

CABINET

Subject Heading:

2021/22 Budget and 2021-2024 Medium Term Financial Strategy

SLT Lead:

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Policy context:

This report sets out the Council's revenue budget requirement for 2021/22 and MTFS for the following two 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 2021/22 local government financial settlement.

Financial summary:

This report includes:

- the approach to setting the Council's 2021/22 budget and MTFS for the following two years
- the outcome of the local government finance settlement
- The recommended Council Tax level for 2021/22.

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

Communities making Havering
Places making Havering
Opportunities making Havering

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[X]

EXECUTIVE SUMMARY

The report sets out the Council's current financial situation and its approach to achieving financial balance over the period 2021/22 to 2023/24.

The Council has faced a very challenging financial context 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 and next we will only receive just over £1 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 built into 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.

However, despite this, the council has been able to deliver key services to residents. It is well on track to deliver the four year £40 million capital spend on roads (2019/20-2022/23). It has funded additional police officers for the borough, a new leisure centre in Hornchurch, weekly bin collections, improved award winning parks, an online community hub and new homes for Havering residents.

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.

Despite the impact of Covid-19 has had on the council's finances, additional funding of £1.5 million was allocated in the first few weeks of the pandemic to increase the support to residents in need provided through the Havering Helps scheme, which itself built on the existing Emergency Assistance Scheme. Parents of pupils eligible for free school meals were given cash payments for food to tide them over the October half term. The Council has also supported the local food banks in the borough during the pandemic, helping to assist families who have suddenly and unexpectedly found themselves without an income due to job losses. Funding was also provided to the Council's leisure centres provider to ensure that once restrictions were lifted the centres could again be enjoyed by residents. Over the summer, as soon as it was possible, the centres reopened to support residents in

looking after their personal fitness, at a time when many other councils simply closed their leisure centres, in some cases possibly for good.

Parking was offered free on Sundays and in parking bays in Hornchurch, Rainham and Romford to support local businesses. A discount of 20% off parking charges has also been introduced if registering to pay with the new online app. Key workers such as NHS staff, carers and police are also able to apply for free parking.

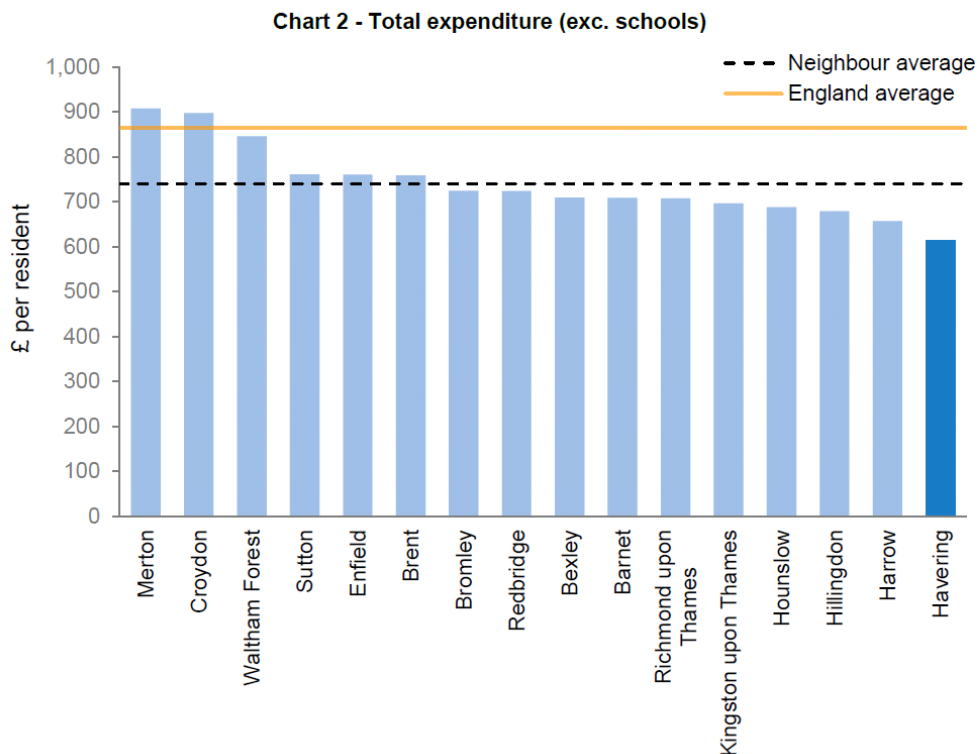
In addition, the challenging financial environment has had the benefit of making Havering one of the most productive councils in the country and the most productive in London and the south east in the two most recent IMPOWER efficiency reports (2018 and 2019).

Havering continues to have extremely low unit costs as demonstrated by the following table which compares its 2020/21 budget to those of its near neighbours.

Comparison of Havering's overall total expenditure per resident compared to its nearest neighbours

In 2020/21, Havering's total expenditure per resident (excluding schools) was 16.9% lower than the nearest neighbour average. It was ranked 16th highest out of the 16 authorities in the group.

Its position relative to its nearest neighbours is illustrated in the chart below.



The Covid-19 pandemic, which has struck globally since the Council's budget was set for 2020/21, has had a major impact on the Council's finances. This has been reported to the Overview and Scrutiny Board and the Cabinet during the year. There has been extensive government financial support in response, but the Council is still anticipating an overspend of around £9.9 million at the end of 2020/21.

Despite these financial challenges, there are a range of service improvements built into the new MTFS. These include capital investment to deliver further improvements in parks, the new sports centre in Rainham and to transform Havering into a Digital Council with many services for residents being offered 24/7 online in a more customer friendly way. The Council is also investing in local community hubs, local area co-ordinators plus a virtual community hub to allow communities to provide support to residents closer to their homes.

The Council still faces financial challenges posed by the national financial context, the government's 'levelling up' agenda which is expected to move government funding from the south to the north and the ongoing impact of the Covid-19 pandemic.

The government has offered a partial mitigation in that the Council has been given permission to increase its Council Tax by 3% as a Social Care Precept. However, this does not properly address the financial pressures faced in social care, it simply transfers the financial burden to local Council Tax Payers. This report proposes that to avoid further cuts to Council services that this 3% increase is implemented.

But even beyond the Social Care Precept, the Council is facing further budget pressures and it is proposed in this report that general Council Tax is raised by 1.5% to support local Council services. This is 0.5% below the government's limit of 2% beyond which a Council Tax Referendum would be necessary, reflecting the fact that although the Council faces tough financial challenges, residents do too.

The full extent of the budget pressures faced by the Council are set out in the table below. For next year, the pressures total £25.0 million.

Corporate Pressures	2021/22	2022/23	2023/24	3 Year Plan
	£m	£m	£m	£m
Review of pension fund contributions	0.795	0.000	0.000	0.795
Increased cost of Capital programme	0.681	5.580	4.984	11.245
Freedom pass reduction in costs	-1.132	-0.420	1.030	-0.522
Growth - Parking 1 hr and Havering Heroes	0.533	0.000	0.000	0.533
Loss of income from interest on cash balances	1.000	0.000	0.000	1.000
Provision for underlying budget issues	1.000	0.000	0.000	1.000
Loss of income due to increase in single person discounts and increase in CTS numbers	1.000	0.000	0.000	1.000
Provision for non achievement of savings	1.700	0.000	0.000	1.700
Reduction in business rates and collection	3.449	0.000	0.000	2.749

Provision to replenish reserves	2.100	2.000	0.000	4.100
Public Health provision	0.000	1.567	0.000	1.567
Other adjustments including ELWA	0.095	0.506	0.717	1.318
Inflationary pressures	3.436	2.537	2.557	8.530
Demographic Pressures	3.131	5.026	4.923	13.080
Unachievable and delayed savings from 20/21	7.207	0.000	0.000	7.207
TOTAL PRESSURES	24.995	16.796	14.211	56.002

The Council's overall financial position has been balanced for 2021/22 as shown in the table below. Further proposals will need to be developed during 2021 to balance the later years.

Funding the MTFS	2021/22	2022/23	2023/24	3 Year Plan
	£m	£m	£m	£m
TOTAL PRESSURES	24.995	16.796	14.211	56.002
Funded By				
Updated savings previously agreed	(17.133)	(3.354)	(1.227)	(21.714)
Changes in Government Grants	(2.012)	5.505	0.000	3.493
3% Social Care Precept	(3.900)	0.000	0.000	(3.900)
1.5% Council Tax Increase	(1.950)	0.000	0.000	(1.950)
FINAL POSITION	0.000	18.947	12.984	31.931

The report also sets out the impact of the proposed precept for the Greater London Authority. The GLA proposes to increase its share of the council tax by 9.5%.

This report consists of the following sections:

- Introduction (Section 1)
- Background, Strategic Context and an update on the Council's response to the COVID pandemic (Section 2)
- The revenue monitoring position for 20/21 (Section 3)
- The budget process (Section 4)
- The Local Government finance settlement and update on 21/22 COVID support (Section 5)
- 2021/22 Budget Proposals (Section 6)
- Impact of proposals on Council Tax levels (Section 7)
- Update on the Medium Term Financial Strategy (Section 8)
- Proposed Fees and Charges (Section 9)
- Contingencies Reserves and General Balances (Section 10)
- Update on the Capital Programme (Section 11)
- Budget risks and uncertainties (Section 12)
- Chief Financial Officer statement regarding the robustness of the budget (Section 13)

- Discount for Council Tax Payers Paying in Full (Section 14)
- Council Tax Support Scheme 2021/22 (Section 15)

RECOMMENDATIONS

Cabinet is asked to:

- Agree the Council Tax requirement for 2021/22 to be set at £134.980m as set out in paragraph 7.5 and Appendix G of the report;
- Agree the Delegated Schools' draft budget set out in section 5.13 of this report;
- Agree a 1.50% increase in Council Tax for 2021/22 as set out in paragraph 7.1;
- Agree an additional 3% Adult Social Care Precept as in paragraph 7.1;
- Note the Medium Term Financial Strategy position as set out in Section 8
- Agree the fees and charges schedule as set out in Section 9 and Appendix C
- Note the risks to the 2021/22 budget as set out in Section 10
- Note the requirements of S106 of the LGA 1992 Act as set out in Section 1
- 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 2021/22.
- Read the Equalities Impact Assessment in respect of the CTS Scheme as set out in Appendix E to this report.
- Read the summary version of the Council Tax Support Scheme for 2021/22 as set out in Appendix F to this report (unchanged from 2020/21).

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

- Agree the Council Tax requirement for 2021/22 to be set at £134.980m as set out in paragraph 7.5 and Appendix G of the report;
- The Delegated Schools' draft budget set out in section 5.13 of this report;
- A 1.5% increase in Council Tax for 2021/22 as set out in paragraph 7.1;
- An additional 3% Adult Social Care Precept as in paragraph 7.1;
- That it pass a resolution as set out in section 14 of this report to enable Council Tax discounts for early payment to be given at the 2020/21 level of 1.5%.
- Recommend to Full Council that the Council Tax Support Scheme for 2021/22 is adopted as set out in Section 15 of this report (unchanged from 2020/21).

1. Introduction

- 1.1 This report presents the proposed 2021/22 budget and also an update of the Medium Term Financial Strategy (MTFS) between 2021/22 and 2023/24 that will support the delivery of the Council's objectives and priorities. The report includes a recommendation to increase the Havering element of Council Tax by 4.5% (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.
- 1.2 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.

2. Background

2.1 The National Position

- 2.1.1 The process to set the 2021/22 budget has been unique and unprecedented due to the COVID pandemic. When the 2020/21 budget was set in February 2020 nobody could have imagined the impact the COVID pandemic was about to have. The Council has acted in a robust and responsive way to the changing circumstances and unique demands throughout the year. The Government has provided funding and support during the year which has been utilised to support all sectors of Council services.
- 2.1.2 The Council has a statutory duty to set a balanced budget each year and so work has been ongoing for 2021/22 taking account of all factors including the continued impact of the pandemic. The Government originally planned to announce significant funding reforms for 2021/22, but this has been delayed for at least a year due to the current crisis. The Government has instead announced a one year Spending Review providing figures for 2021/22. The Government have stated their intention to have a multi year spending review in 2021 but it is unclear at what point any reforms will be introduced.
- 2.1.3 The Covid-19 pandemic has posed an unprecedented challenge to the UK economy and to economies around the world. The restrictions needed to limit the spread of the virus meant people could not live their lives as normal and many businesses saw significant falls in turnover or were forced to close temporarily. Output fell by 25 per cent between February and April 2020.
- 2.1.4 The UK economy then grew rapidly from late spring onwards and by September GDP was around 8 per cent below its pre-pandemic level.

- 2.1.5 However, since the beginning of the autumn, the UK, like many countries, has seen a resurgence of the virus. At the time of the Spending Review, the OBR forecasted that GDP will fall by 11.3 per cent in 2020 , before returning to growth in 2021. However, the economy is not expected to reach pre-crisis levels until the end of 2022.
- 2.1.6 Business conditions have continued to worsen in recent months. Of those continuing to trade, nearly half have reported abnormal falls in turnover while the majority of businesses who continue to operate do not expect demand to recover until well into next year. The current lockdown since Christmas will only lengthen this recovery period.
- 2.1.7 The impact of Covid-19 has been felt across all parts of the UK with employment falling in all regions. Employment fell the most in London, by 4.6 per cent, reflecting the importance of hospitality and entertainment in that region.
- 2.1.8 The extent of national borrowing undertaken during the pandemic means that all sectors are likely to have to contribute towards recovering the financial position in the medium term. The extent and speed of any future financial constraints remains unclear and may well only become apparent when the next spending review is announced, which will be sometime in 2021. .

2.2 Havering's response to the COVID pandemic

- 2.2.1 The COVID pandemic has resulted in additional demand on local government which could not have been imagined when the 2020/21 budget was set in February 2020. During the first phase of the pandemic while lockdown was in place, the Council managed its services through its emergency planning arrangements referred to as Gold/Silver/Bronze and enacted a wide range of business continuity plans. The Council has acted swiftly and robustly to a series of new challenges to shield and support our most vulnerable citizens. Over 10,000 residents were supported through over 17,000 phone calls, 2,700 residents were supported through the Havering Volunteer Centre who were delivering food, pharmacy items and doing odd jobs as necessary. The Council provided more than 850 food parcels and managed the distribution of PPE across care homes, funeral directors and the Council itself.
- 2.2.2 The Council had to adapt its ways of working firstly through the lockdown period and then as the recovery period commenced. The majority of staff worked from home using the new Smart Working equipment that was rolled out over 2019 and early 2020. Councillors also adopted the Smart Working equipment as all Member meetings moved onto Zoom. The Council ramped up its communications to residents to support them through the crisis, electronically and through social media, including online public meetings. Many services from social work support to business support through to music school lessons moved online.

2.2.3 New COVID responsibilities have been transferred to local government by central government including:

- Roles in infection control across care settings
- Provision of temporary body storage facilities
- Providing testing and vaccination sites
- Running local testing facilities
- Track and trace responsibilities
- The policing of compliance with COVID rules in businesses, workplaces and other public settings
- The distribution of grants to small businesses
- Emergency payments to people on low incomes who need to self-isolate.

Funding has been provided by central government for some but not all of this activity.

2.2.4 Demand for Council services also changed dramatically. Many face to face services had to close down for periods during the year or change how they operate eg children's centres, registrars, libraries, sports centres, community centres.

In the first months of the pandemic, activity had to stop on legal enforcement eg debt enforcement as the courts were only dealing with limited, mainly criminal cases. As shops, hospitality and leisure facilities were closed and people were told to stay at home except for essential journeys, there was little demand for parking facilities in the borough.

Most services restarted over the summer but reduced capacity due to social distancing rules dampened demand while costs have increased due to the need for PPE and physical adjustments to protect staff and residents.

The second four week lockdown in November 2020 again closed down or radically changed services and hit economic activity across the borough. Activities apart from hospitality reopened on 2 December only to be shut down again on 20 December as London and much of the South East was moved into a new Tier 4 under rules that resembled the November lockdown eg the closure of non-essential shops, all hospitality, indoor entertainment, gyms and personal services such as hairdressers and nail bars. The Council's leisure centres had to close and Romford Market had to move to essential goods only. The libraries continued to provide click and collect plus access to wifi and computers although the five smaller ones were closed and are being used, or are planned to be used, as community testing sites.

A new period of national lockdown began on 5 January 2021 in response to rising pressure on the NHS and this is currently still in place. The government's message has been for people to stay at home, protect the NHS and save lives. This has led to the continued closure of businesses across the borough and the closure of schools except for vulnerable children and the

children of key workers. It has also led to the Council's libraries having to close. It is unsurprising that the lockdown, which is of course entirely necessary, continues to impact the Council's financial position adversely.

In summary, the Council has faced both new pressures and loss of income as a direct result of the pandemic. The impact of the pandemic will last into future years and the budget process has taken this into account. The Council will continue to face pressures over the medium term to support the community through future waves of the pandemic.

The Government has provided a wide range of financial support during 2020/21 but this has been insufficient to fully meet the financial pressures the Council faces. The detailed budget position for 2020/21 is set out in section 3 of this report.

2.3 The Council's Strategic Context

2.3.1 Both the pandemic and the future financial challenges being faced by the Council has prompted a complete rethink the future operating model. The pandemic has accelerated the adoption of more digital ways of working for Council employees and has significantly reduced the level of face to face customer interaction. Although there are areas of the business where these changes are recognised as sub-optimal and where face to face interaction will be resumed once it is safe to do so, in other areas the changes have been very beneficial. The Council's MTFS has been developed to recognise these changes and includes:-

- Further investment in the Council's ICT infrastructure to future proof and fully secure its systems
- The completion of the Smart Working programme to complete the move to the Cloud-based O365 suite, digitise the Council's paper records and to implement the business change required to support staff to maximise the potential of the new systems
- Investment in new flexible office space on the Town Hall site in Romford, including in a new Customer Appointments Centre to replace the old customer PASC in the Liberty Mall. Office space will be reduced to reflect the success of staff working from home over the last year which has increased productivity, work-life balance and staff satisfaction.
- Continued development of the Community Hub model, building on the Virtual Community Hub already in place, the two pilot community hubs in Harold Hill and Rainham and the Local Area Co-ordinator Teams that operate from these hubs. As a part of this model, libraries will be equipped to answer basic customer queries and assist customers in accessing services as necessary. This builds on the Council's ethos of supporting independence in the community.
- Services are being re-designed to build on the strengths of customers, again to promote independence. The starting point is to help the

resident work through what they are able to do for themselves, or ask others in their support network to assist them with, before assessing what support is required from the Council.

- The customer facing Digital Platform is being rolled out using an agile approach including customer workshops and testing to replace the legacy and more council process driven Customer Relationship Management system.

2.3.2 In addition, a range of efficiency savings are being introduced to drive down costs:-

- The centralisation of core support functions into a corporate wide model that can flexibility be deployed across the Council according to priorities eg business support, programme and project management, business systems support and complaints and Member Enquiries.
- Systems are being introduced to increase staff efficiency eg there are savings from the Fusion Finance, HR and Payroll system roll out and opportunities are being explored to use robotics for repetitive tasks.
- Further work is underway to better utilise the data the Council holds so that it can target its resources more effectively.
- Contracts are being reviewed to build in innovation and efficiency.

2.3.3 The Council has also rationalised its capital programme to prioritise the most important capital projects. Given the financial challenges the Council faces a number of schemes have been temporarily put on hold. Details of the revised capital programme are set out in the Capital Strategy elsewhere on this agenda.

3 The current revenue monitoring position

3.1 The revenue monitoring position at Period 8 showed a potential £9.9m overspend of which £3.9m is the net cost of the COVID pandemic and £6.0m is due to business as usual overspends. The COVID position is continually changing as we move through the lockdown since Christmas and the Government have issued a number of grants to help local authorities through this period.

The Council had already projected in earlier monitoring reports the continued additional COVID costs for the rest of the financial year but these are likely to increase due to the latest restrictions. It is highly likely that even with the extra support from central government that the Council will have a significant loss due to the COVID pandemic.

The Council also has a £6.0m overspend on non COVID activities. Services are reviewing all costs for the remainder of the year and are aiming to reduce this pressure by year-end. It has been established that a proportion of this

overspend relates to underlying budget issues and so as part of the 2021/22 budget setting a £1m provision has been added to resolve these issues.

Table 1: Summary Position Period 8 monitoring

Financial Position	£m
Projected COVID Expenditure for the year	11.154
Potential income loss for the year	12.295
Potential gap in 2020/21 MTFS savings delivery	6.386
Business As Usual Net Position	6.049
Total Pressures	35.884
Government Support to date including food supply	(19.611)
Projected value of Government support on loss of income	(4.000)
Corporate Underspends	(2.411)
Remaining Gap	9.862
Required use of reserves and balances	(9.862)
TOTAL	0.000

The Council fully hopes and expects to close this gap significantly by year end. The potential position will have a significant impact on general reserves if not mitigated.

4 The budget setting process

4.1 The Council has worked tirelessly to meet the pressures and demands caused by the COVID pandemic over the last year. At the same time the Council has maintained its medium term financial plan in order to set a balanced budget for 2021/22. During the summer and early autumn the Council reviewed the pressures it expects to face in 2021/22 in order to determine the level of savings and efficiencies that would be required to balance the budget.

4.2 The process to set the budget and medium term financial strategy is an ongoing one and in effect starts at the beginning of the financial year. The process is robust and apart from the impact of the COVID pandemic 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

- 4.3 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.
- 4.4 The main pressures identified were due to the ongoing impact of the COVID pandemic, increased demographic pressures and the revenue impact of the Capital programme
- 4.5 The ongoing impact of the COVID pandemic will influence the 2021/22 budget in the following areas.
- Social Care demand pressures as clients are discharged from hospitals but still need ongoing support
 - Support to help the high streets and local businesses
 - Lower collection rates through increased numbers of households on the Council Tax Support scheme
 - Reduced collection of fees and charges through restricted opening of certain services and lower than previous take up.
- 4.6 The Government has recognised these pressures and provided grant funding in the local government finance settlement to partially address these issues. The funding is only confirmed for 2021/22 at present and it remains to be seen both whether pressures continue into future years and the extent to which central government will recognise these pressures in the medium term.

5 The Local Government Financial Settlement

- 5.1 The Government have announced the Provisional Local Government Finance settlement. The settlement is welcomed as it confirms further funding to address the COVID pandemic and also maintains a number of grant streams that are vital to local government to fund key services.
- 5.2 The Government has announced that councils have an increase of 4.5% in Core Spending Power, which is the measure now used to judge the ability of a local authority to raise its budget to meet new pressures. The Core Spending Power increase however is almost totally due to allowing councils to raise Council Tax by up to 5% (3% for a precept for Adult Social Care and 2% for General Council Tax). So in reality any increase in spending ability will be a local decision and will be funded by Council Tax Payers
- 5.3 The table below set out the increase announced in Havering's Core Spending Power.

Description	20/21 CSP	21/22 CSP	Increase
	(M)	(M)	(M)
Settlement Funding Assessment	36.0	36.0	0.0
Under-indexation Grant	1.4	1.8	0.4
Council Tax requirement	130.1	138.0	7.9

New Homes Bonus	0.9	0.2	(0.7)
Improved better care fund	6.6	6.6	0.0
Additional Social Care Grant	5.5	6.0	0.5
New Lower Tier Services Grant (one off)	0.0	0.3	0.3
TOTAL CORE SPENDING POWER	180.4	188.8	8.4

5.4 The Council's Settlement Funding Assessment is virtually unchanged from 2020/21. Revenue Support Grant has gone up by £8k from £1.398m to £1.406m. This is reflective of an inflationary increase funded by returned New Homes Bonus.

5.5 The Settlement also announced the following further COVID support measures.

- A compensation grant payable over the next three years to mitigate collection fund losses in 2020/21 (nationally £765m in total spread over 3 years).
- A further one off payment in 2021/22 of general grant to cover future COVID pressures.
- A grant to mitigate lost Council Tax through increased numbers on the Council Tax Support scheme (£670m nationally)
- A continuation of the Sales, Fees and Charges re imbursement of 75% of lost income for a further 3 months to June 2021.

5.6 The impact for Havering is set out below

COVID Grant Support	Havering Allocation
One Off Payment in 2021/22 to support future COVID pressures.	£6.599m
Compensation grant to mitigate Council Tax losses	Will be confirmed at outturn
Grant to mitigate council tax loss from increased CTS numbers	£2.222m provisional allocation

5.7 There is a separate consultation paper on the 2021/22 COVID measures which the Council has responded to. Final allocations for the Collection Fund compensation grant are likely to depend on outturn and as such will not be apparent until later in 2021. A prudent estimate of £0.5m has been built into the 2021/22 budget.

5.8 The settlement also confirmed further funding in the following areas

- An extra £300m funding nationally for Adult Social Care on top of the funding announced in the previous financial settlement in February 2020. This funding has been allocated primarily using a formula which takes account of the ability to raise funding through the adult social care precept. This is disadvantageous to Havering effectively penalising the Council if the precept is not applied.

- A new un-ringfenced Lower Tier Services Grant in 2021/22, which will allocate £111 million nationally to councils with responsibility for services such as homelessness, planning, recycling and refuse collection and leisure services. This grant is funded from a topslice of unused New Homes Bonus and is therefore likely to be one off.
- An ability to raise Council Tax by 3% as a Precept to cover the cost of Social Care
- An ability to increase general council tax by up to 2% without the requirement for a referendum
- A one year continuation of New Homes Bonus with the scheme to be reviewed during the course of 2021.
- An announcement to support rough sleepers and those at risk of homelessness during COVID-19, including an additional £254 million nationally for 2021/22 to tackle homelessness and rough sleeping, including the £103 million announced earlier this year for accommodation and substance misuse support nationally.
- £165m nationally for the continuation of the troubled families grant for a further year
- £125m nationally to support initiatives to tackle domestic abuse in line with the recently passed government bill.
- An increase in the better care fund of 5.5% nationally
- An additional £15m nationally to support the changes from the Redmond review of external audit. Allocations are expected in the spring. This is to fund expected increases in external audit costs in 2021/22
- The flexible homelessness grant and homeless reduction grant will be merged to form a new grant called the Homeless Prevention Grant. The total funding for this are will be increased from £263m to £310m nationally.

5.9 The impact for Havering is as follows

Grant Announcements so far	Havering Grant
£300m additional support for social care	0.594m
£111m additional un-ringfenced support for lower tier authorities (One Off)	0.279m
Homeless Prevention Grant (£310m nationally)	2.344m
New Homes Bonus allocation 2021/22	0.154m

5.10 The Government was non-committal on the timing of the introduction of the fair funding review and business rate reform. It is still possible that these will be introduced in 2022/23 but the secretary of state did not commit to this other than to say his department would continue to work on the reforms. There was no mention at all of Social Care Reform.

5.11 The Government also confirmed its desire to announce a multi year spending review and multi year settlement next year but caveated this by stating this was dependent on the stability of the economic outlook over the coming year.

5.12 There have been no formal announcements as yet on Public Health funding for 2021/22 apart from a commitment in the spending review to maintain Public Health funding. An announcement is expected in either February or early March.

5.13 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 2021-22 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 £2.2bn in 2021-22, plus £1.6bn to fund additional pension costs for teachers. Announcements followed in November 2020 confirming various elements and provisional allocations. Funding for early years provision has increased by £44m. The Government has now announced updated calculations reflecting the latest pupil numbers (using the January and October 2020 census data). Each local authority will, as usual, receive funding in four blocks, all of which have now been confirmed for 2021-22 (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	Primary Funding per pupil (£)	Secondary Funding per pupil (£)	Pupil number allocation (£m)	Premises, pupil growth, falling rolls (£m)	Allocation (£m)	Allocation (£m)	Allocation (£m)	Allocation (£m)	Allocation (£m)
2021-22	4,559.26	6,097.05	193.60	3.84	197.43	31.89	20.74	1.60	251.65
2020-21	4,252.16	5,654.14	177.17	3.94	181.11	29.62	19.28	1.53	231.54
Diff	307.10	442.91	16.43	-0.10	16.32	2.27	1.46	0.07	20.11

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 611 pupils in Havering schools, and the transfer of two grants (Teachers' Pay Grant and Teachers' Pension Employer Contribution Grant) to the Schools Block.
3. The Early Years block is indicative and will be recalculated based on the January 2021 and 2022 early years censuses.

- **Schools Block** - The allocations to local authorities include a minimum 2% increase in the formula factor rates within the national funding formula, with at least £5,415 for every secondary school pupil, and £4,180 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 ten 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 1.75% per pupil increase for all mainstream schools and academies with no cap for schools that have received a higher per pupil increase greater than 1.75%.

The effect on Havering schools of implementing the NFF in 2021-22 is as follows:

	No of schools receiving the minimum 1.75% increase per pupil	No of schools receiving an increase greater than 1.75% per pupil
Infant	0	11
Junior	1	10
Primary	13	25
Secondary	5	13
Total	19	59
	24%	76%

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, inflationary increases on goods and services and covid related costs. 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 2021-22 the Schools Funding Forum has also agreed to use £0.55m of the Schools Block to meet commitments in pupil growth and falling rolls following the reduction in funding from the DfE.

- **Early Years Block** – the additional £44m has been allocated to local authorities by increasing the hourly rates used to fund parents' free entitlement to early years provision for 2 year olds by 8 pence and for 3 and 4 year olds by 6 pence which is to be passed on to providers.

Havering's central government rates' of funding are as follows:

	2 year olds	3 & 4 year olds
2020-21	£5.74	£5.36
2021-22	£5.82	£5.42
Increase	£0.08	£0.06

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 2021-22.

- **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 2021-22 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 2021/22	1.769
DSG Central Services Block for LA central duties (previously ESG grant)	(0.594)
Contribution from schools	(0.305)
Shortfall	0.870

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 interim it is expected that Education traded services will be able to cover any remaining gap outside the funding already earmarked corporately to cover the shortfall shown above.

5.14 Consultation on the Settlement

The settlement included two consultation papers.

- A consultation paper on the Government's approach to funding the pressures caused by COVID in 2021/22
- A general consultation paper on the proposals set out in the settlement

5.15 Havering has replied to both consultation papers making it clear that the financial impact of COVID on local government will be long-lasting. The Government cannot squeeze local government in the future in order to recover the national financial position. The response also made it clear that distributing the Social Care Grant based on the notional amount authorities receive from the precept is unfair as it pre-presumes a local decision on council tax.

6 The budget for 2021/22

6.1 The overall announcements in the settlement however are welcome and have helped the Council reach a balanced budget position for 2021/22. The following funding streams have been included in setting the budget.

- Additional Social Care Grant (£594k) – This takes the total specific grant support for Adult Social Care for Havering to just over £6m built up over the last two years. There has been no further news on the long awaited reforms to the funding of Adult Social Care so for planning purposes the Council has assumed this funding is ongoing and is part of the Government's medium term strategy to address the demand in this area.

- Implementation of the 3% ASC precept. The Government have made it quite clear over the last few years that they expect local tax payers through Council Tax to help meet the increase costs of social care. The Council is facing unprecedented demand in this area so will need to implement the precept in order to meet this extra cost. All funding from both the Adult Social Care grant and the Social Care Precept will be directly applied to meet new pressures in those areas.
- The Council Tax Support grant (£2.222m provisionally). This Grant recognises that the number of CTS claimants has increased due to hardship as a result of the COVID pandemic. The grant also recognises that potentially numbers will continue to increase the longer the restrictions last. The impact of increased CTS numbers has caused a significant reduction in the Council's taxbase.
- The reduction in New Homes Bonus was predicted and was built into the planned 2021/22 budget some months ago.

6.2 In November a report to Cabinet set out the budget position which at that time had a budget gap for 2021/22 of £7.991m. This included original savings proposals of £18.982m

6.3 The savings proposals were included in the Council's budget consultation process. The consultation process aimed to reach out to everyone in the borough to get views on our proposals. Business were directly targeted to ensure that their views were heard as well as part of our ongoing support to that sector

6.4 The respondents to the consultation broadly understood the difficult position the Council faces and were in general in support of the proposals in this report.

The three most important issues that respondents considered that the borough is likely to face in the next year are:

- Coronavirus / pandemic
- Economy / economic situation
- Crime / community safety

Respondents were also asked the most important issues concerning them going forward which were:

- Staying in work / employment stability
- My physical health and fitness
- Anti-social behaviour in my community

Mental health and wellbeing was also considered a highly important issue for people.

6.5 Councillors reviewed the outcomes of the consultation process and considered all the responses in making the proposals for the 21/22 budget set out in this report. A full analysis of the consultation outcomes can be found at **Appendix A**

6.6 The central government grant announcements and revised corporate estimates in some areas have had the net impact of reducing the budget gap significantly. The ongoing situation related to COVID in particular has caused a number of changes to the Corporate position. The proposed adjustments to the budget are set out below and summarised in the table that follows:

- The Council generates income from the cash balances it holds at any point in time. Currently the interest rates are at a very low rate meaning the Council needs to adjust its budget for interest receivable
- The 2020/21 revenue monitoring position currently has £6.0m of business as usual pressures. Departments are working hard to contain these pressures but it is recognised that £1m is due to underlying budget issues and it is recommended that these are addressed in the 2021/22 original budget
- The hardship caused by the COVID pandemic continues to hit our residents hard and as a result there is an increased number of residents on the Council Tax Support scheme. This is anticipated to continue into the spring whilst restrictions are in place and when the government's furlough scheme comes to an end. Increased take up of the CTS scheme reduces Council Tax income to the Council
- The Council has £17m of savings proposals in its final budget. All proposals have been reviewed and are achievable but it is inevitable with savings of that scale that there will be some non achievement. The Council is therefore proposing to include a 10% provision to safeguard against delays and non achievement of savings. Every effort will be made by all officers to fully achieve all proposals. Further details of these savings are shown in **Appendix B**
- The COVID pandemic has caused significant delays to the Capital Programme. This will delay the significant revenue streams the Council expects in the medium term but in the short term has caused a reduction in the amount required for interest and repayment assumptions.
- The pandemic has caused a huge reduction in usage on the London Transport system, including by Freedom Pass holders. A significant reduction in the cost to the Council of Freedom Passes of £850k was built in to the November Cabinet report figures in anticipation of this.

The final settlement is now known and has further increased the reduction in costs. It should be noted that the Freedom Pass still will cost Havering £6.7m in 2021/22.

- The Council had included £300k in its base budget in anticipation of additional income from the Londonwide business rate pool. London councils collectively have concluded that the pool should not operate in 2021/22 due to the uncertainty in relation to business rate income in the wake of the pandemic. This income budget has therefore been removed. .
- There are a number of other small adjustments to the proposals relating to inflation and levels of New Homes Bonus. This is normal at this time in the budget cycle as final proposals are calculated.

	2021/22	2022/23	2023/24	3 Year Plan
	£m	£m	£m	£m
November Cabinet	7.991	18.308	8.319	34.618
Corporate Adjustments:				
Loss of income from interest on cash balances	1.000	0.000	0.000	1.000
Provision for underlying budget issues	1.000	0.000	0.000	1.000
Loss of income due to increase in SPD and increase in CTS numbers	1.000	0.000	0.000	1.000
Provision for non achievement of savings	1.700	0.000	0.000	1.700
Net effect of reducing to the Business Rate Safety Net	0.449	0.000	0.000	0.449
Impact of delays to the Capital programme	-3.578	-1.567	4.315	-0.830
Revision to Concessionary fare assumptions	-0.282	-0.570	-0.270	-1.122
End of the business rate pool growth	0.300	0.000	0.000	0.300
Other minor adjustments and assumptions	0.131	-0.291	0.620	0.460
Gap before settlement announcement	9.711	15.880	12.984	38.575

6.7 The settlement has introduced a number of grants that can be used to reduce the budget gap in the table above. These changes are set out below and allow the budget to be balanced after the Social Care Precept and Council Tax are included.

- New grant recognising the increase in Council Tax Support numbers as a result of the pandemic (£2.222m). This is likely to be one off although our consultation paper response has lobbied for this to continue whilst CTS numbers are high.
- New Adult Social Care Grant (£0.594m)
- Previous planning assumptions assumed the Social Care Grant announced last winter (£1.7m) would fall out in 2022/23. The Government has subsequently made it clear that the Social Care Funding will continue for at least the lifetime of the current parliament.
- The Government has however borrowed at unprecedented rates during the COVID pandemic and it is inevitable that there will be some cutbacks in the future when the next spending review is announced during 2021. The risk also remains that the fair funding review will be implemented which is likely to be adverse financially for London as the government has committed to what it calls 'levelling up' funding across the country. To mitigate these pressures it is assumed there will be a £2m reduction in central funding from 2022/23 onwards.
- There is uncertainty in how the Compensation grant for Collection Fund deficits will be applied. The Council has assumed at this stage that it will only benefit by £0.5m a year from this grant.

	2021/22	2022/23	2023/24	3 Year Plan
	£m	£m	£m	£m
Gap before settlement announcement	9.711	15.880	12.984	38.575
New Grant to cover increase in CTS numbers	-2.222	2.222	0.000	0.000
New Adult Social Care Grant	-0.594	0.000	0.000	-0.594
Continuation of Troubled families funding	-0.545	0.545	0.000	0.000
Assume previously announced ASC Grant is ongoing	0.000	-1.700	0.000	-1.700
Provision for loss of central grant and reduction in Business Rates	0.000	2.000	0.000	2.000

Collection fund compensation grant	-0.500	0.000	0.000	-0.500
Revised Gap	5.850	18.947	12.984	37.781
Funded by:				
1.5% Council Tax increase	-1.950	0.000	0.000	-1.950
3% Social Care Precept	-3.900	0.000	0.000	-3.900
Proposed Budget Position	0.000	18.947	12.984	31.931

- 6.8 The adjustments set out in this section, successfully balance the Council's budget for 2021/22 but there is still a large gap in the financial position for 2022/23 and, to a lesser extent, 2023/24. The notable pressures in later years are set out in more detail in section 8 below. These gaps will be addressed during 2021.
- 6.9 The table below summarises the budget position showing the pressures the Council has had to fund offset by savings, new grants and the proposed Council Tax increase.

2021/22 pressures and savings	2021/22
	£m
Corporate Pressures	11.221
Savings proposals unachievable due to COVID	7.207
Demographic Pressures	3.131
Inflationary Pressures	3.436
TOTAL PRESSURES	24.995
Net Projected Changes in Government Grants	-2.012
Savings Proposals	-17.133
Social Care Precept (3.0%)	-3.900
Council Tax increase (1.5%)	-1.950
NET POSITION	0.000

- 6.10 The East London Waste Authority has proposed the levy to the authority for 2021/22 and has provided a forecast of future levies in the medium term. The proposed levy for 2021/22 is £11.5m which includes a one-off re-imbursement of reserves to constituent boroughs (£4.8m for Havering). When the ELWA reserves are returned to the Council in 2021/22 they will be transferred into the Council's own reserves. There are no calls against these reserves at the current time.

Constituent Councils – ELWA Levy	2020/21	2021/22	2022/23	2023/24
	Actual	Estimate	Estimate	Estimate
	£m	£m	£m	£m
Havering	16.363	11.524	17.385	18.221

7. Total Council Tax Impact

- 7.1 The impact of the proposals of this report will be a 4.5% increase in the Havering element of the Council Tax. The increase is made up of a 3% increase relating to the specific Social Care Precept for Adults' and Children's Services and 1.5% in relation to Council services generally. The new Band D Council Tax level for Havering will be £1529.64
- 7.2 The GLA have provisionally announced a 9.5% increase in their precept equivalent to £31.59 on a Band D property. The total proposed Band D precept is forecast to be £363.66.
- 7.3 The combined increase on the Council Tax is a 5.43% increase with a new Band D level of £1893.30

The table below sets out the new proposed Council Tax levels for 2021/22

	Havering Element	GLA Precept	Total Council Tax
Band A	1019.76	242.44	1262.20
Band B	1189.72	282.85	1472.57
Band C	1359.68	323.25	1682.93
Band D	1529.64	363.66	1893.30
Band E	1869.56	444.47	2314.03
Band F	2209.48	525.29	2734.77
Band G	2549.40	606.10	3155.50
Band H	3059.28	727.32	3786.60

7.4 Taxbase

The Council's taxbase has reduced during 2021/22. This is as a result of increased numbers of people on the CTS scheme and Single Person Discounts partially offset by an increase in the number of chargeable properties. The Band D Taxbase for Havering is set at 88,243 band D equivalents. This is a reduction of 640 band D equivalents in comparison to 2020/21

7.5 The Council Tax requirement and General Fund Budget

The Council Tax requirement for 21/22 will be £134.980m. Appendix G sets out more detail on the new Council Tax levels.

8. The Medium Term Financial Strategy 2021-2024

- 8.1 The budget process has closed the gap for 2021/22 enabling a balanced budget to be set. There is however still a significant gap in future years as set out in the table below.

Description	2021/22	2022/23	2023/24	3 Year Plan
	£m	£m	£m	£m
Corporate Pressures	11.221	9.233	6.731	27.185
Savings proposals unachievable in 20/21 due to COVID	7.207	0.000	0.000	7.207
Demographic Pressures	3.131	5.026	4.923	13.080
Inflationary Pressures	3.436	2.537	2.557	8.530
TOTAL PRESSURES	24.995	16.796	14.211	56.002
Projected Changes in Government Grants	-2.012	5.505	0.000	3.493
Savings Proposals	-17.133	-3.354	-1.227	-21.714
Social Care Precept (3.0%)	-3.900	0.000	0.000	-3.900
Council Tax increase (1.5%)	-1.950	0.000	0.000	-1.950
NET POSITION	0.000	18.947	12.984	31.931

Closing the Medium Term Financial Gap

At this stage it is prudent to flag the continuing risks for 22/23 in particular but there is work ongoing which it is expected will close the gap for that year during 2021. This includes:

- Spending Review

There is still considerable uncertainty about future external support from 2022/23 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 2021 will give assurity on some funding streams and allow the medium term assumptions to be reviewed.

The Spending Review could possibly contain announcements on the fair funding review, business rates reform and further guidance on how adult social care will be funded going forward. The Government have committed to the current Adult Social Care Grants for the lifetime of this parliament and so the medium term financial plan reflects this.

- Review of corporate and demographic pressures

The Council has adopted a prudent approach to future corporate and demographic pressures. These assumptions will all be tested during the first part of 2021 and the assumptions will be updated accordingly. This will include an evaluation of the continuing impact of COVID and the associated Government support.

- 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.

- Other Savings

The budget is a cyclical process and opportunities to save money, modernise and improve efficiency happen every year. This is a normal process that every authority undertakes every year regardless of the financial position moving forward. As stated earlier in this report the Council is fully committed to significant digital and IT enhancements which will lead to efficiency and savings.

- 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. The Council has also taken a prudent position on future interest rates as recommended by our treasury advisors. Over time these assumptions can be updated.

9 Fees and Charges

- 9.1 The Council annually reviews its fees and charges to customers.

Appendix C sets out the proposed fees and charges for 2021/22. 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.
- Current market conditions for any increase

10 Contingency, Reserves and Balances and update to Financial Procedures

10.1 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.

10.2 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.

10.3 General Balances

The General Fund Balance stood at £12.7m at 31 March 2020. The Council has a further planned contribution built into the 2020/21 budget which will bring the general reserves up to £13.6m at 31st March 2021. The unprecedented financial situation as a result of the pandemic has resulted in a significant overspend being predicted in the current revenue monitor. The Council is working tirelessly to reduce this overspend but the outturn position may result in a draw on the general reserves position. The Council will seek to avoid this if possible as it would delay the objective of building reserves up as set out in previous budget reports.

The Council is fully committed to building up reserves in the medium term to the £20m level set out in previous budget reports. The medium term financial plan includes provisions to move towards this target

11 The Capital Programme and Strategy

- 11.1 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 three years.

Capital Programme 21/22 to 23/24	2021/22 £m	2022/23 £m	2023/24 £m
Adults Services	2.132	0.023	0.000
Customer, Communication & Culture			
Art & Culture	0.050	0.000	0.000
Leisure - Other	7.540	3.125	0.000
Leisure - SLM	0.764	0.100	4.721
Libraries	0.223	0.010	0.000
Customer, Communication & Culture Total	8.577	3.235	4.721
Childrens Services			
Childrens Services	0.020	0.005	0.000
Learning & Achievement	0.022	0.000	0.000
Childrens Services Total	0.042	0.005	0.000
Environment			
Environment - Highways	12.206	12.300	0.300
Environment - Parks	1.600	0.500	0.500
Environment - Street Lighting	0.200	0.000	0.000
Environment - TFL	1.957	0.000	0.000
Environment - Parking	1.000	1.000	1.000
Environment - Public Protection	3.500	0.000	0.000
Environment Total	20.463	13.800	1.800
Registration & Bereavement Services	5.850	0.000	0.000
Asset Management			
Asset Rationalisation	1.500	0.000	0.000
Corporate Buildings	0.727	0.000	0.000
Health & Safety	0.098	0.078	0.007
Schools Conditions Programme	3.133	0.000	0.000
Schools Expansions	5.761	6.050	0.000
Asset Management Total	11.220	6.128	0.007
Finance			

Contingency	1.000	0.000	0.000
Internal Leasing	6.000	0.000	0.000
Finance Total	7.000	0.000	0.000
ICT Infrastructure	11.142	8.044	8.242
Regeneration Programme	141.957	153.067	82.470
Total GF Capital Expenditure 21/22 to 23/24	208.382	184.302	97.241
HRA Capital Expenditure	142.970	174.740	167.649
Total Capital Programme 21/22 to 23/24	351.352	359.042	264.890

Capital Programme Financing 21/22 to 23/24	2021/22 £m	2022/23 £m	2023/24 £m
Capital Receipts	95.080	88.558	47.084
Revenue and Reserve Contributions	18.143	12.533	14.584
Grants & Other Contributions	22.335	41.581	26.961
GF Prudential Borrowing	102.110	97.326	56.876
HRA Prudential Borrowing	113.685	119.045	119.385
Total Funding 21/22 to 23/24	351.352	359.042	264.890

12 Budget Risks and Uncertainties

12.1 There are a number of risks and uncertainties which could potentially impact on the 2021/22 budget and also medium term forecasting. This section summarises those risks. **Appendix D** sets out these risks in more detail.

- **Spending Review 2021:**

The Government have indicated their intention to run a multi-year spending review in 2021. If this proceeds it is likely it will be followed by a multi-year financial settlement next autumn. With the downturn in the economy there is a significant risk that future settlements will be adverse for local government as the government seeks to redress the national position

The Government have a number of reviews they have promised to implement although they haven't set a timescale in their recent announcements. The risks below therefore are general risks associated with these reforms

- **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 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. The initial modelling of the impact of the review implied that the overall effect would be to re-distribute funding away from London

- **Loss / Reduction in Business Rates**

The downturn in the economy has hit businesses hard. There is a significant and ongoing risk of business failure in the borough. This in turn will reduce the business rates collectable and also the level of bad debt. The Council almost certainly will bear a proportion of the lost income from reductions in the total amount of collectable business rates. The safety net system has been put in place to partially mitigate this effect and the Council has taken the prudent position of reducing assumed income to that level for 2021/22

- **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. This is a risk particularly relevant to the recovery period following the COVID pandemic where it is entirely possible the Government will place expectation and burdens on local government without the ongoing funding to support those pressures.

- **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 2021/22 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 can lead to additional costs if the new designs are more expensive but also the delay costs as described above and potentially abortive costs on the original plans.
- **Impact of a downturn in the economy including 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 or for individual projects to be paused until conditions improve.

- 13.1 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.

13.2 Robustness of Reserves and Balances

The budget has been prepared using a three year Financial Strategy. The Government has provided no assurance over future funding beyond 2021/22 and as such planning beyond a three year framework is very difficult. If the Government announces a multi year spending review in 2021 then future medium term financial plans will be lengthened again to 4 years.

The COVID pandemic has presented challenges to local government in a way that was not imaginable when the last budget was set. The Council has acted swiftly and responsibly and has been able to continue its business in a responsive and professional manner.

The need to have a robust budget and medium term financial plan underpinned by adequate reserves has never been greater and this has been at the forefront of the Council's planning process this winter.

The impact of the pandemic on residents and businesses in the borough will continue for years to come and in preparing its budget the Council has taken account of the steps needed to support its residents through the crisis. The Government has set out funding for COVID as part of the 2021/22 financial settlement and this money will be set aside as an earmarked reserve to be utilised to support those in need, cover the Council's loss of income and to meet other related burdens. Clearly if the lockdown and restrictions were to continue for a prolonged period into 2021/22 then the expectation is that central government will provide further funding to mitigate this situation.

In setting the 2021/22 budget the process has taken account of the following factors

- The forecast position as set out in the Cabinet report in November 2020
- 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 November 2020.
- All announcements and future forecasts relating to the COVID pandemic.

As the development of the budget for 2021/22 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 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.

The COVID pandemic resulted in a number of savings from 2020/21 either being delayed or not delivered. The 2021/22 fully addresses this either by deferring the savings to 2021/22 or removing the savings where appropriate. This has the result of increasing the savings proposed in 2021/22 and therefore for prudence a 10% provision for non achievement has been included in the 2021/22 budget. Departments will work hard to achieve all savings and if this provision is not required then the budget will be available for other priorities or contribution to reserves.

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 2020/21 significant budget variances has taken place to assess any impact on the 2021/22 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.

This process resulted in the identification of a number of small underlying budget issues across the authority. In order to set a robust balanced budget the 2021/22 budget has included a £1m provision to enable these issues to be addressed. The S151 officer will review these issues and allocations will be made to original budgets where necessary before the commencement of the new year.

13.3 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 £12.7m at 31 March 2020. The Council has a further planned contribution built into the 20/21 budget which will bring the general reserves up to £13.6m at 31st March 2021. The unprecedented financial situation as a result of the pandemic has resulted in a significant overspend being predicted in the current revenue monitor. The Council is working tirelessly to reduce this overspend but the outturn position may result in a draw on the general reserves position. The Council will seek to avoid this if possible as it would delay the objective of building reserves up as set out in previous budget reports.

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, the lived experience of the COVID pandemic and the level of public expectation of councils from their residents suggests this is no longer sufficient. The medium term financial strategy includes proposals to increase balances towards the target of £20 million but this will be subject to no further funding gaps from the COVID pandemic.

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 2020 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 the rent setting report on the HRA budget for 2021/22

13.4 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 to 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, £1.3m 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 improved 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.

13.5 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.

13.6 Summary of Robustness of the Budget and MTFS

The 2021/22 budget and 2021/24 MTFS has been prepared taking into account the following:

- The impact of the COVID pandemic on the 2021/22 and future budgets.
- The estimated impact of underlying cost pressures, evidenced by financial monitoring reports in the current year;
- 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 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.

14 Discount for Council Tax Payers Paying in Full

14.1 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.

14.2 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 2022, 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 2021, 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".

14.3 Resolution for Council Tax

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

15 Council Tax Support Scheme 2021/22

- 15.1 The local Council Tax Support (CTS) Scheme in Havering has been designed to support residents on low incomes pay their Council Tax. Council Tax Support rules for claimants of pensionable age are prescribed in law and 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. Local authority Care Leavers can receive up to 100% in Council Tax Support. 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 2020 putting forward no amendment to that scheme in 2021. A copy of the 2020 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 2021 before 11 March 2021.

The Council has due regard for the Equality Act 2010 and the need to eliminate unlawful discrimination. Consequently, an Equality and Health Impact Assessment is attached to this report at **Appendix E**. An Equality Impact Assessment was also completed in December 2019 and this can be found at <https://www.havering.gov.uk/ctaxeia2020>

A draft summary version of the Council Tax Support Scheme for 2021 is contained within **Appendix F**. A full version of the draft CTS 2021 scheme can be found at <https://www.havering.gov.uk/draftctsscheme20212022>

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 2021/22 and sets out the Council's future plans for balancing the budget in the medium term from 2022/23 to 2024/25.

Other options considered:

The report outlines all the options identified for balancing the 2021/22 budget. Officers will continue to seek further options for balancing the budgets in future years.

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

None