

**REPORT FOR: CABINET**

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|-------------------------------------|---|
| <b>Date of Meeting:</b>             | 8 December 2016   |
| <b>Subject:</b>                     | Draft Revenue Budget 2017/18 and Medium Term Financial Strategy 2017/18 to 2019/20  |
| <b>Key Decision:</b>                | Yes   |
| <b>Responsible Officer:</b>         | Dawn Calvert, Director of Finance   |
| <b>Portfolio Holder:</b>            | Councillor Adam Swersky, Portfolio Holder for Finance and Commercialisation   |
| <b>Exempt:</b>                      | No  |
| <b>Decision subject to Call-in:</b> | Yes   |
| <b>Wards affected:</b>              | All   |
| <b>Enclosures:</b>                  | <b>Appendix 1A</b> – Proposed savings and growth 2017/18 to 2019/20<br><b>Appendix 1B</b> – Proposed savings 2017/18 to 2019/20 to be agreed from 2015/16 and 2016/17 MTFS<br><b>Appendix 1C</b> – Savings shown as amendments in Appendix 1B<br><b>Appendix 2</b> - Medium Term Financial Plan 2017/18 to 2019/20<br><b>Appendix 3</b> - Schools Budget 2017/8<br><b>Appendix 4</b> - Draft Public Health Budget 2017/18 |

This report sets out the draft revenue budget for 2017/18 and draft Medium Term Financial Strategy (MTFS) for 2017/18 to 2019/20. The budget and MTFS will be brought back to Cabinet in February 2017 for final approval and recommendation to Council.

**Recommendations:**

Cabinet is requested to:

- 1) Note the Council's position in terms of the Multi Year Finance Settlement and Efficiency Plan, in that the Council have not applied to accept the four year offer. (paragraphs 1.8 to 1.11)
- 2) Approve the draft budget for 2017/18 and the MTFS 2017/18 to 2019/20 for general consultation as set out in Appendices 1a, 1b and 2.
- 3) Note the balanced budget position for 2017/18, the balanced budget for 2018/19 subject to £6.978m of proposals being developed, and the gap of £9.661m for 2019/20 (table 2).
- 4) Note the proposal to increase Council Tax by 1.99% in 2017/18 (Table 2 and paragraph 1.14)
- 5) Note the proposal to increase Council Tax by 2.0% in 2017/18 in respect of the Adult Social Care Precept (Table 2 and paragraph 1.14)
- 6) Approve the structure of the Schools funding formula for 2017/18 (unchanged from the 2016/17 formula agreed last year) as set out in Appendix 3.
- 7) Approve the draft Public Health budget for 2017/18 as set out in Appendix 4.
- 8) Authorise the Director of Finance, following consultation with the Portfolio Holder for Finance and Commercialisation, to agree Harrow's 2017/18 contribution to the London Borough's Grant Scheme (paragraph 1.37)

Final approval will be sought from Cabinet and Council in February 2017.

**Reason: (For recommendations)**

To ensure that the Council publishes a draft budget for 2017/18 and 3 Year MTFS to 2019/20.

## **Section 2 – Report**

### **INTRODUCTION**

- 1.0 The Government continues to reduce its funding to Local Government as part of its nationwide austerity programme. 2017/18 is the eighth year in which Councils have seen reductions in their grant funding. These funding reductions, a continued increase in demand for services and cost inflation mean are that Harrow has to save an estimated £83m over the 4 year period 2015/16 to 2018/19. Harrow Council does not have large cash reserves, and spending them is not a responsible way to offset lost revenue. Harrow Council's gross budget for 2016/17 is £560m. A significant proportion of this funding is ring fenced for services such as housing benefit, schools and public health. The Council's net controllable budget is £165m in 2016/17 and this is the element of the budget that the Council can exercise more control over and from where savings must be found. Harrow's response to the financial challenges faced was to set a three year budget covering the period 2016/17 to 2018/19 to show the Council is being responsible with taxpayers' money, is ambitious for the borough and is prioritising the vulnerable in its spending decisions.
- 1.1 The Council has a statutory obligation to agree and publish the budget for 2017/18, and approval for this will be sought in February 2017. In preparing the 17/18 budget, and rolling forward the MTFS to cover the three year period 2017/18 to 2019/20, the current MTFS (approved by Council in 2016) has been the starting point for the process.
- 1.2 The draft budget set out in this report shows an updated MTFS with a number of changes Cabinet are asked to note. The changes achieve a balanced budget position for 2017/18, a balanced position for 2018/19 subject to £6.978m of proposals being developed and a gap of £9.661m for 2019/20. The MTFS will be subject to further adjustments following the Local Government Financial Settlement, which is due for announcement in early to mid December 2016. Whilst it is intended that Members will approve the MTFS in February 2017, this is subject to a number of assumptions in relation to grant settlements, council tax income, legislation and demographics. The Council will still be required to review the Council's budget on a yearly basis; however approval of the MTFS will allow officers to progress a number of important projects.

### **BACKGROUND**

- 1.3 The budget process is designed to ensure that it is priority led so that resources are aligned with council priorities and statutory responsibilities including equalities implications. The Harrow Ambition Plan 2020 sets out the ambitious council vision of 'Working Together to Make a Difference for Harrow.' Between now and 2020 the Council's Strategy to deliver its vision is to:

- Build a Better Harrow
- Be More Business Like and Business Friendly
- Protect the Most Vulnerable and Support Families

The Council's values, developed by staff, are also a key part of the Harrow Ambition Plan:

- Be Courageous
- Do It Together
- Make It Happen

- 1.4 Harrow Council has taken a responsible approach to the significant financial challenges it faces. In 2016/17, for the first time, the Council approved a three year budget covering the period 2016/17 to 2018/19 to show its commitment to achieving financial sustainability through a period of unprecedented fiscal challenges. The Council's savings target for the 4 year period 2015/16 to 2018/19 is £83m. In balancing the 2015/16 budget, savings of £30.9m were agreed. The target for the three years 2016/17 to 2018/19 was £52.4m and the final position agreed by Council in February 2016 was a balanced position for 2016/17 and gaps of £985k and £789k for 2017/18 and 2018/19 respectively.

## **EXTERNAL FUNDING POSITION**

- 1.5 Harrow Council is one of the lowest funded councils in London. In 2015/16 Harrow's revenue spending power per head was £159 (or 17.3%) lower than the London average which ranked Harrow 26<sup>th</sup> out of 32 London Boroughs. A similar comparison with the England average shows Harrow's revenue spending power per head was £127 (or 14.3%) below average and ranked Harrow 105<sup>th</sup> out of 120 local authorities.
- 1.6 The Local Government Finance Settlement for 2016/17 did nothing to readdress this low funding position. The settlement was intended to protect authorities that were heavily dependent on central resources from the full impact of cuts in funding over the next four years. The Settlement allocated central funding in a way that ensured councils received the same percentage change in settlement core funding, i.e. Council Tax and central funding. This methodology therefore benefitted Councils who obtained a relatively small proportion of their income from Council Tax. Harrow has the third highest Council Tax in London and the effect of factoring in overall funding levels, rather than applying a simple percentage cut, result in Harrow losing £6.4m in Revenue Support Grant (RSG) in 2016/17, approximately £4m more than was planned under the previous methodology. Under the new methodology, Harrow was the sixth hardest hit amongst London Boroughs.
- 1.7 Linked to the revised methodology for RSG allocation, from 2016/17 Care Act Funding was subsumed within RSG and not allocated as a separate funding stream. As Harrow's overall RGS reduced so significantly in 2016/17, there was no capacity to allocate Care Act Funding to the Adult Services division (£1.271m in 2016/17).

- 1.8 Whilst the Council was grateful to receive Transition Grant funding (£712k in 2016/17 and £699k in 2017/18), the benefit was fully off set by reductions in the Public Health Grant.

### **DELIVERY OF THE 2016/17 BUDGET**

- 1.9 Delivery of the 2016/17 budget is critical to maintaining the Council's financial standing and to do everything possible to protect front line services. The 2016/17 revenue budget includes a challenging savings target of £17.5m. At Quarter 2 (as at 30 September 2016) performance against the savings target is good in light of the challenging environment:

- £9.5m of savings (54%) are already achieved or on course to be achieved.
- £6.6m of savings (38%) are partially achieved or risks remain.
- £1.4m of savings (8%) will not be achieved.

The Quarter 2 forecast, subject to a separate report elsewhere on the agenda, indicates a directorate overspend of £8.539m net, the key pressures relating to homelessness and front line adults and children's social care budgets. After allocating the corporate contingency budget (£1.329m), centrally held budgets not applied (£766k), containment of Regeneration revenue expenditure within the Regeneration model (£595k) and £2m set aside for homelessness pressures, the forecast pressure is reduced to £3.849m. It is critical to balance the 2016/17 budget and to achieve this; a plan is in place to be as lean and efficient as possible. Specifically, this is the implementation of spending controls, a review of non-essential spend, the improved use of assets, and a range of other efficiency and effectiveness initiatives.

### **MULTI YEAR FINANCE SETTLEMENT AND EFFICIENCY PLAN**

- 1.10 As part of the December 2015 Spending Review, the Secretary of State for Communities and Local Government (DCLG) made an offer to councils to take up a four year funding settlement for the period 2016/17 to 2019/20. To accept this offer an Efficiency Plan had to be prepared and published by 14 October 2016.
- 1.11 The offer made by the Government, as part of the Spending Review, was to any council that wished to take up a four year funding settlement up to 2019/20. The purpose of this offer is to help local authorities prepare for the move to a more self-sufficient resource base by 2020 and the devolution of business rates. The multi year settlement is intended to provide funding certainty and stability for the sector that will enable more proactive planning and support strategic collaboration with local partners. For those councils that chose not to accept the offer, they will be subject to the existing annual process for determining the local government finance settlement. Allocations could be subject to additional reductions dependent on the fiscal climate and the need for the government to make further savings to reduce the deficit.

1.12 In these initial stages the funding offer is limited to three funding streams. The current MTFs, agreed by Council in February 2016, incorporates the funding provided within the four year settlement offer as detailed in table 1 below:

**Table 1: 4 Year Settlement Offer**

|   | <b>2016/17</b> | <b>2017/18</b> | <b>2018/19</b> | <b>2019/20</b> |
|---|----------------|----------------|----------------|----------------|
|   | £'000          | £'000          | £'000          | £'000          |
| RSG   | 21,935         | 13,019         | 7,332          | 1,559          |
| Transitional Grant                                  | 712            | 699            | 0              | 0              |
| Rural Services Delivery Grant allocations           | N/A            | N/A            | N/A            | N/A            |
| <b>Cumulative reduction in RSG from 2016/17 (%)</b> |                | <b>41%</b>     | <b>67%</b>     | <b>93%</b>     |

1.13 In light of the RSG reduction of 93% over the four year period, leaving a balance of £1.559m by 2019/20, the Council did not apply to accept the offer. A letter has been sent to the Secretary of State for Communities and Local Government explaining why Harrow's funding position does not put it in a position to apply to accept. There is further on going engagement with local MP's and DCLG in respect of the offer.

**BUDGET PROCESS 2017/18**

1.14 In February 2016 Council approved a three year budget. As the Council's financial position is dynamic and is affected by a number of financial uncertainties and adjustments that will impact upon its financial position over the long and medium term, in preparing the draft budget for 2017/18 the existing MTFs has been refreshed and rolled on a year and the adjustments are summarised in table 2 below, followed by an explanation of the more significant adjustments

**Table 2: Changes to MTFS**

| <b>(Pre December Local Govt Finance Settlement)</b>          | <b>2017/18</b> | <b>2018/19</b> | <b>2019/20</b> |
|--|----------------|----------------|----------------|
|  | <b>£000</b>    | <b>£000</b>    | <b>£000</b>    |
| <b>Actual Gap at Feb Council 16 Report</b>                   | <b>985</b>     | <b>789</b>     | <b>0</b>       |
| <b>Implications of 2016/17 Budget decisions into 2019/20</b> |                |                |                |
| Capital financing  |                |                | 2,800          |
| New homes bonus  |                |                | 300            |
| Education Services Grant estimated reduction                 | 640            | 751            |                |
| Freedom Pass   |                |                | 414            |
| Pay Award 1%   |                |                | 1,000          |
| Employers pension increase - deficit reduction               |                |                | 700            |
| National Minimum Wage  |                | 0              | 1,300          |
| Impact of 2016/17 Budget savings                             |                |                | -312           |
| Increased CT base  |                |                | -107           |
| Business Rates top-up  |                |                | -708           |
| RSG Reduction  |                |                | 5,772          |
| <b>Sub Total</b>   | <b>1,625</b>   | <b>1,540</b>   | <b>11,159</b>  |
| <b>Grant and Tax base Adjustments</b>                        |                |                |                |
| Estimated increase in band D properties by 1500              | -1835          |                |                |
| Estimated increase in band D properties by 1500              |                | -1839          |                |
| Collection Fund Surplus                                      | -3500          |                |                |
| Estimated Public Health Grant Reductions                     | 907            | 697            | 487            |
| 2% Adult Social Care precept                                 | -2,133         |                |                |
| Increase in CT by 1%   | -1071          | 0              | 0              |
| <b>Sub Total</b>   | <b>-6,007</b>  | <b>398</b>     | <b>11,646</b>  |
| <b>Growth</b>  |                |                |                |
| Resources - Business Support                                 | 734            |                |                |
| Adults   | 4,629          | -96            | -90            |
| Children's   | 2,838          | 200            |                |
| Community- Housing   | 2,996          | -163           |                |
| Funding in base budget                                       | -1,000         |                |                |
| Community - Environment                                      | 500            |                | 100            |
| <b>Prior MTFS Savings to be reversed or re-phased</b>        |                |                |                |
| MTFS savings identified for refresh:                         |                |                |                |
| Total Resources and Business Support                         | 1,009          | 570            |                |
| Total Children's   | 514            | 651            |                |
| Total Adults   | 2,844          | 2,102          | -4,100         |
| Total Community  | -110           | -81            | 124            |
| Total Regeneration   | 50             |                |                |
| Pan Org savings  | 1,100          |                |                |
| <b>Savings from 2017/18 Budget Process</b>                   |                |                |                |
| Resources  | -844           | -557           | -550           |
| Adults   | -1,120         |                |                |

|  |               |               |              |
|--|---------------|---------------|--------------|
| Children's   | -255          |               |              |
| Public Health  | -263          | 31            |              |
| Community and Culture                                      | -896          | -140          |              |
| Housing  | -898          | -469          | -225         |
| Regeneration   | -47           |               |              |
|  |               |               |              |
| <b>Sub Total</b>   | <b>5774</b>   | <b>2446</b>   | <b>6905</b>  |
|  |               |               |              |
| <b>Technical:</b>  |               |               |              |
| Estimated cost of the Apprenticeship levy                  | 400           |               |              |
| Capital Financing costs                                    | -285          | 2,132         | 2,056        |
| Application of current capital receipts to reduce MRP cost | -1,000        | 0             | 0            |
| - Additional New Homes Bonus                               | -850          | -1,639        | 700          |
| - Budget planning contingency                              | -1,000        | 1,000         |              |
| <b>Revised gap</b>   | <b>3,039</b>  | <b>3,939</b>  | <b>9,661</b> |
| <b>Use of Capital Receipts Flexibility</b>                 | <b>-3,039</b> | <b>3,039</b>  | <b>0</b>     |
| <b>Sub total</b>   | <b>0</b>      | <b>6,978</b>  | <b>9,661</b> |
| <b>Proposals to be developed to reduce gap</b>             | <b>0</b>      | <b>-6,978</b> | <b>0</b>     |
|  | <b>0</b>      | <b>0</b>      | <b>9,661</b> |

#### 1.15 Implications of 2016/17 Budget decisions into 2019/20

- £2.8m is the revised estimated capital financing requirement for year 2019/20 of the existing Capital Programme, agreed by Council in February 2016.
- The current MTFS estimates the Education Services Grant (ESG) at £1.658m for 2017/18. The Department for Education (DFE) have announced changes to this grant. The general rate of the ESG provided to Local Authorities (LA's) and existing academies will cease from 01/09/17. This grant is provided to support LA responsibilities towards maintained schools and academies. LA's will continue to receive £15 per pupil for all pupils in state funded schools. However this grant will be transferred into the Dedicated Schools Grant (DSG) rather than being an un ring-fenced grant. Schools Forum will have responsibility for approving the value of the grant to be returned to the LA and will agree this at their meeting in either January or March 2017. The total reduction is estimated at £640k for 2017/18 and £751k for 2018/19.
- A 1% pay award has been assumed for 2019/20 (£1m). This is in line with Government pay policy for public sector awards to be no more than 1% up to 2019/20.
- The current MTFS includes additional contributions to the pension fund of £622k in 2017/18 and £664k in 2018/19. The results of the tri-ennial Pension Fund valuation will be known in early 2017 and any additional contributions for 2019/20 will be in line with the advice from the Pension Fund actuary. A contribution of £700k is currently assumed for 2019/20.



- The indicative Revenue Support Grant (RSG) for 2019/20 is £1.559m, a reduction of £5.8m (as detailed in table 1) and this is reflected in the MTFS.

### **1.16 Grant and Tax Base Adjustments**

- Largely as a result of new properties, the tax base is assumed to increase, over current assumptions, by approximately 1,500 band D equivalent properties in both 2017/18 and 2018/19 generating approximately £1.8m additional income in each year.
- A marginal increase, generating income of £107k, is assumed for 2019/20 which will be refreshed in future MTFS processes.
- There is a report elsewhere on the agenda that estimates the surplus / deficit on the Collection Fund for 2016/17. The report details an overall net estimated surplus of £5.734m on the Collection Fund as at March 2017 of which Harrow's share is £3.760m which is now reflected in the MTFS.
- The Public Health Grant remains ring fenced to 2017/18 until further notice. Public Health England has notified Harrow that its grant for 2017/18 will be £11.093m, a reduction of £907k. Grant allocations for 2018/19 onwards have yet to be announced however further reductions of £697k in 18/19 and £487k in 2019/20 have been assumed in the budget to reflect the downward trend in Public Health funding.
- The current MTFS assumes no levying of the Adult Social Care Precept beyond 2016/17. This has been refreshed to assume the maximum 2% precept will be levied in 2017/18 to generate approximately £2.1m.
- The current MTFS assumes a 1% increase in Council Tax for 2017/18. This has been refreshed to assume an increase in Council Tax of 1.99%. No further increases are assumed for 2018/19 and 2019/20.

### **1.17 Budget Refresh, Growth & Savings**

#### **Budget Refresh**

- When the three year budget was approved in February 2016, there was the commitment to refresh the budget when it was rolled forward a year to ensure it remained reflective of the changing Harrow and Local Government landscape. All savings in the current MTFS for year 2 and 3 have been reviewed and those savings that, for various circumstances, can no longer be taken forward are recommended for removal from the budget. These savings, which total £4.7m in 2017/18 are summarised in table 2 and shown in Appendix 1B against the original saving. They are also separately identified in Appendix 1C. In addition to savings being reversed, there are a number of savings which have been re-profiled between years and, in the case of the original Property Purchase Initiative to buy 100 homes (ref 16/17 MTFS CH9), this saving has been increased to reflect savings to be achieved.

- One of the savings being reversed in Table 5 relates to a saving of £1.1m (saving ref PO 04) for 2017/18 from 'additional commercialisation savings from projects in the pipeline'. This is additional to the individual commercialisation related savings included within the MTFS. Projects have successfully been identified to meet this target, including:

RES 01 – Customer Services and IT - Increase Harrow Helpline Income (£200k in 2017/18)

RES 14 – Procurement / HR – Early re-procurement of Agency Staff contract (£150k in 2017/18) and Re-procurement of Occupational Health Contract (£24k in 2017/18)

RES – Insurance Savings from re-tendering Insurance Contracts (£50k in 2017/18)

COM G05.3 – Housing / Homelessness – extension of property purchase initiative (£254k in 2017/18)

COM S01 – Commercial projects under Project Phoenix (£520k in 2017/18)

**Savings identified as part of the 2017/18 Budget process**

- The 2017/18 budget setting process has identified additional savings of £6.233m over the three years. These are summarised in table 3 below and detailed in Appendix 1A.

**Growth identified as part of the 2017/18 Budget process**

- Irrespective of funding reductions, the demand for front line Council services continues to increase and, in the main, shows no sign of reducing. Despite a strong performance against the 2016/17 savings target of £17.5m, there remains significant underlying pressures against the adults and children's social care budgets and the homelessness budget. The homelessness budget is showing signs of reducing as a result of Council initiatives such as the 100 homes programmes but, as at quarter 2, the reported pressure is still significant at £3m. The underlying pressures need to be addressed to ensure the budget is robust and financially sustainable as the Council moves forward into continued financially challenging times. Therefore growth of £10.648m has been allocated over the three years to address the underlying pressures. This growth is summarised in table 3 below and detailed in Appendix 1A:

**Table 3: Savings and Growth from the 2017/18 Budget setting process**

| <b>Directorate</b>                      | <b>2017/18</b>  | <b>2018/19</b> | <b>2019/20</b> | <b>Total</b>    |
|---|-----------------|----------------|----------------|-----------------|
| <b>Savings</b>                          | £'000           | £'000          | £'000          | £'000           |
| Resources                               | 844             | 557            | 550            | 1,951           |
| Adult                                   | 1,120           | 0              | 0              | 1,120           |
| Children and Family                     | 255             | 0              | 0              | 255             |
| Public Health                           | 263             | (31)           | 0              | 232             |
| Community and Cultural services         | 896             | 140            | 0              | 1,036           |
| Housing                                 | 898             | 469            | 225            | 1,592           |
| Regeneration                            | 47              | 0              | 0              | 47              |
| <b>Total</b>                            | <b>4,323</b>    | <b>1,135</b>   | <b>775</b>     | <b>6,233</b>    |
| <b>Growth</b>                           |                 |                |                | 0               |
| Resources                               | (734)           | 0              | 0              | (734)           |
| Adults                                  | (4,629)         | 96             | 90             | (4,443)         |
| Childrens and Family                    | (2,838)         | (200)          | 0              | (3,038)         |
| Community and Cultural services         | (500)           | 0              | (100)          | (600)           |
| Housing                                 | (2,996)         | 163            | 0              | (2,833)         |
| Funding in Base Budget for homelessness | 1,000           |                |                | 1,000           |
| <b>Total</b>                            | <b>(10,697)</b> | <b>59</b>      | <b>(10)</b>    | <b>(10,648)</b> |
| <b>Net Savings/Growth</b>               | <b>(6,374)</b>  | <b>1,194</b>   | <b>765</b>     | <b>(4,415)</b>  |

1.18 Table 4 sets out savings proposed as part of the 2015/16 and 2016/17 budget setting process and which were included in the 2016/17 Budget report. Table 4, shows savings of £25.1m over the three year period and this is the net position after allowing for the savings referred to in the budget refresh section above and summarised at table 5, which total £4.7m. The savings totalling a net £25.1m over the three years are detailed in Appendix 1b. The savings in Table 5 are also detailed in a separate Appendix 1c for transparency purposes.

**Table 4: Savings from 2015/16 and 2016/17 MTFS**

| Directorate           | 2017/18      | 2018/19       | 2019/20      | Total         |
|-----------------------|--------------|---------------|--------------|---------------|
| <b>Savings</b>        | £'000        | £'000         | £'000        | £'000         |
| Resources             | 1,117        | 1,970         | 0            | 3,087         |
| Adults                | 1,571        | 3,228         | 4,100        | 8,899         |
| Childrens and Family  | 167          | 2,611         | 150          | 2,928         |
| Public Health         | 462          | 2,295         | 0            | 2,757         |
| Community and culture | 1,163        | 2,432         | 0            | 3,595         |
| Housing               | 1,041        | 353           | 38           | 1,432         |
| Regeneration          | 100          | 0             | 0            | 100           |
| Pan Organisation      | 350          | 2,000         | 0            | 2,350         |
| <b>Total</b>          | <b>5,971</b> | <b>14,889</b> | <b>4,288</b> | <b>25,148</b> |

**Table 5: Reversed Savings from 2015/16 and 2016/17 MTFS**

| Directorate         | 2017/18        | 2018/19        | 2019/20      | Total          |
|---------------------|----------------|----------------|--------------|----------------|
| <b>Savings</b>      | £'000          | £'000          | £'000        | £'000          |
| Resources           | (1,009)        | (570)          | 0            | (1,579)        |
| Children and Family | (514)          | (651)          | 0            | (1,165)        |
| Adult               | (2,844)        | (2,102)        | 4,100        | (846)          |
| Community           | 110            | 81             | (124)        | 67             |
| Regeneration        | (50)           | 0              | 0            | (50)           |
| Pan Organisation    | (1,100)        | 0              | 0            | (1,100)        |
| <b>Total</b>        | <b>(5,407)</b> | <b>(3,242)</b> | <b>3,976</b> | <b>(4,673)</b> |

### 1.19 Technical Adjustments

- The Apprenticeship Levy is a charge being introduced by the government to help fund their plans to deliver a step change in apprenticeship numbers and their quality. The levy will be set at 0.5% of an employers pay bill, where the pay bill is in excess of £3m. The levy for the Council is estimated at £400k and discussions are currently in hand regarding how the levy will be managed within the Council.
- The draft Capital Programme 2017/18 to 2019/20 is subject to a separate report on the agenda, the capital financing implications of the new schemes are currently estimated at £3.9m over three years and the MTFS has been updated accordingly.

- Capital receipts of £6.6m from prior years are being applied to reduce capital financing costs by £1m.
- The New Homes Bonus (NHB) is based upon the number of additional dwellings each year and is payable for 6 years (4 years for more recent new properties.) As a result of additional properties the central government calculator shows additional NHB of £525k in 2017/18, a reduction of £940k in 18/19 and a further reduction of £1m for 2019/20 as the grant received in the earlier years of the scheme drops out. In 2017/18 the grant to be received is estimated at £5.774m. The figures in Table 1 are the additional changes to the NHB estimates since the 2016/17 budget was set and therefore the total amendments included from both the 2016/17 budget and the figures set out in Table 1 are those set out in the Technical Budget Changes section of Appendix 2.
- £1m of the budget planning contingency will be applied in 2017/18.

### **Capital Receipts Flexibility**

- 1.20 In the Spending Review 2015, it was announced that to support local authorities to deliver more efficient and sustainable services, the government will allow local authorities to spend up to 100% of their fixed asset receipts on the revenue costs of reform projects. This flexibility is being offered to the sector for the three financial years 2016/17 to 2018/19.
- 1.21 The Council signified its intent to make use of this flexibility in its final budget report to Cabinet and Council in February 2016.
- 1.22 In terms of the required reporting requirements, DCLG recommend each authority disclose the projects that will be funded or part funded through capital receipts to full Council. This requirement can be satisfied as part of the annual budget setting process. In November 2016, Cabinet approved a number of asset disposals and the capital receipts from these disposals will be applied within the new flexibilities and will be reported to February Cabinet and finally approved by full Council in February 2017.

### **THE AUTUMN STATEMENT 2016**

- 1.23 The Autumn Statement was released on 23 November 2016. There were a number of announcements in relation to Local Government, the financial implications of which are being evaluated or the detail will become known following receipt of the Local Government Financial Settlement which is due by mid December. This may result in further adjustments to the MTFs which will be reported to Cabinet and Council in February 2017.

## **SCHOOLS BUDGET 2016/17**

- 1.24 The funding arrangements for the Dedicated Schools Grant and the Schools Budget for 2017/18 are detailed in Appendix 3. Cabinet is required to approve the structure of its funding formula for 2017/18, which it is not proposed to be changed from that in place in 2016/17 (as reported to the Schools Forum on 13<sup>th</sup> September).

The final cash values of each formula factor will be set following consultation with Schools Forum in January 2017 after the 2017/18 Schools Block funding has been announced which will be based on October 2016 census data.

## **PUBLIC HEALTH FUNDING**

- 1.25 Following the comprehensive spending review in November 2015, Public Health England wrote to local authorities detailing average real terms savings of 3.9% each year to 2020/21 and notified allocations for 2016/17 and 2017/18. For Harrow this resulted in a reduction in the baseline allocation of £11.636m in 2015/16 down to £11.373m in 2016/17 and £11.093m in 2017/18.

- 1.26 Grant allocations for 2018/19 onwards have yet to be announced but annual reductions are anticipated to be at similar levels pending the outcome of consultation on options to fully fund local authorities' public health spending from their retained business rates receipts as part of the move towards 100% business rate retention.

- 1.27 The public health spending detailed in Appendix 4 of £11.093m and reflects the grant allocation published for 2017-18. It will be necessary for the Council to consider the most appropriate way for public health funding to be spent, taking account of the joint strategic needs assessment and the Council's overarching statutory duties including equalities duties.

- 1.28 The draft commissioning intentions (detailed in Appendix 4) will be presented to the Health and Wellbeing Board at its meeting on 12 January 2017.

## **BETTER CARE FUND**

- 1.29 The Better Care Fund (BCF) in 2016-17 has national funding of £3.9bn.

- 1.30 The agreed value of the Better Care Fund in Harrow is £16.258m, £1.181m of which reflects the capital funding in relation to Disabled Facility (the Community Capacity Grant having been discontinued). The balance of £15.077m allocated to revenue funding supports two agreed schemes – Protecting Social Care (£6.558m) and Whole Systems and Transforming Community Services (£8.519m).

- 1.31 The comprehensive spending review in November 2015 announced that an additional £1.5bn will be made available to the Better Care fund by 2019/20. The funding allocations announced in December 2015

indicated that additional funding of £1.9m would be allocated to Harrow in 2018/19 and £2.2m in 2019/20. The relationship between the existing negotiated BCF and the levying of the ASC precept is not clear and as a result this additional funding cannot be assumed within the MTFS.

- 1.32 The minimum funding requirements for the 2017-18 BCF will be notified in December and the Council and the CCG must agree how the BCF resources are allocated to deliver the national conditions, including the protection of social care services.
- 1.33 The draft budget currently assumes that the current funding transfer to the Council of £6.558m will continue in 2017/18. The Adult Social Care budget pressures are considerable and the wider Council savings proposals are significant.

### **HEALTH INTEGRATION**

- 1.34 Sustainability Transformation Plans (STPs) were introduced by NHS England (NHSE) to support delivery of their Five Year Forward View strategy and represent geographic areas (footprints) across England. Harrow falls under the North West London (NWL) footprint.
- 1.35 The STP is an opportunity to radically transform the way health and social care is provided, and across NWL both the NHS and local authorities have agreed to work together to deliver a sustainable health and care system. The NWL STP (submitted to NHSE on 21<sup>st</sup> October 2016) describes the shared ambition across health and local government to create an integrated health and care system that enables people to live well and be well.
- 1.36 There is a commitment in principle from NHSE / NWL that transformation should enable funding to be provided to cover local authority Adult Social Care funding gaps. Work is underway to establish both the funding gaps and the ability to redirect resources to local authorities arising from health and social care transformation. It is too early to assume additional funding as part of the draft budget and will be included in the future if appropriate and when the extent of any additional funding can be confirmed with reasonable certainty.

### **RESERVES AND CONTINGENCIES**

- 1.37 Reserves and contingencies need to be considered in the context of their need to protect the Council's good financial standing and in the context of the overall risks that the Council faces during a continuing period of economic uncertainty. The MTFS reflects the Council's need to ensure an adequate level of reserves and contingencies which will enable it to manage the risks associated with delivery of the budget including equalities impacts and unforeseen events. As at the time of writing this report general non earmarked balances stand at £10m and those for specific purposes are detailed:

- Unforeseen contingency £0 (£1.329m currently applied to in year revenue pressures)
- Budget Planning contingency (£2m one off for 2016/17)
- Rapid Response reserve (£75k)
- Standing Up for Those in Need (£800k)
- Welfare Reform / Homelessness £0 (£2m currently applied to in year revenue pressures)
- Commercialisation Reserve £430k
- Transformation and Priorities Initiative Fund £2.429m
- Business Risk Reserve £2.029m
- MTFs Implementation Costs £2.355m

1.38 The Director of Finance will report on the adequacy of the Council's reserves as required in the budget setting report in February.

## **LONDON BOROUGH GRANTS SCHEME**

1.39 Harrow's contribution to the London Borough's Grant Scheme was £245,298 in 2016/17. At the time of writing this report the Council has not been notified of the recommended contribution for 2017/18. To ensure that the Council can respond to London Council's when contribution rates are notified, it is recommended that Cabinet authorise the Director of Finance to agree Harrow's 2017/18 contribution to the London Borough's Grant Scheme, in consultation with the Portfolio Holder for Finance and Commercialisation. The contribution rate will be reported to Cabinet in February 2017 as part of the final budget.

## **2.0 CONSULTATION**

2.1 As a matter of public law the duty to consult with regards to proposals to vary, reduce or withdraw services will arise in 4 circumstances:

- Where there is a statutory requirement in the relevant legislative framework;
- Where the practice has been to consult or where a policy document states the council will consult then the council must comply with its own practice or policy;
- Exceptionally, where the matter is so important that there is a legitimate expectation of consultation and
- Where consultation is required to complete an equalities impact assessment.

Regardless of whether the council has a duty to consult, if it chooses to consult, such consultation must be carried out fairly. In general, a consultation can only be considered as proper consultation if:

- Comments are genuinely invited at the formative stage;
- The consultation documents include sufficient reasons for the proposal to allow those being consulted to be properly informed and to give an informed response;
- There is adequate time given to the consultees to consider the proposals;



- there is a mechanism for feeding back the comments and those comments are conscientiously taken into account by the decision maker / decision making body when making a final decision;
- The degree of specificity with which, in fairness, the public authority should conduct its consultation exercise may be influenced by the identity of those whom it is consulting and;
- The consultation is clear on the reasons why extent to which alternatives and discarded options have been discarded. Are required to be consulted on.

2.2 Public consultation on the overall budget for 2017/18 will commence after 8 December 2016 before the final savings are recommended to Full Council on the 23 February 2017. The public consultation will give residents an opportunity to comment on the 2017/18 overall budget before final decisions are formalised in the council's annual budget.

2.3 In terms of service specific consultations, the council has a duty to consult with residents and service users in a number of different situations including where proposals to significantly vary, reduce or withdraw services. Consultation is also needed in other circumstances, for example to identify the impact of proposals or to assist with complying with the council's equality duties. Where appropriate, separate service specific consultations have already taken place or are currently taking place for the 2017/18 savings.

### **3.0 PERFORMANCE IMPLICATIONS**

3.1 The in-year measurement of the Council is reported in the Strategic Performance Report. The Corporate Plan, which will be developed alongside the Budget Report, will have measures within it which will set out how Council delivery in 2017/18 will be measured and this again will be reported through the Strategic Performance Report.

### **4.0 RISK MANAGEMENT IMPLICATIONS**

4.1 As part of the budget process the detailed budget risk register will be reviewed and updated. This helps to test the robustness of the budget and support the reserves policy. This will be reported to February Cabinet.

### **5.0 LEGAL IMPLICATIONS**

5.1 Section 31A of the Local Government Finance Act 1992 requires billing authorities to calculate their council tax requirements in accordance with the prescribed requirements of that section. This requires consideration of the authority's estimated revenue expenditure for the year in order to perform its functions, allowances for contingencies in accordance with proper practices, financial reserves and amounts required to be transferred from general fund to collection fund.

5.2 Local authorities owe a fiduciary duty to council tax payers, which means it must consider the prudent use of resources, including control

of expenditure, financial prudence in the short and long term, the need to strike a fair balance between the interests of council tax payers and ratepayers and the community's interest in adequate and efficient services and the need to act in good faith in relation to compliance with statutory duties and exercising statutory powers.

- 5.3 Cabinet is approving these proposals for consultation after which a cumulative equalities impact will be drafted. These proposals will be referred to Council so that Council can approve the budget envelope and set the Council Tax. There will be contingencies within the budget envelope so that decision makers have some flexibility should any decisions have detrimental equalities impacts that cannot be mitigated.

## **6.0 FINANCIAL IMPLICATIONS**

- 6.1 Financial Implications are integral to this report.

## **7.0 EQUALITIES IMPLICATIONS / PUBLIC SECTOR EQUALITY DUTY**

- 7.1 Decision makers should have due regard to the public sector equality duty in making their decisions. The equalities duties are continuing duties they are not duties to secure a particular outcome. The equalities impact will be revisited on each of the proposals as they are developed. Consideration of the duties should precede the decision. It is important that Cabinet has regard to the statutory grounds in the light of all available material such as consultation responses. The statutory grounds of the public sector equality duty are found at section 149 of the Equality Act 2010 and are as follows:

*A public authority must, in the exercise of its functions, have due regard to the need to:*

- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;*
- (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;*
- (c) Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.*

*Having due regard to the need to advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:*

- (a) remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic;*
- (b) take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it;*
- (c) Encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.*

*The steps involved in meeting the needs of disabled persons that are different from the needs of persons who are not disabled include, in particular, steps to take account of disabled persons' disabilities.*

Having due regard to the need to foster good relations between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:

- (a) *Tackle prejudice, and*
- (b) *Promote understanding.*

*Compliance with the duties in this section may involve treating some persons more favourably than others; but that is not to be taken as permitting conduct that would otherwise be prohibited by or under this Act. The relevant protected characteristics are:*

- *Age*
- *Disability*
- *Gender reassignment*
- *Pregnancy and maternity*
- *Race,*
- *Religion or belief*
- *Sex*
- *Sexual orientation*
- *Marriage and Civil partnership*

7.2. Directorate proposals will be subject to an initial equalities impact assessment followed by a full assessment where appropriate. These will be published along with the final budget and MTFs report to February Cabinet. An assessment will also be carried out on the whole budget, when all proposals have been identified, to ensure that decision makers are aware of any overall equalities impact on the protected characteristics listed above..

## **8.0 COUNCIL PRIORITIES**

8.1 The Council's draft budget for 2017/18 has been prepared in line with the Council's vision:

### **Working Together to Make a Difference for Harrow**

- Making a difference for the vulnerable
- Making a difference for communities
- Making a difference for local businesses
- Making a difference for families

### Section 3 - Statutory Officer Clearance

|                        |                                     |   |
|------------------------|-------------------------------------|---|
| Name: Dawn Calvert     | <input checked="" type="checkbox"/> | on behalf of the<br>Chief Financial Officer |
| Date: 29 November 2016 |                                     |   |
| Name: Jessica Farmer   | <input checked="" type="checkbox"/> | on behalf of the<br>Monitoring Officer      |
| Date: 29 November 2016 |                                     |   |

|                                   |  |
|-----------------------------------|--|
| <b>Ward Councillors notified:</b> | No, as it impacts on all<br>Wards                        |
| <b>EqIA carried out:</b>          | To be reported on as<br>Part of the Feb Budget<br>report |
| <b>EqIA cleared by:</b>           | N/A  |

### Section 4 - Contact Details and Background Papers

**Contact:** Sharon Daniels, Head of Strategic Finance and Business (Deputy S151), tel: 0208 424 1332, sharon.daniels@harrow.gov.uk

**Background Papers:** [Final Revenue Budget 2015/16 and MTFS 2015/16 to 2018/19](#)

**Call-In Waived by the  
Chairman of Overview  
and Scrutiny  
Committee**

**NOT APPLICABLE**

*[Call-in applies]*