



CABINET

Subject Heading:

Update of the Council's Medium Term Financial Strategy (MTFS) and budget for 2019/20

Cabinet Member:

Councillor Damian White

SLT Lead:

Jane West
Section 151 officer

Report Author and contact details:

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Policy context:

The report provides an update on the Medium Term Financial Strategy for the period 2019/20 to 2022/23. It also sets out the process and timetable the Council will follow in order to achieve a balanced budget for 2019/20.

Financial summary:

This report includes:

- the current national funding outlook
- a summary of the Council's current financial situation
- the approach to setting the Council's 2019/20 budget and MTFS for the following three years

Is this a Key Decision?

Yes

When should this matter be reviewed?

February 2019

Reviewing OSC:

Overview and Scrutiny Board

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

This report presents an overview of the national economic and financial environment within which all local authorities are currently developing their financial plans for the next 4 years. It explains the complex range of factors affecting local authority forecast funding streams, expenditure pressures and the Council's position in relation to these matters.

The report sets out the Council's current financial situation and its approach to achieving financial balance over the period 2019/20 to 2022/23.

This report consists of the following sections:

- Policy and strategic context (section 1)
- Summary of the national context (section 2)
- Update on the 2018/19 budget position (section 3)
- Update on the Medium Term Financial Strategy (section 4)
- Update on the consultation with residents undertaken over the last year (section 5)
- Update on the capital programme (section 6)
- Timetable and next steps (section 7)

RECOMMENDATIONS

The Cabinet is asked to:

1. **Note** the updated national financial context for local government, in year financial performance and the projected budget gap over the period 2019/20 to 2022/23 as set out in sections 1 and 2 and the period 6 (September 2018) and of year forecast position set out in section 3.

2. **Note** the assumptions which underpin the forecast.
3. **Approve** savings proposals for 2019/20 of £8.702m as set out in section 4 and **Appendices B** (£0.770m), **C** (£3.156m) and **D** (£4.776m), having considered the consultation feedback set out in **Appendices E** and **F**.
4. **Approve** the launch of consultation on the measures included in the Improving Traffic Flows project as set out in **Appendix D**.
5. **Approve the** growth proposal for 2019/20 of £1 million to fund the revenue costs of the £10 million capital investment in the Highways Investment Programme for 2019/20, as set out in section 4, having considered the consultation feedback set out in **Appendices E** and **F**.
6. **Approve** the updated 5 year Capital Programme in Section 6 for recommendation onto full Council for agreement in January 2019.
7. **Note** the timetable and process for developing, reporting and considering the 2019/20 budget and MTFS as set out in section 7.

REPORT DETAIL

1. Policy and Strategic context

- 1.1 This report presents an update of the Medium Term Financial Strategy (MTFS) between 2019/20 and 2022/23 that will be developed to deliver the Council's objectives and priorities whilst maintaining tight financial control and ensuring prudent levels of reserves and balances are maintained.
- 1.2 Havering Council's vision is focused on four cross-cutting priorities:

Communities

Helping young and old fulfil their potential through high-achieving schools and by supporting people to live safe, healthy and independent lives.

Places

Making sure that our neighbourhoods are great places to live by investing in them and keeping them clean, green and safe with access to quality parks and leisure facilities.

Opportunities

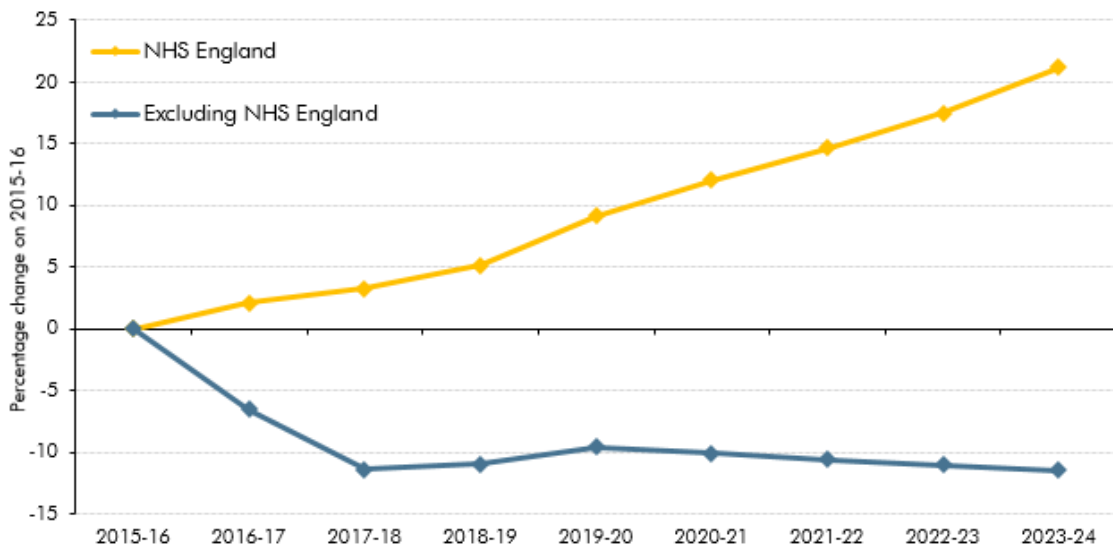
Helping people get on in life by creating jobs and skills opportunities and building genuinely affordable homes.

Connections

Making it easier for people to get around and get online by investing in road, transport links, faster internet and free Wi-Fi in town centres.

2. National Context

- 2.1 Since the July 2018 Medium Term Financial Strategy report there has been continued uncertainty regarding future funding for local government.
- 2.2 Recent analysis from the Office for Budget Responsibility, post the October 2019 Budget Statement from the Chancellor, anticipates very little increased funding for any public service except the National Health Service (NHS).



Note: RDEL ex - the basis on which HM Treasury sets Departmental plans - rather than PSCE in RDEL
Source: OBR

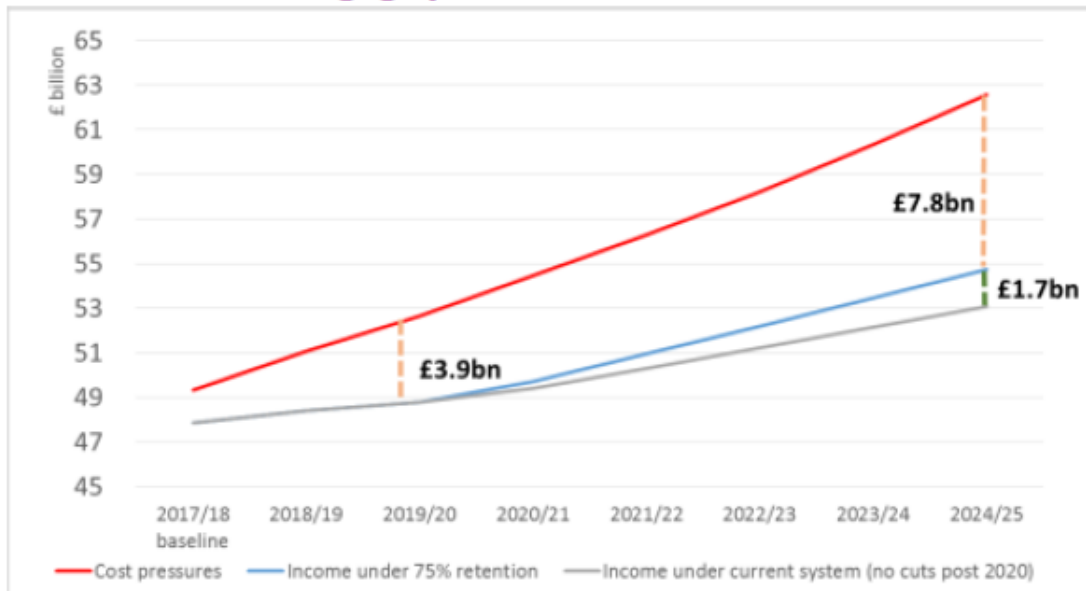
- 2.3 The formal 2019 Spending Review will be announced during 2019 and the eventual impact on local government from 2020/21 will not be known until then. The Council is also still awaiting the results of the 2020/21 Fair Funding Review (a review of the formula for distributing funding across local government) which will have an impact on how the total expenditure envelope for local government will be split between individual councils.
- 2.4 The long awaited Adult Social Care Green Paper is likely to show a large funding requirement but it is unclear where any additional funding would be

sourced from. The worst case scenario is that it is reallocated from other parts of local government.

- 2.5 Overall the Local Government Association is predicting a challenging funding gap for local government of between £6.1 billion and £7.8 billion by 2024/25, mainly due to growth in demand for adult and children’s social care services.



Council funding gap 2025



- 2.6 The future remains unclear with regard to Brexit. There is uncertainty both in the outcome of the present negotiations with the EU and also whether any deal will be ratified by parliament.
- 2.7 The London Resilience Forum has recently raised with the Ministry for Housing, Communities and Local Government (MHCLG) its concern that without further detailed information, disseminated in a timely way to all agencies with a requirement to plan for a no-deal scenario, further focussed local planning cannot be progressed.
- 2.8 The Office for Budget Responsibility has said in its recent statement on the October 2018 budget, ‘In the near term, it is worth emphasising that this forecast assumes a relatively smooth exit from the EU next year. A disorderly one could have severe short-term implications for the economy, the exchange rate, asset prices and the public finances. The scale would be very hard to predict, given the lack of precedent.’

2.9 The Chancellor delivered his Budget 2018 on 29 October. The main points from the Chancellor's Budget Statement that are relevant to local government are as follows:

- £45m of additional funding for Disabilities Facilities Grant in 2018/19;
- £420m in 2018/19 to tackle pot holes and other road highways works; Havering has been allocated £0.895m;
- £400m of in-year capital funding allocations to schools in 2018/19;
- £650m of extra Social Care funding for English Local Authorities in 2019/20; although £240m is a continuation of the 2018/19 winter pressures monies.
- An additional £84m of Children's Services funding over 5 years, but across only 20 councils;
- For two years up until the next Revaluation in 2021 all retail premises with an rateable value below £51,000 will have their bills reduced by one third; on past precedent it would be expected that Local Authorities will be compensated for this measure through s31 grant;
- £675m of co-funding will be provided through a new "High Streets Fund" to assist with rejuvenation of High Streets and, in particular, changing unused business and commercial property into residential accommodation;
- Additional funding for the Housing Infrastructure Fund of £500m will be provided;
- It is expected that Public Sector Debt will decline from a peak of 85.2% of GDP in 2016/17 to a forecast of 74.1% in 2023/24 and that public sector borrowing will be £19.8bn in 2023/24 (the lowest level for 10 years);
- The Chancellor re-emphasised that "austerity is coming to an end", and for the period of the next Spending Review projected that there will be an average real terms increase in annual Resource Departmental Expenditure Limits (RDEL) over the 5 years of 1.2%, per annum. This compares to an average of -3.0% during the period of SR2010 and -1.3% during the period of SR15. However, as set out above, the Office for Budget Responsibility anticipates that the NHS will be the beneficiary of the additional funding.
- The government will abolish the future use of PFI and PFI2, saying there is compelling evidence that it does not deliver value for taxpayers or genuinely transfer risk to the private sector.

Cabinet, 29 November 2018

2.10 The Provisional Local Government Settlement for 2019/20 is due on 6th December which will provide a better guide to the funding position.

3. Update on the 2018/19 budget position

3.1 The 2018/19 revenue budget is closely monitored each month to review and manage the various pressures that emerge during the year. A key part of the MTFS process is to review the current pressures in order to project the future demographic and inflationary impact on the 4 year budget. The monitoring report at the end of period 6 (September 2018), set out in **Appendix A**, shows a projected £3.340m overspend.

3.2 The main areas of overspend are Children's Services (£1.9m) and Housing (£0.7m). There is however also an overspend on Adult Services of £2.5m which is being managed through the use of surplus one off allocations in 2018/19. All services are taking action to reduce the overspends in order to return a balanced position at year end.

3.3 The MTFS includes pressures in respect of projected ongoing increased demand in relation to Adults' and Children's demographics and also for homelessness. This position will continue to be reviewed and if necessary, updated before the budget is formally set in February 2019.

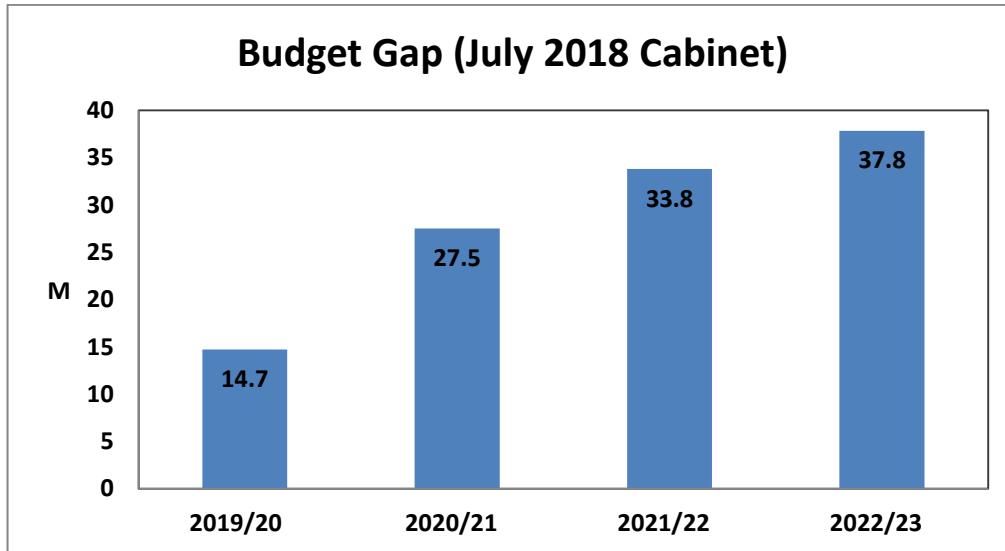
4 Update on the MTFS position

4.1 Updated base position

The July 2018 MTFS Cabinet report updated the base financial position from that assumed at Council Tax Setting in February 2018.

Latest Position	2019/20	2020/21	2021/22	2022/23	4 Year Plan
	£m	£m	£m	£m	£m
Gap at Council February 2018	10.341	12.886	4.596	2.201	30.025
Adults contract inflation pressure	1.600				1.600
Revision to pay inflation assumption		0.830	0.830	0.830	2.490
Revision to savings proposals	3.150	0.100	0.350		3.600
Reprofile pension contribution following actuarial review	-1.000	-1.000	1.000	1.000	0.000
Reprofile waste levy negotiation saving	0.500		-0.500		0.000
Revision to corporate assumptions	0.113				0.113
Revised Gap	14.704	12.816	6.276	4.031	37.828
Cumulative	14.704	27.520	33.796	37.828	

The budget gap is illustrated in the graph below.



In common with other authorities, the budgetary challenge for Havering is significant over the next four years as shown above. To address this, the Council has developed a major change and transformation programme, which will deliver a smaller, more efficient Council which can work closely with residents in order to provide services which are valued, relevant and balances cost, quality and meeting community and individual needs as efficiently as possible.

Since July 2018 considerable work has also been undertaken by officers to both review and test all the pressures and assumptions in the MTFS and also to review the business cases from the transformation programme so that any early savings can be included in this report for decision making.

As discussed earlier the MTFS takes account of the current revenue monitoring position recognising where reported pressures are unavoidable and ongoing. This information is combined with demographic and inflationary trends to provide an accurate assessment of the most likely pressures the Council will face over the next four years.

The table below shows the changes that have been made since July as a result of this review process.

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Description	2019/20	2020/21	2021/22	2022/23	4 Year Plan
	£m	£m	£m	£m	£m
July position to Cabinet	14.704	12.816	6.276	4.031	37.827
Adjustments to Corporate, Inflation and Demographic pressures	-2.438	-1.631	1.311	1.108	-1.650
Deferment of the reinvestment of savings associated with Bridge Close and Rainham*	0.562	3.926	-0.950	1.673	5.211
Regeneration Restructure	0.380				0.380
Reduction in expected Taxbase yield	0.480				0.480
Add pressure for new capital – Mercury Land Holdings and the JVs	0.543				0.543
Total adjustments	-0.473	2.295	0.361	2.781	4.964
Revised Gap	14.231	15.111	6.637	6.812	42.791
Cumulative Total	14.231	29.342	35.979	42.791	42.791

* The budget report originally included profit yields from the Bridge Close and Rainham joint ventures. These joint ventures will deliver substantial benefits but it has been decided to reinvest the early profits to help finance future stages of the projects. As such the savings will not be available to the General Fund until after the current MTFS four year period

4.2 Efficiencies, service reductions and income changes

A number of proposals for efficiencies, service reductions and income changes were developed over the summer. Many of the proposals were efficiency based but where they impacted public facing services, they were included in the budget consultation.

These savings have been refined further in the light of the budget consultation over the summer. **Appendix B** sets out the detailed descriptions of these savings which are also summarised in the table below.

Efficiencies, service cuts and income changes	2019/20	2020/21	2021/22	2022/23	TOTAL
	£m	£m	£m	£m	£m
Increase Business Rates income - Actions of the Opportunities service plan		-0.300	-0.300	-0.432	-1.032
Changes to Council Tax Support scheme*	-0.600				-0.600
Shared Emergency Planning	-0.020				-0.020
Commercial Property Income	-0.100	-0.100	-0.100	-0.100	-0.400
Insurance Contractual Saving	-0.050				-0.050
Total Appendix B savings	-0.770	-0.400	-0.400	-0.532	-2.102

*This is the subject of a different report elsewhere on this Cabinet agenda.

4.3 Departmental Savings

A further set of savings have been identified for all Council departments. This report recommends the adoption of these savings proposals totalling £7.417m and listed in **Appendix C** and summarised below by department.

Departmental savings	2019/20	2020/21	2021/22	2022/23	Total
	£m	£m	£m	£m	£m
Adults'	-0.823	-1.000	-1.000	-1.000	-3.823
Chief Operating Officer	-0.851	0	0	0	-0.851
Neighbourhoods	-0.502	-0.115	0	0	-0.617
oneSource	-0.410	-0.475	-0.450	-0.048	-1.383
Children's	-0.570	0	0	0	-0.570
Public Health	0.000	-0.173	0	0	-0.173
Total	-3.156	-1.763	-1.450	-1.048	-7.417
Cumulative Total	-3.156	-4.919	-6.369	-7.417	-7.417

4.4 The Transformation Programme

The Council's initial thinking around a new Transformation Programme was set out in the July 2018 budget update Cabinet report. Since then, the concept cases that were presented for each project in the programme have been worked up into business cases which can be actioned over the next four years. These business cases set out how individual projects will contribute to closing the budget gap over the four year period. The Transformation Programme outline proposals are set out in **Appendix D** of this report. A summary is set out in the tables below which are arranged by Theme.

4.4.1 Communities

Project	2019/20	2020/21	2021/22	2022/23	TOTAL
	£m	£m	£m	£m	£m
Localities Gateways and Integration	-0.060	-1.477	-1.477	-1.134	-4.148
Review of Transport	-0.100	-0.045	-0.030	-0.005	-0.180
Revision of Charging Policy	-0.043	0.000	0.000	0.000	-0.043
Total Savings	-0.203	-1.522	-1.507	-1.139	-4.371

4.4.2 Places

Project	2019/20	2020/21	2021/22	2022/23	TOTAL
	£m	£m	£m	£m	£m
Asset Optimisation	TBC	TBC	TBC	TBC	TBC
Bretons*	0.000	0.000	0.000	-0.500	-0.500
Registration and Bereavement Services	-0.095	-0.117	-0.114	-0.143	-0.469
Review of Front Doors	0.000	-0.093	-0.050	-0.050	-0.193
Total Savings	-0.095	-0.210	-0.164	-0.693	-1.162

* This is the subject of a different report elsewhere on this Cabinet agenda.

4.4.3 Opportunities

Project	2019/20	2020/21	2021/22	2022/23	TOTAL
	£m	£m	£m	£m	£m
Contracts Review	-0.300	-0.640	-1.090	-1.580	-3.610
Digital Platform Replacement	-0.038	-0.077	-0.116	0.000	-0.231
Full Cost Recovery	-0.250	-0.150	-0.150	-0.150	-0.700
Income Debt Management and Enforcement	-0.067	-0.044	-0.027	-0.044	-0.182
Process Automation and Robotics	0.000	-0.050	-0.100	-0.150	-0.300
Service Redesign	-0.151	-0.583	-1.154	-1.559	-3.447
Transformation of Post and Print	-0.050	0.000	0.000	0.000	-0.050
Total Savings	-0.856	-1.544	-2.637	-3.483	-8.520

4.4.4 Connections

Project	2019/20	2020/21	2021/22	2022/23	TOTAL
	£m	£m	£m	£m	£m
Business Intelligence and Analytics	-0.622	-0.106	-0.106	0.000	-0.834
Improving Traffic Flows	-3.000	-0.658	0.000	0.000	-3.658
Total Savings	-3.622	-0.764	-0.106	0.000	-4.492

4.4.5 Summary

Summary	2019/20	2020/21	2021/22	2022/23	TOTAL
	£m	£m	£m	£m	£m
Communities	-0.203	-1.522	-1.507	-1.139	-4.371
Places	-0.095	-0.210	-0.164	-0.693	-1.162
Opportunities	-0.856	-1.544	-2.637	-3.483	-8.520
Connections	-3.622	-0.764	-0.106	0.000	-4.492
Total Savings	-4.776	-4.040	-4.414	-5.315	-18.545

Although a range of savings have been fully identified already, particularly for 2019/20, it is believed that these Transformation projects have the potential to deliver yet more savings over the following three years (2020/21 to 2022/23). Further work will be done to refine the business cases for these projects over the coming months.

4.5 Growth

New growth has been built into the revenue budget of £1 million in both 2019/20 and 2020/22 to fund new capital investment in highways and pavements, in line with the responses from the public consultation over the summer. The revenue growth is funded from anticipated additional income resulting from the changes proposed under the Improving Traffic Flows project.

4.6 Revised Budget position after savings identified to date

	2019/20	2020/21	2021/22	2022/23	TOTAL
	£m	£m	£m	£m	£m
Gap before savings	14.231	15.111	6.637	6.812	42.791
Efficiencies, Service Reductions and Income Changes (Appendix B)	-0.770	-0.400	-0.400	-0.532	-2.102
Departmental Savings (Appendix C)	-3.156	-1.763	-1.450	-1.048	-7.417
Transformation Savings (Appendix D)	-4.776	-4.040	-4.414	-5.315	-18.545
Revised Gap	5.529	8.908	0.373	-0.083	14.727
Revenue Contribution to Roads and Transport Capital Programme funded from the Improving Traffic Flows savings of £3.658 million	1.000	1.000	0.000	0.000	2.000
Revised Gap	6.529	9.908	0.373	-0.083	16.727

5. Consultation

- 5.1 Ipsos MORI undertook a Residents' Survey across the borough from late March to late April. The results of the survey showed a number of priority areas for residents and also highlighted areas that residents thought should be improved. These are set out in **Appendix E**.
- 5.2 In addition, a budget consultation took place over the summer, with thirteen public meetings, an on-line survey, a paper-based survey and a feature in the 'Living in Havering' magazine. There was also an opportunity for residents to talk to officers about the budget consultation on both days of the Havering Show. Over one thousand responses were received and a summary of the results of the survey are set out in **Appendix F**.
- 5.3 A number of proposals from July have been revised in line with the feedback from residents. The Improving Traffic Flows proposal has been extended to include a significant investment programme of £30 million into roads and pavements in the borough. The proposal to turn off or dim the street lighting on some roads in the borough was very unpopular and will now not be put forward for implementation. Finally, the proposal to review discretionary business rate relief for charities will not be undertaken and there will be no change in the current arrangements.

6. Capital Programme – Recommended additions

- 6.1 The current capital programme will need to be adjusted to reflect the business plans from Mercury Land Holdings and the Joint Ventures which are due to be finalised in January 2019.
- 6.2 A number of additional projects are being proposed to be added to the capital programme. These are as follows:-
- An additional £10m per annum is to be added into the Highways investment programme in 2019/20 and 2020/21 funded from the additional traffic and parking income proposed in the Improving Traffic Flows Strategy.
 - An additional £250k is to be built in for investment into CCTV. The current CCTV system requires investment. The equipment, including cameras, is over 10 years old and is now less reliable. It therefore critical to upgrade the system to ensure it remains fit for use. The bid will also fund investment in two mobile cameras that can be targeted as required.
 - An additional £28.1 million of external funding is to be added to the capital programme over the next 2 years. These include indicative

figures for TFL, Schools Basic Needs and the Disabled Facilities Grant.

- It is proposed that £2.5 million in capital receipts is set aside to implement a new Oracle Cloud Enterprise Resource Planning system to replace the current 1Oracle systems for finance and human resources. The current 1Oracle system is outdated and increasingly expensive to support as, from July 2019, Newham and Havering will be the only two councils of the original seven using the system. The current plan is to move to Oracle Cloud for 1 April 2020. Although Cloud based systems are revenue projects, there is a government scheme to allow the use of capital receipts for specific Transformation projects that deliver an ongoing saving (which Oracle Cloud does). The full business case will be considered at Cabinet in the New Year.
- Similarly, it is proposed that capital receipts of £1.8m are set aside for a new Customer Relationship Management (CRM) system again asking for funding from capital receipts under the government's scheme to allow the use of capital receipts for specific Transformation projects that deliver an ongoing saving (which CRM does, including cost avoidance). The current CRM is bespoke and very costly to support. It needs to be upgraded by 2020 as the current platform is due to come out of support. The full business case will be considered at Cabinet in the New Year.

6.3 The full updated capital programme is set out in the table below.

Capital Programme	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
Children's Services	1.950	0.000	0.000	0.000	1.950
Public Health	0.000	0.000	0.000	0.000	0.000
Neighbourhoods	17.286	13.500	11.000	11.000	52.786
Adults Services	0.000	2.800	0.000	0.000	2.800
Regeneration Programme	113.353	42.907	11.211	1.090	168.561
Chief Operating Officer	11.990	5.668	0.854	0.485	18.997
oneSource	19.627	23.037	0.620	0.620	43.904
TOTAL CAPITAL PROGRAMME	164.205	87.912	23.685	13.195	288.997

7. Timetable and next steps

7.1 SLT are continuing to work to develop further budget proposals for consideration by Cabinet as follows:-

- January Cabinet:

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- Update on financial assumptions following the Provisional Local Government Finance Settlement
- Update on the London Business Rate Pool Pilot
- January Council:
 - Approval of the updated General Fund and Housing Capital Programme
 - Approval of Council Tax Support Scheme
 - Approval of the Council Tax premium for properties that have been vacant for more than two years
- February Cabinet
 - Final budget and council tax proposals approved to recommend to Council
 - Final consideration of Capital Programme including Housing Capital Programme and recommendation to Council
 - Final consideration of the Treasury Management Strategy and recommendation to Council
 - Consideration and approval of the Housing Revenue Account budget
- February Council
 - Council Tax Setting Report
 - Consideration and approval of reports recommended by February Cabinet.

REASONS AND OPTIONS

Reasons for the decision:

The Council is required to set a balanced budget in advance of the beginning of each financial year. This report sets out progress in reaching the balanced budget for 2019/20 and sets out the Council's future plans for balancing the budget from 2020/21 to 2022/23.

Other options considered:

The report outlines all the options identified so far for balancing the 2019/20 budget. There is still a budget gap even if these options are approved and therefore officers will continue to seek further options for balancing not just next year's budget but also the budgets for 2020/21 to 2022/23.



IMPLICATIONS AND RISKS

Financial Implications and Risks

The financial implications of the Council's MTFS are the subject of this report and are therefore set out in the body of this report. The consultation process set out in this report will be used to inform decision making on the budget.

Legal Implications and Risks

Under S151 of the Local Government Act 1972 a local authority has to make proper arrangements for the administration of its financial affairs.

Under S28 of the Local Government Act 2003 a local authority has to review its budget calculations from time to time during the financial year and take appropriate action if there is any deterioration in its budget.

The Council is also required to set a balanced budget, taking into account a range of factors, including consultation feedback, and decisions must also be taken in accordance with the Council's duties under the Equality Act 2010.

The budget consultation and approval process is separate from individual decisions which may need to be taken for example in relation to service delivery; these may require a separate consultation process and equality impact assessment before a final decision is taken.

Human Resource Implications and Risks

The Council continues to work closely with its staff and with Trades Unions to ensure that the effects on staff of the savings required have been managed in an efficient and compassionate manner. All savings proposals or changes to the funding regime that impact on staff numbers, will be managed in accordance with both statutory requirements and the Council's Managing Organisational Change & Redundancy policy and associated guidance.

Equalities and Social Inclusion Implications and Risks

Havering has a diverse community made up of many different groups and individuals. The Council values diversity and believes it essential to understand and include the different contributions, perspectives and experience that people from different backgrounds bring.

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the council, when exercising its functions, to have due regard to:

- (i) the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;

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- (ii) the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- (iii) foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, gender, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment.

The Council demonstrates its commitment to the Equality Act in its decision-making processes, the provision, procurement and commissioning of its services, and employment practices concerning its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing of all Havering residents in respect of socio-economics and health determinants.

Any decisions which need to be taken in furtherance of the budget proposals will be undertaken in accordance with the duty set out in Section 149 of the Equality Act 2010 and where appropriate full Equality Assessments will be undertaken and form part of the decision making process.

BACKGROUND PAPERS

None