

CABINET

Subject Heading:

2020/21 Budget and 2020-2024 Medium Term Financial Strategy

SLT Lead:

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Policy context:

This report sets out the Council's revenue budget requirement for 2020/21 and MTFS for the following three years. It makes proposals regarding the level of Council Tax required to meet the budget requirement. The report also provides an update on the outcome of the 2020/21 local government financial settlement.

Financial summary:

This report includes:

- the approach to setting the Council's 2020/21 budget and MTFS for the following three years
- the outcome of the local government finance settlement
- recommended Council Tax level for 2020/21.

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]

EXECUTIVE SUMMARY

The report sets out the Council's current financial situation and its approach to achieving financial balance over the period 2020/21 to 2023/24.

The Council has faced a very challenging ten years since the government's austerity agenda was launched in 2010. Back in 2010, the Council received £67 million in general government grant whereas this year we received nothing and next year we will only receive £1.4 million. The Council has had to face very difficult decisions over the last ten years to ensure it remains financially sustainable.

This challenge has been greater for Havering than many other London Boroughs. The formula used to calculate the general grant settlement has largely been frozen since 2013 and population growth has not been recognised by government since then. There is also a perversity in the system which has meant that Havering receives lower government grant simply because it has a higher Council Tax. The Council continually lobbies government that this is a major flaw in its methodology for allocating a number of grants.

Dealing with this unfair situation has had the benefit of making Havering the fifth most productive council in the country and the most productive in London and the south east for the second year running (IMPOWER Index 2019).

The new government has promised an end to austerity but unfortunately the recently announced Local Government Finance Settlement for 2020/21 still presents the Council with a challenge. There has been some additional funding provided for Social Care (£3.7 million) but this does not begin to meet the increase in costs the Council faces; driven not just by increases in both the elderly and child population but also by the complexity of the needs of the most vulnerable residents in the borough for example the aging population.

The government has offered a partial mitigation in that the Council has been given permission to increase its Council Tax by 2% as an Adult Social Care Precept. This report proposes that to avoid further cuts to Council services that this 2% increase is implemented.

But even beyond the Adult Social Care Precept, the Council is facing further budget pressures and it is proposed in this report that Council Tax is raised by a further 1.95% ie the total Council Tax increase proposed is 3.95%. This is just below the government's limit of 4% beyond which a Council Tax Referendum would be necessary (2% ASC precept plus 2% general Council Tax). The total of the 3.95% Council Tax increase raises just under £5 million.

The full extent of the budget pressures faced by the Council are set out in the table below. For next year, the pressures total £23.190 million.

Corporate Pressures	2020/21	2021/22	2022/23	2023/24	4 Year Plan
	£m	£m	£m	£m	£m
Future Contribution to Pension Fund	0.000	1.000	0.000	0.000	1.000
Assumed Loss of Grants (Including New Homes Bonus)	2.111	4.392	0.867	0.000	7.370
Change to Business Rate Pool Arrangement	1.500	0.000	0.000	0.000	1.500
Revenue Cost of Financing Capital Programme	4.983	7.029	2.299	0.167	14.478
Cost of Levies and freedom pass	-0.386	0.681	1.238	0.927	2.460
Growth (Libraries, Talent Hub and Local Plan)	0.976	-0.357	0.000	0.000	0.619
Review of Parking charges	1.624	0.000	0.000	0.000	1.624
Corporate Risk and General Balances/Reserves	2.944	2.815	1.114	0.000	6.873
Demographic Pressures	7.056	3.131	5.026	4.923	20.136
Inflationary Pressures	2.382	2.187	2.207	2.227	9.003
TOTAL PRESSURES	23.190	20.878	12.751	8.244	65.063

The Council's overall financial position has been balanced for 2020/21 as shown in the table below. Further proposals will need to be developed during 2020 to balance the later years.

Funding the MTFS	2020/21	2021/22	2022/23	2023/24	4 Year Plan
	£m	£m	£m	£m	£m
TOTAL PRESSURES	23.190	20.878	12.751	8.244	65.063
Funded By					
Updated savings previously agreed	-7.438	-9.853	-7.440	-0.500	-25.231
New Savings Proposals	-7.079	-2.667	-1.535	-2.293	-13.574
New Social Care Grant	-3.732				-3.732
Adult Social Care Precept	-2.528				-2.528
1.95% Council Tax Increase	-2.413				-2.413
FINAL POSITION	0.000	8.358	3.776	5.451	17.585

Despite these financial challenges, there are a range of service improvements built into the new MTFS. These include the reversal of the libraries savings included in last year's budget report, plus additional funding to extend opening hours. There is new capital investment eg in the public ICT facilities in libraries, improvement in parks, to build a new sports centre in Rainham and establish a major investment to be spent on Town Centre regeneration to support local business.

In relation to Parking, it is proposed that the following changes are made to the current charges:-

- 30 minutes free parking is reinstated across all on-street parking bays in the borough, but also extended to those in Romford. This is estimated to

require funding of £340k which can be met from the recent additional reduction in the ELWA levy.

- The current Sunday parking charges are recommended to be discontinued across the borough. This represents a loss of income of £1.084 million which can be funded from the larger than expected general government grant. This has yet to be confirmed by government officially but local government associations have been advised that there will be no changes from the provisional figures.
- A budget of £200k has also been set aside for a discount scheme for Havering residents who use the mobile phone app. This has also been made possible through the higher than expected government grant.

The Council continues to protect valued services such as the weekly bin collection and invest in additional policing. It is well on track to deliver the four year £40 million roads investment (2019/20- 2022/23) which has already seen over 1,000 potholes filled. The transformation programme is delivering improvements to services such as the new Local Area Co-ordinators being recruited in Harold Hill as well as cash savings through efficiency.

This report consists of the following sections:

- Policy and Strategic Context (Section 1)
- Background to the budget process and details of the local government finance settlement (Section 2)
- In-year financial position, consultation process, savings proposals and recommendations on Council Tax levels (Section 3)
- Update on the Medium Term Financial Strategy (Section 4)
- Impact of proposals on Council Tax levels (Section 5)
- Proposed Fees and Charges (Section 6)
- Contingencies and General Balances (Section 7)
- Update on the Capital Programme (Section 8)
- Budget risks and uncertainties (Section 9)
- Chief Financial Officer statement regarding the robustness of the budget (Section 10)
- Discount for Council Tax Payers Paying in Full (Section 11)
- Council Tax Support Scheme 2020/21 (Section 12)

RECOMMENDATIONS

Cabinet is asked to:

- Agree the Council's General Fund Budget Requirement for 2020/21 to be set at £130.104m as set out in paragraph 5.3.2 and Appendix E of the report;
- The Delegated Schools' draft budget set out in section 2.3 of this report;
- Agree a 1.95% increase in Council Tax for 2020/21 as set out in paragraph 5.1;
- Agree an additional 2% Adult Social Care Precept as in paragraph 5.1;
- Note the Medium Term Financial Strategy position as set out in Section 4
- Agree the fees and charges schedule as set out in Section 6 and Appendix F
- Note the budget and risks as set out in Section 9
- Approve the Council's approach to general balances as set out in paragraph 7.3
- Note the requirements of S106 of the LGA 1992 Act as set out in Section 1
- Agree that if there are any changes to the GLA precept and/or levies, the Chief Financial Officer be authorised to amend the recommended resolutions accordingly and report these to the next Council meeting as required.
- Agree that to facilitate the usage of un-ringfenced resources, the Chief Financial Officer in consultation with Service Directors will review any such new funds allocated to Havering; make proposals for their use; and obtain approval by the Leader and the Cabinet Member for Finance and Property.
- Delegate to the Chief Financial Officer in consultation with Service Directors the authority to make any necessary changes to service and the associated budgets relating to any subsequent specific grant funding announcements, where delays may otherwise adversely impact on service delivery and/or budgetary control, subject to consultation with Cabinet Members as appropriate.
- Delegate authority to the Cabinet Member for Adult Social Services and Health and the Leader to approve an annual spend plan for the Public Health grant.

- Delegate to the Directors of Children's and Adults authority to agree inflation rates with social care providers for 2020/21.
- Read the Equalities Impact Assessment in respect of the CTS Scheme as set out in Appendix J to this report.
- Read the draft summary version of the Council Tax Support Scheme for 2020 as set out in Appendix K to this report.

Cabinet is asked to recommend to Council for consideration and approval:

- The Council's General Fund Budget Requirement for 2020/21 to be set at £130.104m as set out in paragraph 5.3.2 and Appendix E of the report;
- The Delegated Schools' draft budget set out in section 2.3 of this report;
- A 1.95% increase in Council Tax for 2020/21 as set out in paragraph 5.1;
- An additional 2% Adult Social Care Precept as in paragraph 5.1;
- That it pass a resolution as set out in section 11 of this report to enable Council Tax discounts to be given at the 2019/20 level.
- Agree that Havering joins the 67% London Business Rate Pool for 2020/21 and agrees the Memorandum of Understanding (MOU) as set out in paragraph 3.3.5 and Appendix L despite it representing a reduction in revenue of £1.5m compared to the previous 75% pool.
- Recommend to Full Council that the Council Tax Support Scheme 2019/20 is adopted for 2020/21 as set out in Section 12 of this report
- Recommend to Full Council that the financial procedures for virements are updated as set out in paragraph 7.4 and Appendix M

REPORT DETAIL

1. Policy and Strategic context

- 1.1 This report presents the proposed 2020/21 budget and also an update of the Medium Term Financial Strategy (MTFS) between 2020/21 and 2023/24 that will support the delivery of the Council's objectives and priorities. The report includes a recommendation to increase Council Tax levels by 3.95% (including the Adult Social Care precept) in order to meet the new budget requirement whilst maintaining tight financial control and ensuring prudent levels of reserves and balances are maintained.

Councillors are reminded that Section 106 of the Local Government Finance Act 1992 requires any Member who is two months or more in arrears on their Council Tax to declare their position and not to vote on any issue that could affect the calculation of the budget or the Council Tax. Any Member affected by Section 106 who fails to declare could be subject to prosecution.

- 1.2 The Council's Corporate Plan sets out the Council's strategic direction for the next year. The Council's budget is directly linked to the delivery of the Council's vision – Cleaner, Safer, Prouder, Together
- 1.3 The Corporate Plan which is currently being updated for 2020 has 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.

- Healthy and active
- Best start to life
- Achievement at school
- Families and communities look after themselves and each other
- Supporting our most vulnerable

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.

- Keeping Havering clean and safe
- Quality Housing
- Delivering excellent leisure facilities
- Award winning parks

Opportunities

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

- Helping our businesses grow
- Helping people succeed in life
- Genuinely affordable quality homes
- Delivering value for money

Connections

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

- Smart Havering
- Improving Havering's roads and pavements
- Making it easier to get around

- 1.4 In summary, the Corporate Plan puts the focus for the next year and beyond onto continuing our investment in our roads and pavements, and maintaining weekly bin collections and making sure our streets remain clean and safe. We will invest more in our libraries to extend opening hours and increase the number of activities offered to users. We have invested in our leisure facilities and will invest in our town centres to make them more attractive places to both visit and attract investment in, creating employment and other opportunities for residents. Alongside this we will continue to offer value for money and keep the Council Tax as low as possible.

2. Background

2.1 Budget progress to date

On 18th September 2019, Cabinet was updated on the latest position on the medium term financial strategy. This showed a gap of £15.9m in the 2020/21 budget proposals. That report recommended consultation on a number of choices to reduce costs and make savings. In this report it is recommended that Council adopt a series of savings measures following a consultation process during the autumn months. These proposals together with the other updates set out in section 3 will balance the budget for 2020/21.

2.2 National Outlook and the 2019 General Election

The General Election on December 12th has resulted in a majority Conservative Government. The resulting Queen's Speech to open the new parliamentary session contained the following pledges relevant to the Public Sector

- The Government will embark on an ambitious programme of domestic reform that delivers on the people's priorities. For the first time, the National Health Service's multi-year funding settlement, agreed earlier this year, will be enshrined in law. Steps will be taken to grow and support the National Health Service's workforce and a new visa will ensure qualified doctors, nurses and health professionals have fast-track entry to the United Kingdom. Hospital car parking charges will be removed for those in greatest need.
- The Government Ministers will seek cross-party consensus on proposals for long term reform of social care. They will ensure that the social care system provides everyone with the dignity and security they deserve and that no one who needs care has to sell their home to pay for it. Ministers will continue work to reform the Mental Health Act.
- The Government will bring forward measures to support working families, raising the National Insurance threshold and increasing the National Living Wage.
- The Government will take steps to support home ownership, including by making homes available at a discount for local first-time buyers.
- New laws will require schools, police, councils and health authorities to work together to prevent serious crime. The Government will ensure those charged with knife possession face swift justice and that the courts work better for all those who engage with them, including victims of domestic abuse. Legislation will be brought forward to support victims of crime and their families.

2.3 The Local Government Financial Settlement

The Provisional Local Government finance settlement was announced on 20th December 2019. The announcement confirmed the position which had been indicated in both the 2019 Spending Review and the October technical consultation on the finance settlement

The main points of the settlement are set out below:

- **The 2020/21 local government finance settlement is for one year only.** It is based on the Spending Round 2019 funding levels, with individual authority allocations based upon Spending Review 2015 and subsequent funding announcements.
- **Council Tax** – As previously announced at Spending Round 2019, the council tax referendum limit will be 2% for local authorities with social care authorities allowed a 2% social care precept.

- **Business Rates Retention** – The three elements of the Business Rates Retention system (Baseline Need, NNDR Baseline and Tariff / Top Up amounts) have all increased by 1.63%, in line with the September 2019 CPI inflation figure. It is assumed that the Government will meet the loss of income resulting from new small business rate reliefs through additional section 31 grant.
- **Revenue Support Grant** – As outlined in the technical consultation, RSG has increased in line with the Business Rates Retention system (+1.63%).
- **New Homes Bonus** – The 2020/21 allocations have been announced. These will be paid with the legacy payments due from previous years (2017/18 to 2019/20). As previously announced, there will be no legacy payments for the 2020/21 in year allocations. Havering's taxbase increase was under the threshold to qualify for new NHB so Havering only received an extra £17,850 of new NHB based on the number of new affordable homes built.
- **Top Up/Tariff Adjustments (Negative RSG)** – As in previous years, the government has decided to eliminate the negative RSG amounts.
- **Social Care Funding** – Originally announced at Spending Round 2019, with further details provided in the technical consultation, the provisional settlement confirms the previously proposed national amounts and allocation methodologies. Havering has received an additional £3.732m of Social Care grant for 2020/21.
- **Rural Services Delivery Grant** – The 2020/21 allocation of £81m and methodology for distribution remain unchanged from 2019/20. Havering does not benefit from this grant.
- **Business Rates Pilots** – As expected, no new business rates pilots were announced for 2020/21, with all areas (aside) from the original 2017/18 pilot areas reverting back to the 50% scheme. The London pilot ended for 2020/21

Core Spending Power

The Government likes to use the term Core Spending Power to exemplify the increased level of funding available to councils for the forthcoming year. The table below sets out Core Spending Power increases for Havering.

The table shows that Havering's Core Spending Power has gone up by £9.584m (5.5%). The largest element of this increase relates to notional

local decisions on Council Tax increases (2% ASC Precept and 2% General Council Tax).

Havering – Core Spending	2019-20	2020-21
	£m	£m
Settlement Funding Assessment	35.379	35.955
Under-indexing business rates multiplier	1.108	1.385
Council Tax / ASC Precept	124.813	131.910
Improved Better Care Fund	5.618	6.624
New Homes Bonus	2.957	0.859
Winter pressures Grant	1.006	-
Social Care Support Grant	1.718	5.450
Core Spending Power	172.599	182.183
Change %		5.5%

Specific Grant allocations within the Core Spending Power 2020/21

Havering	2019-20	SR19	2020-21
	£m	£m	£m
Improved Better Care Fund	5.618	1.006	6.624
Winter Pressures Grant	1.006	-1.006	0
Social Care Support Grant	1.718	3.732	5.450
Total	8.342	3.732	12.074

Winter Pressures Grant

In 2019/20, £240m of additional funding was provided to councils to spend on adult social care services to alleviate winter pressures on the NHS. This was allocated using the existing Adult Social Care Relative Needs Formula. The funding was ringfenced to support the NHS in dealing with Winter Pressures and pooled into the Better Care Fund. For 2020/21, the winter pressures funding has been incorporated into the Improved Better Care Fund line and must therefore form part of local authorities' contribution to the BCF. Havering received £1.006m for winter pressures in 2019/20.

Improved Better Care Fund.

The Improved Better Care Fund allocations have not changed for 2020/21. The overall amount within the Core Spending Power now includes the £240m Winter Pressures Grant Funding (previously shown separately).

Havering received £5.618m IBCF in 2019/20. This has now been merged with the winter pressures fund giving a new 20/21 grant of £6.624m

Social Care Support Grant

In 2019/20, £410m of additional (non-ringfenced) funding was allocated for use for adult and children's social services. This was allocated using the existing Adult Social Care Relative Needs Formula and will also be used to distribute this Social Care Support Grant funding. For 2020/21, as announced in Spending Round 2019, an additional £1bn of funding was added to this grant.

The additional £1bn has been allocated as per the technical consultation, this being:

- £850m to be allocated using the Adult Social Care Relative Needs Formula, as per the existing Social Care Support Grant (i.e. the £410m allocated in 2019-20); and
- £150m to equalise the impact of the distribution of the adult social care council tax precept, using the current Improved Better Care Fund equalisation methodology.

Havering is disadvantaged by the decision to split this funding as it both pre-judges local decisions on the precept and penalises authorities who have high reliance on Council Tax for funding. The Council will continue to lobby to get the whole grant distributed by a formula reflecting relative need.

The funding is also for general social care including children's services. It is therefore disappointing that the formula does not reflect an element based on the pressures in this area which are chronic in London in particular

Independent Living Fund: Following the closure of the Independent Living Fund (ILF) in June 2015, the government agreed to continue funding pre-existing ILF arrangements until the end of 2019/20, through the Former ILF Recipient Grant. The ministerial statement confirmed that the former ILF Recipient Grant will continue to be paid to local authorities in 2020/21. The total value of the grant in 2020/21 will be maintained at the 2019/20 value (£585k for Havering).

Funding for the Troubled Families programme: The Government has announced nationally £165m to continue the troubled families programme for 2020/21. This funding will help more people in need get access to the early, practical and coordinated support to transform their lives for the better.

Dedicated Schools Grant and Schools Funding

The Dedicated Schools Grant (DSG) is a ring-fenced grant that is allocated to local authorities to meet their responsibilities for early years' education,

the funding of schools and for provision and support for pupils with special educational needs and disabilities and for pupils requiring alternative provision. The grant is allocated in four “blocks” and the Havering’s allocation for financial year 2020-21 is shown in table 1 below.

In September 2019, the Secretary of State for Education announced that funding for schools and high needs would rise by £2.6bn in 2020/21, plus £1.5bn to fund additional pension costs for teachers. Announcements followed in October confirming various elements and provisional allocations. Funding for early years provision has increased by £66m. The Government has now announced updated calculations reflecting the latest pupil numbers (using the January and October 2019 census data). Each local authority will, as usual, receive funding in four blocks, all of which have now been confirmed for 2020/21 (prior to recoupment of funding for Academies, which will be finalised in the coming months):

Table 1 - Havering's DSG allocation

	Schools Block				High Needs Block	Early Years	Central School Services Block	Total DSG
Year	Funding per pupil (£)	Pupil number allocation (£m)	Premises, pupil growth, falling rolls (£m)	Total Schools Block (£m)	Allocation (£m)	Allocation (£m)	Allocation (£m)	Allocation (£m)
2020-21	4,805.76	177.17	3.94	181.11	29.62	19.28	1.53	231.54
2019-20	4,623.49	169.06	4.66	173.72	25.29	17.63	1.57	218.21
Diff	182.27	8.11	-0.72	7.39	4.33	1.65	-0.04	13.33

Notes:

1. All of the above figures are before recoupment by the DfE for pupils attending academies, non maintained special schools and post 16 special educational needs provision.
2. The additional Schools Block funding includes funding for an increase of 302 pupils in Havering schools.
3. The funding for premises (business rates) pupil growth and falling rolls includes a reduction of £869k in the allocation of pupil growth/falling rolls funding from the DfE as a result of the introduction of a formulaic distribution of the funding nationally.
4. The Early Years block is indicative and will be recalculated based on the January 2020 and 2021 early years censuses.

- **Schools Block** - The allocations to local authorities include a 4% increase in the formula factor rates within the national funding formula and meet the Conservative Manifesto commitment to provide at least £5,000 for every secondary school pupil, and £3,750 per primary pupil. Local authorities are required to ensure that these minimum per pupil levels are delivered in constructing their local funding formula although many schools will already be above these levels. In Havering this applies to only two primary schools and one secondary school.

Following agreement with the Schools Funding Forum and consultation with all schools, Havering is able to apply the national funding formula in full with a minimum 0.5% per pupil increase for all mainstream schools and academies with a cap of 4% for schools that would have otherwise have received a higher per pupil increase.

The effect on Havering schools of implementing the NFF in 2020-21 is as follows:

	No of schools receiving the minimum 0.5% increase per pupil	No of schools receiving an increase between 0.5% and 4% per pupil	No of schools receiving the maximum 4% increase per pupil
Infant	1	7	4
Junior	0	4	8
Primary	1	18	18
Secondary	3	10	5
Total	5	39	35
	6%	49%	44%

Although this provides an increase in funding for all schools in Havering, many will continue to struggle to set balanced budgets as a result of past and continuing financial pressure in having to fund national pay awards, incremental progression, increases in employer national insurance and pension contributions and inflationary increases on goods and services. School governors and head teachers are therefore continuing to implement efficiencies in the costs of running of their schools in an attempt to avoid falling into deficit.

In agreeing to the formula for distribution of funding to schools in 2020-21 the Schools Funding Forum has also agreed to use £0.8m of the Schools Block to meet commitments in pupil growth and falling rolls following the reduction in funding from the DfE. Also agreed was a transfer of £0.5m to support the High Needs Block, which, in spite, of the £4m increase in 2020-21 is coming under increasing pressure from an increasing number of children with Education Health and Care plans and a greater complexity of need.

- **Early Years Block** – the additional £66m has been allocated to local authorities by increasing by 8 pence the hourly rates used to fund parents' free entitlement to early years provision for 2 year olds and 3 and 4 year olds which is to be passed on to providers.

Havering's rates of funding are as follows:

	2 year olds	3 & 4 year olds
2019-20	£5.66	£5.28
2020-21	£5.74	£5.36
Increase	£0.08	£0.08

From a local authority's allocation, the pass-through rate to providers is 95% including contingencies and an inclusion fund to support access for children with special educational needs and disabilities. The remaining 5% is for local authorities to carry out their statutory duty to ensure sufficiency of provision, quality assurance, the funding of providers, data management control and business support.

Consultation with early years providers is currently underway to confirm Havering's funding arrangements for 2020-21.

- **High Needs Block** – as with schools' funding, the distribution of funding from central to local government is through a national formula. The formula for High Needs funding includes a number of factors including historic funding, pupil population, deprivation and the number of pupils attending special schools and post 16 provision. In 2020-21 the allocations include a minimum 8% increase in the funding for pupil population.

In common with many other local authorities, Havering will have difficulty in containing its expenditure with the allocation of funding because of an increasing number of pupils and students with Education, Health and Care plans and increasing complexity of need.

- **Central School Services Block** - this block is to fund some of the statutory education functions of local authorities that in previous years has been funded from the Schools Block and an Education Services Grant. This block also allocates funding for an LA's historic commitments previously funded within the Schools Block. Statutory functions include school admissions, the funding of national copyright licences, servicing the Schools Forum and other statutory duties previously funded from an Education Services Grant.
- **Education Services Grant (ESG)** The ESG ceased from September 2017 and local authorities now receive funding on a per pupil basis through the Central Schools Services Block of the Dedicated Schools Grant. The reduction in grant leaves a shortfall against the cost of providing LA statutory

services in spite of the savings made centrally and a contribution from LA maintained schools to meet the cost of central services relating only to that sector.

Table 2 – Shortfall in funding	£m
Estimated service costs in 2020/21	1.769
DSG Central Services Block for LA central duties (previously ESG grant)	(0.576)
Contribution from schools	(0.305)
Shortfall	0.888

The intention is to manage the shortfall in funding as part of the ongoing transformational review of the service. The service will come forward with longer-term proposals for implementation aimed at minimising the future funding gap. In the meantime, a contribution from the reserves held to support the investment in education traded services will be used to supplement the funding already earmarked corporately to cover the shortfall shown above.

2.5 Future Funding beyond 2020/21

The Government announced a one year spending review in September 2019 to cover 2020/21. This has been backed up by the 2020/21 provisional settlement. The position thereafter is less clear and is subject to the forthcoming 2020 Spending review and other reforms of Local Government Funding.

The Government have indicated the following process for future years.

- **Spending Review 2020**

This is probably the most significant financial announcement for local government in 2020. The Spending Review will determine the overall funding levels for government departments for the spending period. This will therefore set the total amount to be spent on public finance for 2021/2022 and future years.

- **Future Arrangements for Adult Social Care**

The Government has been silent on previous commitments to produce an Adult Social Care Green paper. The Government has confirmed that the £1bn new funding for Social Care will be continued across the lifetime of the parliament. This will only partially mitigate pressures facing Adult Social Care up to 2025 and the funding gap will need to be closed. There is clearly a potential significant pressure on local authorities depending on the path the government chooses to take on funding.

- **The Fair Funding Review**

The Fair Funding Review is likely to be implemented for the 2021/22 settlement with the aim to review all the distribution formulae and data used for allocating funding to individual authorities. This will include population data, deprivation indices, sparsity and density factors and a whole series of

other datasets including area cost adjustments used to distribute funding. The outcome of this review is likely to result in significant distributional changes between local authorities across the country. All London Boroughs and London Councils have lobbied hard to ensure that population growth, cost of living and deprivation factors experienced in London are fully reflected in the new formula.

- **Business Rate Reform**

The Government has ended the current pilot London pool for business rates. The Government is however committed to 75% business retention in the future.

- **Rebasing of funding**

One of the features of the previous four year settlement was the announcement of grant figures for four years up to and including 2019/20. Whilst this has provided stability up until now it does equally create significant uncertainty looking forward. As an example the Council currently receives S31 grants to compensate for losses to business rates through national initiatives. It is expected that these will be discontinued when the whole finance system is rebased for 2021/22.

In 2019/20 Havering has received £5.6m in Improved Better Care Funding (IBCF). The 2019 Spending Review commits to a further year of funding at a similar level. It is expected that updates on IBCF or its replacement will be included in the Adult Social Care future proposals for 2021/22 onwards but at the moment there is no clarity to give confidence for future planning.

3. In-year financial position, consultation process, savings proposals and recommendations on Council Tax levels

3.1 Current Financial Position 2019/20 Revenue Monitoring

The development of the 2020/21 budget and MTFS has fully taken account of the financial position being reported for 2019/20. The period 7 monitoring report reported an overspend across Council service departments of £1.750m for 2019/20. The Senior Leadership Team has continued to focus on measures to contain expenditure within the approved budget in order to ensure financial stability as a basis for the 2020/21 budget and beyond.

The main areas of overspend at period 7 are Children's Services (£0.9m), Neighbourhoods (£0.8m) and Adults (£1.0m). However these overspends are expected to be offset by Corporate underspends. Services are working hard to develop ongoing mitigating actions for these overspends.

The monitoring position will be improved at year end by a projected underspend of £0.95m on capital financing and treasury budgets and unspent central contingency balancing the overall position. Further mitigations will be

sought over the final months of the year to reduce the service overspends where possible.

The month 7 reported position for **Children's Directorate** is an overspend of £0.9m. The main areas of pressure continue to be staffing budgets in social care and placement costs primarily for looked after children and children with disabilities, along with increasing pressures in Primary and Special Home to School transport. The service continues to work hard to develop plans and mitigating actions in order to reduce the overspend.

The period seven year end position for **Neighbourhoods** is forecast to overspend by £0.8m. The overspend mainly relates to slippage in the delivery of some elements of the Keep Havering Moving Programme.

The **Adults** budget is forecasting an overspend of £1.0m. Adults continues to experience increases in demand particularly in complex cases and ones requiring one to one support. The service has mitigated the 2019/20 position using one off funds and the MTFS addresses and recognises the ongoing pressures faced by the service. The position beyond 2020/21 is less clear and it is hoped the SR2020 will finally address the chronic funding shortages in this area.

3.2 Proposals to close the 2020/21 financial gap

In February 2019 Full Council set a balanced budget for 2019/20 and was presented with a medium term forecast gap of £16.598m for the three years 2020-2023. The medium term planning process is a live process taking account of changes to forecasted pressures and updated savings proposals. An update on the plan was presented to September Cabinet setting out the latest pressures and forecasted financial gap (see table below).

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 (Appendix A)	-1.685	-0.025	0.000	0.000	-1.710
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	-1.040	0.000	0.000	2.300	1.240
POSITION at SEPT CABINET	15.891	9.128	2.875	6.323	34.217

This identified that a gap of £15.9m needed to be closed in order to balance the 2020/21 budget. This has been achieved in a number of ways.

3.3 Proposals to close budget gap for 2020/21

New Savings £7.1m in 2020/21 rising to £13.6m by 2023/24

A wide range of new savings proposals have been identified to help balance the budget. Business cases were developed to support these proposals and the budget consultation between September and November 2019 sought the opinion of the public and key stakeholders. It is recommended that savings proposals totalling £7.1m in 2020/21 rising to £13.6m by 2023/24 are incorporated in to the Council's budget for next year. These proposals are listed at **Appendix B**.

Consultation process:

The September Cabinet paper included an Appendix listing a number of areas to consider for efficiencies and savings. These ideas were consulted on between September and November reaching out to the public and key stakeholders. **Appendix C** sets out the results of the consultation.

The main outcomes were as follows:

The three services that were most important to respondents are:

- Community Safety
- Care and support for older and disabled people
- Child protection and safeguarding

The latter two services are invested in heavily by the Council. Community Safety has received additional funding recently eg. to fund additional local police officers in the borough until 2024.

In 2018, 'Refuse Collection – domestic waste and recycling' was the third most important service and is now 4th.

A few respondents stated that it was 'difficult' to choose which services are the most important as they are all 'vital to living in a decent community'.

The three services that were least important to respondents are:

- Garden waste collection
- Cultural facilities (e.g. theatres and arts centres)
- Major public events (e.g. Christmas events, Havering show)

The Council's budget already reflects these lower priorities with charges in place to recover much of the cost of garden waste collection (although not all) and limited funding invested in cultural facilities and events.

Most income generating ideas were favourable received. Lower numbers of positive responses were received in relation to Cremation Fees (24%) and Premium Saturday Appointments Fees (42%) and this is reflected within the comments where a number of respondents were displeased about the Council charging people whilst they were grieving. For Saturday appointments, individuals stated that this penalises the Monday-Friday 9-5 worker who can only do Saturdays. However, the Council's proposals are reflective of charging by other providers.

The following proposals were suggested by respondents:

- Reviewing the image of a modern town centre
- Use of more online services
- Rental of council spaces
- Fees and licenses
- Enforcement (litter, yellow box junctions etc.)
- Providing training and support to staff to reduce consultancy / agency spend
- Reviewing fraudulent claims
- Centralising staff and promoting working from home.

All these areas are currently under review within the Council to deliver better efficiency ie. the same service or even improved services at lower cost to the council tax payer.

Respondents are concerned about the reduction of services (including the number of restructures) and impact this will have on service delivery. This is unsurprising given the reductions in government funding and the growth in demand that the Council has had to manage over the last 10 years. However, it may be the worst is over with some positive news in the recent Spending Review and the fact Havering is much less dependent on government funding now than it was a decade ago.

A few individuals stated that they felt little or no impact from council reductions but a number of respondents felt there was an impact on the following services:

- Libraries
- Pavements, bridleways, footpaths and roads
- Crime and Community Safety
- Parking
- Street cleaning
- Mental Health and Social Care support

The Council continues to do what it can to find space in the budget for service improvements. There are a range of new initiatives built into the budget proposals from 2020/21.

It has been possible to respond positively to the feedback on libraries and parking following a better than expected financial settlement from the government and some late good news from the East London Waste Authority on its levy (which has fallen further due to Havering's tonnages of waste reducing).

The budget proposals include an increase in funding for libraries of £200k, allowing for at least five days a week opening in all libraries and no closures. The consultation activity across the borough over the summer, including public meetings in the libraries, demonstrated that residents value their local libraries particularly as places to go to meet with others in their neighbourhood. The Transformation Programme includes proposals to pilot Community Hubs in Harold Hill Library and Rainham Library.

In relation to Parking, it is proposed that the following changes are made to the current charges:-

- 30 minutes free parking is reinstated across all on-street parking bays in the borough, but also extended to those in Romford. This is estimated to require funding of £340k which can be met from the recent additional reduction in the ELWA levy.
- The current Sunday parking charges are recommended to be discontinued across the borough. This represents a loss of income of £1.084 million which can be funded from the larger than expected general government grant. This has yet to be confirmed by government officially but local government associations have been advised that there will be no changes from the provisional figures.
- A budget of £200k has also been set aside for a discount scheme for Havering residents who use the mobile phone app. This has also been made possible through the higher than expected government grant.

There is new capital investment built into the budget. The public ICT facilities in libraries will be replaced to improve digital access for visitors. There will be new investment in parks starting with removing the silt from the lake at Harrow Lodge Park. Following a 'community conversation', Cabinet has approved plans for a new sports centre in Rainham. A major investment pot of £15 million has been built into the capital programme to be spent on Town Centre regeneration to support local business.

The Council continues to protect valued services such as the weekly bin collection and invest in additional policing. It is well on track to deliver the four year £40 million roads investment (2019/20- 2022/23) which has already seen over 1,000 potholes filled. The Transformation Programme is delivering

improvements to services such as the new Local Area Co-ordinators being recruited in Harold Hill as well as cash savings through efficiency.

Spending Review (Social Care and Demographics)

On September 4th the Government announced a one year Spending Review to cover the 2020/21 financial year. The Spending Review provided a promise of new funding for Social Care including the option for a 2% precept for Adult Social Care. The Government has indicated that this level of funding will continue for the rest of this parliament. The new funding is welcomed and has helped reduce the financial gap for 2020/21. The funding will help mitigate the current pressures both Adults' and Children's social care are reporting in the revenue monitoring report. The funding will also help mitigate further demographic and inflationary pressures built into the MTFS which will be ongoing as client numbers continue to rise.

Spending Review (Business Rate Pooling)

The 2019 Spending Review has also indicated the end of the Londonwide 75% pilot business rate pool. This is very disappointing as the London pilot is one of the best examples of collaborative working between councils and between tiers of government. London has expended a significant amount of capital in forging agreement not only between the 32 boroughs and the City of London Corporation that make up London Councils, but also between London Councils and the Mayor of London and GLA and its functional bodies. The scheme balances a range of objectives and incentives for individual authorities, groups of councils and London overall and reflects the sort of imperatives that Ministers also pressed for. Havering had previously benefitted by £1.8m through this arrangement.

Proposed new 67% London Business Rates Pool

London Boroughs are now proposing a new 67% pool which is a decision outside the Government's pilot pool arrangements. The potential financial benefits of London pooling under the 67% scheme are not as great as under the current 75% retention pilot. Firstly, there would be less growth retention (67% versus 75%), and, secondly, there would be a lower saving on levy payments, as the pool would pay a levy on growth (as all tariff areas would normally do). The financial benefit comes from the pool overall paying less in levy than the London tariff authorities would have paid individually. It is estimated that this pool will provide £300k of benefit to Havering which will partially compensate for the Government's decision to discontinue the 75% pool.

It is recommended that Havering joins the new London-wide Business Rate Pool for 2020/21 and signs and approves the Memorandum of Understanding (MOU) set out in Appendix L.

Reduction in the East London Waste Levy

At its recent meeting in early December the East London Waste Authority (ELWA) announced a reduction to the projected levy for next year. The change in the projected levy relates to returned unused surpluses from 2018/19 and a reduction in the projected tonnages for 2020/21. Previously ELWA were forecasting a £1m increase in our levy. There will now be a small reduction in the levy resulting in a £1.6m improvement in the planned forecast.

Change to the forecasted pension fund contributions

Havering has recently received the outcome of its latest tri-ennial review of the pension fund. The actuaries have recommended no change in our assumptions for 2020/21 and an extra £1m be added from 2021/22 but no further increases in 2022/23. As a result there is a reduction to assumptions from 2021-2024 across the medium term plan.

Potential Cost of additional Capital expenditure

The medium term financial projections presented to Cabinet in September fully incorporated the financial implications of the capital programme agreed in February 2019.

There are also a number of new Capital bids for inclusion in the revised programme from 2020/21 onwards. These bids are listed at **Appendix D** and if approved will have revenue implications including a £0.3m pressure in 2020/21.

Further Announcements

The Government has only just formed and as such is still in the process of making announcements on its plans for next year. There is significant uncertainty regarding 2021/22 and the impact of funding reforms to local government generally and London in particular. To help safeguard against this risk it is recommended that any one off funding surpluses that may emerge in the final budget setting are added to the business risk reserve and held centrally for future use.

Recommended increase in Council Tax level

The items listed above will significantly reduce the forecast budget gap for 2020/21. In order to balance the budget it is recommended in addition the Council implement the 2% Adult Social Care Precept and that the general Council Tax is increased by 1.95%.

The table below sets out the financial implications of these changes

Description	2020/21	2021/22	2022/23	2023/24	4 Year Plan
	£m	£m	£m	£m	£m
POSITION at SEPT CABINET	15.891	9.128	2.875	6.323	34.217
New Savings Proposals following consultation	-7.079	-2.667	-1.535	-2.293	-13.574
Spending Review (Additional Social Care Funding)	-3.732	0.000	0.000	0.000	-3.732
Spending Review (End of the 75% Business Rate Pilot)	1.500	0.000	0.000	0.000	1.500
Spending Review (Adult Social Care Precept)	-2.528	0.000	0.000	0.000	-2.528
Funding for extra hours in Libraries	0.200	0.000	0.000	0.000	0.200
Review of Parking charges	1.624	0.000	0.000	0.000	1.624
Update to demographic pressures	-2.669	0.180	1.634	1.500	0.645
Updated Growth and Pressures	0.643	0.892	0.612	0.127	2.304
Reduction in projected ELWA Levy cost	-1.686	-0.619	-0.062	-0.373	-2.740
Cost of New Capital Bids (Appendix D)	0.249	1.444	0.252	0.167	2.112
Proposed Council Tax Increase 1.95%	-2.413	0.000	0.000	0.000	-2.413
REVISED POSITION	0.000	8.358	3.776	5.451	17.585

3.4 Budget Process

The process to set the budget and medium term financial strategy is an ongoing process and in effect starts at the beginning of the financial year. The process is robust and fully takes account of the following factors:

- Inflation Rates
- Demographic Assumptions
- Interest Rates and the cost of borrowing
- Current in-year pressures
- Implications of the future Capital programme
- Prudent levels of balances and reserves

The Section 151 officer oversees the budget process at all times and is therefore able to produce a statement of robustness of the budget which is set out in Section 10 of this report.

- 3.5 Provision is made in the budget for increases in major contracted services. The proposed increases for contracted services, which mainly relate to contracts based on an RPI index, are broadly in line with that level, but subject to the specific circumstances applicable to each individual contract. For social care, negotiations are underway with providers, within the broad parameters set for the overall budget, and these are likely to be agreed prior to the start of the financial year. To enable these negotiations to progress, it is recommended that Cabinet delegates authority to the Directors of Children's and Adults' services to agree inflation rates with social care providers.

- 3.6 Each year the Government allocates a public health grant to be spent on a series of health pressures and initiatives. It is recommended that the Council delegate authority to the Cabinet Member for Adult Social Services and Health and the Leader to approve an annual spend plan for the Public Health grant.

4 The Medium Term Financial Strategy 2020-2024

The proposals in section 3 will balance the 2020/21 budget. There is however still a gap of £17.6m over the remaining 3 years of the medium term financial strategy.

The table below sets out the current Medium Term Financial Strategy

Medium Term Financial Strategy	2020/21	2021/22	2022/23	2023/24	4 Year Plan
	£m	£m	£m	£m	£m
Corporate Pressures	13.752	15.560	5.518	1.094	35.924
Demographic Pressures	7.056	3.131	5.026	4.923	20.136
Inflationary Pressures	2.382	2.187	2.207	2.227	9.003
TOTAL PRESSURES	23.190	20.878	12.751	8.244	65.063
Funded By					
Updated savings previously agreed	-7.438	-9.853	-7.440	-0.500	-25.531
New Savings Proposals	-7.079	-2.667	-1.535	-2.293	-13.574
New Social Care Grant	-3.732				-3.732
Adult Social Care Precept	-2.528				-2.528
1.95% Council Tax Increase	-2.413				-2.413
REVISED POSITION	0.000	8.358	3.776	5.451	17.585

4.1 Closing the Medium Term Financial Gap

At this stage it is prudent to flag the continuing risks for 2021/22 in particular but there is work ongoing which it is expected will close the gap for that year during 2020. This includes:

- Spending Review

There is the potential for an improvement in the funding position following the Spending Review 2020

There is still considerable uncertainty about future external support from 2021/22 onwards so the Council has sensibly adopted a cautious position in its medium term planning. It is possible that the Spending Review expected later in 2020 will give assurity on some funding streams and allow the medium term assumptions to be reviewed.

Announcements on the future of Social Care funding are expected in 2020 and will hopefully provide some clarity on the options the Government are considering to fund this sector. It is anticipated that the future proposals will confirm the continuation of external funding to support Adult Social Care.

- Further transformation savings

The transformation programme was created to support, develop and enhance efficiency and improvement across the Council in a wide range of areas. The programme acts as a conduit bringing together cross council initiatives and developing joined up service delivery. The transformation programme has made significant savings already over the last two years. Further service reviews and procurement initiatives are planned to help ameliorate the future year pressures in the MTFS.

- Updated Capital Financing Assumptions

The medium term financial strategy assumes a prudent position on the major regeneration schemes. If the schemes are able to progress as forecasted in the business plans then the level of income generated will potentially exceed the current planned position.

5 Total Council Tax Impact

- 5.1 Havering is proposing to increase Council Tax by 1.95%. It is proposed in addition to increase the Council Tax by a further 2% via the Adult Social Care Precept.
- 5.2 As set out in the section below the Mayor is proposing to increase the GLA precept by 3.60%. This gives a total net increase in Council Tax of 3.89% as shown in the table below:

	2019/20	2020/21	2020/21	2020/21
	HAVERING	HAVERING	GLA	TOTAL
Band A	938.77	975.85	221.38	1,197.23
Band B	1095.23	1,138.49	258.28	1,396.77
Band C	1251.69	1,301.13	295.17	1,596.30
Band D	1408.15	1,463.77	332.07	1,795.84
Band E	1721.07	1,789.05	405.86	2,194.91
Band F	2033.99	2,114.33	479.66	2,593.99
Band G	2346.92	2,439.62	553.45	2,993.07
Band H	2816.30	2,927.54	664.14	3,591.68

GLA Council Tax Proposals

The GLA have indicated that the precept will rise by 3.60%. The Mayor's budget and precept will be presented to the London Assembly on 24th February for approval. This section will include further paragraphs from the Mayor on his proposed budget in the final report to full Council

5.3 Budget Requirement, Council Tax resolution and Taxbase

The budget requirement, taxbase and Council Tax Resolution is set out in full at Appendix E.

5.3.1 Taxbase:

The 2020/21 Council Tax Base is calculated as;

90,054 Band D equivalents
98.70% Assumed Collection Rate
88,883 Total Council Tax Base

5.3.2 Budget Requirement

That the following amounts be now calculated by the Council for the year 2020/21 in accordance with Sections 31 to 36 of the Local Government Finance Act 1992 as amended:

(a)	£523,838,109	being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(2) of the Act.
(b)	(£393,733,840)	being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(3) of the Act.
(c)	£130,104,269	being the amount by which the aggregate at (a) above exceeds the aggregate at (b) above, calculated by the Council in accordance with Section 31A(4) of the Act as its Council Tax requirement for the year.
(d)	£1,463.77	being the amount at (c) above divided by the taxbase, calculated by the Council, in accordance with Section 31B of the Act, as the basic amount of its Council Tax for the year.

5.4 The new Council Budget for 2020/21 is set out in Appendix F.

6 Fees and Charges

6.1 The Council annually reviews its fees and charges to customers. **Appendix G** sets out the proposed fees and charges for 2020/21. In setting the fees and charges the Council takes account of:

- Full Cost recovery where appropriate
- Statutory Fees
- Inflation
- Benchmarking and other market comparators
- Delivery costs for social care providers.

7 Contingency, Reserves and Balances and update to Financial Procedures

7.1 The Council maintains a £1m central contingency budget as a sensible and prudent measure to mitigate unforeseen in-year events. When departments show an in-year overspend position the expectation is that they will develop an action plan to mitigate the pressure. The medium term financial strategy recognises demographic and inflationary pressures so the central contingency is maintained purely for unforeseen events.

7.2 Earmarked Reserves

Earmarked Reserves are time limited reserves for specific purposes. Some reserves such as the Insurance Fund will need to be replenished each year in line with projected future claims whilst others will be expected to be spent over the next four years. The Council makes decisions to set up reserves where funding is required in future years as projects are identified.

It should be noted that the Council will always seek to contain costs and minimise the need to draw on the planned reserves where possible. The Council reviews reserves through the year and particularly at year end in order to ensure appropriate funds are set aside for future year projects and requirements and funds are released where they are no longer required.

7.3 General Balances

The Council's currently holds £12.2m in general balances. This figure is assessed annually at year end based on the inherent risks facing the authority and is reviewed as part of the external audit process. With the uncertainty of the current economic situation and also more generally the continuing impact of the previous 10 years of austerity the MTFS makes provision to increase balances over the life of the medium term plan.

The historic rule of thumb from the now defunct Audit Commission was that 5% of net budget should be held as a General Reserve that should be untouchable except in major emergencies. The Council holds slightly more

than this at 7% of net budget. However, the volume and complexity of the issues facing local government and the level of public expectation of councils from their residents suggests this is no longer sufficient. Many London Boroughs hold 14% and some significantly more. The events at Grenfell have made all councils reconsider the reserves they hold. It is recommended that a number of additions are made to the Council's reserves over the next four years to build them up towards £20 million or 14% by 2023/24.

7.4 Update to Financial Procedures

The Council periodically reviews its financial procedures and rules to reflect the appropriate levels of authorisation for senior officers and cabinet members. **Appendix M** sets out the recommended levels of authorisation for virements for approval by Council and adoption into the Council's financial regulations, in line with the key decision level.

8 The Capital Programme and Strategy

- 8.1 The Capital Strategy and Programme is presented in a separate report on this agenda. The Medium Term Financial Strategy takes full account of the interest and borrowing cost of the proposed programme. This includes the revenue implications of a number of new bids which are included for approval by Council.

The Table below sets out the proposed General Fund Capital Programme for the next five years.

Summary of Capital Programme	2020/21	2021/22	2022/23	2023/24	2024/25	2024/25	Total
	£m	£m	£m	£m	£m	£m	£m
Adults Services	4.463	0.000	0.000	0.000	0.000	0.000	4.463
Asset Management	45.502	0.824	0.000	0.000	0.000	0.000	46.326
Bereavement Services	6.417	0.000	0.000	0.000	0.000	0.000	6.417
Childrens Services	3.615	0.000	0.000	0.000	0.000	0.000	3.615
Customer & Communications	14.956	3.916	0.985	0.500	0.000	0.000	20.357
Environment	15.134	2.000	2.000	0.000	0.000	0.000	19.134
ICT Services	4.020	1.120	1.080	2.200	0.000	0.000	8.420
Regeneration	24.872	7.188	5.323	0.000	0.000	0.000	37.383
Sub Total	118.979	15.048	9.388	2.700	0.000	0.000	146.115
Regeneration Programme	223.468	98.212	57.303	65.979	19.360	2.693	467.014
Total Capital Expenditure	342.447	113.260	66.691	68.679	19.360	2.693	613.129
Funding							
Capital Receipts	120.256	55.000	30.000	46.535	7.783	0.000	259.574
Revenue and Reserve Contributions	0.146	0.000	0.000	0.000	0.000	0.000	0.146
Grants & Other Contributions	46.890	0.824	0.000	0.000	0.000	0.000	47.714
Borrowing	175.155	57.436	36.691	22.144	11.577	2.693	305.695
Total Funding	342.447	113.260	66.691	68.679	19.360	2.693	613.129

9 Budget Risks and Uncertainties

9.1 There are a number of risks and uncertainties which could potentially impact on the 2020/21 budget and also medium term forecasting. This section summarises those risks. **Appendix H** sets out these risks in more detail.

- **Spending Review 2020:**

The Government is proposing a multi year Spending Review in 2020. The spending review is likely to set the overall financial envelope for local government from 2021/22 onwards, although at this stage it is not clear how many years it will cover.

- **Reform of Adult Social Care:**

The Government is expected to set out the national funding position for adult social care over the medium term. It is unclear at present the extent to which local government and indeed local taxation will be expected to foot this bill.

- **Fair Funding Review**

The Fair Funding Review outcomes will be built into the 2021/22 budget. The review is expected to be wide ranging and will cover all cost drivers for local authorities. It is unclear at present how the government will choose to weight the various formulae and datasets available. There is therefore a direct risk to Havering's funding if the demographic pressures the borough is facing are not fully reflected in the revised formula.

- **Potential implications from the change in the relationship between the UK and the EU**

The potential implications of the UK leaving the EU remain unclear. There is the potential for changes to the strength of the pound, interest rates and inflation in terms of goods, services and staffing. There may be additional short term costs.

- **Loss / Reduction in Business Rates**

In 2020/21 the 75% Londonwide business rate pool pilot will end. Localised business rates allows boroughs to benefit from any growth but also brings the risk of losses from non collection and successful business rate appeals. This risk needs close monitoring through the year.

- **New Legislation/Burdens**

The Government periodically reviews national service provision and can transfer new burdens onto local government. When this happens there is always a risk that either the amount or the funding mechanism results in a new pressure for authorities.

- **Changes to Interest Rates/ Inflation**

The national economic situation is uncertain. As a result changes to interest rates and inflation levels are possible. An increase in inflation will potentially result in pressures on both pay and price locally and nationally.

- **Demographic pressures**

Increased population has resulted in demographic pressures over a number of years. Demographic pressures continue to be a significant risk both through government underfunding and accelerated population growth in the borough.

- **Pension Fund Performance**

The medium term financial strategy takes account of the latest triennial actuarial review of the pension fund. There will be a further review in 2022 and there is a risk of increased general fund and HRA contributions if the deficit has increased on the fund.

- **In-year pressures and overspends**

The 2020/21 budget is a robust balanced budget that takes account of all known pressures facing services. There remains a risk however that increased demand over forecasts will result in service overspend next year.

- **Future waste disposal arrangements**

The current contractual arrangements with Renewi expire in 2027. ELWA are planning significant investment to secure future arrangements after that date. Future potential costs are therefore volatile and subject to those negotiations.

- **Risks associated with the delivery of the regeneration programme**

The Council has an ambitious and far reaching regeneration programme which will rejuvenate key areas of the borough. There are however associated risks with the programme which are set out in detail in the business cases of the various schemes. The risks include:

- **Cost of delays:** Delays to the programme result in some work needing to be repeated and updated and the cost of finance being incurred before it is required
- **Additional cost of re-design and changing plans:** If the plans are changed significantly this causes both delay costs as described above and potentially abortive costs on the original plans.
- **Impact of a downturn in housing prices:** The schemes assume sales valuations in order to achieve returns on investment. Clearly a downturn in the Housing market, eg due to delays in Crossrail, will affect these assumptions.
- **Impact of inflation:** The models assume costs over the medium term. If inflation increased significantly this would have a direct impact on these costs.

- **Changing build costs/variations:** As the schemes progress it is possible that variations to the original specifications or additionality is required to deliver the required outcomes
- **Changes in legislation:** All assumptions are based on current regulations. Should any national legislation change regarding building works then this could affect the overall costs
- **Issues with land eg. contamination:** There are currently no expected issues with any of the land involved in the various regeneration schemes. It is possible albeit unlikely that an issue may emerge as the projects progress.
- **Overall financial risk:** The Council will invest significantly in the early years of these schemes with a return on investment in some cases maturing only in the medium term. Adverse movement in the assumptions caused by any of the above reasons will affect the financial modelling set out in the business cases and is therefore a material risk to the Council.

In mitigation, the Regeneration Joint Ventures include a number of mechanisms for the partners to exit from arrangements where schemes become unviable.

10 Chief Financial Officer (S151 Officer) statement regarding the robustness of the budget and MTFS

10.1 Section 25 of the Local Government Act 2003 requires Chief Financial Officers to report to their authorities about the robustness of estimates and the adequacy of reserves when determining their budget and level of council tax. Authorities are required to consider their Chief Financial Officer's report when setting the level of council tax.

10.2 Robustness of Reserves and Balances

The budget has been prepared using a four year Financial Strategy agreed by Council in February 2019 as its starting point. This Strategy has been developed through:

- The forecast position as set out in the Cabinet report in September 2019
- The outcome and forecast impact on the Council of the Provisional Local Government Financial settlement as presented in this report.
- The Spending Review announced in September 2019.

As the development of the budget for 2020/21 has progressed, the position has been the subject to review and challenge with Heads of Service, the Senior Leadership Team, the Leader of the Council and Cabinet Members. Due consideration has been given to the the delivery of corporate priorities in this challenge process and this is reflected in the detailed budget proposals.

Budget proposals have been developed within the context of current and future service plans. The Council has reviewed its pressures using the latest demographic and inflationary trends. In respect of savings, the proposals have been risk assessed and will be monitored closely during the year. A review of legislation takes place on an ongoing basis as part of the budget development process to assess possible implications.

At a more detailed level, budgets have been built having due regard to:

- Staffing changes incorporating proposed restructures
- Inflation
- Contractual commitments
- Existing budgets
- The proposals for budget adjustments and savings
- The impact of changes to specific grants.

The budget includes a contingency that will provide a reasonable level for unforeseen issues that could arise during the year. This has had due regard to a risk assessment. Further information on the basis of this is set out later in this statement.

A review of the 2019/20 significant budget variances has taken place to assess any impact on the 2020/21 budget outside of the proposals in order to:

- Ensure action plans are in place where a possible adverse variance could occur;
- Ensure use of any possible additional favourable variance is considered in the context of the overall strategy;
- Inform the risk assessment of contingency and reserves.

10.3 The Adequacy of Estimates Reserves and Balances

Local authorities are required to maintain adequate balances to deal with unforeseen demands upon financial resources. It is the responsibility of each authority to set its level of reserves based on local conditions, but taking into account national factors. Although a view can be sought from the external auditors it is not their responsibility to prescribe or recommend the appropriate level. In setting the level, the Authority should take into consideration the advice of their Chief Financial Officer (CFO), taking into account all local relevant circumstances.

The General Fund Balance stood at £12.2m at 31 March 2019. An annual review of the balance has taken place as part of the budget setting process. It is recommended that the Council consider increasing its level of reserves. The historic rule of thumb from the now defunct Audit Commission was that 5% of net budget should be held as a General Reserve that should be untouchable except in major emergencies. The Council holds slightly more

than this at 7% of net budget. However, the volume and complexity of the issues facing local government and the level of public expectation of councils from their residents suggests this is no longer sufficient. Many London Boroughs hold 14% and some significantly more. The events at Grenfell have made all councils reconsider the reserves they hold. It is recommended that a number of additions are made to the Council's reserves over the next four years to build them up towards £20 million or 14% by 2023/24. This includes £500k added into the base budget in 2020/21 and then a further £1.5 million built into the base in 2021/22.

Members will be aware that the working balances provide protection against unforeseen events that could impact on the authority. Reserves must be used carefully and can be used only once. As reflected in the revenue budget strategy, the Council will not utilise General Fund Balances to subsidise its budget or suppress council tax increases. Further it will not use any specified or earmarked reserves to subsidise its budget or to suppress council tax increases on an on-going basis as this is neither financially sustainable nor prudent.

It may, in exceptional circumstances, utilise appropriate specified or earmarked reserves to bridge short term forecast budget shortfalls to facilitate delivery and implementation of projects and service initiatives that will generate additional income or reduce on-going expenditure to achieve a balanced budget. Approval of decisions to utilise reserves in this manner will require the appropriate approval of a robust business case including implementation plan.

The Council maintains a number of earmarked funds for specific purposes and their use is planned and approved for these purposes. Often they are used to comply with accounting policies, manage arrangements across financial years, or to fund known future commitments.

The sums established within earmarked reserves were agreed by the Senior Leadership Team as at 1st April 2019 and were fully allocated to projects or liabilities. Other reserves continue to be expended/ planned in accordance with their specific approved purpose. A review is planned to take place as part of the accounts closure process over the next few months. The working balances of the HRA are also subject to a risk assessment; this is included in a report on the HRA budget for 2020/21 elsewhere on this Cabinet agenda.

10.4 Opportunity Cost of Reserves

Holding general reserves to meet unexpected events or emergencies is a necessary requirement. However, there are opportunity costs and benefits of holding cash balances, which can be measured in different ways, depending on what these resources were alternatively to be used for. For example, holding cash gives a financial benefit in contrast to using the cash to fund capital expenditure. The financial benefit would be the difference

between the investment return and the total borrowing cost. At the current time due to low interest rates, these are in fact broadly neutral. However, a cost of around 4% will be incurred in respect of a requirement make revenue provision to repay debt.

On this basis, for every £1m of cash held, the purely financial benefit could be deemed to be £0.040m per annum or approximately £0.400m per year for balances of £10 million. This is dependent on prevailing money market conditions, which in the current economic climate can fluctuate significantly. Using the balances to repay debt earlier would not achieve a matching saving given the costs around early redemption and the similarity in short-term lending rates and long-term borrowing rates. For information, £1.2m equates very approximately to 1% on the level of Band D Council Tax.

If, however, this is considered in the context of using these balances to fund one off expenditure, then the opportunity cost is the improvements that would accrue from that expenditure. This might for example be improvements in services, increased performance or some other measure and would be assessed via a business case. Such items have been considered by officers during the course of developing the MTFS, but these have not generally been included within the final proposals or the detailed budget given the broad financial constraints within which Havering is operating.

Should these items be included within the budget, they would obviously provide a basis for additional and/or improve services; with the need to appreciate that reserves exist for various reasons, and once expended, either have to be replenished, or the funding terminated. This is the opportunity that is being potentially foregone by holding general reserves. However this is only relevant to the extent that such proposals align to Council's priorities and Medium Term Financial Strategy.

It is important that in considering the level of working balances that the issue of the opportunity costs and benefits of such an approach is also considered and that Members weigh up the potential benefits against the risks. The other important factor in making this judgement is to consider is that balances can as indicated only be spent once, and can realistically only be used to support one off expenditure, or to allow time for management action to be implemented to address ongoing expenditure requirements.

As stated above, the use of significant levels of balances to fund ongoing spending or reductions in Council Tax can pose material financial risks, especially given that the Council's ability to generate funds to replenish reserves through Council Tax is severely restricted by the Council Tax capping regime. Hence the level of reserves held overall requires a balance to be struck between the opportunity cost of holding balances against the unknown risks facing the Council and the need to safeguard the provision of local services if such risk were to crystalize.

10.5 Review of Reserves and Contingency

The assessment of the sums required for reserves and contingency purposes is reviewed regularly, taking into account the various risks facing the Council, the level of risk, the actions taken to mitigate risk, and the financial assessment of the risk. The review include consideration of the Corporate Risk Register, with the objective of ensuring that all such risks having a potential financial impact are covered in the reserves and contingency assessment.

The Corporate Risk Register is kept under review by the Senior Leadership Team, so any changes are then reflected when the reserves and contingency assessment is updated.

10.6 Summary of Robustness of the Budget and MTFS

The 2020/21 budget and 2021/24 MTFS has been prepared taking into account the following:

- The estimated impact of inflationary pressures and pay awards. Allowance has been made for cost increases over and above the general rate of inflation where these are known;
- The estimated impact of demographic change and the effect of increasing demands on services where these are unavoidable;
- Provision for legislative change and changes to the Council's statutory responsibilities;
- The estimated impact of underlying cost pressures, evidenced by financial monitoring reports in the current year;
- The estimated impact of Capital financing charges for the Capital programme including regeneration and highways schemes
- Provision for the impact of government grant changes across the lifetime of the MTFS and the continued risk of further tightening of finances in future years.

Furthermore, taking into account the budget risks and uncertainties, and assuming that the recommendations set out above are agreed, the Council's contingencies and balances are considered prudent. The S151 Officer is therefore of the view that the budget is robust. However, Members' attention is drawn to the need for close monitoring of the budget and, in particular, the achievement of the targets for savings. It will be essential for firm financial management to be exercised throughout the year to ensure that expenditure is contained within budget and targets for service improvements are met.

11 Discount for Council Tax Payers Paying in Full

11.1 The Council has agreed in the past, to offer a discount to Council Tax payers who pay their Council Tax in full. It is necessary for Cabinet to recommend Council to agree a specific resolution for this purpose or for any change proposed as the current assumption is that the discount remains at 1.5%. Cabinet should note that a similar discount is not permitted under business rate regulations.

11.2 Resolution

“Any Council Tax payer who is liable to pay an amount of Council Tax to the authority in respect to the year ending on 31 March 2021, who is served with a demand notice under Article 20(2) of the Council Tax (Administration and Enforcement) Regulations 1992 and who makes payment to the authority of the full balance of the estimated amount shown on that demand by 1 April 2020, may deduct a sum equivalent to 1.5% from the estimated amount and such reduced amount shall be accepted in full settlement of that estimated amount”.

11.3 Resolution for Council Tax

The Council meeting in February will receive a resolution in the form required reflecting the recommendations of Cabinet.

12 Council Tax Support Scheme 2020/21

The local Council Tax Support (CTS) Scheme in Havering has been in place since April 2013. The scheme is designed to help residents on low incomes pay their Council Tax.

Council Tax Support rules for claimants of pensionable age are prescribed in law can cover up to 100% of the Council Tax due. For working age claimants with disabilities and claimants without disabilities, they can receive up to 80% and 75% respectively off their Council Tax bill. The rules within the CTS scheme for working age applicants have been designed by the Council. The Council proposes to maintain the current CTS Scheme for 2019 and putting forward no amendment to that scheme in 2020. A copy of the 2019 Council Tax Support Scheme can be found at: https://www.havering.gov.uk/downloads/download/367/havering_local_council_tax_support_scheme

In accordance with Schedule 1A of the Local Government Finance Act 1992, Full Council is required to endorse the Council Tax Scheme for 2020 before 31 March 2020. The Council also has due regard for the Equality Act 2010 and the need to eliminate unlawful discrimination. Consequently an Equalities Analysis is attached to this report at **Appendix J**. An Equality

Analysis was also completed in November 2018 and this can be found at:
<https://www.havering.gov.uk/ctaxeia2018>

A draft summary version of the Council Tax Support Scheme for 2020 is contained within **Appendix K**. A full version of the draft CTS 2020 scheme can be found at:
<https://www.havering.gov.uk/draftctsscheme2020>

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 the process to reach a balanced budget for 2020/21 and sets out the Council's future plans for balancing the budget in the medium term from 2021/22 to 2023/24.

Other options considered:

The report outlines all the options identified for balancing the 2020/21 budget. Officers will continue to seek further options for balancing the budgets for 2021/22 to 2023/24.

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.

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;
- (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.

Health and Wellbeing Implications and Risks

The Council considers health and wellbeing implications in all the decisions it takes. The impact on general health and wellbeing is fully considered in developing the savings proposals in this report and in setting the Councils budget each year

BACKGROUND PAPERS

September 2019 MTFS report to Cabinet