builds on that strategy and provides an update taking into account the Autumn 2019 Spending Round and other information which has increased the level of uncertainty throughout the public sector.</p> <p>The next full multi-year Spending Review has been delayed by other Government business and instead, in September, the Chancellor of the Exchequer carried out a one-year Spending Round. This included headline information on the funding for Local Government. The current Local Government funding settlement comes to an end at the end of this financial year. There is an in-depth review of Local Government funding currently underway based on the principles of business rates retention and self-financing and including an updated distribution formula for needs-based funding. However, the full review has also been delayed by other Government business and as an interim measure we are expecting a one year settlement for 2020/21.</p> <p>At this stage only high level indicative information has been released and further announcements will necessarily be delayed until after the General Election effectively until late in December. This will be subject to consultation and the final settlement will only be confirmed in January. The funding assumptions for 2020/21 have been now revised to reflect the latest information but are likely to require further revision.</p> <p>It is in this context that the report updates Cabinet on changes to the Council's medium term financial position since July 2017. It sets out how the remaining 2020/21 gap may be resolved and the implications for services and council tax-payers in the borough.</p> | |

Recommendation(s)

The Cabinet is recommended to:

- (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 2% Social Care Precept to support the Borough's most vulnerable residents;
- (iv) Note that London authorities are currently exploring the possibility of a further business rates pooling arrangement and approve, in principle, that the Council should join such an arrangement if deemed appropriate; and
- (v) Delegate authority to the Chief Operating Officer, 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

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 as the Council is coming to the final stages of its ambitious 2017-21 strategic transformation and savings programme. This programme 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 and 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.
- 1.2 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.
- 1.3 However, despite the massive progress and significant savings delivered to date, there is still further work to be done and there is now further uncertainty as to the Government's intentions on funding.
- 1.4 As set out in July, after the delivery of the remaining £20m 2019/20 and 2020/21 savings, once funding changes and growth are taken into account there is still a budget gap that must be closed over the next four years. The MTFs brought

together anticipated demands and pressures and set out how the Council will ensure a balanced medium-term position, and although the Council is building on its transformation work and is confident of the benefits this will bring, it is acknowledged that the level of uncertainty with regard funding outside of the Council's control is growing.

1.5 This report provides an update on this funding gap 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. As at **Sept 2019**, £23.8m of this had been delivered as shown in the table below:

| £'000 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | Total | % of Target |
|---|--------------|--------------|---------------|----------------|----------------|----------------|---------------|
| Agreed MTFS | 270 | 8,085 | 20,185 | 7,588 | 12,696 | 48,824 | |
| Delivered | 735 | 8,341 | 15,115 | (721) | 299 | 23,769 | 48.7% |
| Low Risk | | | 1,329 | 2,895 | 620 | 4,844 | 9.9% |
| Medium Risk | | | 335 | 6,531 | 6,792 | 13,658 | 28.0% |
| High Risk | | | | 3,052 | 5,163 | 8,215 | 16.8% |
| To Be Confirmed | | | | 31 | 400 | 431 | 0.9% |
| Total Forecast | 735 | 8,341 | 16,779 | 11,788 | 13,274 | 50,917 | 104.3% |
| In Year Net Shortfall / (Excess) | (465) | (256) | 3,406 | (4,200) | (578) | (2,093) | (4.3%) |
| Cumulative Shortfall / (Excess) | (465) | (721) | 2,686 | (1,514) | (2,093) | (2,107) | |
| Cumulative - exc Investment Strategy | (77) | 569 | 4,987 | 634 | 71 | 6,184 | |
| Proposed Write-Off | | | | | | | |

2.2 The table shows an overachievement of savings which reflects the above target performance of the Investment strategy in 2018/19. This income has been taken to a smoothing reserve as a mitigation against risk and to cover potential future shortfalls. If this income is excluded from the totals then the overall position is broadly on balance across the four years of the programme.

2.3 The above summary shows that of the £49m MTFS savings target:

- 16.8% (£8.2m) of all savings are high risk. This is 32.5% of all the savings yet to be delivered. A further 1% (£0.431m) are still to be confirmed – largely within Children's Services.
- 56% of the total programme savings have been delivered with a further 9.9% being deemed low risk.
- The medium and high risk savings in 2019/20 are largely shown as not delivered in our budget monitoring forecast and are contributing (along with other factors) to the in year overspend.

2.4 The not yet delivered savings from 2018/19 represent the contribution of the companies where there are still ongoing discussions about how this can flow back

to the council. Income from dividends are likely to flow back one year in arrears which may mean that the profiling of savings will need to be revised.

- 2.5 Although there are challenges in the delivery of the remaining savings, the progress to date must be acknowledged as a considerable achievement. However, the delivery of the remaining £25m is essential to the balancing of the budget in 2020/21 and beyond.
- 2.6 The 2020/21 savings (£12.696m) are made up as follows:

| MTFS savings | 2020/21 |
|------------------------------------|----------------|
| | £000 |
| Be First | 2,247 |
| Children's | 1,461 |
| Community Solutions | 970 |
| Core & Elevate Exit | 4,281 |
| Customer Experience and Digital | 310 |
| Disabilities | 250 |
| Heritage & Culture | 25 |
| Home Services | 740 |
| Investment & Acquisitions | 1,392 |
| Leisure | 91 |
| Parks Commercialisation | 300 |
| Public Realm | 164 |
| My Place including Street Lighting | 329 |
| Traded Services | 136 |
| | 12,696 |

3. The MTFS for 2020/21 to 2023/24

- 3.1 The MTFS approved by the Cabinet in July 2019 included an estimate of the unavoidable service and corporate cost pressures expected over the next four years, a forecast of the funding changes and some technical adjustments including changes to Minimum Revenue Provision (the mechanism for repayment of capital). This resulted in a short term gap in 2020/21 and a longer term gap over the four years as shown in the table below.

| £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 | 3 | 3 | 3 |
| Service Demands | 12 | 3 | 2.9 | 2.6 |
| Strategic Investment | 0.8 | -0.1 | -0.1 | 0 |

| £m (in year) | 2020/21 | 2021/22 | 2022/23 | 2023/24 |
|----------------------------------|-------------|-------------|-------------|-------------|
| Total cost increases | 18.9 | 7 | 7 | 6.9 |
| Additional Council Tax | -2.8 | -2.9 | -3 | -3 |
| Additional Business Rates/Grants | 2.3 | -1.6 | -1.7 | -1.7 |
| Total funding increase | -0.5 | -4.5 | -4.7 | -4.7 |
| Approved transformation | -12.6 | | | |
| Commercial and technical | -1 | -6.2 | | |
| Gap in year | 4.8 | -3.7 | 2.3 | 2.2 |

3.2 The proposed strategy for filling the gap was 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.

3.3 This required a short term drawdown on reserves and longer term initiatives to contain demand and increase growth.

| £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 |

4 Government Funding Changes

4.1 The 4-year funding settlement agreed with the Government expires at the end of the current financial year. Acknowledging this, the Government had previously announced that a spending review would take place in Autumn 2019 which would set out its spending plans for the next 3 years (2020/21 to 2023/24). However due to the government's focus on other legislative agendas, on 4th September 2019, the Chancellor of the Exchequer announced a one-year only Spending Review for 2020/21, pushing the detailed spending review back to 2020 with a new national funding formula commencing on 1st April 2021. The move to the 75% national business rates retention is also pushed back to 1st April 2021. The changes announced and the impact for the Council are summarised below:

- **Council Tax**

The Government's intention is to consult on a main Council Tax referendum threshold of 2 per cent in 2020-21 rather than the current level (3 per cent). This has the potential to reduce council tax income collected by the council by £0.6m. The Government's intention is also to consult on a 2 per cent Adult Social Care precept which will be worth £1.3m of additional income to the council.

The recommendation of the Chief Financial Officer is that the Council should take advantage of the full 4% ensuring that the Adult Social Care element is passported through to the relevant services in full.

- **Social Care Funding**

The Chancellor pledged £1bn for social care through a new grant. This is in addition to the £1.6m social care grant announced in 2019/20 and the £0.9m winter pressures grant. The government is finalising the methodology on distribution, and initial forecasts show the award will be in the region of £3.8m to £4.3m. This funding will be used to fund the growth already agreed for Care and Support.

- **Better Care Grant/Improved Better Care Grant**

As part of the government's 2015 Spending review, an initial tranche of Better Care Fund was allocated; with another tranche in the Chancellor's 2017 Spring Budget. This funding has been utilised to support continued investment in adult social care. The Improved Better Care Fund funding will continue at 2019-20 levels. The proposed BCF/iBCF is worth over £9m to the council. The Winter Pressures grant (£0.9m) will be rolled into the iBCF in 2020-21. However, these funds were already assumed within the July MTFS report and so is not a gain.

- **Public Health Grant**

The Public Health Grant will increase by around £100 million nationally (over 3 %). The grant to the Council is worth approximately £16.8m, which is an £0.4m increase from 2019/20. The grant had continued to be reduced from 2015/16 to date. This is a ring fenced grant and so changes do not affect the wider budget position of the Council.

- **New Homes Bonus**

As part of our roll-forward settlement the Government proposes to retain the £900 million top-slice of Revenue Support Grant to fund New Homes Bonus payments in 2020-21. In addition to funding legacy payments associated with previous allocations, the Government is minded to make a new round of allocations for 2020-21. Indicative allocation for 2020-21 is £2m (£3.5m in 2019/20).

The Government will retain the option of adjusting the baseline in 2020-21 to reflect significant additional housing growth and spending limits. The Government will set out proposals on the baseline for 2020-21 at the provisional settlement alongside any new allocations. Any funding intended for New Homes Bonus payments in 2020-21 that is not used for this purpose will be returned to local government.

It is the Government's intention to look again (and consult) on the New Homes Bonus and explore the most effective way to incentivise housing growth. As the roll forward is for one year, with any funding beyond 2020-21 subject to the 2020 Spending Review and potential new proposals, any new allocations in 2020-21 will not result in legacy payments being made in subsequent years on those allocations.

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.

- **Homelessness/Housing**

Additional funding of £54 million to reduce homelessness and rough sleeping was confirmed nationally as well as £40 million of new funding for Discretionary Housing Payments. Individual council allocations have not yet been announced but are expected early December with the final provisional being announced late January 2020.

5. Business Rates Pooling 2020/21

- 5.1 The Council is currently part of the London-wide business rates pilot 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%. It had been assumed the pilot would be further extended into 2020-21 due to the spending review being pushed back. However, the government has just recently announced it will be terminating the London pilot. Currently London Councils is working with London authorities to set up a new London pilot based on the original 67% rates retention scheme. Overall the impact of the changes to the business rate scheme is forecast to be a pressure of about £4m in 2020/21.
- 5.2 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 showed that London authorities can work together in this way.

6 Other Pressures

- 6.1 As at the end of September the forecast expenditure in the General Fund was £158.352m against a budget of £148.820m. This equates to a gross General Fund overspend of £9.5m, before Collection Fund and Business rates surpluses are added which then puts the overall variance in the region of £7m.
- 6.2 As at the end of 2018/19 the budget support reserve stood at £12m. £4m of this however, has been earmarked to fund Transformation Programmes in this year. This would mean that this year's overspend could be covered from this reserve. However, this would deplete this reserve leaving only the unearmarked General Fund reserve of £17m to cover future overspends. It may also leave a gap in the Transformation funding in future years (unless additional capital receipts are obtained.)
- 6.3 Although the reduction in reserves in 2019/20 is foreseen and can be contained, it is not desirable and will limit our future ability to respond to unforeseen events or

invest in the borough. If this level of expenditure continues into next year it would exceed the funding plans set out in our Medium Term Financial Strategy and so would require the identification of further savings or income in order to set a balanced budget. For these two reasons, the overspend must not be allowed to continue to grow and serious consideration needs to be given to possible remedial measures.

- 6.4 In summary, the council is monitoring the 2019/20 position closely with the intention of reducing the forecast overspend proactively to limit impact on the budget support reserve and to seek ways in which the budget support reserve can be restored wherever possible. In this way, the Council will be best placed to maintain longer term capacity to achieve its strategic ambitions for the borough.
- 6.5 The MTFS as presented in July already contained growth allocations to services that were particularly under pressure. These are as follows:

| Service Pressures and Growth | 2020/21 £000 |
|-------------------------------------|-------------------------|
| Public Realm | 400 |
| Children's TOM | 1,500 |
| LAC/Care | 3,000 |
| Adults | 3,000 |
| Disabilities | 3,000 |
| Community Solution | 260 |
| Participation and Engagement | 400 |
| London Fraud Hub | 70 |
| Community Safety | 150 |
| Legal services | 240 |
| Welfare Reform Impact | 800 |
| TOTAL | 12,820 |

- 6.6 This growth addresses some of the underlying financial pressures and will close the budget gap. However, in light of the budget monitoring pressures outlined above a further £2m has been allocated into the MTFS.

7. Updated Budget Position

- 7.1 Taking into account all the factors outlined above the revised budget gap for next year is set out below.

| 2020/21- SR update | £m | £m |
|-------------------------------------|------|----------|
| Gap (July Cabinet) | | 1.6 |
| Impact 2019/20 | | |
| Reserve add back | 3.2 | |
| Possible continuing care demand | 2.0 | 5.2 |
| Spending Round 2020/21 | | |
| Grants (social/winter) | -6.3 | |
| Impact of changes to Business Rates | 4.1 | |
| Council Tax Increase | 0.6 | |
| ASC precept | -1.2 | -2.8 |
| Technical changes | | |
| MRP | -0.5 | |
| Collection Fund surplus | -1.0 | |
| Commercial returns | -2.5 | -4.0 |
| Expected position | | 0 |

7.2 The current position is an expectation of a balanced budget for 2020/21 although external uncertainties may affect this position closer to budget setting and it will be kept under review following the announcement of the local government finance settlement.

8. Capital Programme

8.1 The MTFs includes provision to fund a small corporate capital programme for operational requirements. The total pot available however has been cut to £5m (from £10m in previous years.) 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 2020/21 and following years.

9. Proposed consultation process

9.1 There are no new savings proposals so this year and no new changes to public facing services. There is therefore no explicit requirement to consult on these proposals. Where services have specific changes to introduce, they will need to carry out the appropriate consultation for those initiatives.

9.2 However, we are interested to hear our residents' views on the proposed social care precept. 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 commence in the new year.
- Face to Face events to which representatives of the business community and the voluntary sector will be invited.

9.3 Cabinet will be asked to approve the 2020/21 budget on 17 February 2020 with Assembly being asked to formally approve on 26 February 2020.

10. Financial Implications

Implications completed by Katherine Heffernan Group Manager service Finance

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 proposed savings.

Public Background Papers Used in the Preparation of the Report:

LBBB Medium Term Financial Strategy and Use of Reserves Policy

<https://modgov.lbbd.gov.uk/internet/documents/s132585/MTFS%20Reserves%20Policy%20Appendix%20A.pdf>

List of appendices: None.