



CABINET

Subject Heading:

Update of the Council's Medium Term Financial Strategy (MTFS) and budget for 2020/21

Cabinet Member:

The Leader, Councillor Damian White

SLT Lead:

Jane West

Section 151 officer

Report Author and contact details:

Richard Tyler

Finance Strategy Manager, oneSource

01708 433 957

Richard.Tyler@oneSource.co.uk

Policy context:

The report provides an update on the Medium Term Financial Strategy for the period 2020/21 to 2023/24. It also sets out the process and timetable the Council will follow in order to achieve a balanced budget for 2020/21 including proposals for consultation. Finally, it makes recommendations to amend the 2019/20 Capital Programme.

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 2020/21 budget and MTFS for the following three years
- proposed arrangements for budget consultation
- recommendations to amend the 2019/20 Capital Programme.

Is this a Key Decision?

Yes – Significant effect on more than two wards

When should this matter be reviewed? November 2019

Reviewing OSC: Overview and Scrutiny Committee

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

The Cabinet and full Council last received a report on the Council's Medium Term Financial Strategy (MTFS) in February 2019 when the MTFS was agreed alongside the Council's Corporate Plan for 2019/20. These had been developed side by side to ensure that the improvements to services being pursued by the Administration were properly supported by the Council's budget.

This report updates the Cabinet and Full Council on the Council's current financial position. It 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 impacting upon local authority forecast funding streams and expenditure pressures and the Council's position in relation to these matters.

The report sets out the Council's current financial situation, its approach to achieving financial balance over the period 2020/21 to 2023/24, its budget proposals for closing the financial gap for 2020/21 and proposals for budget consultation during the autumn. It also proposes an update to the 2019/20 Capital Programme.

This report consists of the following sections:

- Policy and strategic context
- Summary of the Council's current financial situation
- Update on the Medium Term Financial Strategy
- Proposals to close the funding gap
- The proposed consultation process
- An update on the 2019/20 Capital Programme.

RECOMMENDATIONS

The Cabinet is asked to:

1. Note the financial context.
2. Agree the proposed consultation process and associated timetable as set out in section 1.6.
3. Recommend to Full Council that additional capital budget is added into the 2019/20 Capital Programme of £4 million to fund the Smart Working Programme, with the revenue costs of the capital funding to be met by invest to save from the income raised through renting out spare office capacity freed up by the programme.
4. Recommend to Full Council that £14.7 million is added into the 2019/20 Capital Programme to replenish the capital allocation for new opportunities with capital charges funded from the business cases.

REPORT DETAIL

1. Policy and Strategic context

- 1.1 This report presents an update of the Medium Term Financial Strategy (MTFS) between 2020/21 and 2023/24 that will be developed to continue to deliver the Council's vision, objectives and priorities as set out in the Corporate Plan, whilst maintaining tight financial control and ensuring prudent levels of reserves and balances are maintained.
- 1.2 The Havering Council vision sets out the Administration's intentions to improve services and is focused around 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.

Place

Making sure that our neighbourhoods are a great place 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 online by investing in road, transport links, faster internet and free Wi-Fi in town centres.

1.3 Uncertainty over future funding for Local Government

There continues to be significant uncertainty in future funding for Local Government. In addition, the Council continues to experience significant population growth and demographic change, placing further pressure on service provision.

The complexity around leaving the EU has resulted in delays to Government planning. HM Treasury has announced a one-year Spending Round on 4th September 2019. The Spending round figures are a one year settlement at national level and work is underway to clarify the impact for Havering. The announcement confirmed extra funding for social care but also that the London Business rate pool would not be continued into 2020/21

In 2020, a full Spending Review will be held, reviewing public spending as a whole and setting multi-year budgets.

Havering has worked closely with other local authorities, London Councils and the Local Government Association in order to form a view on the most likely funding scenarios and enable forward planning. This process along with the spending review announcement has led to the following assumptions being used for forward planning

- The 2020/21 local financial settlement will be largely based on the 2019/20 figures.
- Specific grants such as the Improved Better Care Fund (IBCF) and Under Indexation will continue for at least one more year
- The Government will continue to supplement funding for Adult Social Care for a further year with the Social Care Grant
- Business Rate Pooling will cease after 2019/20
- Public Health Grant will increase slightly in 2020/21
- New Homes Bonus will continue under the current policy (this is likely to result in a significant drop for Havering in 2020/21 due to the numbers of net new properties being built in the borough between October 2018 and October 2019 not reaching the government threshold to qualify for new NHB)
- That the outcomes of the Fair Funding Review and long awaited Adult Social Care Green or White paper will not be published in time for implementation in the 2020/21 settlement.

It should be noted that any of these assumptions could be overtaken by the new national government accelerating announcements but the Council's prudent position on reserves and medium term planning will enable a smooth transition to a different financial position if needed.

1.4 The Council's Medium Term Financial Position

In February 2019 Full Council set a balanced budget for 2019/20 and was presented with a medium term forecasted gap of £16.598m for the three years 2020-2023. The medium term financial position is a live process at any point in time with changing assumptions due to differing local and national economic conditions. The plan is regularly reviewed and updated across the year to ensure assumptions are up to date and robust.

Each year the Council faces pressures for a number of reasons which currently include

- Inflation
- Increased demographic demand
- Increased cost of Leaving Care
- Increased cost of waste disposal and landfill tax
- Financing costs of capital schemes
- Increased cost of utilities
- Loss of New Homes Bonus
- Development of local plans

These pressures require the Council to identify new savings and efficiency proposals each year to improve services, modernise the Council and balance the budget.

This process has identified that the Council will need approximately £12m of additional savings and efficiencies in order to balance the 2020/21 budget without the need for a Council Tax increase. Officers have been developing plans to identify this level of efficiency savings over the summer and are currently in the process of producing business plans to ensure all proposals are robust and deliverable. This will enable the savings to be incorporated into the 2020/21 budget after appropriate scrutiny and consultation.

The table below sets out an estimate of the adjustments required to the MTFS resulting in a projected £15.9m gap for 2020/21 before savings and the improved funding from the Spending Review.

Description	2020/21	2021/22	2022/23	2023/24	4 Year Plan
	£m	£m	£m	£m	£m
Corporate Pressures	8.316	9.460	5.304		23.080
Assumed Central Grant loss	8.175	0.358	0.000		8.533
Demographic and Inflationary Pressures	4.920	3.435	3.592		11.947
Savings agreed at February Council	-8.626	-9.849	-8.487		-26.962
OPENING MTFS	12.785	3.404	0.409	0.000	16.598
Updates to the plan since February					
Revision to Projected Grant position	-5.179	2.442	0.432	0.000	-2.305

Discontinued/unachievable savings	2.951	1.041	1.370	0.000	5.362
Replacement savings	-1.675	-0.025	0.000	0.000	-1.700
Local Plan costs	0.557	-0.357	0.000	0.000	0.200
Additional Demographic Pressures	7.503	2.623	0.664	4.023	14.813
Revision to Corporate pressures	-1.050	0.000	0.000	2.300	1.250
REVISED POSITION	15.891	9.128	2.875	6.323	34.217

Each of the Council's four Theme Officer Steering Groups were asked to identify savings and efficiency proposals to close the projected budget gap. Proposals were presented to the Theme Boards in June and were provisionally approved in concept to be developed into business cases. When this process is completed, the November Cabinet will be asked to consider the proposals, along with feedback from the public consultation and any Equality Impact Assessments that are needed.

For the purposes of early consultation, the list of projects currently being progressed is set out in Appendix A. Work is continuing over the autumn to develop these proposals into business cases and confirm the level of saving possible from each project. The expectation is currently that these projects will broadly close the budget gap alongside a review of corporate budgets.

1.5 Risks and Uncertainties

There are a number of risks associated with the current MTFS position. These include:

- Central Grant Funding uncertainty.

The Government have announced a one year spending review in September for 2020/21 but the multi year settlement will not now be announced until 2020. As stated earlier in this report the current assumption is that the settlement will not be significantly adverse from the 2019/20 position. Havering has coped well with past reductions in government funding but the cumulative impact makes it increasingly difficult to identify further efficiencies and cost savings, especially when the demand for many services is increasing.

- The current year revenue monitoring position

The Council is making good progress in delivering the service improvements set out in its Corporate Plan for 2019/20. However, the Period Three revenue monitoring position set out in Appendix B shows financial pressures across a number of service areas. In summary, if nothing changed during the year, managers are predicting an overspend of £2.39 million by the end of the year. Clearly mitigating action is being taken by departments to bring the Council back within budget. The key overspends are described below:

- Adults' (£716k) Adults' are experiencing significant increases in placement costs and commissioning activity. The service are working hard to both contain costs and to deliver the savings already in the budget. The MTFS recognises the pressure facing the Adults' budget and additional funds have been included in this area.
- Children's (£463k) Children's have undertaken a deep dive review of all their services. This has identified better working practices and efficiencies which has helped contain their demand pressures. The service continues to work hard to balance this position in 2019/20.
- Neighbourhoods (£818k) This pressure relates partially to the delayed delivery of the Keep Havering Moving strategy. Any continued delays will directly impact on the 2020/21 budget and MTFS position.
- Potential General Election

There may be a general election this autumn. A new Government will take time to form a view on direction for local government and potentially will delay again the key decisions to allow medium term planning.

1.6 Budget Consultation

Consultation on the budget is an important part of the annual budget cycle. It is proposed to consult with residents and key stakeholders on the list of proposed savings set out in Appendix A. This consultation will be launched on 26 September and will run until 3 November.

The Council will seek views from the general public, all key stakeholders and business ratepayers during this period via its online consultation tool, Havering Consultations. Paper copies of the survey will be available in locations across the borough eg libraries, the Town Hall and the PASC.

1.7 Capital Programme

The Council has a wide ranging capital programme which will provide extra housing and school forms of entry together with an ambitious regeneration programme. As part of the budget cycle all capital schemes are reviewed to ensure they are on track within budget and delivering the outcomes required by the authority. Changes to profiling of these schemes has a direct impact on revenue planning through capital financing charges.

There are two proposed additions to the 2019/20 capital programme which Cabinet is asked to consider and, if in agreement, recommend to Full Council:

- £4.0 million for the Smart Working Programme which is subject to a separate report on this agenda. The programme aims to provide the infrastructure to support a best in class workforce delivering best in class services. This requires the workplace and workspace to drive quality, not constrain it. The proposals for investment span digital and physical infrastructure, giving staff the working environment and tools they need for that innovative, ambitious and outcomes-focused culture to thrive. The Smart Working programme offers a potential step-change to harness new technology, increase flexibility and bring down silos within the workforce and enhance the customer experience through a 'control shift' putting them in the driving seat. In addition, the programme replaces a significant number of old Windows 7 devices which will no longer be supported from 2020 and deals with a backlog of repairs in Mercury House. The capital charges for the programme will be financed by leasing out vacant space freed up through the programme.
- £14.7 million is required to replenish the capital allocation for new opportunities. A significant opportunity arose to purchase the lease of the premises occupied by Marks & Spencers in Romford earlier this year which reduced the allocation by a similar amount. The annual lease income being received from Marks & Spencer covers the ongoing revenue costs of the purchase and makes a return to the General Fund.

The Council also considers potential new schemes as part of the budget process. This process is ongoing and any new schemes to be incorporated in the 2020-2024 Capital programme will be included in a future report.

REASONS AND OPTIONS

Reasons for the decision:

The Council has a statutory obligation to consult on its budget proposals. This report sets out the proposed method to be used for the 2020/21 budget and MTFS. The Council strongly values the opinion of its residents and key stakeholders and welcomes their input into the budget process.

Other options considered:

N/A

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 S 28 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 under a duty to "make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness." S3 Local Government Act 1999. As part of that process it must consult tax payers, those who use or are likely to use services and others who may have an interest in an area where the Council carries out its functions.

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.

Where consultation is undertaken it must comply with the 'Gunning' principles; namely it must be undertaken at a formative stage, sufficient information should be provided to enable feedback, adequate time should be given for consideration and responses and the feedback should be taken into account in any decision taken. The plans set out in the report in relation to the budget comply with these rules.

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;
- (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 and 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.

All front line proposals relating to the Medium Term Financial Strategy for the period 2020/21 to 2023/24 will be subject to an Equality and Health Impact Analysis or assessment, which will be developed following the consultation process for inclusion in the further reports to Cabinet before the budget is finalised in February 2020. This will further highlight where the MTFS has the potential to positively impact on health and wellbeing of residents through targeted provision of services, and where any identified negative impacts may be mitigated.

BACKGROUND PAPERS

None