
REPORT FOR: CABINET

Date of Meeting:	06 December 2018
Subject:	Draft Revenue Budget 2019/20 and Medium Term Financial Strategy 2019/20 to 2021/22
Key Decision:	Yes
Responsible Officer:	Dawn Calvert – Director of Finance
Portfolio Holder:	Councillor Adam Swersky – Portfolio Holder for Finance and Resources
Exempt:	No
Decision subject to Call-in:	Yes
Wards affected:	All
Enclosures:	Appendix 1A – Proposed savings and growth 2019/20 to 2021/22(New proposals) Appendix 1B – Proposed savings and growth 2019/20 to 2020/21 to be agreed from 2018/19 and 2017/18 MTFS Appendix 2 - Medium Term Financial Strategy 2019/20 to 2021/22 Appendix 3 - Schools Budget 2019/20 Appendix 4 - Draft Public Health Budget 2019/20

This report sets out the draft revenue budget for 2019/20 and draft Medium Term Financial Strategy (MTFS) for 2019/20 to 2021/22. The budget and MTFS will be brought back to Cabinet in February 2019 for final approval and recommendation to Council.

Recommendations:

Cabinet is requested to:

- 1) Approve the draft budget for 2019/20 and the MTFS 2019/20 to 2021/22 for general consultation as set out in Appendices 1a, 1b 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 in February 2019.
- 2) Note the addition of £2.627m to the Social Care Reserve as set out in paragraph 1.7.
- 3) Note the balanced budget position for 2019/20, and the budget gaps of £13.5m and £9.3m for 2020/21 and 2021/22 respectively (table 2).
- 4) Note the proposal to increase Council Tax by 2.99% in 2019/20 (Table 2 and paragraphs 1.23 to 1.24).
- 5) Note the proposal to increase Council Tax by 2.0% in 2019/20 in respect of the Adult Social Care Precept (Table 2 and paragraph 1.25).
- 6) Note there are no changes to schools funding for 2019/20 as set out in Appendix 3 and paragraphs 1.45 to 1.48.
- 7) Note the assumed funding for the protection of social care in 2019/20 through the BCF as set out in paragraphs 1.52 to 1.54.
- 8) Approve the draft Public Health budget for 2019/20 as set out in Appendix 4.
- 9) Authorise the Director of Finance, following consultation with the Portfolio Holder for Finance and Resources, to agree Harrow's 2019/20 contribution to the London Borough's Grant Scheme (paragraph 1.57).
- 10) With regard to the London Business Rates Pooling Pilot agree 11 and 12 below:
- 11) Approve participation in the second year of the London Business Rates

Pilot Pool with effect from 1 April 2019 (to 31 March 2020) and delegate to the Director of Finance, in consultation with the Portfolio Holder for Finance and Resources, and the Monitoring Officer, to finalise the details for the continuation of the pilot pool.

- 12) Delegate to the Director of Finance, in consultation with the Leader of the Council, Portfolio Holder for Finance and Resources 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 2019.

Reason: (For recommendations)

To ensure that the Council publishes a draft budget for 2019/20 and a draft 3 Year MTFS to 2021/22.

Section 2 – Report

INTRODUCTION

1.0 The Government continues to reduce its funding to Local Government as part of its nationwide austerity programme. In their publication ‘Local Government Funding – Moving the conversation’ (June 2018) the Local Government Association shared a number of their key statistics including:

- New analysis indicates that local services face a funding gap of £7.8 billion by 2025 of which £6.6 billion relates to Adults social care and Children’s services.
- By 2020, local authorities will have faced a reduction to core funding from central Government of nearly £16 billion over the preceding decade.

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 Harrow has therefore seen its Revenue Support Grant reduced by 97% over a 7 year period, reducing the grant to £1.566m by 2019/20. This has translated into budget gaps that the Council has needed to fund over the seven year period 2015/16 to 2021/22 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 increasing demand pressures, inflation, capital financing costs and other reductions in specific grants such as the Education Support Grant.

1.2 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 2018/19 is £570m. 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 £168.8m in 2019/20 and this is the element of the budget that the Council can exercise more control over and from where savings must be found.

1.3 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 2019/20 and budgets gaps of £13.5m and £9.3m for 2020/21 and 2021/22 respectively. The MTFS will be subject to further adjustments following the provisional Finance Settlement due to be announced on 6 December 2018 with the final settlement being agreed no later than the end of January 2019. Whilst it is intended that Members will approve the MTFS in February 2019, 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

- 1.4 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

- 1.5 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 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. Subsequent financial settlements have done little to address the balance on Harrow's funding position. The revenue spending power per head analysis was 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.
- 1.6 The 2019 Budget did announce additional funding for local government. The three key areas in terms of additional funding and impact on the Councils 2019/20 draft budget are social care, pot holes and Disabled Facilities Grant:
- 1.7 **Social care** – Additional funding of £240m was announced for adult social care in 2019/20. London Councils have estimated London's share to be £37m and Harrow's share to be £970k based on the relative needs formula. A further £410m will be made available to

support both adult and children's social care in 2019/20. Once again London Councils have estimated London's share to be £63m and Harrow's share to be £1.657m. This provides estimated additional funding of £2.627m for Harrow in 2019/20. Whilst this is a helpful contribution to social care demand pressures, there is concern that this funding is for one year only with no announcements post 2019/20. For this reason the funding cannot be built into the base budget and this report recommends holding the funding in a Social Care Reserve.

- 1.8 **Pot Holes** - £420m of new funding will be made available across England for pot holes. Harrow's share is £509k and it will be considered alongside current capital programme plans.
- 1.9 **Disabled Facilities Grant (DFG)** – An additional £55m of DFG funding will be allocated in 2018/19 to provide home aids and adaptations for disabled children and adults on low incomes. Harrow's share is estimated at £270k and is being considered alongside current capital programme plans. This additional funding has not been built into the draft Capital Programme elsewhere on the agenda.
- 1.10 Whilst additional funding is well received, there remains significant concern that the funding announced is for 2019/20 only and will not address the low funding baseline for Harrow Council and how it manages its budget on a sustainable basis moving forward.
- 1.11 The last Spending Review (SR15) was followed by a four-year offer to councils to set Settlement Funding Assessment levels (SFA) between 2016/17 to 2019/20. This provided a degree of certainty over core funding from government. 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 along with 8 other Councils. The risk of not accepting and being subject to the existing annual process for the financial settlement has not materialised and the Council has continued to receive its RSG settlement in line with the four year offer.
- 1.12 2019/20 is the final year of the four year settlement and local government finance is undergoing a period of significant change that brings with it growing uncertainty for the sector. The coming months will see three major external events that will change the amount of funding every local authority receive from 2020 onwards:
 - The next **Spending Review (SR)** will set the overall quantum of central government funding to local government when it sets government departmental expenditure limits for the next few years. The period the SR will cover, timelines for submission and the date of SR announcements all remain unknown.
 - The **Fair Funding Review** will set the new needs baseline in April 2020 and will therefore determine the distribution of core central government funding to local government. Further consultation is expected later this calendar year and in summer 2019 as work is progressed. Arrangements are expected to be

finalised in autumn 2019. Transition arrangements remain unknown.

- The **75% business rates retention scheme** will start in 2020-21. This will involve establishing new business rates baselines, setting new parameters regarding the level of risk/reward and, therefore, the ability of each local authority to benefit from growth, as well as the time period over which growth will be retained.

DELIVERY OF THE 2018/19 BUDGET

1.13 Delivery of the 2018/19 budget is critical to maintaining the Council's financial standing and to do everything possible to protect front line services. The 2018/19 revenue budget includes a challenging savings target of £8.801m. At Quarter 2 (as at 30 September 2018) performance against the savings target is good in light of the increasingly challenging fiscal and demand led environment:

- £6.146m of savings (70%) are already achieved or on course to be achieved (rated Green)
- £1.632m of savings (18%) are partially achieved or risks remain (rated Amber)
- £1m of savings (12%) will not be achieved (rated Red)

This position is an improvement on financial performance against budget savings at this stage in the year compared to 2018 when 63% of savings were rated green, 21% rated amber and 16% rated red.

1.14 The Quarter 2 forecast, subject to a separate report elsewhere on the agenda, indicates a directorate overspend of £4.050m net, the key pressures relating to pressures within Adults Services and Environment and Culture as detailed below:

Adults Services is forecasting an overspend of £5.022m, reduced to £3.446m after applying one off grant income received from central Government, announced after the 2018/19 budget was set. The Adult Social Care support grant yields £606k for Harrow and is being applied to fund care provider inflationary uplifts. At the beginning of October 2018 funding of £240m was made available to councils to pay for social care packages for winter 2018/19 and Harrow's share of the funding was £970k. Both these funding streams are one off in 2018/19 and therefore have not been built into the base budget. The pressures forecast by Adult Services relate to increases in demand for social care placements which have continued to increase throughout the year.

The Environment & Culture division is forecasting to overspend by £710k as a result of pressures from dry recycling disposal, food waste collection, demand pressures increasing staffing costs in Clean & Green and challenges in achieving include targets across Civic Amenities and Public Protection.

1.15 Despite these pressures, financial management of the budget has remained robust throughout the year to ensure overall planned

services are delivered within resources and an underspend is delivered to contribute towards the 2019/20 budget gap:

- Period 2 (as at May 2018) financial performance was reported to Cabinet in July 2018 which estimated directorate pressures of £2.7m. Spending controls were immediately implemented across the organisation to generate £1.1m of mitigation actions which have been maintained throughout the year.
- Both the Resources directorate and Children's division are reporting forecast underspends totalling £932k.
- Robust management has prevented, to date, the need to call upon the contingency for unforeseen items (£1.248m). Corporate actions such as tight monitoring of cash balances to reduce the need to borrow and holding all external income received post budget setting corporately, has yielded underspends on corporate budgets.

The result of these actions is a forecast underspend of £2.2m for 2018/19 which will be carried forward and contribute towards the budget gap for 2019/20.

- 1.16 Unlike other London Borough's, Harrow Council does not hold large reserves. During the audit of the 2017/18 financial statements external audit reported on the general level of reserves across London as a percentage of expenditure. Reserves ranged from 4% to 43% with Harrow being third from lowest at 8%. In light of these low levels of reserves, it is crucial that the Council is prudent and overall delivers services within budget or delivers an underspend to contribute towards future budget gaps and prevents a call on reserves.

BUDGET PROCESS 2019/20

- 1.17 The Council has a statutory obligation to agree and publish the budget for 2019/20, and approval for this will be sought in February 2019. In preparing the 19/20 budget, and rolling forward the MTFs to cover the three year period 2019/20 to 2021/22, the current MTFs (approved by Council in 2018) has been the starting point for the process.
- 1.18 For clarity the key assumptions underpinning the starting point for the updated 3 year MTFs are summarised. The MTFs approved in February 2018 assumed a budget gap of £17.636m for 2019/20 and £16.061m for 2020/21. This is the starting point for the refreshed 3 year MTFs. It is important to note that this starting point assumes achieving directorate savings of £3.4m in 2019/20 and £977k in 2020/21.
- 1.19 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 2019/20 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 (Prior to Local Government Settlement on 6 December 2018)

	2019/20	2020/21	2021/22
	£'000	£'000	£'000
Budget gap at February 2018 Council Report	£17,636	£16,061	£0
Implications of Rolling the Budget forward to include 2021/22			
Capital Financing Costs from the current Capital Programme			£1,900
Pay Inflation and General Inflation			£3,100
One off actions			
Use of £2m from the budget planning reserve (2017/18 underspend)	-£2,000	£2,000	
2018/19 Forecast underspend to be used for 2019/20	-£2,200	£2,200	
Revised budget gap	£13,436	£20,261	£5,000
Saving proposals:			
Resources	-£643	-£595	-175
Children's	-£831	£0	
Community	-£300	-£553	-643
Growth proposals:			
Resources	£400	£95	140
Children's	£315	£0	0
Adults	£995	£971	652
Community savings proposals requiring Capital financing Growth	£286	£330	244
Revised budget gap after savings and growth proposals	£13,658	£20,509	£5,218
Council Tax changes			
Collection Fund Surplus	-£2,200	£2,200	
Increase in core Council Tax - 4.99%	-£3,584		
Increase in core Council Tax - 1.99%		-£2,513	
Budget Gap assumed 2.5% precept but limited to 2%	£599		
Increase in Band D taxbase from 85,946 to 86,250	-£445		
Revised gap after Council Tax adjustments	£8,028	£20,196	£5,218
Technical Adjustments			
Removal of MRP budget assigned to Regeneration (one off) 2019//20	-£1,000	£1,000	
Removal of MRP budget assigned to Regeneration (one off) 2020//21		-£1,000	£1,000
Use of Capital Flexibilities	-£800	£800	
2018/19 Business Rates Pool	-£3,500	£3,500	
2019/20 Business Rates Pool		-£2,625	£2,625
Additional S31 funding 2018/19	-£779	£779	
Additional New Homes Bonus income from growth	-£962	£300	
Removal of Budget assumed to fund Public Health Grant reduction	-£487		
Gayton Road - 72 affordable units	-£500		£500
Revised gap after savings, growth and Council Tax changes	£0	£22,950	£9,343
Removal of Directorate growth		-£4,000	
Assumption that Improved Better Care Fund continues		-£5,467	£0
Revised gap assuming IBCF continues	£0	£13,483	£9,343

1.20 **Implications of rolling budget forward to include 2021/22:**

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 2018/19 Budget process:

- **Capital Financing Costs from the current Capital Programme-** when the Capital Programme was agreed in February 2018, there were capital financing costs in relation to 2021/22 which were not included as this year was outside of last year's MTFS period which only extended as far as 2020/21. Therefore these costs of £1.9m are included now for 2021/22. There is no inclusion of additional capital financing costs beyond the current existing capital programme as reported in the Capital Programme Report elsewhere on the agenda.
- **Pay Inflation and General Inflation** – A 2% pay award has been provided for in 2019/20 as this was agreed as part of a 2 year pay award for 2018/19. There is no information as to what the 2020/21 pay award will be, therefore 2% has also been assumed in the budget for 2020/21 which equates to approximately £2m. The remaining £1.1m is provided for general inflation.
- **One off actions** – The 2017/18 outturn achieved an underspend of £3.2m of which £2m was allocated to the Business Planning Reserve as a contribution to the 2019/20 budget gap. As this is a benefit in 2019/20, it is reversed out of the MTFS in 2020/21. The 2018/19 Revenue and Capital Monitoring as at 30 September 2018, which is a separate report elsewhere on this agenda, reports an estimated underspend in 2018/19 of £2.2m which is ear marked as a one off contribution to the 2019/20 budget gap.

1.21 **Savings identified as part of the 2019/20 Budget process**

The 2019/20 budget setting process has identified additional savings of £3.740m and additional growth of £4.428m over the three years. These are summarised in table 4 and detailed in Appendix 1A.

1.22 **Council Tax Adjustments**

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 as at March 2019 of which Harrow's share is £2.2m which is now reflected in the budget for 2019/20. As this is a one off benefit it must be reversed out in 2020/21.

1.23 The increase in the core Council tax is proposed at 4.99%. This is split 2.99% for the core council tax and 2% for the adult social care precept. In addition the Council tax base has increased to 86,250 from its 2018/19 base of 84,466. The increase in the tax base alone (without any increase in council tax), will generate additional income of £2.488m. A 4.99% increase in council tax on the revised tax base of 86,250 generates additional council tax income of £6.003m.

- 1.24 In total this amounts to additional council tax income of £8.491m. The assumptions in the existing 2019/20 budget gap agreed in Feb 2018, already assumed additional Council tax income of £5.061m, therefore an additional £3.430m is included in this report.
- 1.25 In terms of the Adult Social Care precept, there is no information as to whether the Social Care precept will continue beyond 2019/20, therefore no assumptions are made beyond 2019/20. Harrow applied a 3% precept in 2017/18, 0.5% in 2018/19 with and 2% assumed in 2019/20, which brings the total to 5.5% over the 3 years. (The maximum allowance was 6%).

Technical Adjustments

- 1.26 **Removal of Minimum Revenue Provision (MRP) budget assigned to Regeneration** –Following a review of the Regeneration Programme, the capacity allocated to fund the revenue costs of the existing programme during the development period has been reduced £2m and this capacity has been transferred to support the general fund.
- 1.27 **Use of capital Flexibilities** – a further £800k of capital flexibilities will be utilised in 2019/20. This is a one off benefit and so needs to be reversed in 2020/21. Paragraphs 1.42 to 1.44 set out more detail on the scheme and application in previous years.
- 1.28 **Funding from the 2018/19 Business Rates Pool** - Harrow joined the 100% business rates retention pilot proposal for 2018/19 covering all London Boroughs. Harrow will receive a proportion of the collective growth in London arising from the pool and the no detriment clause agreed by central Government guarantees that no Council could be worse off than it would have been had the pilot not been put in place. Currently, the no detriment clause is in place for the first year only and discussions are ongoing to extend the London Pilot Pool for a second year to 2019/20.
- 1.29 At the time of preparing the 2018/19 budget, no indicative figures were available for potential growth from the pilot pool therefore, as a prudent measure, no benefit was built into the final budget. Early indications are that Harrow could benefit from an estimated £3.5m of one off income in 2018/19 which will be applied in the 2019/20 budget.
- 1.30 **Additional Section 31 Funding 2018/19** - the budget assumes £779k additional one off income in the form of section 31 grant funding for 2019/20.
- 1.31 **New Homes Bonus (NHB)** – there were changes made to the scheme as part of the 2017/18 settlement, which saw the introduction of a national baseline for housing growth of 0.4%. This meant that there would 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 was reduced again to four years from 2018/19.

- 1.32 In 2018/19 the NHB grant is £3.482m. Any changes to the scheme for 2019/20 will not be announced until the December Finance Settlement although there is speculation that the 0.4% baseline for growth will be increased. In estimating the additional income from the NHB in 2019/20, growth of 942 homes has been factored in and also the assumption that the 0.4% baseline will increase to 0.6%. This should provide for a NHB grant of £3.091m. The current budget assumes £2.129m of income, so an increase of £0.962m. The budget for 2020/21 was reduced as part of last year's budget. This £962k increase in 2019/20 needs to be reduced by £300k in 2020/21 so that the budget aligns with the estimated grant income for 2020/21.
- 1.33 Once the figures are received as part of the Finance settlement, any adjustments required will be made for the Final Budget to be agreed by February Cabinet.
- 1.34 **Public Health Grant Reduction** – a sum of £487k was included in the budget to fund any reductions in the Public Health Grant. However this will be removed and any shortfalls in grant will be funded from the Public Health reserve.
- 1.35 **Gayton Road Income** – there are 72 units at Gayton Road currently being used for temporary accommodation in the Housing General Fund. There is a saving in the budget to reflect a £500k reduction in temporary accommodation costs by using these units in 2019/20. The working assumption is that these units will be transferred to the HRA in exchange for a capital receipt at which point (estimated to be 2021/22) the £500k revenue saving will not accrue to the General Fund. No benefit is assumed for the impact of the capital receipt. There are options in terms of applying capital receipts and the impact will be built into the MTFs when the benefit can be quantified.
- 1.36 **2020/21 Growth** - An allowance of £4m was included in the 2020/21 budget for Directorate growth based. This allowance has been removed and replaced by quantified growth as detailed in Appendix 1A.
- 1.37 **Improved Better Care Fund** - The 2015 Spending Review announced £2.4 billion as part of an improved Better Care Fund over the three years to 2019/20. The spring 2017 budget announced additional funding of £2 billion for adult social care. Over the period 2017/18 to 2020/21, the Council received funding of £13.7m. Funding of £4.643m has been received in 2018/19 and £5.467m in 2019/20. In February 2018 it was assumed that the iBCF would not continue beyond 2019/20. However, it is felt unlikely that the Government could remove such a significant amount of funding given the pressures on adult social care and the assumption has now been made that the current level of funding of £5.467m continues on a permanent basis.

Budget Refresh, Growth & Savings

- 1.38 There is a commitment to refresh the three year MTFs annually to ensure it remains reflective of the changing Harrow and Local Government landscape. All savings in the current MTFs for 2019/20

and 2020/21 have been reviewed to ensure that they can either be taken forward or removed as part of this draft budget.

- 1.39 There are no savings that require reversal in 2019/20 or 2020/21 in respect of savings put forward in previous years. The following table summarises the total savings and growth put forward either in as part of the 2018/19 or 2017/18 budget setting process for 2019/20 and 2020/21. Table 3 shows total savings of £4.394m between 2019/20 and 2020/21 and growth of £0.395m, so net savings of £3.999m. The detail is set out in Appendix 1B.

Table 3: Savings and Growth from 2018/19 and 2017/18 Budget setting

Directorate	2019-20	2020-21	Total
Savings	£'000	£'000	£'000
Resources	(180)	0	(180)
Adults	(1,251)	0	(1,251)
Children's Services	(150)	0	(150)
Community and culture	(1,441)	(977)	(2,418)
Housing	(395)	0	(395)
Total Savings	(3,417)	(977)	(4,394)
Growth			
Resources	530	-	530
Adult	(90)	(90)	(180)
Community and Cultural services	20	25	45
Total Growth	460	(65)	395
Net Savings / Growth	-2,957	-1,042	-3,999

- 1.40 Table 4 sets out the total savings and growth proposed as part of the current 2019/20 budget process. Table 4, shows savings of £3.740m and growth of £4.428m over the three year period 2019/20 to 2021/22. Overall there is net growth in the budget of £688k over the 3 year period. The detail of these savings and growth is set out at Appendix 1a.

Table 4: Savings and Growth 2019/20 to 2021/22 from the 2019/20 process

Savings	2019-20	2020-21	2021-22	Total
	£000	£000	£000	£000
Resources	(643)	(595)	(175)	(1,413)
Children's	(831)	-	-	(831)
Community	(300)	(553)	(643)	(1,496)
Total Savings	(1,774)	(1,148)	(818)	(3,740)
Growth				
Resources	400	95	140	635
Children's	315	-	-	315
Adults	995	971	652	2,618
Total Directorate Growth	1,710	1,066	792	3,568
Corporate Growth - Capital Financing Costs	286	330	244	860
Total Growth	1,996	1,396	1,036	4,428
Net Savings/Growth	222	248	218	688

- 1.41 Table 5 sets out the summary of all savings and growth submitted as part of this year's budget and previous years budgets which give the total savings and growth for both 2019/20, 2020/21 and 2021/22. This is the combined total of Tables 3 and 4 which shows total net savings of £3.311m over the three years; the detail is set out in appendices 1a and 1b.

Table 5: Summary of Savings and Growth 2019/20 to 2021/22

Directorate	2019-20	2020-21	2021-22	Total
Savings	£000	£000	£000	£000
Resources	(823)	(595)	(175)	(1,593)
Adult	(1,251)	-	-	(1,251)
Children's	(981)	-	-	(981)
Community and Culture	(1,741)	(1,530)	(643)	(3,914)
Housing	(395)	-	-	(395)
Total Savings	(5,191)	(2,125)	(818)	(8,134)
Growth				
Resources	930	95	140	1,165
Children's	315	-	-	315
Adults	905	881	652	2,438
community and Culture	20	25	-	45
Total Directorate Growth	2,170	1,001	792	3,963
Capital Financing	286	330	244	860
Total Growth	2,456	1,331	1,036	4,823
Net Savings/Growth	(2,735)	(794)	218	(3,311)

CAPITAL RECEIPTS FLEXIBILITY

- 1.42 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 was initially offered for the three years 2016/17 to 2018/19, but has been extended as part of the 2018/19 Finance settlement for a further 3 years from 2019/20 to 2021/22.
- 1.43 The Council signified its intent to make use of this flexibility in its final budget report to Cabinet and Council in February 2016.
- 1.44 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. 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. For 2019/20 a further £800k is assumed as part of this draft budget report and will be reported to February Cabinet and finally approved by full Council in February 2019.

SCHOOLS BUDGET 2019/20

- 1.45 In 2018-19 the government introduced a new National Funding Formula (NFF) for Schools, High Needs and the Central Schools Services Block. For the Schools Block this meant that LAs are funded on the basis of the total of the national funding formula for all schools, academies and free schools in its area. However the final formula for distribution is determined by each Council following consultation with schools and Schools Forums.
- 1.46 There will be a 'soft' NFF in place up to 2021. This means that LAs 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. This will come to Cabinet in February 2019 for approval.
- 1.47 The LA carried out a consultation in Autumn 2017 which sought views on whether the LA should continue to use the Harrow Schools Funding Formula or introduce the National Funding Formula from 2018/19. 76% of schools responded to the consultation and 89% voted in favour of introducing the National Funding Formula from 2018/19. This was approved by Cabinet in February 2018 and school budgets were set for 2018/19 based on the National Funding Formula. There are no proposed changes to the structure of the formula for 2019/20.
- 1.48 In 2021 the Government intends to implement the NFF 'hard' formula which means that school allocations will be determined by the DfE rather than LAs. This is a year later than originally planned.

PUBLIC HEALTH FUNDING

- 1.49 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.
- 1.50 The draft Public Health commissioning intentions detailed in Appendix 4 of £10.523m are based on the indicative grant allocation notified by Public Health England in December 2017 and requires a contribution from the public health reserve to deliver statutory duties.
- 1.51 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 (BCF)

- 1.52 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.
- 1.53 NHS guidance is awaited in relation to the 2019/20 BCF plan which is likely to be linked to the anticipated NHS 10 year plan. It is expected

that this will require extended integrated working and increased pooling arrangements across health and social care. The 2019/20 BCF plan will be signed off by the Health & Wellbeing Board ahead of submission to, and assurance by, NHS England.

- 1.54 The 2019/20 Adults budget continues to assume that funding for the Protection of Social Care through the BCF will remain at £5.889m

RESERVES AND CONTINGENCIES

- 1.55 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 –this is an on going revenue budget.
- Budget Planning contingency £4.184m remaining after applying £2m towards 2019/20 budget.
- MTFS Implementation Costs - The revenue and capital monitoring report as at Quarter 2 shows an estimated carry forward balance of £2.086m against this reserve. This is set aside to fund redundancy costs for the MTFS period to 2021/22

- 1.56 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

- 1.57 Harrow's contribution to the London Borough's Grant Scheme was £190k in 2018/19. At the time of writing this report the Council has not been notified of the recommended contribution for 2019/20. 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 2019/20 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 2019 as part of the final budget.

BUDGET PROCESS 2020/21 AND 2021/22

- 1.58 This report sets out a balanced budget position for 2019/20. However achieving this balanced position has proved a very difficult challenge in light of continued financial austerity and increasing demand pressures in adults and children's social care and homelessness. The Council has limited general fund reserves and has shown restraint in not applying these 'one off' balances to address the budget shortfalls.
- 1.59 There is a good track record of containing revenue expenditure within the annual budget envelope despite continued demand pressures. In 2017/18 an underspend of £3.2m was achieved and in the current

financial year an underspend of £2.2m is forecast. The Council has increased Council Tax in line with the referendum limits and applied the Adults Social Care precept. Yet despite all these responsible actions, the Council is finding it increasingly difficult to set a balanced budget and achieving long term financial sustainability. The Council appreciates the additional funding that has been received for social care in both 2018/19 and 2019/20 but the funding is non recurrent which does not assist the Council in addressing the key pressures on its budget in a sustainable manner.

1.60 Whilst a draft balanced budget position has been set for 2019/20, it is acknowledged that a number of one off items have been applied which have to be reversed out in 2020/21. The draft 3 year MTFS therefore shows a budget gap of £13.483m for 2020/21 and £9.343m for 2021/22.

1.61 In light of this position, the Council must now focus on its future financial position to ensure:

- Council services can be afforded and new sources of income are generated to fund core services
- Value is delivered from the Regeneration Programme, Project Infinity and other significant capital schemes
- The Council can operate safely and within the law
- The Council continues to support the argument for a fair funding settlement for Harrow residents

1.62 The progress of addressing the future direction of the Council will be regularly reported to Cabinet.

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 6 December 2018 before the final savings are recommended to Full Council on the 28 February 2019. The public consultation will give residents an opportunity to comment on the 2019/20 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 2019/20 savings.

3.0 PERFORMANCE ISSUES

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 2019/20 will be measured and this again will be reported through the Strategic Performance Report.

3.2 In terms of financial performance, Cabinet are updated regularly throughout the financial year of forecast spend against the agreed budget and achievement of savings built into the budget.

4.0 RISK MANAGEMENT IMPLICATIONS

4.1 Financial risk is covered in the Council's Corporate Risk Register:

- Inability to provide services within budget
- Inability to manage demand for services in Adults Social Care

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 PROCUREMENT IMPLICATIONS

- 7.1 There are no procurement implications arising from this report.

8.0 EQUALITIES IMPLICATIONS / PUBLIC SECTOR EQUALITY DUTY

- 8.1 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*

8.2. 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 MTF5 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..

9.0 COUNCIL PRIORITIES

9.1 The Council's draft budget for 2019/20 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 * Chief Financial Officer
Date: 27/11/18		
Name: Jessica Farmer	<input checked="" type="checkbox"/>	on behalf of the * Monitoring Officer
Date: 26/11/18		

Section 3 – Procurement Clearance

Name: Nimesh Mehta	<input checked="" type="checkbox"/>	on behalf of the * Head of Procurement Officer
Date: 27/11/18		

Ward Councillors notified:	No, as it impacts on all Wards
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EqlA carried out:	To be reported on as Part of the Feb Budget report
EqlA 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:

[Final Revenue Budget 2016/17 and Medium Term Financial Strategy 2016/17 to 2019/20 - report to Cabinet 18th February 2016](#)

Call-In Waived by the Chairman of Overview and Scrutiny Committee	Call in applies
<i>(for completion by Democratic Services staff only)</i>	