
REPORT FOR: CABINET

Date of Meeting:	7 December 2017
Subject:	Draft Revenue Budget 2018/19 and Medium Term Financial Strategy 2018/19 to 2020/21
Key Decision:	Yes
Responsible Officer:	Dawn Calvert, Director of Finance
Portfolio Holder:	Councillor Adam Swersky, Portfolio Holder for Finance and Commercialisation
Exempt:	No
Decision subject to Call-in:	Yes
Wards affected:	All
Enclosures:	Appendix 1A – Proposed savings and growth 2018/19 to 2020/21 (New proposals) Appendix 1B – Proposed savings 2018/19 to 2020/21 to be agreed from 2016/17 and 2017/18 MTFS Appendix 1C - Growth from 2017/18 MTFS Appendix 2 - Medium Term Financial Plan 2018/19 to 2020/21 Appendix 3 - Schools Budget 2018/19 Appendix 4 - Draft Public Health Budget 2018/19

This report sets out the draft revenue budget for 2018/19 and draft Medium Term Financial Strategy (MTFS) for 2018/19 to 2020/21. The budget and MTFS will be brought back to Cabinet in February 2018 for final approval and recommendation to Council.

Recommendations:

Cabinet is requested to:

- 1) Approve the draft budget for 2018/19 and the MTFS 2018/19 to 2020/21 for general consultation as set out in Appendices 1a, 1b, 1c and 2 so that Cabinet may later consider the budget in light of the consultation responses and the equality impact assessments before it is referred to Council.
- 2) Note the balanced budget position for 2018/19, and the budget gaps of £16.7m and £11m for 2019/20 and 2020/21 respectively (table 2).
- 3) Note the proposal to increase Council Tax by 1.99% in 2018/19 (Table 2 and paragraph 1.17).
- 4) Note the proposal to increase Council Tax by 1.5% in 2018/19 in respect of the Adult Social Care Precept (Table 2 and paragraph 1.17).
- 5) Note the changes to schools funding for 2018/19 as set out in Appendix 3 and paragraphs 1.32 to 1.34.
- 6) Approve the draft Public Health budget for 2018/19 as set out in Appendix 4.
- 7) Authorise the Director of Finance, following consultation with the Portfolio Holder for Finance and Commercialisation, to agree Harrow's 2018/19 contribution to the London Borough's Grant Scheme (paragraph 1.50).
- 8) With regard to the London Business Rates Pooling Pilot agree 9-15 below:
- 9) Approve and accept the designation by the Secretary of State as an authority within the London Business Rates Pilot Pool pursuant to 34 (7) (1) of Schedule 7B Local Government Finance Act 1988.
- 10) Approve participation in the London Business Rates Pilot Pool with effect from 1 April 2018 (to 31 March 2019).
- 11) Delegate the authority's administrative functions as a billing authority pursuant to the Non Domestic Rating (Rates Retention) Regulations

2013 to the City of London Corporation (COLC) acting as the Lead Authority.

- 12) Authorise the Lead Authority to sub contract certain ancillary administrative function (regarding the financial transactions (payment of tariffs and top ups) within the Pool to the GLA as it considers expedient.
- 13) Enter into a Memorandum of Understanding with the participating authorities as may be necessary to implement and / or regulate the pool and to delegate authority of the Director of Finance, in consultation with the Portfolio Holder for Finance and Commercialisation and the Monitoring Officer, to negotiate, finalise and execute the same on behalf of the authority.
- 14) To authorise the Leader of the Council to represent the authority in relation to consultations regarding the London Business Rates Pilot Pool consultative as may be undertaken by the Lead Authority pursuant to the Memorandum of Understanding.
- 15) Delegate to the Director of Finance, in consultation with the Leader of the Council, Portfolio Holder for Finance and Commercialisation and the Monitoring Officer the authority to consider such consultative reports as the Lead Authority may circulate and to respond on behalf of the authority with regard to any recommendations and in particular, proposals for projects to be approved for funding from the Strategic Investment Pot.

Final approval will be sought from Cabinet and Council in February 2018.

Reason: (For recommendations)

To ensure that the Council publishes a draft budget for 2018/19 and a draft 3 Year MTFS to 2020/21.

Section 2 – Report

INTRODUCTION

1.0 The Government continues to reduce its funding to Local Government as part of its nationwide austerity programme. Since 2013/14, the Council has had to manage significant reductions in its Revenue Support Grant (RSG), which is its main source of funding from central government, alongside increases in demand for services and cost inflationary pressures. Table 1 below summarises the reductions in RSG:

Table 1: Revenue Support Grant 2013/14 to 2019/20

	RSG	Annual Reduction	Cumulative Reduction
	£'000	£'000	%
2013/14	52,100		
2014/15	42,628	9,472	18%
2015/16	32,034	10,594	39%
2016/17	21,935	10,099	58%
2017/18	13,019	8,916	75%
2018/19	7,332	5,687	86%
2019/20	1,566	5,766	97%

1.1 Therefore Harrow will see its main source of central government grant funding reduced by 97% over a 7 year period, reducing the Revenue Support Grant (RSG) to £1.566m by 2019/20. Over the four year period 2015/16 to 2018/19, it was estimated that the Council needed to fund an £83m budget gap in order to achieve a balanced budget. If this four year period is extended to the end of the current MTFS (2020/21) it is estimated Harrow Council has to fund £125m of pressures in order to achieve a balanced budget. In addition to the £40m reduction in RSG, further funding has been required to fund growth as a result of demand pressures, inflation, Capital Financing costs and other reductions in specific grants such as the Education Support Grant and this brings the total that the Council will need to fund to £125m in order to deliver balanced budgets to date and for 2019/20 and 2020/21. To set this figure into context, Harrow Council does not have large cash reserves. Its general fund balances stand at £10m and remain within the lower quartile when benchmarked with other local authorities and spending them is not a responsible way to offset lost revenue. Harrow Council's gross budget for 2017/18 is £558m. 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 2017/18 and this is the element of the budget that the Council can exercise more control over and from where savings must be found.

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 2018/19 and budgets gaps of £16.7m and

£11m for 2019/20 and 2020/21 respectively. The MTFs may be subject to further adjustments following the provisional Finance Settlement which is due mid December 2017. Whilst it is intended that Members will approve the MTFs in February 2018, 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

EXTERNAL FUNDING POSITION

1.4 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 26th 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 105th out of 120 local authorities.

1.5 The Local Government Finance Settlement for 2016/17 did nothing to readdress the balance on Harrow's funding position. This 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 up 2019/20. 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, resulted in Harrow losing £10m of Revenue Support Grant (RSG) between 2015/16 and 2016/17. Under the new methodology, Harrow was the sixth hardest hit amongst London Boroughs.

- 1.6 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).
- 1.7 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.
- 1.8 The results of such settlement decisions will see Harrow's relative funding position remain low. The revenue spending power per head analysis was recently updated and concluded that Harrow's core spending power per head in 2019/20 is estimated to be £170 lower than the London average and £75 lower than the rest of England average.

DELIVERY OF THE 2017/18 BUDGET

- 1.9 Delivery of the 2017/18 budget is critical to maintaining the Council's financial standing and to do everything possible to protect front line services. The 2017/18 revenue budget includes a challenging savings target of £10.242m. At Quarter 2 (as at 30 September 2017) performance against the savings target is good in light of the challenging environment:

- £6.4m of savings (63%) are already achieved or on course to be achieved.
- £2.2m of savings (21%) are partially achieved or risks remain.
- £1.6m of savings (16%) will not be achieved.

The Quarter 2 forecast, subject to a separate report elsewhere on the agenda, indicates a directorate overspend of £3.88m net, the key pressures relating to demand pressures within the Children's Service (£3m) and purchasing pressures, largely relating to increased weeks of care required for residential and nursing placements within the Adults Service (£439k). The directorate overspend is fully mitigated through the receipt of additional income received after budget setting (£834k), centrally held corporate budgets (£1.721m) and an organisation wide spending freeze implemented at the start of the financial year (£1.325m).

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 was 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 was intended to provide funding certainty and stability for the sector that would 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 light of a reduction of 93% in RSG over the four year period of the funding settlement offer, leaving a balance of £1.566m by 2019/20, the Council did not apply to accept the offer along with 8 other Council's. The risk of being subject to the existing annual process for the financial settlement has to date not materialised and the Council has received its RSG settlement in line with the four year offer and its these numbers that the MTFS is based upon.

BUDGET PROCESS 2018/19

- 1.13 The Council has a statutory obligation to agree and publish the budget for 2018/19, and approval for this will be sought in February 2018. In preparing the 18/19 budget, and rolling forward the MTFS to cover the three year period 2018/19 to 2020/21, the current MTFS (approved by Council in 2017) has been the starting point for the process.
- 1.14 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 2018/19 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

	2018/19	2019/20	2020/21
	£000	£000	£000
Budget gap at February 2017 Council Report	8,043	8,998	0
	8,043	8,998	0
Implications of rolling forward the model to include 2020/21			
New Homes Bonus			940
Education Services Grant		144	0
2% pay award			2,000
Minimal Capital Investment of £10m			500
Estimated Directorate growth			4,000
Estimated growth in Freedom Pass take up			500
Estimated non pay inflation			500
1.99% Council Tax			-2,468
Sub total	0	144	5,972
Grant and Tax base adjustments			
Reversal of 2016/17 Collection Fund Surplus	3,500		
Collection Fund surplus 2017/18	-6,093	6,093	
Estimated increase in band D properties by 1,485		-2,064	
Increase CT by 1.99%	-2,140	-2,277	
Adult Social Care precept - 1.5% per annum	-1,707	-1,798	
Sub Total	-6,440	-46	0
Budget Refresh, Growth & Savings			
Growth			
Resources and Commercial	110		
Children's Services	2,900		
Adult Services	5,825		-90
Public Health	275		
Culture - Library Contract Indexation	0	175	25
Prior MTFS Savings to be reversed or re-phased			
MTFS savings identified for refresh:			
Resources and Commercial	357		
Children's Services	2,309		
Adult Services	2,988	4,100	
Public Health	1,000		
Community Services	284	-75	-159
Savings from 2018/19 Budget Process			
Resources and Commercial	-228	-30	
Children's Services	-91		
Adult Services	-523		
Adult Services - Home In Harrow	-719	-1,251	
Community and Culture	-355	-1,120	-137
Housing	-100		
Regeneration - Planning & Development Control	-50		
Sub Total	13,982	1,799	-361
Technical:			
Corporate budgets - provided for in 17/18 and no longer required	-748	-108	
2016/17 and 2017/18 MRP underspends (one off)	-4,000	4,000	
2018/19 estimated MRP underspend (on going)	-2,000		
Capital financing - estimated 17/18 borrowing delayed into 2018/19	-350	350	
Capital Receipts flexibilities	-2,700	2,700	
25% reduction in 17/18 to 2019/20 Capital Programme	-1,144	-355	-45
Improved Better Care Fund 2018/19	-4,643	4,643	
Improved Better Care Fund 2019/20		-5,467	5,467
Sub Total	-15,585	5,763	5,422
Revised Gap	0	16,658	11,033

1.15 Implications of rolling the MTFS forward to 2020/21

Set out below are the explanations for the figures in Table 2. This is also set out in Appendix 2 along with Adjustments included within the previous MTFS agreed as part of the 2017/18 Budget process:

New Homes Bonus (NHB) – as part of the 2017/18 settlement a national baseline for housing growth was introduced of 0.4%. This meant that there will be no benefit in terms of NHB payments until the 0.4% is exceeded. The payment period was also reduced, so for 2017-18 NHB payments were made for five, rather than six years, and that payment period has been reduced again to four years from 2018/19. As a result of these changes, the amount of NHB was reduced in the MTFS last year by £940k in 2018/19 and a further £1m in 2019/20. The impact of this for a further year in 2020/21 is an estimated further reduction of £940k. In 2017/18 the grant to be received is £4.069m. The reductions set out above assume the estimate grant for 2020/21 will be approximately £1.2m.

- **Education Services Grant** - The grant to be paid in 2017/18 for the Education Services Grant (ESG) is £895k. The general rate of the ESG provided to Local Authorities (LA's) and existing academies has ceased 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 was transferred into the Dedicated Schools Grant (DSG) rather than being an un ring-fenced grant. A reduction was already built into last year's budget process of £751k for 2018/19 and the remaining £144k needs to be removed in 2019/20.
- **Pay inflation** - A 1% pay award has been assumed for 2018/19 and 2019/20 as part of the 2017/18 budget setting process (£1m p.a.). At the present time pay discussions for 2018/19 are still ongoing and the assumptions for 2018/19 and 2019/20 are that pay increases will be in line with the Government pay policy for public sector awards to be no more than 1% up to 2019/20. For 2020/21 a 2% increase is being allowed for which equates to £2m p.a.
- **Capital Financing Charges** – An allowance of £0.5m has been included in 2020/21 for the capital financing requirement in respect of the new Capital additions as reported elsewhere on the agenda in the Capital Programme report. This will support approximately £10m of investment. This figure will be updated between draft and final budget depending on the Final agreed Capital Programme.
- **Front line growth** - An allowance of £4m has been included in the 2020/21 budget for Directorate growth based. The growth included for 2018/19 and 2019/20 is set out in Table 3.
- **Freedom Pass** - An allowance of £500k has been included in the 2020/21 budget for an estimated increase in Freedom pass take up. This is based on the annual average increase in take up.

- **Non pay inflation** - An allowance of £500k has been included for non pay inflation.
- **Council tax increase 2020/21** – The MTFS assumes an increase in Council Tax of 1.99% for 20/21, generating approximately £2.5m.

1.16 Grant and Tax Base Adjustments

- **Council tax base** - largely as a result of new properties, the tax base is assumed to increase, over current assumptions, by approximately 1,485 band D equivalent properties in 2019/20, generating approximately £2.0m additional income. Being prudent, no increase is built in for 2020/21 at this time.
- **Collection Fund** - There is a report elsewhere on the agenda that estimates the surplus / deficit on the Collection Fund for 2018/19. The report details an overall net estimated surplus of £13.382m on the Collection Fund as at March 2018 of which Harrow's share is £6.093m which is now reflected in the budget for 2018/19. As this is a one off benefit, it must be reversed out in 2019/20. The surplus included in the budget for 2017/18 of £3.5m is now reversed out of the 2018/19 budget.
- **Public Health Grant** - The Public Health Grant remains ring fenced to 2017/18 until further notice 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. For the purposes of the budget the grant has been estimated at £10.8m and reflects a continued reduction in the grant in line with the spending review. Grant reductions have already been built into the budget as part of the last year's budget process up to 2019/20.

1.17 Council Tax and the Adult Social Care Precept

- **Adult Social Care** - The budget for 2017/18 included 3% for the Adult Social Care precept. As part of the grant settlement for 2017/18, Authorities were given increased flexibility in the use of the Social care precept, which enabled them to increase by up to 3% in 2017/18 or 2018/19, but that the increase could not exceed 6% over the 3 year period 2017/18 to 2019/20. This draft budget assumes that the remaining 3% will be levied at 1.5% in 2018/19 and a further 1.5% in 2019/20, which generates an additional £1.7m and £1.8m respectively. There is no information as to whether the Social Care precept will continue beyond 2019/20 and so no assumptions are made beyond 2019/20.
- **Council Tax** - The draft budget assumes a 1.99% council tax increase in both 2018/19 and 2019/20 and this generates £2.1m and £2.3m respectively. . A 1.99% increase is also assumed for 2020/21.

1.18 Budget Refresh, Growth & Savings

Budget Refresh

There is a commitment to refresh the three year MTFS annually to ensure it remained reflective of the changing Harrow and Local Government landscape. All savings in the current MTFS for 2018/19 and 2019/20 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 £10.804m over the period 2018/19 to 2020/21 are summarised in table 2 and shown in Appendix 1B against the original saving. In addition to savings being reversed, there are a couple of savings which have been re-profiled between years.

The current MTFS includes savings of £2.6m and £4.1m in 2018/19 and 2019/20 for Project Infinity. This saving is proposed for reversal from the budget as a prudent measure to de-risk the MTFS in light of the Council's challenging financial position. The work will progress with IMB on Project Infinity and income generated will be re-instated into the budget as and when realised. This accounts for £6.7m of the £10.804m or reversed savings.

Savings identified as part of the 2018/19 Budget process

The 2018/19 budget setting process has identified additional savings of £4.604m over the three years. These are summarised in table 3 below and detailed in Appendix 1A.

Growth identified as part of the 2018/19 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. There remain significant underlying pressures against the adults and children's social care budgets. 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 £9.220m 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 2018/19 Budget setting process

Directorate	2018/19	2019/20	2020/21	Total
Savings	£'000	£'000	£'000	£'000
Resources	228	30	0	258
Adult	1,242	1251	0	2,493
Children and Family	91	0	0	91
Public Health	0	0	0	0
Community and Cultural services	355	1120	137	1,612
Housing	100	0	0	100
Regeneration	50	0	0	50
Total	2,066	2,401	137	4,604
Growth				0
Resources	-110	0	0	-110
Adults	-5,825	0	90	-5,735
Children's and Family	-2,900	0	0	-2,900
Public Health	-275	0	0	-275
Community and Cultural services	0	-175	-25	-200
Total	-9,110	-175	65	-9,220
Net Savings/Growth	-7,044	2,226	202	-4,616

1.19 Table 4 sets out savings proposed as part of the current MTFS and which were included in the 2017/18 Budget report. Table 4, shows savings of £9.968m over the three year period and this is the net position after allowing for the savings referred to in the budget refresh section being reversed which total £10.804m. The savings totalling a net £9.968m over the three years are detailed in Appendix 1b.

Table 4: Savings from 2016/17 and 2017/18 MTFS

Directorate	2018/19	2019/20	2020/21	Total
Savings	£'000	£'000	£'000	£'000
Resources	1,770	150	0	1,920
Adult	240	0	0	240
Children's Services	302	150	0	452
Public Health	1,264	0	0	1,264
Community and culture	2,527	321	159	3,007
Housing	822	263	0	1,085
Regeneration	2,000	0	0	2,000
Total	8,925	884	159	9,968

1.20 Table 5 sets out the summary of savings and growth in the current MTFS and those that were included in the 2017/18 budget report. The

net position is net savings of £5.401m over the three years; this is set out in appendix 1a, 1b, and 1c.

Table 5: Summary of Savings and Growth 2018/19 to 2020/21

Directorate	2018/19	2019/20	2020/21	Total
Savings	£'000	£'000	£'000	£'000
Resources	1,998	180	0	2,178
Adult	1,482	1,251	0	2,733
Children's Services	393	150	0	543
Public Health	1,264	0	0	1,264
Community and culture	2,882	1,441	296	4,619
Housing	922	263	0	1,185
Regeneration	2,050	0	0	2,050
Total	10,991	3,285	296	14,572
Growth				
Resources	-110	0	0	-110
Adults	-5,729	90	90	-5,549
Children's and Family	-3,100	0	0	-3,100
Public Health	-275	0	0	-275
Community and Cultural services	0	-275	-25	-300
Housing	163			163
Total	-9,051	-185	65	-9,171
Net Savings/Growth	1,940	3,100	361	5,401

1.21 Technical Adjustments

- **Corporate Budgets** - A review of the Corporate budgets has provided for £0.748m and £0.108m of savings in 2018/19 and 2019/20. This is largely as a result of building in estimates for items in previous budget setting rounds. For example, the impact of the 2017/18 NNDR revaluation on Harrow's own sites has cost approximately £300k less than estimated.
- **Capital Financing Charges** - There are a number of savings, both one off and ongoing that are being factored into the budget in connection with Capital Financing Charges:
 - a) There is a one off £4m over provision of Minimum Revenue Provision estimated in 2017/18, as a result of slippage on the Capital programme. By charging the same level of MRP in 2017/18, it is possible to reduce the MRP charge by the same amount in 2018/19, therefore producing a one off saving in 2018/19 which needs to be reversed in 2019/20.

- b) As a result of a review of the MRP provision, it is possible to reduce the budget by £2m on a permanent basis. The budget is increased incrementally each year for new Capital financing costs from new schemes, but the schemes where MRP charges have now been repaid in full do not get taken out of the budget on an annual basis. This review has delivered a £2m saving.
- c) The slippage on the Capital programme has meant that borrowing that was estimated to take place in 2017/18, can be delayed until 2018/19, therefore bringing about one off savings in interest charges of £350k in 2018/19.
- d) As reported elsewhere on the agenda in the Capital Programme report, a reduction in the Capital Programme in 2017/18 to 2019/20 has brought about capital financing savings of £1.144m in 2018/19, £355k in 2019/20 and £45k in 2020/21.

1.22 The 2015 Spending Review announced £2.4 billion announced as part of an improved Better Care Fund over the three years to 2019/20 (£6m for Harrow although no funding in 2017/18). The spring 2017 budget announced additional funding of £2 billion for adult social care (£7.7m for Harrow), £1 billion of which was made available in 2017-18. (£3.6m for Harrow). Therefore over the 3 year period 2017/18 to 2020/21, the Council received funding of £13.7m, of which £10.1m relates to the current MTFs period. This funding is now included in the draft MTFs, £4.643m in 2018/19 and £5.467m in 2020/21.

1.23 This additional funding for adult social care was given to councils in a direct grant from the DCLG, and was required to be included within the Better Care Fund, specifically titled the Improved Better Care Fund (IBCF). Three conditions have been set by DCLG in relation to this funding: meeting social care needs, stabilising the social care provider market and relieving pressures on the NHS. In July, NHS England set targets for councils to meet by September 2017 which are currently being measured. Subsequent national policy announcements stated that Councils which did not improve performance significantly would have their IBCF allocation reviewed. The current position is that funding will not be removed in 17/18 but could be reviewed in future years, based on performance in September and November.

CAPITAL RECEIPTS FLEXIBILITY

1.24 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.

1.25 The Council signified its intent to make use of this flexibility in its final budget report to Cabinet and Council in February 2016.

- 1.26 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 are being applied within the new flexibilities. A separate report on this agenda provides an update on asset disposals. In 2017/18 capital receipt flexibilities of £3.039m were applied and the draft budget for 2018/19 assumes further capital receipt flexibilities of £2.7m. The further use of capital receipt flexibilities will be reported to February Cabinet and finally approved by full Council in February 2018.

THE AUTUMN BUDGET 2017

- 1.27 The Autumn Statement was released on 22 November 2017. 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 2018.

LONDON BUSINESS RATES POOLING PILOT

- 1.28 Currently Local Authorities retain 30% of the Business Rates income they collect, for Harrow this equates to £14.4m per annum, Business Rates are currently subject to reform with central government intending to allow local government, as a whole, to retain all its rates collected. Alongside this there will be a phasing out of a number of specific grants including RSG and the transfer of additional responsibilities to local government to ensure overall fiscal neutrality of the reforms.
- 1.29 As a first step towards 100% rates retention Harrow has agreed, in principle, to support a 100% business rates retention pilot proposal for 2018/19 covering London. This approach was collectively agreed by borough Leaders and the Mayor at the Congress of Leaders meeting on 10 October 2017. Following implementation, Harrow would receive a proportion of the collective growth in London arising from the pool and the no detriment clause agreed by central Government would guarantee that the Council could be no worse off than it would have been had the pilot not been put in place. Central government have committed to the pool for the period of 1 year only. Full implementation of 100% retention will require primary legislation.
- 1.30 The pool will be governed by a quasi – contractual approach involving a lead authority in consultation with participating authorities. This would be documented in a non legally binding Memorandum of Understanding with delegated authority to the City of London Corporation as the Lead Authority. It is proposed that a portion of the net gain from the pooling arrangement would be retained as a strategic investment pot (SIP) which could be used to fund projects that deliver

economic growth and it is proposed that the lead Authority will take decisions on the allocation of the SIP in consultation with the other participating authorities.

- 1.31 The draft MTFS is based on the current business rate arrangements. Any changes as a result of the 100% business rates retention pilot proposal will be reported to Cabinet and Council in February 2018 as part of the report to approve the final 2018/19 budget and MTFS. Being prudent, the draft MTFS includes no growth potential as a result of the pool.

SCHOOLS BUDGET 2018/19

- 1.32 There are significant changes to school funding in 2018/19. In March and December 2016 the Government issued a two phase consultation which proposed the introduction of a National Funding Formula (NFF) for schools and High Needs funding. The outcome of these consultations was announced in the summer.
- 1.33 The Government will introduce a National Funding Formula from 2018/19. This will be a 'soft' NFF in 2018/19 and 2019/20. This means that Local Authorities (LA) will be funded on the basis of the aggregate of the NFF for all schools, academies and free schools in its area but the final formula for distribution will be determined by each LA following consultation with schools and Schools Forums. The Council is currently undertaking a consultation with all schools which closes on 1 December 2017, the outcome of which will be reported to Cabinet in February 2018 for approval of the proposed formula.
- 1.34 In 2020 the Government intends to implement the NFF 'hard' formula which means that school allocations will be determined by the DfE rather than LAs.

PUBLIC HEALTH FUNDING

- 1.35 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.
- 1.36 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. For the purposes of the budget the grant has been estimated at £10.8m and reflects a continued reduction in the grant in line with the spending review.
- 1.37 The shared public health service with Barnet will cease on 31st March 2018. The original term of 5 years will not be extended given the relationship with STP footprints which is expected to more appropriately align Barnet within the North Central London region rather than the North West London region where Harrow as the host

provider is located. The draft Public Health commissioning intentions detailed in Appendix 4 of £10.8m represents the costs of a Harrow only service from 1st April 2018. This expenditure includes an increase in costs associated with health checks (to meet the national minimum requirement), the re-instatement of three posts resulting in an increase in the head count from 5 to 8 FTE , and a reduction in the savings associated with the ongoing drug and alcohol services.

- 1.38 The Council consider that this level of funding enables the Council's overarching statutory duties (including equality duties) to be maintained, taking account of the joint strategic needs assessment.

BETTER CARE FUND

- 1.39 The 2015 Spending Review set out the Government's intention that, by 2020, health and social care will be more fully integrated across England. BCF plans must set out how CCGs and local authorities are working towards fuller integration and better co-ordinated care, both within the BCF and in wider services.

- 1.40 The Better Care Fund (BCF) provides a mechanism for joint health and social care planning and commissioning, bringing together ring-fenced budgets from Clinical Commissioning Group (CCG) allocations, the Disabled Facilities Grant (DFG) and funding paid directly to local government for adult social care services – the Improved Better Care Fund (IBCF). The Integration and Better Care Fund Plan is the principle vehicle in Harrow to deliver Whole Systems Integrated Care with partners to support the local health and care economy to define and deliver its Accountable Care model that will enable longer term system wide capacity to meet increasing need and demand for services. The Harrow-wide vision for whole systems integrated care is to improve the quality of health and social care for individuals, carers and families, empowering and supporting people to maintain independence and to lead full lives as active participants in their community by improving access to services in the "Right place at the Right time"

- 1.41 The aim for 2017/19 is to further reduce hospital admissions and overall cost of delivery by shifting investment in resource and provision of services into the community rather than acute settings in line with the CCG's 'Out of Hospital' strategy and emerging 'Local Service' model. The CCG plan to have a local ASC – Accountable Care System Organisation operating in shadow form by April 2018. The 2017-19 BCF plan was approved by NHS England on 10th November.

- 1.42 The BCF in 2018-19 has national funding of £5.617billion and comprises £3.650billion from CCG allocations, £468mn Disabled Facilities Grant and £1.499 billion IBCF grant to local authorities. The agreed value of the Better Care Fund in Harrow is £22.115m, £1.406m of which reflects the capital funding in relation to Disabled Facility (the Community Capacity Grant having been discontinued). The balance of £20.709m allocated to revenue funding supporting the two agreed schemes – Protecting Social Care (£5.888m) and Whole Systems and

Transforming Community Services (£10.142m) and the direct grant to local government in relation to the iBCF funding of £4.643m.

- 1.43 Over the duration of the plan the aim is to increase the proportion of resources that are pooled, and extend integrated working to new service areas including the development of an Accountable Care System.

COMMERCIALISATION

- 1.44 Harrow's Commercialisation Strategy was agreed by Cabinet in June 2015. It aims to put in place measures designed to support the substantial cuts that Harrow has experienced and further envisages in the coming years. It aims to take a broad view of commercialisation, to include all aspects of service reviews and redesign, the commissioning cycle, shared services, multi borough joined up services, new opportunities for revenue generation and pricing.

- 1.45 Commercialisation for Harrow Council has been defined as encompassing, but not limited to, the following areas:

- Shared Services
- Investments
- Selling services
- Pricing Analysis
- Fitness of traded services
- Consideration of concessions
- Better contract management
- Continuous improvement in procurement

- 1.46 Based on the council's current pipeline of commercialisation opportunities, it is expected that the Commercialisation Strategy will deliver significant benefits; £15.525m of these benefits are captured in the MTF5 over the period 2015/16 to 2020/21. Table 6 below summarises the commercialisation benefits:

Table 6: Commercialisation Benefits

	MTFS 2015/16	MTFS 2016/17	MTFS 2017/18	MTFS 2018/19	MTFS 2019/20	MTFS 2020/21	Total
Activity	£0	£0	£0	£0	£0		£0
1. Legal Service Expansion – HB Public Law has expanded to include Hounslow and Aylesbury Vale with further expansion opportunities continuing to be explored.	244	284	354	354	-		1,236
2. Website Commercialisation – There are two streams to this project: Advertising on website assets and introduction of national and local deals.	100	25	25	120	-		270
3. Shared HR service – look at sharing the service with other local authorities.	-	-	140	110	-		250
4. Investment Portfolio – an opportunity to invest in a portfolio of commercial properties will be explored as well as the potential to invest in opportunities such as energy generation. Peer support has been sought from Luton Borough Council via the LGA.	-	-	350	350	-		700
5. Procurement Services – a shared service with other authorities is being actively explored. The council's Director of Commercial, Contracts and Procurement is now also the Head of Procurement for Brent.	50	108	182	180	-		520
6. My Community ePurse – explore commercialisation opportunities	-	-	-	2,638	4,100		6,738
7. Adults services - Wiseworks and Shared lives – commercialisation opportunities and selling model to neighbouring Boroughs.	-	-	100	219	56		375
8. Private Rented Sector Housing – As part of the regeneration plans, the council is looking at building homes which could then be rented to private tenants.	-	-	350	2,000	-		2,350
9. Property Purchase Initiative - Purchasing of up to 100 properties to increase supply of good quality temporary accommodation and mitigate homelessness costs.	-	230	31	-2	42		301
10. Harrow School Improvement Partnership – HSIP is already providing a service to Brent. The opportunity to expand the service to other councils is being looked into.	-	130	-	-	-		130
11. Project Phoenix including Trade Waste.	-	115	520	1,525	-	200	2,360
12. Helpline – review the service to consider whether Helpline services can be provided to other councils.	-	15	80	100	100		295
Total	394	907	2132	7594	4298	200	15525

1.47 My Community e purse (Project Infinity) remains a commercialisation target. It has been removed from the MTFS as a de-risking measure as part of the budget refresh process. However work progress's with IBM on product development and marketing and income generated will be re-instated into the budget as and when realised.

RESERVES AND CONTINGENCIES

1.48 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 fund non earmarked balances remain at £10m and those for specific purposes are detailed:

- Unforeseen contingency £1.248m (on going reserve build into the Revenue Account)
- Budget Planning contingency £1m
- Rapid Response reserve £75k
- Standing Up for Those in Need £800k
- Business Risk Reserve £2.109m
- MTFS Implementation Costs £0m (The Revenue and Capital Monitoring Report as at Quarter 2 shows an estimated carry forward balance of £1.990m against this reserve. Its is assumed this sum will be used for redundancy costs in 2018/19)

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

LONDON BOROUGHS GRANTS SCHEME

1.50 Harrow's contribution to the London Borough's Grant Scheme was £218,749 in 2017/18. At the time of writing this report the Council has not been notified of the recommended contribution for 2018/19. To ensure that the Council can respond to London Council's when contribution rates are notified, its is recommended that Cabinet authorise the Director of Finance to agree Harrow's 2018/19 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 2018 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 and extent to which alternatives and discarded options have been discarded.

2.2 Public consultation on the overall budget for 2018/19 will commence after 7 December 2017 before the final savings are recommended to Full Council on the 22 February 2018. The public consultation will give residents an opportunity to comment on the 2018/19 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 2018/19 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 2018/19 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.
- 5.4 The Secretary of State has the power to designate two or more "relevant authorities" as a pool of authorities for the purposes of the provisions of Schedule 7B of the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 2012). Paragraph 45 (Interpretation) of Schedule 7B defines a "relevant authority" as a billing authority in England, or a major precepting authority in England. The list of billing authorities at Schedule 5, Part 1 of the Non-domestic Rating (Rates Retention) Regulations 2013/452 includes the GLA and the London Boroughs as billing authorities and the GLA is also a precepting authority pursuant to section 39 (1) of the Local Government Finance Act 1992. In relation to the project, the participating local authorities have implicit powers to enter into arrangements with each other for the purposes of fulfilling the requirements of Schedule 7B for obtaining an order of the Secretary of State authorising the establishment of a business rate pool. Local authorities have a power to enter into arrangements between them including under section 111 of the LGA 1972: "Without prejudice to any powers exercisable apart from this section but subject to the provisions of this Act and any other enactment passed before or after this Act, a local authority shall have power to do any thing (whether or not involving the expenditure, borrowing or lending of money or the acquisition or disposal of any property or rights) which is calculated to facilitate, or is conducive or incidental to, the discharge of any of their functions".

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 2018/19 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 Chief Financial Officer

Date: 27 November 2017

Name: Jessica Farmer on behalf of the Monitoring Officer

Date: 27 November 2017

Ward Councillors notified: **No, as it impacts on all Wards**

EqIA carried out:

To be reported on as
Part of the Feb Budget
report

EqIA cleared by:

n/a

Section 4 - Contact Details and Background Papers

Contact: Dawn Calvert, Director of Finance, tel: 0208 4209269,
dawn.calvert@harrow.gov.uk

Background Papers:

1. [Final Revenue Budget 2016/17 and Medium Term Financial Strategy 2016/17 to 2019/20 - report to Cabinet 18th February 2016](#)
2. [Property Disposal Programme 2016-2017 - report to Cabinet 17th November 2016](#)
3. [Commercialisation Strategy- report to Cabinet 17th June 2015](#)

<http://www.harrow.gov.uk/www2/ieListDocuments.aspx?CId=249&MId=62621&Ver=4>

<http://www.harrow.gov.uk/www2/ieListDocuments.aspx?CId=249&MId=62839&Ver=4>

<http://www.harrow.gov.uk/www2/ieListDocuments.aspx?CId=249&MId=62614&Ver=4>

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

NOT APPLICABLE

[Call in applies]