

CABINET

14 December 2021

Title: Budget Strategy 2022/23 to 2025/26	
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, Chief Financial Officer	
Accountable Strategic Leadership Director: Claire Symonds, Managing Director	
Summary <p>On 13 July 2021, the Cabinet approved a refreshed Medium Term Financial Strategy (MTFS) for 2021/22 to 2025/26. It showed how the delivery of a strategy for a 'New Kind of Council' goes hand in hand with organisational financial health. It was prepared recognising the financial uncertainty as a result of the COVID-19 pandemic and from uncertainty facing the sector in light of plans to delay fair funding reforms and 75% business rates retention until 2023/24 at the earliest, whilst taking into account anticipated demands and pressures.</p> <p>This report builds on that strategy and provides an update. Following the Spending Review and the Budget by Government in October there is an expectation of a three year funding settlement from 2022/23 onwards. There is significant uncertainty surrounding the allocation of funding from Government on an individual borough basis which will be clarified at the publication of the draft Local Government Finance Settlement in December.</p> <p>It is in this context that the report updates Cabinet on changes to the Council's medium term financial position. It sets out how the remaining 2022/23 financial gap may be resolved and the implications for services and Council Tax payers in the borough.</p>	
Recommendation(s) <p>The Cabinet is recommended to:</p> <ul style="list-style-type: none">(i) Note the continued commitment to delivering the savings proposed in the MTFS reports approved by Assembly in February 2017 and updated in subsequent years;(ii) Note the new proposed savings and growth proposals put forward for 2022/23 onwards, as set out in Appendix 1 to the report, prior to inclusion in the Budget Report in Spring 2022;	

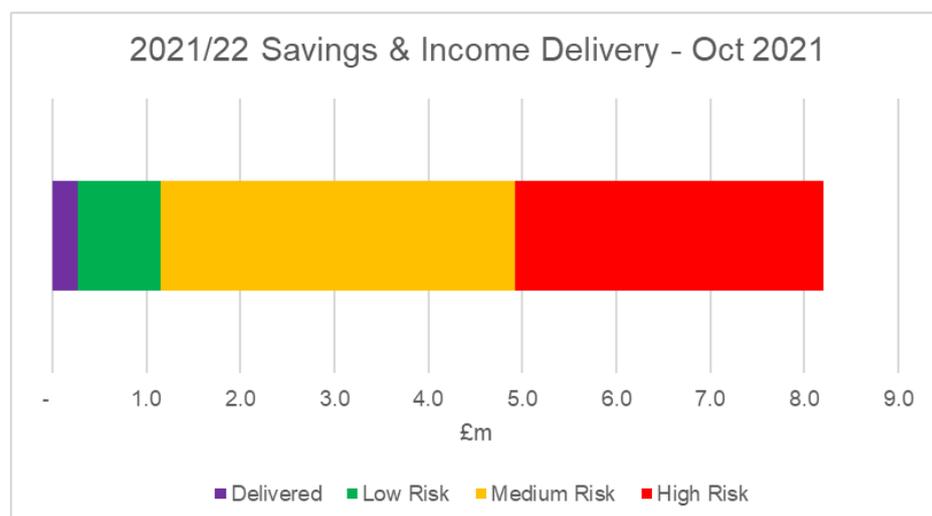
- (iii) Agree the proposed consultation process for the budget, as set out in section 9 of the report; and
- (iv) Agree to consult Borough residents and taxpayers on the levying of a 2% General Council Tax increase and a 1% Social Care Precept to support the Borough's most vulnerable residents, subject to these thresholds being confirmed.

Reason(s)

The setting of a robust and balanced Medium Term Financial Strategy will enable the Council to provide and deliver services within its overall corporate and financial planning framework. The Medium Term Financial Strategy underpins the delivery of the Council's vision of One borough; one community; no one left behind and delivery of the priorities within available resources.

1. Introduction and Background

- 1.1 This report sets the context for the future financial position for the London Borough of Barking and Dagenham. The Medium Term Financial Strategy (MTFS) is a statement on the council's approach to the management of its financial resources to meet its Corporate Priorities. The MTFS also considers the appropriate level of reserves that the Council holds to mitigate current and longer term risks.
- 1.2 A number of the original Ambition 2020 savings remain outstanding where implementation has been delayed as a direct impact of the COVID-19 pandemic. These savings are included in 2021/22 budgets and we expect these to be delivered.
- 1.3 There are in-year savings of £8.210m included in the 2021/22 budget. Of these savings, £2.641m are new savings approved in the MTFS, £5.033m are unachieved Ambition 2020 savings brought forward from previous year(s) and £0.536m are Transformation programme savings in Care and Support. £4.799m of 2021/22 savings depend on efficiencies and cost reductions and £3.411m are dependent on new or increased income.



- 1.4 In July 2021, Cabinet approved an updated MTFs for 2021/22 including an indicative forward forecast for future years. This identified a cumulative savings gap of £25.1m during the MTFs period from 2022/23.
- 1.5 The wider context within which this update has been prepared is one of unprecedented uncertainty. The financial sustainability of the whole of Local Government has been tested like never before in the response to the COVID-19 pandemic. This Council has stepped up to provide support to the most vulnerable members of the community as they have shielded from COVID-19 whilst continuing to deliver a full range of services to our residents and businesses.
- 1.6 There have been significant cuts over several years to revenue support grant from the Department for Levelling Up, Homes and Communities (DLUHC) (previously the Ministry of Housing, Communities and Local Government (MHCLG)) which, combined with increasing demographic and demand led pressures and the continuing cost of COVID-19, result in the need to identify savings and transformation proposals to deliver a sustainable MTFs.
- 1.7 The Government published their Spending Review and Budget on 25 October 2021. This set out the spending limit for DLUHC for the next 3 years with a number of policy and funding announcements related to local government.
- 1.8 DLUHC are in the process of allocating funding to individual local authorities and these allocations will be published in December 2021. The draft Local Government Finance Settlement will provide the basis on which the detailed budget for 2022/23 is prepared for approval by Assembly on 2 March 2022.
- 1.9 DLUHC are expected to confirm when funding reforms will be introduced (the Review of Relative Needs and Resources (Fair Funding) and business rates retention). These reforms are expected to be a benefit to the council when introduced. They were due to be introduced in 2020/21 following the previous four-year funding settlement. These reforms have now been delayed until 2023/24 at the earliest. The council has therefore lost the financial benefit from these reforms in 2020/21, 2021/22 and 2022/23 resulting in a wider savings gap in these financial years.
- 1.10 The approach of the Council continues to be to invest in the borough to generate growth and prosperity, while redesigning and transforming council services to meet the needs of the community at a lower cost.
- 1.11 This report provides an update on the funding gap within the MTFs and potential routes to close it.

2 The Barking and Dagenham MTFs from 2017/18

- 2.1 The 2017-21 Ambition 2020 Transformation Programme identified £48.8m of savings to be delivered over the four years of the programme. 2020/21 was due to be the fourth and final year of the original Ambition 2020 savings and transformation programme, however £5.033m of the savings have been rolled forward into 2021/22 mainly as a result of COVID-19 delaying the delivery of savings as officers concentrated their efforts on responding to the pandemic.

- 2.2 The total delivered so far is £43.767m leaving £5.033m so far undelivered and built into 2021/22 budgets. The savings to be delivered were already high risk even before the COVID-19 situation arose and the response to the pandemic has considerably worsened the situation. A small number of savings have been assessed as impossible and were written off as part of the budget setting process in March 2021.
- 2.3 The progress of the delivery of approved savings is reported in the regular budget monitoring reports to Cabinet. Any savings that are not delivered in full will result in an overspend and an increased drawdown on reserves.
- 2.4 The delivery of agreed savings is essential to deliver a balanced budget for 2022/23 and beyond. Where agreed proposals are deemed to be unachievable these should be replaced with alternative proposals by the service responsible, subject to Cabinet approval.

3 COVID-19

- 3.1 The COVID-19 pandemic occurred after many years of financial pressures for local authorities. Even without COVID-19 there were underlying overspends or pressures in a number of areas, some of which worsened during the pandemic. There has been significant financial turmoil from many different aspects of their local roles, both from the delivery of services and as a conduit for central government to support local businesses.
- 3.2 The current expectation remains that there will no further Government support beyond what has been announced for 2021/22 through direct grants or sales, fees and charges income guarantees. The extended lockdown period during 2021/22 increased the latent demand for services and financial pressure within the borough. In particular, the rate of unemployment within the Borough is now the highest nationally and now that the furlough scheme has ended there is a risk that unemployment and poverty will increase with associated mental and physical needs that require support from the Council. It is unclear whether the demand for services as a result of COVID-19 will continue or reduce into 2022/23 and beyond.

4 Medium Term Financial Strategy Forecasts

- 4.1 The report to Cabinet in July 2021 set out the following financial forecasts over the medium term:

	2022-23 £m	2023-24 £m	2024-25 £m	2025-26 £m
Budget Gap (incremental)	5.110	6.767	6.767	6.416
Budget Gap (cumulative)	5.110	11.877	18.644	25.06

- 4.2 A review of the assumptions has been undertaken and the financial forecast has been updated as shown in the table below. These updates are best estimates of the impact of the changes and are subject to change before the MTFs is presented for approval in February / March 2022:

	2022-23 £m	2023-24 £m	2024-25 £m	2025-26 £m
Budget Gap (incremental)	5.110	6.767	6.767	6.416
New Savings Proposals*	(2.444)	(2.463)	(2.888)	(3.010)
New Growth Proposals*	4.086	5.067	5.896	6.996
REVISED BUDGET GAP	6.752	9.371	9.775	10.402
CUMULATIVE BUDGET GAP	6.752	16.123	25.898	36.300

*subject to consultation and approval

- 4.3 The strategy to address the funding gap is through the following routes:
- Savings and Growth proposals: those that have been identified and those that are still in development to include in the MTFs in February / March 2022.
 - Delivery of the corporate plan priorities and agreed transformation programme to deliver sustainability in the longer term.
 - Identify new investment opportunities to secure financial sustainability and deliver regeneration for the borough.

4.4 A summary of the savings and growth proposals is included in Appendix 1.

5 Government Funding Changes

- 5.1 The last four-year funding settlement ended in 2019/20 and a one year funding settlement was received for 2020/21 with a further one year funding settlement in 2021/22. Single year funding settlements provide little clarity on future spending commitments from Government resulting in increasing uncertainty in the MTFs assumptions beyond the following year.
- 5.2 The Chancellor of the Exchequer presented the Budget and Spending Review on 25 October 2021. This provided a three-year funding settlement for Government departments. DLUHC will allocate funding for individual boroughs from their spending limit. It is expected that the draft Local Government Finance Settlement will be published by DLUHC in December.
- 5.3 Included within the announcements made during the Spending Review were an increase of Spending Power for local authorities of 3% in each year of the 3 year period. Spending Power refers to the funding available to local authorities from Council Tax, Government Grant and Business Rates Retention.
- 5.4 Included within this 3% increase is an assumption that Council Tax will increase each year. The assumed annual increases in Council built into the Spending Power calculation have not yet been published.
- 5.5 DLUHC are expected to confirm whether the implementation of funding reforms will be introduced from 2023/24. The Review of Relative Needs and Resources (Fair Funding) and business rates retention reforms are anticipated to have a positive impact on the amount of funding allocated to LBB. These reforms have been delayed since 2020. A multiple year funding settlement is expected to allow these reforms to be implemented.

- 5.6 Also included within the 3% increase in Spending Power for local authorities is £3.6bn in Adult Social care funding allocated to DLUHC raised through an increase in National Insurance contributions from 1 April 2022 (a further £1.9bn will be distributed by the Department for Health and Social Care (DHSC)). This funding will be allocated to recompense local authorities for the increased costs associated with the changes to Social Care funding announced by the government. It is not expected that this funding will mitigate any of the current financial pressures the Council faces.
- 5.7 The Spending review included £1.6bn in new funding for local government from 2022/23 within the 3% increase in Spending Power. A proportion of this funding had already been promised to ensure that local authorities are compensated for the cost of increased employers National Insurance contributions related to the Adult Social Care levy where contributions will increase by 1.25%. A further pressure is emerging related to the local government pay award within the current financial year and into next year where inflation may continue to be above the Bank of England's 2% target. Our MTFS includes funding for a 2% pay award each year but any pay award above this will create an additional pressure. Each 1% increase in salary costs the Council c£1m.
- 5.8 There is not expected to be a significant increase in year-on year funding for local government services as a result of this funding announcement.
- 5.9 In combination, whilst the Spending Review has set the scene for a multiple year settlement, there remains a lack of detail from government on which to plan the 2022/23 budget. The Local Government Finance Settlement will provide clarity on funding for 2022/23, expected to effectively roll forward the settlement from 2021/22, with reform being introduced the following year.
- 5.10 **Council Tax** – current indications are that there will be a council tax referendum threshold of 2% with an adult social care precept of 1% for 2022/23. The MTFS currently assumes a total 2.99% increase in council tax.
- 5.11 The tax base for Council Tax has been reduced as the number of Council Tax Support claimants increased as a result of COVID-19. This is a national issue and the government may address this funding shortfall in the local government finance settlement as the tax base is unlikely to have recovered to pre-pandemic levels.
- 5.12 **Social Care Funding** – new grants were made available in 2019/20, 2020/21 and 2021/22 our assumption is that this funding will be carried forward into 2022/23 in addition to the new costs and funding resulting from the Social Care reforms being introduced from 1 April 2022.
- 5.13 **Improved Better Care Grant** – the assumption is that this grant continues at previous funding levels providing over £9m in funding.
- 5.14 **Public Health Grant** – this is a ringfenced grant worth £16.8m. Whilst we assume the grant will continue at current levels, there is a lack of clarity on whether there will be additional funding to support ongoing public health initiatives related to COVID-19.

- 5.15 **New Homes Bonus** – as the expectation is that funding will be rolled forward from 2021/22 to 2022/23, we expect that new homes bonus will continue to fund legacy payments and make a new round of allocations for 2022/23. The mechanism to allocate a new round of funding will be contained within the consultation published by DLUHC with the draft local government finance settlement.
- 5.16 The total removal of New Home Bonus without replacement could have a catastrophic detrimental effect on the MTFs as it is a key element of the Be First business plan target and underpins our efforts to regenerate the Borough.
- 5.17 **Homelessness/Housing** – additional funding was provided in previous years in an effort to reduce homelessness and rough sleeping in addition to new funding for Discretionary Housing Payments. It is expected that this will continue in 2022/23.

6 Business Rates Pooling 2022/23

- 6.1 The Council participated in the London-wide business rates pilot which was introduced in 2018/19 and the London business rates pool from 2020/21. The business rates pool was dissolved in 2021/22 and will not be reintroduced in 2022/23.

7 Other Pressures

- 7.1 The General Fund budget for 2021/22 is £173.614m. As a result of underlying financial pressures including increased costs, demographic and other demand growth, savings not yet delivered and other risks there is a forecast budget overspend of £10.7m (6.0%) at September 2021.
- 7.2 The forecast budget overspend is driven by savings delivery and ongoing pressures in services because of variations to demand and/or costs. These can further be split into one-off variances, that are unlikely to reoccur in future years, and on-going variances, that are likely to continue in future years unless action is taken. £4.6m (43%) of the current budget pressure is forecast to be ongoing into future years.

	Saving		Pressure		Overspend	
	One-off	On-going	One-off	On-going	Total	Budget %
Community Solutions	388	250	994	751	2,383	9.9%
My Place	312	-	-	1,348	1,660	10.0%
Inclusive Growth	-	-	280	397	677	52.4%
People & Resilience	-	150	600	4,957	5,707	4.6%
Strategy & Culture	125	-	1,646	1,268	3,039	84.0%
Law & Governance	362	-	53	(560)	(145)	11.0%
Corporate Management	2,243	-	(913)	(3,943)	(2,613)	-49.2%
TOTAL	3,430	400	2,660	4,218	10,708	6.0%

- 7.3 As at the end of 2020/21 the budget support reserve stood at £11.433m. This would mean that the overspend could be covered from reserves if the overspend materialises per the current forecast. This General fund reserve, which we do not anticipate using during 2021/22, currently has a balance of £17.031m compared to a £12m minimum level set in our reserves policy.

- 7.4 The reduction in reserves is a direct result of the COVID-19 pandemic response. Whilst the council can manage to fund the shortfall in 2021/22, should there be further cost pressure on the 2022/23 forecast outturn the options to mitigate such costs from reserves are limited.
- 7.5 It is also imperative that savings or income that have been approved must be delivered to protect our financial sustainability.
- 7.6 The council continues to closely monitor the 2021/22 forecast outturn and the impact of cost and demand pressures, acting where possible to reduce costs and/or increase income.

8 Capital Programme

- 8.1 The MTFS includes provision to fund a small corporate capital programme for operational requirements. The total pot available however is £5m. The allocation will be co-ordinated by the Capital and Assets Board. Once prior approved bids and the £1m allocation for urgent works/health and safety are considered the funding available is around £3.4m in 2022/23 and following years.

9 Proposed Consultation Process

- 9.1 As the Council is proposing new savings proposals, it is intended that consultation events will be undertaken as follows:
- An online budget consultation which will commence in the new year following publication of the draft local government finance settlement.
 - Online events to which representatives of the business community and the voluntary sector will be invited.
- 9.2 Cabinet will be asked to recommend the 2022/23 budget on 21 February 2022 with Assembly being asked to formally approve on 2 March 2022.

10 Financial Implications

Implications completed by Philip Gregory, Chief Financial Officer

- 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 As Covid 19 has now impacted on Council business for more than a year and a half the true economic impact on the Council's finances is that it has presented more costs and detrimentally influenced income. While vaccination and booster shots are

a welcome development from this time last year the long-term impact is challenging to predict and passive preventative measures of social distancing together with prophylactics will present additional costs in terms of services delivery.

11.3 The strain on logistics of the epidemic has raised on-costs and scarcity particularly for products sourced overseas. This unique situation presents the Council with the prospect of the need to purchase additional supplies and services with heavy competition. Value for money and best values duties still apply. There is also the issue of the Councils existing suppliers and service providers also facing issues of pressure on supply chains and staffing matters of availability. As a result, these pressures will inevitably create extra costs which will have to be paid to ensure statutory services and care standards for the vulnerable are maintained.

11.4 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.

11.5 Further clarification has been given by the Supreme Court as to the following general principles of consultation being:

- 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.

11.6 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:

- Medium Term Financial Strategy and Reserves Policy 2021/22 to 2025/26, Cabinet 13 July 2021 (Minute 23)
<https://modgov.lbbd.gov.uk/Internet/ieListDocuments.aspx?CId=180&MId=11189&Ver=4>

List of appendices:

- Appendix 1: Savings and growth proposals