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**REPORT FOR: CABINET**

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<b>Date of Meeting:</b>	13 February 2020
<b>Subject:</b>	Final Revenue Budget 2020/21 and final Medium Term Financial Strategy 2020/21 to 2022/23
<b>Key Decision:</b>	Yes
<b>Responsible Officer:</b>	Dawn Calvert – Director of Finance
<b>Portfolio Holder:</b>	Councillor Adam Swersky – Portfolio Holder for Finance and Resources
<b>Exempt:</b>	No
<b>Decision subject to Call-in:</b>	Yes
<b>Wards affected:</b>	All
<b>Enclosures:</b>	<b>Appendix 1A</b> – Proposed savings and growth 2020/21 to 2022/23(New proposals) <b>Appendix 1B</b> – Proposed savings and growth 2020/21 to 2021/22 to be agreed from 2019/20 and 2018/19 MTFS <b>Appendix 1C</b> – Summary of Proposed savings & growth 2020/21 to 2022/23 <b>Appendix 2</b> - Medium Term Financial Strategy 2020/21 to 2022/23 <b>Appendix 3</b> - Revenue Budget Summary 2020/21 <b>Appendix 4</b> - Levies, contributions and subscriptions <b>Appendix 5</b> – Policy on use of contingency

- Appendix 6** – Schools Budget 2020/21
- Appendix 7** – Public Health Budget 2020/21
- Appendix 8** – Reserves Policy
- Appendix 9** – Reserves forecast
- Appendix 10** – Report of the Chief Finance Officer
- Appendix 11** – Model Council Tax Resolution
- Appendix 12** – Members Allowance Scheme 2020/21
- Appendix 13** – Annual Pay Policy Statement for 2020/21 –
- Appendix 14** – Flexible Use of Capital Receipts
- Appendix 15** – Summary of EQIA for Savings Proposals 2020/21

This report sets out the final revenue budget for 2020/21 and final Medium Term Financial Strategy (MTFS) for 2020/21 to 2022/23. In January 2020, Cabinet approved the draft versions of the revenue budget and MTFS for general consultation.

**Recommendations:**

Cabinet is requested to:

- 1) Recommend the 2020/21 budget to Council for approval, being mindful of the results of the various consultations and equality impact assessments, to enable the Council Tax for 2020/21 to be set (Appendix 2).
- 2) Recommend the Model Council Tax Resolution 2020/21 to Council for approval as set out at Appendix 11.
- 3) Recommend to Council that in accordance with Section 38(2) of the Local Government Finance Act 1992, the Chief Executive be instructed to place a notice in the local press of the amounts set under recommendation 2 above with a period of 21 days following the Council's decision.
- 4) Approve the Medium Term Financial Strategy (MTFS) for referral to Council (Appendix 2).
- 5) Note the balanced budget position for 2020/21, and the budget gaps of £11.414m and £11.178m for 2021/22 and 2022/23 respectively (table 6).

- 6) Note the intention to increase Council Tax by 1.99% in 2020/21 (paragraph 1.23).
- 7) Note the proposal to increase Council Tax by a further 2.0% in 2020/21 in respect of the Adult Social Care Precept (paragraph 1.23).
- 8) Note the changes to schools funding for 2020/21 as set out in paragraphs 1.51 to 1.55 and Appendix 6.
- 9) Note the assumed funding for the protection of social care in 2020/21 through the BCF as set out in paragraphs 1.59 to 1.62.
- 10) Approve the draft Public Health budget for 2020/21 (Appendix 7).
- 11) With regard to the informal London Business Rates Pooling agree 12 and 13 below:
- 12) Approve participation in the informal London Business Rates Pool with effect from 1 April 2020 (to 31 March 2021) and delegate authority to the Director of Finance and Assurance, in consultation with the Portfolio Holder for Finance and Resources, and the Monitoring Officer, to finalise the details for the informal pool.
- 13) Delegate to the Director of Finance and Assurance, 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.
- 14) Recommend the 2020/21 Members' Allowance Scheme to Council for approval (Appendix 12).
- 15) Recommend the 2020/21 Annual Pay Policy Statement for Council for approval (Appendix 13).
- 16) Recommend the Capital Receipts Flexibility Strategy to Council (Appendix 14).

**Reason: (For recommendations)**

To ensure that the Council sets a balanced budget for 2020/21.

## Section 2 – Report

### BACKGROUND

- 1.1 Local Government finances continue to have a very difficult decade. Revenue expenditure has reduced by 20 to 30% on average against a backdrop of a rising UK population and a continued increase in demand for social care across all age groups and for pupils with special educational needs. In their publication ‘Local Government Funding – Moving the conversation’ (June 2018) the Local Government Association shared a number of their key statistics including:
- Analysis indicated that local services face a funding gap of £7.8billion by 2025 of which £6.6 billion would relate 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.
- 1.2 In November 2019, the Institute for Fiscal Studies published their report ‘English local government funding: trends and challenges in 2019 and beyond.’ The report continued the conversation that councils will face significant future cost pressures for adult social care. A finding from the report showed that, based on central government projections of the cost of adult social care services rising 3.4% above inflation per annum, Councils would need to find an extra £1.6bn by 2024/25 increasing to an extra £9bn by the mid 2030’s based on council tax increases of 4%.
- 1.3 Harrow remains one of the lowest funded Council’s both within London and nationally. Table 1 below summarises the key financial changes over the 7 year period up to 2019/20:

**Table 1: Summary of Key Financial Changes 2013/14 to 2020/21**

	Revenue Support Grant	Demand Led Growth	Technical Growth	Savings	Additional Revenue from Council Tax	Business Rate	Council Tax as a % of Budget Requirement
	£000	£000	£000	£000	£000	£000	%
2013/14	52.1	10	10	-22	-1.8	14.7	51
2014/15	42.6	5.5	-2.1	-10	-1.9	14.5	55
2015/16	32	7.7	5.9	-20.6	-3.4	14	59
2016/17	21.9	4.7	9.5	-16.6	-6.8	13.2	64
2017/18	13	10.7	-0.6	-10.2	-7.3	14.4	68
2018/19	7.3	9.8	1.7	-7.4	-5.3	14.4	70
2019/20	1.6	7.4	-4	-5.2	-8.5	14.4	76
2020/21	1.6	5.1	5.7	-3.8	-7.2	14.9	77
<b>Total</b>		<b>60.9</b>	<b>26.1</b>	<b>-95.8</b>	<b>-42.2</b>		

The table shows:

- The Council has seen the Revenue Support Grant, its main source of funding from central government reduce by 97% over the 8 years, reducing the grant to £1.6m from £52.1m (a £50.5m reduction).
  - Over and above the RSG, the Council receives no additional funding to meet demographic and inflationary pressures. Therefore growth of £60.9m has had to be provided to fund the continued pressures on front line services, mainly adults and children's social care and homelessness. Technical growth of £26.1m has had to be provided to fund inflationary pressures (pay and non pay) and the cost of capital investment in initiatives including highways maintenance and the acquisition of properties to alleviate homelessness.
  - These three factors have taken the total budget shortfall to find over the eight years to £138m to achieve a balanced budget.
  - Savings and efficiencies of £96m have been achieved but the profiling of these savings, and how the quantum has reduced in recent years, demonstrates the challenges of finding sustainable savings year on year.
  - Council Tax has been increased largely in line with referendum limits (2.99% in 18/19 and 19/20 and 1.99% proposed for 2020/21). In addition, Council Tax has been increased by an additional 7.5% over the four years 2016/17 to 2019/20, with 2% proposed for 2020/21 in respect of the Adult Social Care precept.
  - Business Rates have remained largely static, the Borough has been adversely affected by permitted development allowing office space to be converted to residential and not benefitting from large areas of land available for business development.
  - Council Tax, as a percentage of revised revenue budget requirement, has increased from 51% in 2013/14 to 77% in 2020/21 which shows the transfer of responsibilities onto the Council Tax payer.
- 1.4 Despite all reasonable actions, including council tax increases, significant savings, and efficiencies and generating income, it still remains a considerable challenge for the Council to balance its budget going forward in light of continued demand pressures and funding uncertainty facing the Council. In February 2019 full Council approved the Medium Term Financial Strategy (MTFS) 2019/20 to 2021/22. Despite achieving a balanced budget for 2019/20, there remained a budget gap of £26.140m for 2020/21 and 2021/22. This forms the starting point for the budget setting process for 2020/21 which includes refreshing the 3 year MTFS.
- 1.5 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

2020/21 is £597m. 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 £174m in 2020/21 and this is the element of the budget that must be found. The direct departmental spend of £158m (which excludes corporate items such as capital financing costs and contingencies) is set out in Table 2 below:

**Table 2: Planned Spend on Services in 2020/21**

Net Controllable Revenue Budget	Budget 2020/21 £000	Description of service
<b>Resources &amp; Commercial</b>		
Council contribution to freedom passes scheme	10,158	Every resident should have their independence. This funding allows our older residents and those with a disability to have access to the independence and better quality of life that free travel across Harrow and London can ensure.
The Council's call centre, main reception and website administration costs	4,116	Residents interact with the Council through a number of different communication channels and this funding supports customers to contact the council via the most appropriate way, whether it is online, face to face or over the phone. Although over 90% of the five million contacts we handled last year were through self-service, we want to ensure that we are accessible to residents who are most vulnerable and who do not have access to the Internet, offering a timely response.
Support for revenues and residents benefit claims	2,280	This funding provides assistance to those residents in need with benefit claims, helping them access the support they need and offering a timely response.
Resources	21,146	Provision of good frontline services relies on strong back office functions, including Legal, HR, procurement and IT support. This budget ensures a high quality support function for the Council.
<b>Community</b>		
Keeping Harrow clean & green	17,320	The council undertakes street cleaning, grounds maintenance, collection of refuse, recycling, food and garden waste to all residential properties within the borough; this includes collecting and preventing fly-tipping, managing and maintaining parks, maintaining highway verges, licensing and preventing anti-social behaviour. This budget includes investing in neighbourhood facilities and pro-active action to stop our streets becoming dirty in the first place. The Council is determined to make Harrow clean again-which means intelligence led street cleansing to ensure that those areas that require high frequency cleaning receive it; picking up your bins on time; and finding and fining those who blight our borough with litter and fly-tips. We are renewing our street lighting to more efficient and cost effective ones, monitoring and maintaining all the road surfaces in the Borough and taking the initiative to reduce road accidents.
Promoting culture and sports in the Borough	499	Libraries, leisure and cultural facilities are important to us and our residents and they form an essential part of our plan to build a better Harrow. This money maintains our well used and popular libraries, as well as other leisure and cultural facilities in the Borough. We are seeking to expand the use of our libraries digital services and increase digital downloads of e-books and e-magazines. Our Arts and Heritage offer includes Harrow Music Service, Harrow Arts Centre (HAC), and Headstone Manor and Museum.
Housing General Fund	3,892	Council has a duty to advise all homeless residents and provide accommodation for vulnerable households. This money is spent providing temporary accommodation for residents and families in need. This also goes towards housing vulnerable residents, who, for example, are fleeing domestic violence.
Economic Development & Research	778	The Council team that works with local businesses and employers to create hundreds of jobs, apprenticeships and training opportunities, particularly for our young people. They also bid for grants from Government to support businesses and regenerate town centres in the Borough. We want our local businesses to be successful and able to reach their full potential with access to more commercial workspaces and the ability to employ local people in the many jobs they are able to create. It is this team that is one of the reasons we were awarded the best small business friendly Borough in London.
Planning Services	239	As a Planning Authority, the service processes planning applications and enforces planning standards across the Borough.
<b>People - Adults and Public Health Services</b>		
Support for Adults and Children with a disability and older people.	64,872	We spend millions of pounds on caring for older residents, and those with a disability. This covers thousands of residents in the Borough and includes day care centres, overnight respite care and home visits by support workers, as well as residential care for the most complex. Our support helps give our residents, dignity, independence and support for their carers and family.
Quality Assurance & strategic management services	1,704	We want to ensure our residents receive the care they deserve. This is the money we spend on safeguarding to ensure that the care our residents receive in the borough - including in private care centres - adheres to the highest standard of care, and strategic management to ensure we have appropriate services in place to meet the needs of our residents.
<b>People - Public Health Services</b>		
Public Health	(1,867)	The Public Health grant support statutory duties such as NHS Health Checks, Health Visiting and Sexual Health, in addition to supporting non statutory duties such as drug misuse prevention and wider health improvement activities, to ensure the general health and wellbeing of the local population.
<b>People - Children's Services</b>		
Children & Young People's Services	25,955	Social care services provide support to children in need of help and protection. This includes statutory assessment and care planning for children at risk of significant harm, provision for looked after children and those leaving care, as well as fostering and adoption services. Early support delivers services and activities for parents, carers, pregnant women and young people aged 0-19 (or 25 with Special Educational Needs/disability).
Education Services	7,080	Education Services and schools in the Harrow area are committed to making sure that every child receives a high quality education in a local school of their choice. This includes supporting children with Special Educational Needs and early years practitioners in childcare and early years education settings.
<b>Total Service Budgets</b>	<b>158,172</b>	

## **SUMMARY**

- 1.6 The final budget set out in this report shows a balanced budget position for 2020/21 and budgets gaps of £11.414m and £11.178m for 2021/22 and 2022/23 respectively. Whilst it is intended that Members will approve the MTFS up to 2022/23 within this report, this is subject to a number of assumptions in relation to the Spending Review 2020, the Fair Funding Review (which will reset the needs baseline for local government) and Business Rates Reform as well as assumptions on council tax income, legislation and demographics and therefore 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
- 1.7 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. Harrow is currently developing its Borough Plan which will set the 10 year vision for Harrow. It will create a vision that demonstrated why residents are proud of Harrow and set out aspirations across the borough, encapsulating a sense of community. The plan will be consulted on during 2020 prior to being finalised for February 2021.

The plan proposes to address five priority areas across Harrow including:

- Improving the environment and addressing climate change
- Tackling poverty and inequality
- Building homes and infrastructure
- Addressing health and social care inequality
- Thriving economy

- 1.8 The Council has a statutory obligation to agree and publish the budget for 2020/21, and this report sets out the final budget for 2020/21 and the final three year MTFS up to 2022/23.

## **EXTERNAL FUNDING POSITION**

- 1.9 Harrow Council remains one of the lowest funded councils both in London and nationally. Harrow's core spending power per head in 2019/20 was estimated to be £170 lower than the London average and £75 lower than the rest of England average. The announcements within the Spending Round 2019 have done little to address the relative position of Harrow's funding baseline.
- 1.10 The 2019 Spending Round confirmed broad public spending allocations for 2020/21 only. Whilst this does result in additional funding for 2020/21, which is well received, the short term temporary nature of the income increases the challenge of considering it over the medium and longer term, for budget planning and sustainability purposes. The key areas of the Spending Round 2019 are detailed below:
- Council Tax increases are capped at 4% which is 2% core council tax and 2% Adult Social care precept.

- £1bn of new funding for Social care. London will receive £155m of which Harrows share is £3.482m.
- The London 75% Business Rates Retention Pilot will not continue for a third year. Harrow has benefitted from such an arrangement receiving £3.5m in 2018/19 and an estimated £1.8m in 2019/20.
- The Public Health Grant will increase by over 3% (£100m nationally) and the working assumption is that Harrow's share will be approximately £324k.
- £700m of high needs funding for LAs from 2020/21. Initial calculations suggest that this will generate additional funding for Harrow of approx. £2.7m. This will contribute to the increasing shortfall in funding provided for the High Needs Block and will mitigate some of this year's projected deficit which will be carried forward to 2021/22 however it does not resolve the overall issue of underfunding in this area.
- The New Homes Bonus will continue at its current 2019/20 level in 2020/21 but legacy payments, only for the scheme as it was in 2019/20, will continue. There will be no legacy payments for the cash payment in 2020/21.

1.11 2019/20 was the final year of the four year settlement and the Spending Round 2019 provided funding for 2020/21 only. The sector is undergoing a period of significant change that brings with it growing uncertainty both in terms of funding and service direction. The general election was held in December 2019 and the next budget will not be until 11 March 2020. This may delay the major external events which will influence the Council's funding for 2021/22:

- The **Spending Review 2020** which should set the quantum of the overall funding envelope for local government. The period the SR will cover, timelines for submission and the date of SR announcements all remain unknown.
- **Fair Funding Review** will reset the needs baseline which will determine how the overall quantum of local government funding is distributed. Consultation is expected in Spring 2020. Statements to date on fair funding concern specific areas of expenditure but do not inform the overall impact on funding.
- **Business Rates Reform** Central government is intending to allow local government, as a whole, to retain all or a significant proportion of its rates collected. Prior to 2018/19 Councils retained 30% of their business rates collected. From 2018/19 Harrow has been part of the London Business Rates Pool allowing the council to receive a proportion of the collective growth in London. The 2019 Spending Review confirmed the London 75% Business Rates Retention pilot will not continue in 2020/21. The Local Authorities share, and

therefore Harrow's retention share, will therefore change from 48% to 30%, (i.e. the central share will be 33% with the 67% local share being split 37% GLA / 30%. The London Borough's Leaders' Committee have however agreed to continue to informally pool business rates across all 34 London authorities in 2020/21 – subject to the Mayor agreeing to forgo the GLA's share of any net financial benefit. At this stage the potential financial benefit from business rates reform and the informal pool is not known and has therefore not been built into the MTFs. Once quantified, it could be applied to support any changes as a result of business rates revaluation.

- **Business Rates Revaluation** A further revaluation is due on the 1/4/2020, effective for the year 2021/22. It will alter the Rateable Values (RV) and therefore the amount that Harrow can collect in business rates. It is intended to be revenue neutral, by Central Government adjusting the multiplier so the same income quantum (plus CPI) is achieved. However the neutrality is at national level and Harrow's position is uncertain.
- The **Adult Social Care Green paper** has been subject to many delays. As people are living longer and the population ages Central Government recognises the need to reach a long term sustainable solution to providing the care older people need. A confirmed date for the release of the green paper remains unknown and the Council remains subject to temporary injections of funding, which whilst appreciated, cannot be used to underpin longer term planning and decision making.
- Schools are funded by the ring fenced Dedicated Schools Grant (DSG) which sits outside of the General Fund. Within the DSG is the **High Needs Block (HNB)** which funds provision for pupils with high needs placed in special schools and special provision in mainstream schools in Harrow and out of Borough. A recent survey showed that London Borough's had a total shortfall of £78m in 2017/18 compared with high needs funding allocations. For the first time in 2019/20 Harrow has had to set a £3.3m deficit budget for its HNB and is projecting a deficit of £4.1m by the end of the financial year. The 2019 Spending Review is estimated to allocate £2.7m of additional funding to Harrow in 20/21 and future funding arrangements remain unknown.

#### **DELIVERY OF THE 2019/20 BUDGET**

1.12

Delivery of the 2019/20 budget is critical to maintaining the Council's financial standing and to do everything possible to protect front line services. The 2019/20 revenue budget includes a challenging savings target of £5.946m. At Quarter 3 (as at 30 December 2019) performance against the target is reflective of the increasingly challenging fiscal and demand led environment the Council is finding itself in:

- £1.983m of savings (33%) are already achieved or on course to be achieved (rated Green)
- £3.187m of savings (54%) are partially achieved or risks remain (rated Amber)
- £776k of savings (13%) will not be achieved (rated Red)

1.13 The Quarter 3 forecast, subject to a separate report elsewhere on the agenda, indicates a directorate overspend of £5.269m with key pressures across the three directorates. The detailed analysis of the forecast pressure is included in the separate report and summarised below:

**Resources Directorate:**

- Resources is forecasting an overspend of £593k as a result of exiting Shared Service arrangements for HR and Procurement, the Communications team's budget being formalised following agreement to its future role and a loss of income from schools and non achievement of income targets. This is partly mitigated by additional income received from Land Charges and Registration Services. Growth has been provided for in the MTFS to stabilise these pressures moving forward.

**People Directorate:**

- The People's directorate is forecasting an overspend of £910k, all of which falls within Children's Services. £85k relates to the non-recurring revenue costs associated with relocating staff from Alexandra Avenue Health Centre to the Civic Centre to support integration with the CCG. The remainder is the continued pressure against the transport budget for adults and children with SEN. Transport is subject to a whole systems review, phase 1 having been completed and phase 2 just commenced. Being prudent, and reflecting that a proportion of the pressure is demand related, growth has been provided for within the MTFS for SEN transport with the intention of this being removed over two years as a result of the whole systems review.
- In 2019/20 £2.6m of additional funding was received for social care. As this funding was announced for 1 year only, it was not built into the budget and ear marked in an Adults Social Care reserve. Adults are forecasting a balanced budget position and this assumes a £2m draw down from the reserve. The balance of the reserve will be applied to the on-going impact of these pressures into 2020/21 alongside additional permanent growth also being built into the MTFS.

**Community Directorate:**

- The Community directorate is forecasting an overspend of £3.766m of which £934k is against Environment and & Culture and £2.832m against Commissioning & Commercial services:

### **Environment & Culture:**

- Interim management arrangements (£185k)
- Reduced revenue rebate from dry recyclables (£447k)
- Food waste collection – route optimisation (£150k)
- Health & Safety SLA with schools – reduced take up (£52k)
- Reduced income in Waste management (£30k)
- Harrow Arts Centre – part slippage of saving into 2020/21 (£70k).

### **Commissioning & Commercial Services:**

- Facilities Management (£1.902m)
- Parking Services and Network Management (£529k)
- Catering service (£113k)
- Commercial rent income (£188k)
- Other (£100k)

1.14 A number of the in year pressures are driven by external factors or where planned actions are no longer operationally feasible and growth is required to address these issues. In total £2.273m growth has been provided for in the 2020/21 draft budget for the following reasons:

- £628k Waste disposal costs relating to a reduction in the revenue rebate for dry recyclables (£447k) and inflationary pressures on the West London Waste Levy (£181k). Acknowledging these pressures the intention to remove £255k from the waste budget in 2019/20 is no longer feasible and this MTFs growth that was previously reversed is been re-instated.
- £30k to reflect increased public mortuary SLA costs
- £160k to reflect the loss of car parking and rental income as these facilities are either transferred or disposed off to support the Regeneration Programme.
- £137k of MTFs savings relating to the Arts Centre is re-profiled beyond the 2020/21 MTFs to reflect the revised timeline for the capital improvements to the Arts Centre.
- £500k as a result of cost pressures in facilities management in recognition that the current budget is not sufficient to fund both cleaning and building repairs to corporate sites.
- £150k to reverse the MTFs saving relating to food waste collection and route optimisation. The collection of food waste from flats is contained within existing crews and reducing a collection round is no longer operationally feasible.
- The Public Protection service has an income budget of £1.33m. Based on licensing activity, a more achievable target is £1.23m hence a reduction of £100k.
- As part of the 2015/16 budget process, for 2017/18 an additional income target of £100k was estimated from the Harrow Leisure centre. The procurement process for the Strategic Development

Partner covers three core sites and does not include the leisure centre at this stage.

- In 2019/20 additional staffing levels are being used to support parking enforcement. The effectiveness of this is being assessed throughout the year and a decision will be made, after a full year of assessment, as to whether this investment should be continued. Being prudent recurrent growth is provided in the MTFS but this will be subject to the results of the assessment.

1.15 A sum of £200k is provided as growth in 2020/21 to invest in Corporate Health and Safety.

1.16 In addition to the above, the current MTFS includes additional rental income due from the two additional floors being built at the depot, £473k in 2020/21. Firstly there is a revised timeline for the completion of the depot project. Secondly the Council is in the process of procuring a Strategic Development Partner to take forward its Regeneration Plans for three core sites. The provision of a new Civic Centre is included in these plans. The results of the procurement process will not conclude and be reported to Cabinet until approximately June 2020. Until the detailed plans for the new Civic Centre are known, it cannot be determined if the two additional floors at the depot will be required for staff accommodation or commercial rental purposes. It is therefore considered prudent to remove the income target from the current MTFS and when plans are finalised a decision can be made whether the target is re stated. In summary, the total of the pressures driven by external factors and operationally no longer feasible (£2.273m), investment in corporate Health & Safety (£200k) and the prudent removal of the depot income (£473k) total £2.946m and growth has been provided for these items in the 2020/21 budget.

1.17 Over the summer period a series of budget reviews was undertaken by the directorate and finance to understand the on going implications of the pressures identified. The results of these reviews, alongside the continued analysis of financial performance as part of monthly budget monitoring, have identified a further estimated budget pressure of £3m. This is in addition to the growth of £2.946m and can be categorised into two key areas:

- Category 1 - £1m of services which must be provided within current budget. There key services within this category include cleaning costs relating to school SLA service (£305k) trading standards (£222k), cleaning and repairs for corporate buildings (£300k) and catering (£80k).
- Category 2 - £2m of additional income which the directorate needs to achieve to meet targets already built into the MTFS. There are three key strands within this category. In respect of the new depot (excluding the additional two floors), the current MTFS assumes income of £1.234m of which £861k is being progressed. The second strand relates to income arising from parking enforcement activities (£700k). Schools SLA income is proving challenging against a back drop of a reduced take up of the services.

- 1.18 To progress the £3m pressures, the directorate has commenced a programme of budget reviews to baseline budgets that reflect business needs. The baselining will take into consideration any future operating models which provide opportunities for growth or maximise operational efficiencies. The budget review will include an analysis of performance against income budgets. Commercial activities are being reviewed to explore any growth opportunities to generate additional income. The directorate needs to ensure that any future service provisions are financially sustainable. The directorate has a timeline of 2 years (2020/21 and 21/22) to meet the £3m on going pressures and the Commercialisation reserve will be used to support during this timeline.
- 1.19 These Directorate overspends are being offset by an underspend in the Corporate and Technical budgets totalling £4.329m resulting in a net overall overspend of £940k. The Corporate underspends relate to the Corporate contingency of £1.248m, capital financing savings of £1.875m largely as a result of securing borrowing from PWLB at a lower interest rate than budgeted for and other underspends of £1.206m across a number of budgets including one-off income after budget setting.

The next sections of this report go on to explain the process and adjustments required to set the draft budget for 2020/21. The in year underspends within Corporate and Technical will be vired to provide directorates with the budgets required to support their services over the MTFS (based on information known at the time of this report.) However this does mean that the central contingency is now at the minimal level required to fund technical items, such as external levies and capital financing costs, and the importance is on directorates managing services within existing resources as far as is safely possible.

### **BUDGET PROCESS 2020/21**

- 1.20 In February 2019 Council approved a three year budget. As the Council's financial position is dynamic and is affected by a number of financial uncertainties and adjustments that will impact upon its financial position over the short and medium term, in preparing the draft budget for 2020/21 the existing MTFS was refreshed and rolled on a year. The adjustments were reported to Cabinet in January 2020 and are shown in table 3 below followed by an explanation of adjustments which were also included in the January report to Cabinet:

<b>Table 3 : Changes to MTFS (Prior to Local Government Finance Settlement)</b>			
	2020/21	2021/22	2022/23
	£'000	£'000	£'000
<b>Budget gap as at February 2019 Council Report</b>	<b>£16,795</b>	<b>£9,346</b>	<b>£0</b>
<b>Implications of Rolling the MTFS forward to include 2022/23</b>			
Capital Financing costs from additional Capital Programme			£1,250
Pay Inflation			£2,000
Non Pay Inflation/budget pressures			£2,750
<b>Council Tax Base changes</b>			
Increase in Council Tax base from 86,250 to 87,667 (£750k previously assumed in the 2019/20 budget, so a further £1,325k)	-£1,325		
Increase in Council Tax base from 87,667 in 2020/21 to 88,160 in 2021/22		-£750	
Collection Fund Surplus 2019/20	-£2,120	£2,120	
<b>Council tax increases</b>			
<i>Assumes Council tax of 1.99% and 2% for Adult Social Care (ASC) Precept:</i>			
Increase in Council tax to total of 3.99% (1.99% previously assumed so the addition relates to 2% for the ASC precept)	-£2,611	-	-
<b>Revised budget gap</b>	<b>£10,739</b>	<b>£10,716</b>	<b>£6,000</b>
<b>Savings proposals:</b>			
Resources	-£123	-£33	
Communities	-£153	-£79	
Children's	-£410	-£410	
SEN Transport Efficiencies from Transformation	-£400	-£400	
Council wide Transformation Target - £1m pa over and above SEN Transport target		-£1,000	-£1,000
<b>Growth Proposals</b>			
Resources Directorate	£1,006	£353	£678
Community Directorate	£2,946	£0	£0
Children's - SEN Transport	£789		
Adults - removal of previous assumed MTFS growth	-£971		
<b>Revised budget gap</b>	<b>£13,423</b>	<b>£9,147</b>	<b>£5,678</b>
<b>Technical Adjustments</b>			
<b>Social Care Funding</b>			
Continuation of the 2019/20 Adults Social Care funding as permanent funding	-£2,625		
Allocation of Adult Social Care funding to adults	£2,625		
Additional Social Care Funding in 2020/21 assumed as permanent funding	-£3,482		
<b>Corporate Budgets</b>			
Reduction in Litigation Reserve budget	-£125		
Reduction in levies, grants and subscriptions budget	-£70		
Reduction in Inflation provision based on previous allocation	-£500		
Reduction in existing Freedom Pass budget	-£500		
<b>Capital Financing</b>			
Reduced costs of borrowing (from £100m taken between April and July 2019)	-£500		
Application of capital receipt to reduce borrowing costs	-£550		
Additional planned saving on borrowing costs	-£500		
General reduction in Minimum Revenue Provision costs	-£500		
<b>Additional Income</b>			
Gayton Road - rental income from 53 PRS units	-£450	-£144	-£47
£2.5m of income from Commercial Investments of £100m included in the Capital Programme	-£150	-£1,175	-£1,175
<b>Technical Grants</b>			
Additional New Homes Bonus for 2020/21	-£1,416	£1,416	
Assumption that New Homes Bonus reduces in 2022/23			£728
Continuation of Revenue Support Grant for 2020/21	-£1,585		
Multiplier Cap Funding - continuation for 2020/21	-£1,145		
<b>Revised budget gap</b>	<b>£1,950</b>	<b>£9,244</b>	<b>£5,184</b>
<b>Use of Reserves</b>			
One off draw down from the Budget Planning Reserve	-£1,950	£1,950	
Use of Business Risk Reserve smoothed over 2 years		-£1,850	£1,850
Use of Business Risk Reserve smoothed over 2 years			-£1,464
<b>Revised budget gap</b>	<b>£0</b>	<b>£9,344</b>	<b>£5,570</b>
<b>Adults Growth / Pressure</b>		<b>£5,984</b>	<b>£3,354</b>
<b>Revised budget gap - assumes Council tax increase of 3.99% In 2020/21</b>	<b>£0</b>	<b>£15,328</b>	<b>£8,924</b>

## 1.21 Implications of rolling budget forward to include 2022/23:

- **Capital Financing Costs from additions to the Capital Programme** – the existing Capital Programme extends to 2020/21 and all Capital Financing costs were previously included in the 2019/20 budget and MTFS up to 2021/22. The new Capital Programme for 2020/21 to 2022/23 will include additions for financial years 2020/21 to 2022/23. The working assumption is that the additional Capital Financing cost will be contained within £1.25m which is included in Table 2. Any implications for 2023/24 will need to be included in the budget model as part of next year's budget process.
- **Pay Inflation and General Inflation** – the budget includes £2m for a 2% pay award in 2022/23 and £2.75m to cover other non pay inflation and an element for budget growth.

## 1.22 Council Tax Adjustments

In 2020/21 the Council tax base will increase to 87,667 from its 2019/20 base of 86,250. This is an increase of 1417 Band D's which equates to total additional council tax income of £2.075m. As part of the 2019/20 budget process a sum of £750k was previously included on the assumption of an increase in the tax base to 86,752. Therefore, a further £1.325m is being included as part of the 2020/21 budget process. For 2021/22 a further increase in the tax base is assumed which will take the tax base to 88,160 which will generate a further £750k.

- 1.23 This report has explained the funding uncertainties facing local government and the challenges around the 2019 Spending Review only delivering a 1 year revenue settlement. Until there is more clarity around funding for 2020/21 onwards, especially in relation to social care, it is difficult to set council tax rates beyond the forthcoming year. Therefore table 2 reflects an increase in Council tax up to the allowable limit of 3.99% (1.99% core CT and 2% Adults Social Care precept) in 2020/21 only. This results in the draft budget for 2020/21 balanced with a gap of £15.328m and £8.924m for 2021/22 and 2022/23 respectively.

If the expectation of central government is that Councils continue to increase council tax to contribute towards demand pressures, at the current allowable limit of 3.99%, this would generate an estimated £10.7m for the council over years two and three of the draft MTFS and reduce the budget gap to £9.978m in 2021/22 and £3.574m in 2022/23.

- 1.24 There is a report elsewhere on the agenda that estimates the surplus / deficit on the Collection Fund for 2019/20. The report details an overall net estimated surplus as at March 2020 of which Harrow's share is £2.120m which is now reflected in the budget for 2020/21. As this is a one off benefit it must be reversed out in 2021/22.
- 1.25 The combination of the increases to the tax base and 3.99% council tax increase generates an additional £7.199m in 2020/21 in Council tax income.

## 1.26 **Savings identified as part of the 2020/21 Budget process**

The 2020/21 budget setting process has identified additional savings of £7.151m and additional growth of £4.801m over the three years. These are summarised in table 5 and detailed in Appendix 1A.

## **Technical Adjustments**

1.27 **Social Care Funding** – the Council is currently receiving £2.627m for adult and children’s social care in 2019/20. This is Harrow’s share of additional funding of £650m provided to Councils across England. The Spending review which was announced on 4<sup>th</sup> September 2019, confirmed the continuation of this grant in 2020/21 and also announced a further allocation of £1bn across England for 2020/21. Harrow’s share of the £1bn has been estimated at £3.482m.

1.28 **Corporate Budgets** – A number of reductions are made to corporate budgets totalling £1.195m which reflect previous assumptions made for potential increases which have not materialised and therefore these budgets can now be reduced. For example, in the 2018/19 budget process a sum of £500k was assumed to meet potential inflationary increases and demand in the Concessionary fares budget in 2020/21, but the latest estimates show that this is not required and can therefore be released.

1.29 **Capital Financing Costs** – there are savings in capital financing costs totalling £2.050m set out in Table 2. £1m of this relates to a reduction in interest charges as a result of having borrowed £100m at a rate lower than budgeted and further planned borrowing being deferred and borrowed at a rate below the sum assumed in the budget. In addition the application of capital receipts to fund capital has led to savings on borrowing of £550k and there is a general reduction in MRP as short life assets are fully funded and MRP costs are therefore reduced.

1.30 **Additional Income** – the 53 units at Gayton Road being managed by the LLP will deliver an additional £641k in income to the Council by 2022/23 (£450k in 2021/22 increasing to a total of £641k by 2022/23).

1.31 **Additional Income** – £100m was approved by cabinet in July 2019 as an addition to the Capital Programme for Commercial Investments. The basis of the inclusion was that this £100m would generate a minimum net return of £2.5m after repaying the capital financing costs (2.5%). One property has been purchased from the £100m which is generating a net return of £150k which is built into the 2020/21 draft budget. The balance of the net return is allocated over years two and three of the MTFs and there is the potential to bring this forward.

1.32 **Technical Grants** - In 2019/20 the New Homes Bonus (NHB) grant is £4.344m. The budget last year (2019/20) assumed that the NHB for 2020/21 would reduce to £2.928m. The latest information from London Councils suggests that Councils will receive the same cash allocation in 2020/21 as they did in 2019/20. Therefore a one off increase of £1.416m has been included for 2020/21, but budget reductions that had already been built into the budget for a winding down of the scheme are being maintained

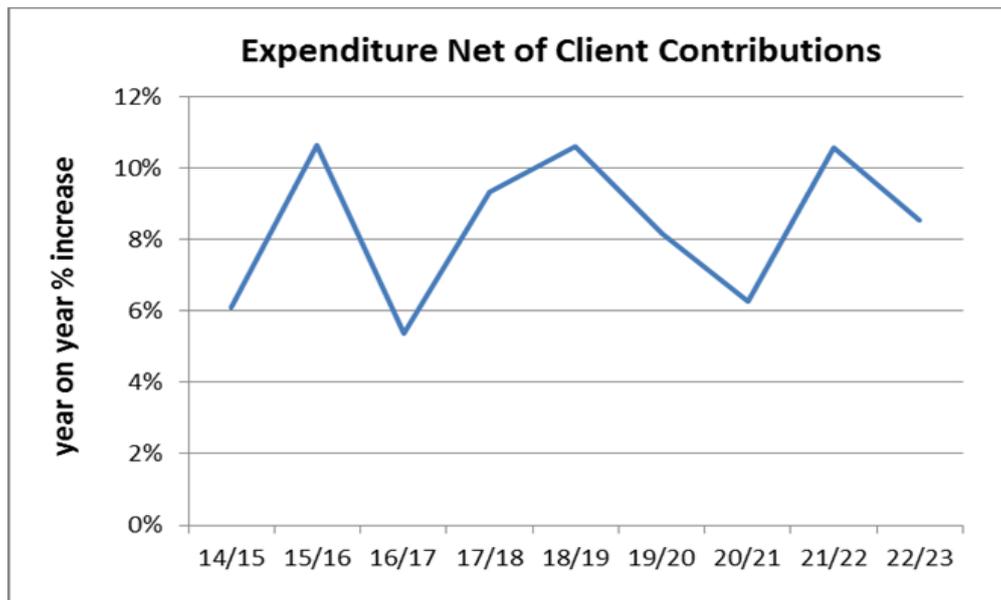
and a further £728K reduction is assumed in 2022/23 which would bring the grant down to £1.666m by 2022/23.

- 1.33 The 2019 Spending Review also set out a continuation of **Revenue Support Grant (RSG)** for a further year in 2020/21 of £1.585m and also the **Multiplier Cap grant of** £1.145m as part of our baseline funding. The assumption is that these will form part of our 2020/21 baseline before any reset takes place for 2021/22 as a result of the review of 2020 Spending Review and Fair Funding Review.
- 1.34 Once the figures are received as part of the Final Finance settlement, any adjustments required will be made for the Final Budget to be agreed by February Cabinet.
- 1.35 **Use of Reserves** – the draft budget assumes the use of £1.950m from the Budget Planning Reserve in 2020/21 and that a total of £3.314m will be drawn down from the Business Risk reserve between 2021/22 and 2022/23.

### Adult Social Care Growth

- 1.36 Picking up on the point made earlier in this report, the Institute for Fiscal Studies has found that Councils need an estimated additional £1.6bn by 2024/25 to fully meet the cost of adult social care. In 2018/19 Adult Services started its transformation programme 'Resilient Communities'. Cost efficiencies were included in the MTFS of £1.970m and have largely being delivered.

As part of extensive modelling work to understand the future demands on Adults Social care, evidence based analysis does show that costs pressures are volatile, as detailed below:



- 1.37 However against a backdrop of a rising UK population, increasing social care demands for older people and young adults with learning difficulties and the NHS under pressure, the modelling is estimating future cost pressures. The draft budget highlighted estimated adult social care growth pressures as detailed in table 4 below:

**Table 4: Estimate Adult Social Care Growth 2020 to 2024 (draft MTFS)**

Growth	2020/21	2021/22	2022/23	2023/24
	£'000	£'000	£'000	£'000
Complexity	1,647	1,000	1,000	1,000
Mitigations	(1,584)	(300)	0	0
Demography	537	1,074	1,074	1,074
Care provider inflation	700	570	570	570
Commissioning activity	0	3,640	710	770
Less ACS reserve	(1,300)	0	0	0
<b>MTFS Impact</b>	<b>0</b>	<b>5,984</b>	<b>3,354</b>	<b>3,414</b>

The following narrative supports the numbers in table 4 above:

**Complexity** includes the increased cost of existing packages or care as clients remain within the system

**Mitigations:**

- Continue the work with Learning disabilities working with individuals to promote independence and reduce the costs of packages (Home is Harrow)
- Continue to roll out the strengths based working across adults (3 conversations)
- Subject to members review of the consultation, implementation of a revised charging policy which will be approved through Cabinet
- Market shaping to reduce a target cohort of high cost packages
- Subject to the evaluation of the Assisted Technology (AT) pilot, implementation of the AT equipment to reduce care packages
- Focus on the hospital discharge to avoid an over reliance on admission to care homes

**Demography** assumes 50 new services users per annum

**Commissioning activity** is to support the review of elements of care aiming to increase quality and keep pace with the external market

- 1.38 The estimated growth projections, and the assumptions upon which they were based, were very much a work in progress and continued to be worked upon and refined, especially in light of the service approaching one of its most challenging times of the year, winter pressures. At the point of setting the financial budget, the most up to date modelling indicates a revised profile of estimated growth which is summarised in table 5 below:

**Table 5: Estimate Adult Social Care Growth 2020 to 2024 (final MTFS)**

Growth	2020/21	2021/22	2022/23	
	£'000	£'000	£'000	
Complexity	1,591	3,123	3,123	
Mitigations	(1,584)	(300)	0	
Demography	2,273	2,570	2,805	
Care provider inflation	700	1,046	1,135	
Commissioning activity	0	0	0	
Less ACS reserve	(663)	0	0	
<b>MTFS Impact</b>	<b>2,317</b>	<b>6,439</b>	<b>7,063</b>	

Table 5 shows:

- Despite external funding of £6.093m being built into the 2020/21 budget (£3.482m central government grant and £2.611m from social care precept), this is still not sufficient to fund estimated demand pressures and the final budget has had to provide for a further £2.317m of growth.
- The modelling estimates additional demand pressures in the region of £13.5m for years 2 and 3 of the MTFS. As the modelling does identify future pressures it is important these are reflected in the report but they have not been built into the final MTFS. As has been previously stated in this report, the Council has received a one year revenue settlement for 2020/21 only. Future funding remains very uncertain and cannot be built into the MTFS with a any degree of certainty. The council will have the option to increase council tax in future years and levy a social care precept. As these potential additional funding streams are not reflected in the MTFS, its reasonable the estimated pressures are identified but not reflected. The modelling is an on going process which will need to be robustly managed to ensure the optimum balance between budget requirement and service provision in line with the ethos of the resilient communities transformation.
- The removal of commissioning activity. At draft budget stage it was clear that commissioning aspirations would only be implemented once there was surety of additional funding. The increased demand pressures will now have to take priority against any future additional funding and commissioning activity has been removed.

#### **Adjustments required following the Local Government Settlement announcement**

- 1.39 The provisional Local Government Finance Settlement was announced on 20 December 2019 by the Secretary of State for Communities, with the date of the Final settlement still to be confirmed but expected early February 2020. The announcements, along with other changes, have resulted in a number of adjustments to the draft MTFS which are summarised in table 6 below and supported by explanatory text which follows the table.

**Table 6 : Adjustments Changes to MTFS 2020/21 to 2022/23 (After the Local Government Finance Settlement announcement on 20th December)**

	2020/21	2021/22	2022/23
	£'000	£'000	£'000
<b>Budget gap as at January 2020 Council Report</b>	£0	£15,328	£8,924
<b>Technical Changes from the Finance Settlement</b>			
Increase in the Top Up Grant from estimated sum	-£646		
Reduction in New Homes Bonus from estimated sum	£629	-£629	
Increase in Multiplier Cap Grant	-£445		
<b>Revised budget gap</b>	<b>-£462</b>	<b>£14,699</b>	<b>£8,924</b>
<b>Changes in Adults Services Growth Assumptions</b>			
Reversal of funding for Commissioning Activities		-£3,640	-£710
Adult Social Care Growth	£2,317		
<b>Reversal of use of reserves in Table 3</b>			
Budget Planning reserve	£1,950	-£1,950	
Business Risk		£1,850	-£1,850
Business Risk			£1,464
<b>Revised use of Reserves</b>			
Budget Planning reserve -full reserve applied	-£2,629	£2,629	
Use of Business Risk Reserve - smoothed over 2020/21 and 2021/22	-£1,176	£1,176	
Use of Business Risk Reserve - smoothed over 2020/21 and 2021/22		-£3,350	£3,350
<b>Revised budget gap - assumes Council tax increase of 3.99%</b>	<b>£0</b>	<b>£11,414</b>	<b>£11,178</b>

**Technical Changes from the Finance Settlement** – The funding for New Homes Bonus will decrease by £10.5m (1.1%) nationally to £907.3m. London Borough's will receive £184.5m of this, a decrease of £5.4m (2.9%). This has resulted in a reduction of £629k of NHB for the Council for 2020/21. This is mitigated by an increase in the Top Up grant of £646k and in increase in the Multiplier Cap grant of £445k, the latter being Harrows share of a 25% in this grant nationally.

**Changes in Adults Service Growth Assumptions** – As previously explained in paragraph 1.41, commissioning activity aspirations are being removed from the MTFS. Additional adult social care growth of £2.317m is being provided for.

**Reversal of use of Reserves** – To fund the additional growth in adult social care, an extra call on reserves is unfortunately required. The Business Planning reserve will be applied in full in 2020/21 (£2.629m) and the Business Risk Reserve will be applied to budget 'smoothing' over 2020/21 and 21/22, brought forward from 2021/22 and 2022/23. Using one off reserves is neither a robust or preferred approach to balancing the 2020/21 budget. A spending control target of £2.5m has been implemented across the organisation to be achieved in full with permanent on going reductions in expenditure, by the end of 20/21. The actions to achieve this

target are being worked upon to be in place by the start of the new financial year and will enable to Budget Planning Reserve to be replenished.

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

- 1.40 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 2020/21 and 2021/22 have been reviewed to ensure that they can either be taken forward or removed as part of this draft budget.
- 1.41 Table 7 summarises the total savings and growth put forward as part of the 2019/20 and 2018/19 budget setting process in respect of financial years 2020/21 and 2021/22. Table 7 shows total savings of £5.072m between 2020/21 and 2021/22 and growth of £2.367m, so net savings of £2.705m. The detail is set out in Appendix 1B.

**Table 7: Savings and Growth from 2019/20 and 2018/19 Budget setting**

	<b>2020-21</b>	<b>2021-22</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<u>Savings Summary</u>			
Resources	(595)	(1,901)	(2,496)
Community	(1,530)	(1,046)	(2,576)
<b>Savings Total</b>	<b>(2,125)</b>	<b>(2,947)</b>	<b>(5,072)</b>
<u>Growth Summary</u>			
Resources	95	140	235
Adults	881	652	1,533
Community	25	-	25
Corporate	330	244	574
<b>Growth Total</b>	<b>1,331</b>	<b>1,036</b>	<b>2,367</b>
<b>Total Growth and Savings</b>	<b>(794)</b>	<b>(1,911)</b>	<b>(2,705)</b>

- 1.42 Table 8 sets out the total savings and growth proposed as part of the current 2020/21 budget process. Table 8, shows savings of £7.151m and growth of £4.801m over the three year period 2020/21 to 2022/23. Overall there is net savings in the budget of £2.350m over the 3 year period. The detail of these savings and growth is set out at Appendix 1A.

**Table 8: Savings and Growth 2020/21 to 2021/22/23 from the 2020/21 process**

	2020-21	2021-22	2022-23	Total
	£000	£000	£000	£000
<u>Savings Summary</u>				
Resources	(123)	(33)		(156)
Children	(410)	(410)		(820)
Community	(155)	(79)	-	(234)
Corporate	(1,000)	(2,719)	(2,222)	(5,941)
<b>Savings Total</b>	<b>(1,688)</b>	<b>(3,241)</b>	<b>(2,222)</b>	<b>(7,151)</b>
<u>Growth Summary</u>				
Resources	1,006	353	678	2,037
Adults	(971)	-		(971)
Children	789	-	-	789
Community	2,946			2,946
<b>Growth Total</b>	<b>3,770</b>	<b>353</b>	<b>678</b>	<b>4,801</b>
<b>Total Growth and Savings</b>	<b>2,082</b>	<b>(2,888)</b>	<b>(1,544)</b>	<b>(2,350)</b>

- 1.43 Table 9 below 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 2020/21, 2021/22 and 2022/23. This is the combined total of Tables 7 and 8 which shows total net savings of £5.055m over the three years, the detail is set out in appendix 1C.

**Table 9: Summary of Savings and Growth 2020/21 to 2022/23**

	2020-21	2021-22	2022-23	Total
	£000	£000	£000	£000
<u>Savings Summary</u>				
Resources	(718)	(1,934)	-	(2,652)
Children	(410)	(410)	-	(820)
Community	(1,685)	(1,125)	-	(2,810)
Corporate	(1,000)	(2,719)	(2,222)	(5,941)
<b>Savings Total</b>	<b>(3,813)</b>	<b>(6,188)</b>	<b>(2,222)</b>	<b>(12,223)</b>
<u>Growth Summary</u>				
Resources	1,101	493	678	2,272
Adults	(90)	652		562
Children	789			789
Community	2,971	-	-	2,971
Corporate	330	244		574
<b>Growth Total</b>	<b>5,101</b>	<b>1,389</b>	<b>678</b>	<b>7,168</b>
<b>Total Growth and Savings</b>	<b>1,288</b>	<b>(4,799)</b>	<b>(1,544)</b>	<b>(5,055)</b>

- 1.44 The saving proposals, as detailed in appendix 1c provides for a net total reduction of 23 FTE in 2020/21 and a total of 24 FTE across the 3 years of the MTFs as detailed in table 10 . These reductions are subject to consultation where appropriate (consultation will not be required where posts are vacant).

**Table 10: Summary of FTEs on Savings and Growth 2019/20 to 2021/22**

	2020/21	2021/22	2022/23	Total	2020/21	2021/22	2022/23	Total
	£'000	£'000	£'000	£'000	FTE's Number			
Net (Savings)/Growth on Appendix 1a	2,082	(2,888)	(1,544)	(2,350)	(4)	(1)	-	(5)
Net (Savings)/Growth on Appendix 1b	(794)	(1,911)	-	(2,705)	(19)	-	-	(19)
<b>Net (Savings)/Growth in MTFS</b>	<b>1,288</b>	<b>(4,799)</b>	<b>(1,544)</b>	<b>(5,055)</b>	<b>(23)</b>	<b>(1)</b>	<b>-</b>	<b>(24)</b>

## INVESTMENT

1.45 The Council is holding a Business Risk Reserve of £7.526m which was set at the time of the Council presenting its 2 Year Budget Strategy (2020/21 to 2021/22) to Cabinet in July 2019. The strategy referred to options of future Council Tax increases over and above what was already built into the MTFS. Based on the understanding of central government fiscal calculations at the time, an increase in Council Tax of 5% per annum over the two years of the strategy would generate approximately £7.5m in revenue. The reserve was set aside to fund this risk.

1.46 The Spending Review 2019 announced a maximum 4% increase in Council Tax (2% Adult Social Care Precept and 2% core CT). The revised MTFS assumes a Council tax increase of 3.99% per annum over the three years which releases the Business Risk Reserve for alternative uses and the reserve has been applied as follows:

- £4.526m built into the MTFS in 2021/22 and 2022/23 as temporary one off support.
- £3m member investment in front line priorities at £1m per annum (reviewed annually)

1.47 In 2020/21 investment will be made of £1m into the following front line priorities:

**Table 11: Investment 2020/21**

Front line Priority	Investment
Street Sweeping	£184,000
School Improvement	£90,000
Improvements to the Council Tax Support Scheme	£400,000
Enforcement, fly tipping, HMO's and planning	£100,000
Additional Funding for Ward Priorities	£21,000
District Centre Projects	£100,000
Community Cohesion	£70,000
<b>TOTAL INVESTMENT</b>	<b>£965,000</b>

**Street Sweeping** – This will retain the cycle of 2 weekly sweeping within the Borough

**School Improvement** – Harrow School Standards and Effectiveness Team will employ an additional School Improvement Professional to increase capacity in:

- a. Supporting school leadership and governance
- b. Providing more direct support to schools causing concern rather than sign post them elsewhere
- c. Carrying out whole school reviews / audits in targeted schools
- d. To promote the wider work of the Council with schools and Early Years settings / childminders
- e. To strengthen the partnership with the Harrow Education Partnership (schools-led) and other partners

**Improvements to the Council Tax Support Scheme (CTS)** – The CTS Scheme is subject to a separate report on this agenda. In summary Following a full consultation this summer on the introduction of an income banded council tax support scheme for claimants migrating to Universal Credit (UC), the Council have, following consultation feedback, invested an additional £400k into local council tax support schemes to help Harrow’s poorest council tax payers.

The additional cash investment will be accounted at both tax base level (collection fund) as well as in the Revenue budget. The new scheme adopted will, over 3 years, as claimants migrate to UC in a phased way, grant more generous CTS awards to many claimants, resulting in an additional £400k being additionally awarded through the CTS scheme by 2022/23. In the meantime, the unspent part of the investment will instead be used to fund a new 3 year Council Tax Protection Fund which will provide the additional council tax support to our most needy and financially hard up council tax payers.

<b>Initiative to Support Harrow’s Council Tax Payers</b>	<b>Year 2020/21</b>	<b>Year 2021/22</b>	<b>Year 2022/23</b>	<b>Accounted for</b>
Additional awards expected to be granted by new Income Banded Scheme	£75k	£183k	£291k	@ Tax Base level
Funding for awards expected to be granted to CTS claimants impacted by 3.99% CT inflation	£100k*	n/a	n/a	Within Revenue budget
Funding for awards expected to be granted to CTS claimants impacted by UC migration	£130k	£130k	£130k	Within Revenue budget
Funding for individual council tax relief expected	£95k	£87k	£0k	Within Revenue

to be granted to CTS claimants experiencing extreme financial hardship				budget
<b>Total Investment</b>	<b>£400k</b>	<b>£400k</b>	<b>£400k</b>	

\*Applies to 2020/21 year only.

**Enforcement, fly tipping, HMO's and planning** – Plans are currently being worked through to ensure the best returns from this investment.

**District Centre Projects** – The investment will deliver high-impact improvements to district centres in South Harrow, Rayners Lane, and Wealdstone. This follows consultation with local residents and ward councillors. The improvements include public realm enhancements, feature lighting, and artwork.

**Community Cohesion** – The investment will fund the continuation of a post to support the Council's approach to community cohesion by getting out into communities, working with Ward Councillors and Partners, and understanding the issues, challenges and opportunities in the local area. From this diagnosis the role then supports the Council to put in place more targeted interventions which help to reduce further demand on services by being right first time.

#### **CAPITAL RECEIPTS FLEXIBILITY**

1.48 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 was extended as part of the 2018/19 Finance settlement for a further 3 years from 2019/20 to 2021/22.

1.49 The Council signified its intent to make use of this flexibility in its final budget report to Cabinet and Council in February 2016. The refreshed MTFS currently assumes no future use of capital flexibilities beyond 2019/20.

1.50 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. The final budget has not assumed any use of capital flexibilities for 2020/21 but this does not prevent the use of capital flexibilities in the year. The full strategy is set out at Appendix 15.

#### **SCHOOLS BUDGET – Dedicated Schools Grant (DSG) 2020/21**

1.51 In September 2019 the government announced an increased investment in school budgets and high needs for the next three years. For Harrow there is a projected increase in school funding of around £6.5m for 2020/21.

1.52 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 means LAs are funded on the basis of the total of the

NFF 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.

- 1.53 There are no proposed changes to the **structure** of the formula for 2020/21 however there are a number of changes which Schools Forum, in consultation with schools, need to make a decision on.
- 1.54 The LA undertook a consultation with all schools, academies and free schools in Harrow to seek views on aspects of school funding for 2020/21 in the autumn term.
- 1.55 The full outcome of the consultation, proposed final funding formula and final DSG allocations is set out at Appendix 6 of this report.

### **PUBLIC HEALTH FUNDING**

1.56 The 2019 Spending Review announced that the Public Health Grant would increase by around £100 million nationally. The working assumption is that Harrow's share will be approximately £324k and detailed below are the priority areas where the additional funding will be invested, the proposals being aligned with evidence of population priorities and the emerging Health & Wellbeing Strategy and Borough Plan:

- Staffing – integrated care and priority work streams of mental health and long term conditions
- Additional funding for smoking cessation (recently included as part of the repocured substance misuse contract)
- Physical activity projects and weight management
- Oral health
- Mental health
- Social prescribing

- 1.57 The draft Public Health commissioning intentions detailed in Appendix 7 of £10.848m are based on the expected grant allocation (yet to be notified by Public Health England) and enables an increase in expenditure as detailed above.
- 1.58 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)**

- 1.59 The framework for the Better Care Fund (BCF) derives from the government's mandate to the NHS which sets an objective for NHS England to ring fence funding (in 2019/20 £3.84 billion) to form the NHS contribution to the BCF. The NHS Long Term Plan, published in January 2019 set out the priorities for transformation and integration, including plans for investment in integrated community services and next steps to develop Integrated Care Systems.
- 1.60 The BCF continues to provide a mechanism for personalised, integrated approaches to health and care that support people to remain independent

at home or to return to independence after an episode in hospital. The continuation of the national conditions and requirements of the BCF provides opportunities for health and care partners to build on their plans to embed joint working and integrated care further, including how to work collaboratively to bring together funding streams to maximise the impact on outcomes for communities and sustaining vital community provision. As a result a number of local authority grants received directly are required to be included in the overarching BCF agreed with partners. This includes the iBCF, winter pressures and disabled facilities grants.

- 1.61 Whilst the detailed NHS guidance is awaited in relation to the 2020/21 BCF plan, the requirements around integration and collaborative working are expected to continue. The 2020/21 BCF plan will be signed off by the Health & Wellbeing Board ahead of submission to, and assurance by, NHS England.
- 1.62 The 2020/21 Adults budget assumes that funding for the Protection of Social Care through the BCF will remain at the agreed 2019/20 level of £6.112m.

## **RESERVES AND CONTINGENCIES**

1.63 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:

- Contingency for Unforeseen items £1.248m – This is a recurrent revenue budget and is used to support unforeseen events during the year.
- Budget Planning Reserve – The full balance of £2.629m on this reserve has been applied to the 2020/21 budget.
- Business Risk Reserve – This reserve was set at £7.526m to fund the risk around the assumption of being able to increase Council Tax by 5% per annum for 2020/21 and 2021/22, Following announcements made in the Spending Round 2019, the draft MTFs now assumes a 3.99% per annum increase in Council Tax which releases the Business Risk Reserve from its original purpose. £3m from the reserve is being invested in front line priorities at £1m per annum over the 3 year MTFs. The remaining balance of £4.526m is being used to support the MTFs in 2020/21 and 2021/22.
- MTFs Implementation Reserve – At Quarter 3, the estimated carry forward balance on this reserve is £1.829m. This is set aside to fund redundancy costs.
- The Commercialisation Reserve stands remains at £1.265m and is earmarked to support Community directorate £3m on going pressures.

- 1.64 The report of the Director of Finance, which includes the adequacy of Council's reserves and contingencies is detailed at Appendix 10.

### **LEVIES, CONTINGENCIES AND SUBSCRIPTIONS**

- 1.65 Appendix 4 sets out the main levies, contributions to other bodies, and subscriptions that the Council will pay in 2020/21. These sums are set by other bodies and are outside the Council's control. With the exception of the subscriptions to London Councils and the Local Government Association, the payments are compulsory.

### **BUDGET PROCESS 2021/22 AND 2022/23**

- 1.66 There is a good track record of containing revenue expenditure within the annual budget envelope despite continued demand pressures. In both 2017/18 and 2018/19 underspends of £3.2m and £3.1m were achieved. However, in the current financial year, the latest forecast for quarter 3 is showing an overspend of £940k but there is a strong commitment across the organisation to reach a balanced budget position by the end of the financial year.

- 1.67 This report sets out a balanced budget position for 2020/21. However achieving this balanced position has proved a very difficult challenge in light of continued financial austerity, increasing demands in adults social care and the lack of certainty on funding beyond 2020/21. The Council has had to call on the use of the Budget Planning Reserve when setting the 2020/21 budget. A spending control target of £2.5m has been implemented across the organisation to be achieved in full during 2020/21 to allow the reserve to be re-plenished. The 3 year MTFS shows a remaining budget gap of £11.414m for 2021/22 and £11.178m for 2022/23.

- 1.68 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 funding are identified to support core services alongside efficiencies
- The Council can operate safely and within the law
- The Council continues to support the argument for a fair funding settlement for Harrow residents

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

### **COUNCIL TAX MODEL RESOLUTION**

- 1.70 The draft Council Tax Model Resolution is attached at Appendix 11 which proposes the Band D council tax of £1,522.72 and GLA precept of £332.07. This is still subject to confirmation of the GLA precept which is expected to be confirmed by 14 February 2020.

- 1.71 The proposed GLA precept for 2020/21 of £332.07 is £11.56 or 3.6% increase compared to 2019/20.

- 1.72 The total Band D increase for Harrow including the GLA is proposed at £1,854.79 which will be an overall increase of 3.92% compared to 2019/20.

### **MEMBERS ALLOWANCE**

- 1.73 The proposed Members' Allowances scheme for 2020/21 is attached at Appendix 12. This has been prepared having regard to the report of the Independent Panel that considered the Remuneration of Councillors in London. It is proposed that the basic allowance and the different bands of Special Responsibility Allowance (SRA) and Mayoral Allowances, be uprated by 2% in line with the Local Government Pay Settlement (2%) for 2020 /21. The last time Members allowances were increased was in 2015/16.

### **ANNUAL PAY POLICY STATEMENT**

- 1.74 Under the Localism Act all public authorities must publish annual pay policy statements. The statement must set out the Authorities policies for the financial year relating to:

- Remuneration of its Chief Officers
- Remuneration of its lowest paid employees
- The relationship between the remuneration of its Chief Officers and the remuneration of those employees who are not Chief Officers.

- 1.75 The proposed statement is attached at Appendix 13 and Cabinet is requested to recommend it to Council for agreement.

### **WORKFORCE IMPLICATIONS**

- 1.76 There is a legal requirement to seek to avoid or minimize redundancies and the Council's managing change policy guidance identifies a range of potential actions that should be considered. These include but are not limited to:

- Seeking volunteers for redundancy / early retirement

The Council has a legal duty to consider volunteers for redundancy ahead of any compulsory redundancy process and this is the Council's normal practice. Additionally, where it is in the Council's interests, the Council may consider operating a voluntary severance scheme. This decision would be dependent upon a business case demonstrating the potential benefits.

- Not recruiting to vacancies as they arise and limiting recruitment

The Council has, for some time, operated a policy of utilising agency workers to cover vacancies in services where reductions in the workforce are planned or anticipated. This has reduced both the impact of workforce reductions on employees and the potential cost of redundancies.

- Reducing the use of agency staff

The Council will continue with its policy of utilising agency workers to reduce both the impact of workforce reductions on employees and the potential cost of redundancies.

The Council's corporate agency worker contract provides detailed management information and this information is used by HR to identify potential opportunities to redeploy staff at risk of redundancy into roles covered by agency workers.

- Considering 'bumped' redundancies and redeployment elsewhere in the Council

A bumped redundancy is where an employee, not in the original pool for redundancy, volunteers to be made redundant and their job is offered to an employee at risk of redundancy. The Council has and will continue to support managers in facilitating potential bumped redundancies.

The Council's managing change policy, procedure and guidance also sets out how the Council will fulfil its obligations to consult the workforce about redundancies.

The Council is obliged to notify the Secretary of State where there is a proposal to dismiss as redundant 20 or more employees at one establishment within a 90 day period.

### **Monitoring arrangements**

Reports on the numbers of staff at risk, deployment of agency workers and potential redeployment opportunities will be regularly considered at Directorate and Corporate Joint Consultative meetings with the trade unions and at the Council's Employees Consultative Forum Sub-Group

## **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.

2.2 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.

2.3 The Council held a 4 week consultation to provide residents with the opportunity to comment on the draft budget proposals. The draft budget reported was available to view on the Council's website and the consultation was also advertised via the MyHarrow weekly email which is sent to 74,000 MyHarrow email accounts. The consultation closed on Friday 10 January 2020.

There were 111 respondents to the general survey. Over the three main questions, responses were largely equal between agree and disagree:

Question 1 - Given the extent of the savings required, overall do you agree with the Council's proposed draft budget? (47 agree, 60 disagree)

Question 2 - Given the Council's funding situation, do you agree with the Council's proposal to increase Council Tax by 1.99%? (52 agree, 56 disagree)

Question 3 - Given the Council's funding situation, do you agree with the Council's proposal to further increase in Council Tax by the 2% adult social care precept?(44 agree, 56 disagree)

2.4 Stakeholder consultation meetings have taken place, key stakeholders consulted on the budget are detailed below:

**Table 12: Stakeholder Consultation**

Stakeholder	Meeting	Date
Unions	Corporate Joint Committee	16/01/2020
Health Partners	Health and Wellbeing Board.	14/02/2020
Local Businesses	Harrow Business Consultative Panel.	28/02/2020
Overview & Scrutiny	Special meeting of O & S to review the budget.	23/01/2020
Unions/Employees	Employees Consultative Forum.	29/01/2020

2.5 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 will be taking place for the 2020/21 savings and may be subject to a separate cabinet report.

### **3.0 PERFORMANCE ISSUES**

3.1 The in-year measurement of the Council is reported in the Strategic Performance Report. The new Borough Plan will be presented to Cabinet and Council in February 2020. Performance against the plan will be reported quarterly to Cabinet through the Strategic Performance Report.

3.2 In terms of financial performance, Cabinet are updated quarterly 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 deliver the Council's approved MTFS – leading to a dereliction of duties resulting in government intervention and an inability to pay the Council's debts. At Quarter 3 2019/20 this risk is rated at C2 – medium likelihood and critical impact.

### **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 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 anything (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 For the budget savings that go towards the budget for 2020/21 many of the decisions have been made in previous years and links to the equality impact assessments can be found in appendix 1c. There is one new equality impact assessment which concludes a minor impact on families with young children.

It is intended to maintain the engagement networks and the majority of the activities established for this target group by the work of the posts to be deleted especially by the Youth and Families Engagement Officer now that they have been set up. Applications for external grant funding to support delivery of activities to this target group will also be made as appropriate. Regular family events and work with schools including a project loan collection will continue.

## **9.0 COUNCIL PRIORITIES**

- 9.1 The Council's draft budget for 2020//21 has been prepared in line with the Council's priorities:

- Building a Better Harrow
- Supporting Those Most in Need
- Protecting Vital Public Services
- Delivering a Strong Local Economy for All
- Modernising Harrow Council

### Section 3 - Statutory Officer Clearance

Name: Dawn Calvert	<input checked="" type="checkbox"/>	Chief Financial Officer
Date: 05.02.2020		
Name: Jessica Farmer	<input checked="" type="checkbox"/>	on behalf of the * Monitoring Officer
Date: 05.02.2020		

### Section 3 – Procurement Clearance

Name: Nimesh Mehta	<input checked="" type="checkbox"/>	Head of Procurement Officer
Date: 05.02.2020		

### Section 3 – Corporate Director Clearance

Name: Charlie Stewart	<input checked="" type="checkbox"/>	Corporate Director of Resources
Date: 05.02.2020		

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

**Section 4 - Contact Details and Background Papers**

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

**Background Papers:** Equalities Impact Assessment

<b>Call-In Waived by the Chair of Overview and Scrutiny Committee</b>	NO
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