

**Report for: Cabinet**

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| <b>Date of Meeting:</b>             | 11 February 2021  |
| <b>Subject:</b>                     | Final Revenue Budget 2021/22 and final Medium-Term Financial Strategy 2021/22 to 2023/24  |
| <b>Key Decision:</b>                | Yes   |
| <b>Responsible Officer:</b>         | Dawn Calvert – Director of Finance and Assurance (S151 Officer)   |
| <b>Portfolio Holder:</b>            | Councillor Adam Swersky – Portfolio Holder for Finance and Resources  |
| <b>Exempt:</b>                      | No  |
| <b>Decision subject to Call-in:</b> | No – decisions reserved to Council  |
| <b>Wards affected:</b>              | All   |
| <b>Enclosures:</b>                  | <p><b>Appendix 1A</b> – Growth/Reversed savings and savings from 2021/22 Process<br/><b>Appendix 1B</b> – Savings and Growth 2021/22 to 2022/23 from the 2020/21 Budget Process<br/><b>Appendix 2</b> - Medium Term Financial Strategy 2021/22 to 2023/24<br/><b>Appendix 3</b> – Revenue Budget Summary 2021/22<br/><b>Appendix 4</b> – Levies, contributions and subscriptions<br/><b>Appendix 5</b> – Policy on use of contingency<br/><b>Appendix 6</b> - Schools Budget 2021/22<br/><b>Appendix 7</b> - Public Health Budget 2021/22<br/><b>Appendix 8</b>- Reserves Policy<br/><b>Appendix 9</b> – Reserves Forecast<br/><b>Appendix 10</b>- Report of the Chief Finance Officer<br/><b>Appendix 11</b>- Model Council Tax Resolution</p> |

**Appendix 12-** Members Allowance Scheme 2021/22

**Appendix 13 –** Annual Pay Policy Statement for 2021/22

**Appendix 14-** Flexible Use of Capital Receipts

**Appendix 15-** Summary of EQIA for Saving Proposals 2021/22

## **Section 1 – Summary and Recommendations**

This report sets out the final revenue budget for 2021/22 and final Medium-Term Financial Strategy (MTFS) for 2021/22 to 2023/24. In December 2020, Cabinet approved the draft versions of the revenue budget and MTFS for general consultation.

### **Recommendations:**

Cabinet is requested to:

- 1) Recommend the 2021/22 budget to Council for approval, being mindful of the results of the various consultations and equality impact assessments, to enable the Council Tax for 2021/22 to be set (Appendix 2).
- 2) Recommend the Model Council Tax Resolution 2021/22 to Council for approval as set out in 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 2021/22, and the budget gaps of £24.651m and £5.098m for 2022/23 and 2023/24 respectively (Table 5).
- 6) Note the intention to increase Council Tax by 1.99% in 2021/22 (Paragraph 1.20).

- 7) Note the proposal to increase Council Tax by a further 3% in 2021/22 in respect of the Adult Social Care Precept (Paragraph 1.20).
- 8) Note the 2021/22 budgets for Schools and Public Health as set out in Appendices 6 & 7.
- 9) Note the assumed funding for the protection of social care 2021/22 through the BCF as set out in paragraphs 1.74 to 1.78.
- 10) Note the requirement to develop a fully costed budget and implementation plan, to the value of a minimum £10m, to bring to Cabinet on preparation to feed into the budget setting round for 2022/23 (Paragraph 1.83).
- 11) Recommend the 2021/22 Members Allowance Scheme to Council for approval (Appendix 12).
- 12) Recommend the 2021/22 Annual Pay Policy Statement to Council for approval (Appendix 13).
- 13) Recommend the Capital Receipts Flexibility Strategy to Council (Appendix 14).

**Reason: (For recommendations)**

To ensure that the Council sets a balanced budget for 2021/22.

## Section 2 – Report

### BACKGROUND

- 1.1 Prior to the Covid-19 pandemic, Local Government finances continued 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 With the Local Government sector being at the forefront of the response to both the public health and economic crises caused by Covid 19, it is hardly surprising that the pandemic has had a significant impact on local government finances which were already in a difficult position following a decade where resources have been reduced by over a quarter. Early in the pandemic London Councils published their report ‘Impact of Covid-19 on Local Government Finance.’ The report published the findings of the surveys issued by the Ministry of Housing, Communities and Local Government (MHCLG) to track the financial impact of the pandemic over the first three months of the year. The estimated financial impact across London Borough’s was £1.96b against Emergency Funding allocated at the time of £500m. Whilst it is appreciated that further financial support has been provided which is gratefully received, so too have increased, and continue to emerge, the associated costs of the pandemic on the sector and the wider local government economy including the impact on local business, jobs and employment, housing and the high street.
- 1.3 Harrow remains one of the lowest funded Councils both within London and nationally. Table 1 below summarises the key financial changes over the 9-year period up to 2021/22:

**Table 1: Summary of Key Financial Changes 2013/14 to 2021/22**

|              | 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          | 76                                       |
| 2021/22      | 1.6                   | 16.5              | -6.7             | -3.6         | -6.4                                | 14.9          | 78                                       |
| <b>Total</b> | <b>50.5</b>           | <b>77.4</b>       | <b>19.4</b>      | <b>-99.4</b> | <b>-48.6</b>                        | <b>-0.2</b>   |  |

1.4 Over the 9-year period, table shows:

- The Council's Revenue Support Grant (RSG), its main source of funding from central government, has reduced by 97% to just £1.6m, a reduction of £50.5m. To set this in context, the Council's net revenue budget requirement to support service delivery is £179m.
- Over and above the RSG, the Council receives no additional funding to meet demographic and inflationary pressures. Therefore, growth of £77.4m has had to be provided to fund the continued pressures on front line services, including adults and children's social care, homelessness and waste services. Technical growth of £19.4m has had to be provided to fund inflationary pressures (pay and non-pay) and the cost of capital investment for which the council receives no additional funding.
- These three factors have taken the total budget shortfall to find over the nine years to £147.3m to achieve a balanced budget.
- Savings and efficiencies of £99.4m 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. For the first time in 2020/21 the Council had to rely upon the use of reserves to balance its budget. Thankfully, through tight financial management, these reserves are now unlikely to be drawn down and can be retained to support the even larger pressures the Council faces in future years.
- Council Tax has been increased largely in line with referendum limits and full use has been made of the Adults Social Care precept. Again for 2021/22, the Council has little choice but to propose the maximum allowable increase in Council Tax of 4.99% which increases the transfer of responsibility onto the council taxpayer to 78%.

- 1.5 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 annual budget in light of continued demand pressures and funding certainties compounded by a historically low funding base. In February 2020 full Council approved the Medium-Term Financial Strategy (MTFS) 2020/21 to 2022/23. Despite achieving a balanced budget for 2020/21, there remained a budget gap of £22.592m over the final two years of the MTFS.
- 1.6 A budget gap of £22.592m is enough of a significant financial challenge from which to refresh the MTFS. Factor into this a disproportionate impact of Covid- 19 on the Borough and it leaves the Council in a grave financial position facing very difficult budget decisions. Between the period March 2020 and February 2021, a total of 18,594 lab-confirmed cases were recorded for the London Borough of Harrow. Harrow had an overall case rate of 7,365 per 100,000 population, higher than the London rate of 7,317 cases per 100,000. Since the beginning of the pandemic in 2020, there have been 522 deaths registered to Harrow residents, which mentioned Covid-19 on the death certificate. The cumulative rate of death in Harrow was 207.8 per 100,000, which is significantly higher than London (162 per 100,000) and England (171 per 100,000).
- 1.7 Covid-19 has been shown to disproportionately affect older people and people from BME communities. Both these groups are more likely to become ill from Covid-19, require admission to hospital and subsequent support, and both these groups are more highly represented in Harrow than many other London Boroughs. The high number of 57 residential and care homes in Harrow, and outbreaks within them have certainly contributed to the high number of cases of Covid-19 in Harrow.
- 1.8 The disproportionate impact felt by Harrow has not been matched by a proportionate share of funding. Analysis shows that, over the four tranches of Emergency Funding received, Harrow ranked in 108th position nationally (out of 339) and across London in 26<sup>th</sup> position (out of 33, which is 8<sup>th</sup> lowest).

## **SUMMARY**

- 1.9 The final budget set out in this report shows an updated MTFS with several changes which Cabinet are asked to note. The changes achieve a balanced budget position for 2021/22 and budgets gaps of £24.651m and £5.098m for 2022/23 and 2023/24 respectively. The final MTFS is based on the Indicative Local Government Settlement received on 17 December 2020. MP's will vote on the final Local Government finance settlement for 2021/22 on 10 February and the final settlement is likely to be published in the days beforehand. Section 30 of the Local Government Finance Act 1992 requires local authorities to set their council tax no later than 11 March 2021 therefore the final budget and MTFS will proceed to Cabinet and Council in February 2021. Whilst it is intended that Members will approve the MTFS in February 2021, it could still be subject to assumptions in relation to grant settlements, council tax income, legislation and demographics. The Council does hold a contingency for unforeseen items (£1.248m), including adverse equality impacts, which is intended to support

uncertainties and the Council will still be required to review the Council's budget on a yearly basis.

### **EXTERNAL FUNDING POSITION**

1.10 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 SR 20 have done little to address the relative position of Harrow's funding baseline.

1.11 The SR 20 confirmed broad public spending allocations for 2021/22. Until the summer the indication from government was still an intention to set a three-year revenue settlement after representations from the sector of the challenges managing temporary funding over the medium and longer term, for budget planning and sustainability purposes. After the cancellation of the Autumn Budget, confirmation was finally received that SR 20 would be a one-year settlement only. The key areas of the review are detailed below and included in the MTFS:

- The main Council Tax referendum limit is set 2% and the Adult Social Care Precept at 3%.
- £300m of extra grant funding for Social care. Harrow's share is confirmed at £326k and is assumed to be recurrent for budgeting purposes.
- £670m of additional grant funding to help local authorities support more than 4m households least able to afford Council Tax payments. Harrow's indicative allocation is £2.325m and the funding is assumed to be non-recurrent for budgeting purposes.
- A mandatory requirement to spread the impact of Collection Fund losses for 2020/21 over the following three years. Harrow's collection rates have remained at good levels and this mandatory requirement has a minimal impact on the MTFS.
- An extra £1.55n of grant funding to meet additional Covid-19 expenditure pressures. Harrow's allocation is £6.051m which is reflected in the draft budget on a one-off basis.
- The Income Compensation Scheme for Sales, Fees and Charges will be extended for three months until June 2021. The estimated compensation for Harrow is £500k which is reflected in the final budget on a one-off basis.
- The New Homes Bonus grant will continue for a further year into 2021/22 with reform of the scheme planned for implementation in the following year.
- Grant funding for Public Health, the Troubled Families Programme

and the Improved Better Care Fund will continue on a cash flat basis.

- The Business Rates multiplier will be frozen in 2021/22 which will reduce business rate bills.
- There is a delay to the planned move to 75% Business Rates Retention and the implementation of the Fair Funding Review and Government will not proceed with the reset of the business rate baselines in 2021/22. These are all likely to be considered for SR21.

### **DELIVERY OF THE 2020/21 BUDGET**

- 1.12 In these unprecedented times, delivery of the 2020/21 budget is critical to maintaining the Council's financial standing and to do everything possible to protect front line services and to manage the future impact on the MTFs. Due to the Covid-19 pandemic, the monitoring of financial performance is being separated between business as usual and Covid-19. This is to ensure the impact of the pandemic is fully understood on the current and future years and business as usual budget is robustly managed to ensure no unfunded pressures.
- 1.13 Harrow has a good track record of robust financial management and has not reported a revenue budget overspend for many years. The performance against the 2020/21 budget is detailed in a separate report on this agenda, 'P3 2020/21 Revenue & Capital Monitoring 2020/21 – as at Qtr 3 (31/12/20).' This report forecasts a net underspend of £1.864m made up of a forecast underspend against the business as usual budget of £1.985m off set against unfunded Covid-19 pressures of £121k. It should be noted that the Qtr 3 report was prepared before it was announced that the country would enter a third lockdown late December. The impact of this and current tier restrictions are being assessed, alongside additional central government funding announcements, and will be reflected in the final outturn report scheduled for Cabinet in June.
- 1.14 It is well reported that the Council does not have large reserve balances when benchmarked with other local authorities and during this decade of austerity has steered away from applying one off reserve to balance the budget. However, due to the continued challenging fiscal environment and additional unfunded adult social care pressures, the 2020/21 budget included £3.805m to be drawn down from the Budget Planning and Business Risk reserves on a one-off basis. The Quarter 3 forecast, through robust management and grip on the in-year budget, estimates no drawdown of the £3.805m from reserves. This means these reserves can remain on the balance sheet to support the considerable strain on the MTFs in future years.

### **BUDGET PROCESS 2021/22**

- 1.15 The Council has a statutory obligation to agree and publish the budget for 2021/22, and approval for this is being sought in February 2021. In preparing the 2021/22 budget and rolling forward the MTFs to cover the three-year period 2021/22 to 2023/24, the current MTFs (approved by Council in 2020) has been the starting point for the process.



- 1.16 The MTFS approved in February 2020 assumed a budget gap of £11.414m for 2021/22 and £11.178m for 2022/23. This was the starting point for the refreshed 3-year MTFS. It's important to note that this starting point assumed achieving existing directorate savings of £2.947m in 2021/22.
- 1.17 The Council's financial position has always been dynamic affected by several financial uncertainties and adjustments that impact upon its financial position over the short and medium term. The impact of Covid-19 upon both the Council's financial position and its internal capacity has made the sustainability of Council finances a key strategic issue. In preparing the draft budget for 2021/22 the existing MTFS has been:
- Refreshed and rolled on a year
  - Updated to reflect the estimated impact of Covid -19 (both expenditure and income) beyond the current year
  - Updated to reflect the estimated impact of SR 20 where the financial implications can be assessed for the Council with a reasonable degree of certainty, accepting that there is an element of risk until the final Financial Settlement is announced early February.
- 1.18 The draft budget was presented to Cabinet in December and the adjustments required to set the draft budget are summarised in Table 2 below followed by a narrative explanation. These adjustments are also set out in Appendix 2 along with adjustments included within the previous MTFS agreed as part of the 2020/21 Budget process:

| <b>Table 2: Changes to MTFs (Prior to Indicative Finance Settlement)</b>   |                |                |                |               |
|--|----------------|----------------|----------------|---------------|
|  | <b>2021/22</b> | <b>2022/23</b> | <b>2023/24</b> | <b>Total</b>  |
|  | <b>£'000</b>   | <b>£'000</b>   | <b>£'000</b>   | <b>£'000</b>  |
| <b>Published Budget Gap - February 2020</b>  | <b>11,414</b>  | <b>11,178</b>  | <b>0</b>       | <b>22,592</b> |
| Adjustments:   |                |                |                |               |
| <b>Council Tax</b>   |                |                |                |               |
| Increase in Council Tax @ 4.99% (1.99% core and 3% Adult Social Care precept)  | -6,213         |                |                |               |
| Increase in Council Tax @ 1.99% core   |                | -2,780         |                |               |
| Removal of increase in tax base previously estimated at 88,160   | 750            |                |                |               |
|  |                |                |                |               |
| <b>Summary of Budget changes - Appendix 1A</b>   |                |                |                |               |
| Resources - reversal of growth   | -176           | -177           |                |               |
| Community savings  | -250           |                |                |               |
| Reversal of Commercial Investment income   | 1,175          | 1,175          |                |               |
| Resources growth   | 134            |                |                |               |
| Adults Growth - £652k was allocated in 2019/20 in respect of 2021/22 but this is being reversed and replaced with £3.895m, therefore an addition of £3.243m in terms of impact this year. In addition to the £3.895m a figure of £2.344m was allocated last year, bringing the total growth included in the budget to £6.239m. | 3,243          | 1,047          |                |               |
| Adults growth to be retained centrally - this deduction will mean that £4.772m is allocated to adults which is the value of the 3% precept and expected grant allocation of £1.044m  | -1,467         |                |                |               |
| Adults growth - transfer of Capital Adaptations and careline equipment budgets to Revenue  | 465            |                |                |               |
| Children's Placements and SEN transport growth   | 2,004          | 1,205          |                |               |
| Community - growth required across the Directorate   | 2,920          | 300            | 300            |               |
| Community - covid Loss of income @ 25% of 20/21 income budget & phased back  | 5,000          | -2,218         | -1,799         |               |
| Corporate - reversal of SEN transformation savings   | 800            |                |                |               |
|  |                |                |                |               |
| <b>Technical Changes</b>   |                |                |                |               |
| New Homes Bonus - continuation of scheme previously assumed to reduce  | -782           | -728           |                |               |
| Freedom Passes - estimated reduction in usage  | -1,108         | -1,580         | 1,377          |               |
| Application of Capital Flexibilities in 2021/22  | -2,000         | 2,000          |                |               |
| Pay and Non Pay Inflation  |                |                | 4,750          |               |
| Additional Capital Financing required for new 3 Year Capital Programme   |                |                | 470            |               |
| Realignment of 2021/22 MRP budget to account for slippage  | -2,981         | 2,981          |                |               |
|  |                |                |                |               |
| <b>Spending Review - Estimated additional COVID Funding:</b>   |                |                |                |               |
| Additional Grant For Social Care (assumed to be permanent)- allocation to be confirmed in December settlement  | -1,044         |                |                |               |
| £1.55b grant to meet additional COVID expenditure (one off)  | -4,600         | 4,600          |                |               |
| Income compensation for sales, fees and charges - 3 month extension  | -500           | 500            |                |               |
| Adults growth to be retained Corporately.  | 1,467          |                |                |               |
| <b>Revised Budget Gap</b>  | <b>8,251</b>   | <b>17,503</b>  | <b>5,098</b>   |               |
| <b>Application of non GF reserves:</b>   |                |                |                |               |
| Adults Social Care Reserve   | -920           | 920            |                |               |
| Budget planning reserve not applied in 20/21   | -2,628         | 2,628          |                |               |
| Business Risk Reserve - not applied in 20/21 & balance   | -1,771         | 1,771          |                |               |
| Children's social care reserve - no applied in 20/21   | -932           | 932            |                |               |
| £2m 20/21 target underspend - to be added to reserves in 2021/22   | -2,000         | 2,000          |                |               |
| <b>Budget Gap December 2020</b>  | <b>0</b>       | <b>25,754</b>  | <b>5,098</b>   |               |

## Council Tax Adjustments

1.19 In 2021/22 the Council tax base will reduce to 87,387 from its 2020/21 base of 87,667. This is a reduction of 280 Band D equivalent properties which equates to a total loss of Council Tax income of £426k. Whilst the base is estimated to increase by 1,141 new properties this is offset by a loss of 1,421 properties due to growth in Council Tax Support as a result of the weakening economy largely due to the pandemic. Had it not been for the impact of the pandemic the increase in the tax base would have generated in the region of £1.78m additional council tax income. The current MTFs already assumed an increase in the Council Tax base of 313 band D equivalent properties generating £750k. This has been removed from the draft budget as this increase is not achievable considering the pandemic. The collection rate will remain at 98% for 2021/22. Collection rates have performed better than expected throughout the pandemic and Harrow has provision for outstanding arrears up to the 31/03/20 of almost 100%.

1.20 A maximum Council Tax increase of 4.99% is budgeted for 2021/22 generating Council tax income of £6.213m. There has been an indication that the precept can be applied over 2 years. However, as the 2021/22 settlement is for one year only and there is no information on precepts for 2022/23 alongside significant pressures on the MTFs driven by adult social care growth, the full 3% precept is included in the 2021/22 draft budget. An increase in core Council Tax of 1.99% is included in the draft MTFs for 2022/23.

## Technical Adjustments

1.21 **New Homes Bonus Grant (NHB).** In 2020/21 the NHB is £3.716m. As part of the 2020/21 budget setting process, reductions in the NHB were built into the budget on the assumption that the grant would be reduced, and no new payments would be made for 2021/22. SR 20 announced that NHB funding would continue for a further year but without legacy payments. At this stage it is still unclear what this means and what the grant allocation will be for 2021/22, but the previous reductions of £782k in 2021/22 and £728k in 2022/23 have been reversed for the draft MTFs.

1.22 **Freedom Passes.** The Freedom Pass Scheme (FPS) provides free travel for older and disabled London residents on all Transport for London (TFL) travel modes and on most National Rails routes (with restrictions). The methodology used for settlement of the FPS with TFL uses journey data for the previous 2 years. Covid-19 has significantly reduced the use of public transport, including among concessionary fare passengers and London Councils have provided 3-year cost estimates for each London Borough. Harrow's concessionary fares budget is £9.883m. Savings of £1.108m and £1.580m are estimated for 2021/22 and 2022/23 with journey numbers estimated to pick up in 2023/24 requiring the baseline budget to be increased by £1.377m. These adjustments are reflected in the MTFs.

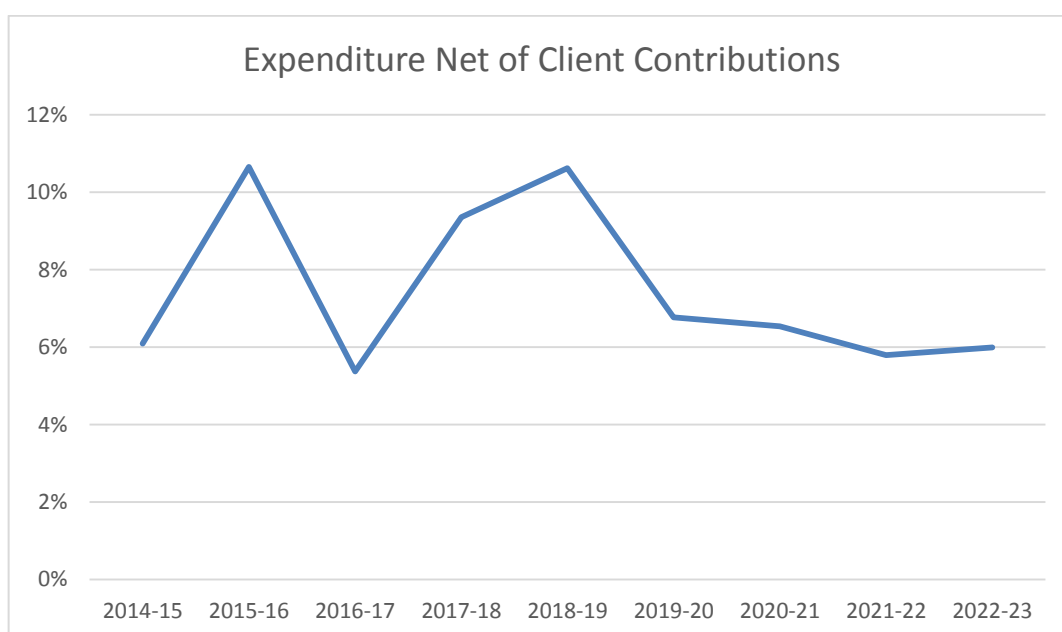
- 1.23 **Allocation of Capital Flexibilities.** The current capital flexibility arrangements are in place until 2021/22 and any announcements around their extension are anticipated in the Indicative Financial Settlement. £2m of capital flexibilities will be applied in 2021/22 to fund the qualifying revenue costs of reform projects which must be reversed out of the budget in the following year.
- 1.24 **Pay and Non-Pay Inflation.** The current MTFFS assumes £3.1m in 2021/22 to fund pay and non-pay inflation and £4.750m in 2022/23 to fund all inflationary costs and budget pressures. A provision of £4.750m is now included in the MTFFS for 2023/24. The SR 20 announced a public sector pay freeze. As local government pay is subject to separate negotiations, any savings as a result of an agreement to freeze pay for local government has not been assumed in the MTFFS. If a pay freeze is subsequently negotiated, the budget saving will be transferred to reserves to support the MTFFS.
- 1.25 **Additional Capital Financing required for the new 3 Year Capital Programme.** The draft 3 Year Capital Programme is subject to a separate report in the agenda. The draft document requires additional capital financing costs of £470k in 2023/24. The government has published its response to the Treasury's consultation on Public Works Loans Board (PWLB) lending terms and will end use of the PWLB for investment property bought primarily for yield. As previously explained the Council has already decided not to pursue its programme of commercial investment and the financial implications have been removed from both the budget and capital programme. The government also announced it will cut PWLB lending rates to gilts + 100 bps for Standard Rate and gilts + 80 bps for Certainty Rate. The impact of this reduction is being worked through in terms of the impact on the capital financing budget and any reductions will be built into the final budget.
- 1.26 **Realignment of the 20/21 Minimum Revenue Provision (MRP) Budget to account for slippage.** Due to the slippage of the in-year Capital Programme, the timing of required MRP's has been reviewed resulting in a realignment of provisions required. This generates a one-off budget benefit of £2.981m in 2021/22.
- 1.27 **Reversal of Commercial Investment 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. One property has been bought from the £100m which is generating a net return of £150k which was built into the 2020/21 budget. The net return from the balance of £94m was reflected in the MTFFS equally over 2021/22 and 2022/23. The decision has been made to not continue with the strategy of commercial investment due to the challenges of securing properties which meet the investment criteria and the decision of the government to stop the use of Public Loans Works Board for investment in property bought primarily for yield. The remaining net return within the MTFFS of £2.350m has now been removed.

### 1.28 Adult Social Care Growth

At the point of setting the 2020/21 budget in February 2020, the final budget report identified adults social care growth pressures of £6.439m and £7.063m for 2021/22 and 2022/23 respectively. The report also explained that because future funding to support the growth pressures was very uncertain and could not be built into the MTFs with any degree of certainty, it was reasonable that the estimated pressures were identified but also not included in the MTFs. The work within the Adults Service to further understand growth projections has continued throughout the year and now must be reflected in the MTFs alongside SR 20 funding announcements on social care grant and precept.

1.29 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. Even before Covid-19, London's adult social care sector faced a funding shortfall of £130 million this year. While SR 20 has provided a short-term boost (an additional £300m nationally which translates to an additional estimated £1.044m for Harrow in 2021/22), boroughs will continue to call for a long-term, sustainable solution to the challenge of funding adult social care services.

1.30 As part of the modelling work to understand the future demands on Adults Social care, evidence-based analysis does show that costs pressures are volatile, as detailed below. The forecast for 2021/22 and 2022/23 assumes the growth detailed in the table below:



1.31 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 continues to estimate future cost pressures. The draft MTFs includes estimated adult social care growth pressures as detailed in table 3 below:

**Table 3: Estimated Adult Social Care Growth 2021 to 2024**

|        |         |         |         |
|--------|---------|---------|---------|
| Growth | 2021/22 | 2022/23 | 2023/24 |
|--------|---------|---------|---------|

|                          | £'000        | £'000        | £'000    |
|--------------------------|--------------|--------------|----------|
| Complexity               | 1,305        | 1,644        | 0        |
| Demand                   | 2,491        | 912          | 0        |
| Commissioning activity   | (300)        | 0            | 0        |
| Care provider inflation  | 1,046        | 1,135        | 0        |
| Mitigations not achieved | 1,034        | 0            | 0        |
| ASC reserve (one-off)    | 663          | 0            | 0        |
| <b>MTFS Impact</b>       | <b>6,239</b> | <b>3,691</b> | <b>0</b> |

The following narrative supports the numbers in the table above:

- 1.32 **Complexity** includes the increased cost of existing packages or care as clients remain within the system. A 5% year on year increase in the current average weekly cost of £334 per week has been assumed.
- 1.33 **Demand** assumes accepting liability for 30 Covid-19 nursing placements from health following care act assessment from April 2021, together with net new demand during each financial year (approx. 4,420 weeks of care 21/22 and 3,490 22/23 assuming an average community package of £261 per week).
- 1.34 **Commissioning activity** is to support the review of elements of care aiming to increase quality and keep pace with the external market.
- 1.35 **Care provider inflation** is assumed at 1.5% of the Adults budget. The National Living Wage will increase in April 2021 by 2.2% from £8.72 to £8.91. As a result, containing increases in the cost of care will need to be targeted to ensure that increases are agreed within the available financial envelope.
- 1.36 **Mitigations did not achieve** the 2020/21 Adults budget assumed mitigations of £1.584m to achieve a balanced position within the approved growth allocation. At the time of setting the budget £0.9m of mitigations had been identified. The impact of Covid-19 has reduced the achievement of the savings identified (a lower level of learning disability commissioning savings and the delayed implementation of the changes in the Adults charging policy) to £550k and it has not been possible at this stage to identify further reductions to mitigate the original unidentified savings.
- 1.37 The estimated growth projections, and the assumptions upon which they were based, are dynamic and continue to be worked upon and refined, especially in light of the service approaching one of its most challenging times of the year, winter pressures coupled with the second wave of Covid-19.
- 1.38 The underlying budget, assumes the following for 2021/22:
- 29,172 weeks of bedded care (residential and nursing), the equivalent of 561 citizens for a full year, with an average gross cost of £980 per week.
  - 7,072 weeks of care in supported accommodation, the equivalent of 136 citizens for a full year, with an average gross cost of £1,097 per

week.

- 100,152 weeks of care for community services (domiciliary care, cash personal budgets and external day care), the equivalent of 1,926 citizens for a full year, with an average gross cost of £261 per week.

1.39 Without a national solution for the longer term sustainable financing of Adult Social Care, and given the challenging financial picture of the wider Council position, the directorate will need to continue to work to reduce the costs of service provision to mitigate future growth requirements, including in 2023/24 where there is no specific growth included in the MTFs. The key areas for review are detailed below:

- 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) (this is challenging in a Covid environment given the inability of social workers to make home / face to face contact visits).
- Market shaping to ensure the most efficient use of available resources, and potentially targeting a 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.

1.40 **Adults growth - transfer of capital Adaptations and careline equipment budgets to Revenue.** There has been a capital budget of £230k allocated annually for equipment needed to adapt homes for adults requiring help to remain at home and a separate allocation of £235k to fund careline equipment. This was previously funded as part of the allocation of grant funding for Disabled Facility Grants (DFG). As the requirement for DFG funded adaptations has increased, it has been decided to allocate the full grant to those more substantial adaptations made in homes and move the smaller equipment budgets to revenue. There is a one-off impact of growth this year of £465k in moving these budgets to revenue, but there will be a longer-term benefit of no requirement to borrow in order to fund these smaller equipment-based adaptations.

#### 1.41 **Children's Placements & Accommodation**

There are significant pressures on Children's Placements & Accommodation in 2020/21 which are estimated to continue into future financial years. There has been a net increase in the number of Looked After Children rising from 169 in March 2020 to 206 in October 2020. There are a number of factors contributing to this including, but not limited to, Covid-19 which has led to delays in court proceedings, reductions in face to face family work to prevent or delay young people coming into care where it

is safe to do so and increased statutory intervention due to family mental health leading to more children coming into care. In addition, children are presenting with more complex and challenging needs leading to higher cost residential placements. There is also a net increase in the number of children subject to Child Protection plans rising from 279 in March 2020 to 340 in October 2020. This has meant that the savings of £820k over the period 2020/2022 have not been achieved and further growth is required to fund the underlying demand over the next two years as one off funding currently being used to mitigate some of these pressures in 2020/21 is exhausted. Growth of £1.227m and £1,205m is provided in the draft budget for 2021/22 and 2022/23 respectively.

#### 1.42 **SEN Transport**

There is estimated to be significant pressures on SEN Transport in 2020/21 brought about by a net increase in the number of children requiring home to school transport and complexity of children's needs. In addition to this the re-procurement of the inhouse vehicle contract has led to increased prices and a different mix of vehicle types as well as the current managed service contract which provides drivers and escorts is also being re-procured and is anticipated to lead to higher costs. A system-wide review of special needs transport began in 2019 which started with a review of back office functions and the flow of information between families and council departments. The second phase would review the mix of provision between inhouse vehicles and commissioned taxis to demonstrate cost effectiveness. It was anticipated that these reviews would lead to savings. However due to Covid the second part of this review had to be postponed and is unlikely to begin again until 2021. Therefore, achievement of any possible savings will be delayed and until actions and savings can be quantified with sufficient robustness, growth of £777k is included in the draft budget for 2021/22 as a result of the inherent pressure carried forward from 2020/21. This growth will remain under review as the second phase of the review progresses, with a view to removing the growth as efficiencies are identified. In the meantime, it is anticipated that approximately 30 additional children per year will require home to school transport.

#### 1.43 **Community – growth required across the Directorate**

A total growth of £2.920m is required in 2021/22 to mitigate against the baseline budget pressures (£1.855m) and unachieved MTFs targets (£1.065m) across Community Directorate as set out below:

#### 1.44 **Waste Services (£1.475m)**

- There is a significant pressure on waste disposal budgets. Residual waste tonnage has increased significantly since the start of the health pandemic due to working from home arrangements thereby more waste is produced by households. Based on the forecast waste tonnage for 2021/22, the budget pressure on West London Waste Levy (WLWL) is estimated at £0.75m in 2021/22, increasing by £300k each year in 2022/23 and 2023/24 to account for household growth and price inflations. The re-procurement of dry mixed recycling (DMR) waste disposal contract has been completed. Due to the continuous unfavourable market prices for mixed dry recyclables, the level of revenue rebate achieved from



the sales of these has been low and is expected to remain so. The processing cost of the DMR waste has also increased in the new contract. The combined effect of these is that the cost of DMR waste disposal is estimated to be £0.6m more than budget.

- Following a review of the capital programme, the funding source for the purchase of domestic bins is switched from capital to revenue and therefore a revenue budget of £125k is required from 2021/22 in Waste Management.

#### **1.45 Facilities Management (£380k)**

- Building maintenance and responsive repairs for all corporate sites is forecast to overspend by £300k in 2020/21 against the base budget of £0.77m. A budget review in this area was undertaken and identified that the cost of Planned Preventative Maintenance (PPM) works across the corporate property portfolio was in excess of £420k. This does not include the cost of any remedial works following PPM or any cost of responsive repairs. Due to the age and the lack of investment of some of the buildings, the current budget is not sufficient to cover all building repairs and therefore a growth of £300k is included in 2021/22 budget.
- There is a reduction in the uptake of SLA services by schools, in the area of Facilities Management. This has created an income pressure of £80k for the service.

#### **1.46 Unachieved MTFS (£1.065m)**

- A MTFS target of £1.234m was originally set for the depot redevelopment project to reflect the financing cost of the capital borrowing. The target profiled to 2019/20 and 2020/21 were £246k and £681k respectively. Some of the overall target has been achieved from additional rent income across the corporate property portfolio, leaving a net target of £0.861m which remains unachievable in 2020/21 and will not be achieved from the new depot following a review of commercial opportunities earlier of the year.
- The existing MTFS has set a net target of £172k to be achieved from Vernon Lodge site through a combination of B&B saving and additional rent income in 2021/22. This is no longer achievable as the original Vernon Lodge redevelopment project did not go-ahead following planning issues and environmental health concerns.
- A procurement saving target of £200k was included in the MTFS in 2019/20. Despite some savings have been achieved from various Contract re-procurements, a net target of £32k remains unachievable.

#### **1.47 Community – Covid-19 loss of income @25% of 20/21 income budget and phased back in.**

Community Directorate provides a wide range of discretionary chargeable services. The COVID-19 health crisis and the social distancing restrictions imposed by Government have had a significant financial impact on Community Directorate as this adversely affects its ability to generate income which the directorate relies heavily on to deliver its budgets. A slow economic recovery is anticipated after lockdown measures are eased. This is likely to result in an adverse impact on 2021/22 income. A regular review of the income trend throughout 2020/21 forms the basis of estimating the likely budget impact over the MTFS period. Key areas of pressures are identified in Parking Services and Cultural Services and Leisure, with estimated income losses of £2.4m and £1.6m respectively in 2021/22. In addition, a pressure of £1m is identified from other transactional activities across various service areas. Therefore, the total income losses are estimated at £5m in 2021/22.

At this stage it is assumed that the income will gradually get back to the pre-Covid level over the MTFS period. The £5m growth will therefore be reversed in 2022/23 and 2023/24 respectively, except for some income which is expected to be lost permanently due to the redevelopment of the Civic Centre site. This includes income from the car park, staff restaurant, filming, cookery school and training academy. In addition, the current leisure contract will expire in 2023. The impact of the health pandemic in the leisure sector is likely to result in some longer term loss of income regardless of the future service delivery model, and therefore the MTFS assumes 50% reversal of the growth in this area, subject to further review in the next round of the MTFS.

1.48 **Spending Review - Estimated additional Covid-19 Funding.** The SR 20 announcements on additional Emergency Funding and Income Compensation for 2021/22 have been estimated at £4.6m and £500k respectively for Harrow and included in the draft budget for 2021/22 only.

1.49 **Application of non-General Fund Reserves**

After all known adjustments, the draft MTFS shows a revised budget gap of £30.852m of which £8.251m relates to 2021/22. In October 2020 a report was brought to Cabinet with an early indication of a draft MTFS for 2021/22 to 2023/24 which also showed a significant budget gap. This report explained the choices the Council was faced with in light of the indicative budget gap:

- 1) The Council could embark on a drastic programme of cuts to address the budget gap. At the time of it was considered unwise to consider any programme to reduce Council until there is clarity on the Councils funding settlement.
- 2) The Council has limited reserves that can be applied to the budget gap, mindful that the reserves are one off in nature and will only provide a temporary solution.

1.50 At the time of writing this draft budget report, it is accepted that the Council is still waiting for the Indicative Financial Settlement due to be received mid to late December. However, all efforts have been made to include all quantifiable SR 20 announcements within the MTFS and it is

considered unlikely the indicative settlement will materially change the estimated budget gap. It is also accepted that the draft MTFs for future years is an estimate. The estimate includes known growth and demand pressures but includes no potential funding implications from SR 21, additional support for social care (either grant or precept), support for the impacts of Covid-19. Therefore, it's not unrealistic that the indicative future budget gaps have the potential to reduce but the budget shortfall for 2022/23 is estimated £25.754m which exceeds the balance of the Councils remaining non-earmarked and General Fund reserves (£15.2m). Whilst the Council will continue its lobbying for a fairer funding settlement which meets the needs of the borough, the Council must have a strategy in place to tackle its financial challenges and for this reason the Council must develop a fully costed budget and implementation plan, ready to bring to Cabinet in the summer / autumn ready to feed into the budget setting round for 2022/23. Further detail will be presented on this in the final budget report to Council in February.

- 1.51 For the purposes of the 2021/22 budget, at draft budget stage the estimated budget gap of £8.251m will be funded through a mixture of reserves and a further tightening of expenditure in the current financial year to create a £2m reserve to support 2021/22. The reserves being applied are those reserves which were planned to be drawn down in 2020/21 but robust management of the in-year budget no longer requires this:

|                                |                |
|--------------------------------|----------------|
| Budget Planning Reserve        | £2.628m        |
| Budget Risk Reserve            | £1.771m        |
| Adults Social Care Reserve     | £0.920m        |
| Children's Social Care Reserve | £0.932m        |
| 2020/21 Savings Target         | <u>£2m</u>     |
| <b>Total</b>                   | <b>£8.251m</b> |

If the indicative settlement does deliver any additional financial benefit to budget, the draw down in reserves will be reduced.

**Adjustments required following the Indicative Local Government Settlement announcement.**

- 1.52 The indicative settlement was announced on 17 December, the final settlement being published early February before MP's vote on 10 February. The announcements, along with other changes, have resulted in several adjustments to the draft MTFs which are summarised in table 3 and supported by explanatory text which follows the table:

**Table 3: Adjustments to the MTFs 2021/22 to 2023/24 (After the Indicative Local Government Settlement of 17/12/20)**

|   | 2021/22       | 2022/23       | 2023/24      |
|---|---------------|---------------|--------------|
|   | £'000         | £'000         | £'000        |
| <b>Budget gap as per the December 2020 Draft Budget (prior to application of reserves)</b>  | <b>8,251</b>  | <b>17,503</b> | <b>5,098</b> |
| Adjustments:  |               |               |              |
| <b>Council Tax and Business Rates</b>   |               |               |              |
| Collection Fund surplus   | -180          | 180           | 0            |
| Business Rates Retention- increased from £14.942m to £15.346m. This increase will be offset by a reduction in Section 31 grant to the same value. | -404          |               |              |
| Reduction in Section 31 grant as above  | 404           |               |              |
|   |               |               |              |
| <b>Summary of Budget changes - Appendix 1A</b>  |               |               |              |
| Investment in Equalities, Diversity and Inclusion   | 100           |               |              |
| Adjustment to Adults Growth - a sum of £1.921m growth requirement being held as an ear marked reserve rather than budget growth.                  | -1,921        |               |              |
|   |               |               |              |
| <b>Technical Changes</b>  |               |               |              |
| Additional Grant For Social Care - the draft budget assumed £1.044m however the settlement announced £326k hence a reduction of £718k.            | 718           |               |              |
| £1.55b grant to meet additional COVID expenditure - the settlement announced £6.051m, an increase of £1.451m from the draft budget.               | -1,451        | 1,451         |              |
| Additional multiplier grant   | -477          | 477           |              |
| Additional lower tier grant   | -399          | 399           |              |
| Additional New Homes Bonus  | -9            | 9             |              |
| Additional Council Tax Support Grant  | -1,780        | 1,780         |              |
|   |               |               |              |
| <b>Planned £2m underspend in 2020/21 to support 2021/22</b>   | <b>-2,000</b> | <b>2,000</b>  |              |
|   |               |               |              |
| <b>Use of non ear marked reserves</b>   | <b>-852</b>   | <b>852</b>    |              |
| <b>Budget Gap February 2021</b>   | <b>0</b>      | <b>24,651</b> | <b>5,098</b> |

- 1.53 **Collection Fund and Business Rates Retention-** due to sustained collection rates in 2020/21, a small surplus on the Collection Fund can be brought into the final budget for 2021/22 only. The value of retained business rates will increase by £404k but will be matched by an equal reduction in Section 31 grant hence a neutral impact on the MTFS.
- 1.54 **Investment in Equalities, Diversity and Inclusion** - Harrow prides itself in being one of the most ethnically and religiously diverse Boroughs in the country with people of many different backgrounds and life experiences living side by side. However, the Council recognises that more can be done to enhance the lived experience of all staff, service users and communities and to provide better outcomes for them. It is evident that a robust strategic approach is required to tackle inequality, one that although covers all protected characteristics, has a principle focus on race and ethnicity in the first instance. The council has developed a three-strand approach to address Equalities, Diversity and

Inclusion (EDI). This cover; addressing inequality in life outcomes; reviewing services delivered, and the Council's role as an employer. To deliver this approach successfully, further resources are required and £100k of investment is being provided for to create a specialist EDI function that will develop a new strategic approach towards equalities, diversity and inclusion. Additionally, a further £250k is being set aside as an ear marked reserve for supplementary activity to take forward this agenda.

- 1.55 **Adjustments to Adults growth investment / Additional grant for social care**– At the draft budget stage, the growth requirement for adult social care in 2020/21 was £6.239m and this was to be funded by growth already in the MTFS (£2.996m), additional direct growth into the Adults Division of £1.776m (capped at the quantum raised by the 3% precept and additional direct grant) with the balance to reach the requirement (£1.467m) being provided within the budget but retained corporately. In the final budget the growth requirement of £6.239m remains the same and additional growth into the Adults Division will remain capped at the quantum raised by the precept and additional direct grant. The key difference is that the balance to reach the growth requirement will be set aside as an ear marked reserve rather than being provided for as permanent growth. This is to reflect the challenges of reaching a balanced budget position without an over reliance on one off reserve and for further work to be undertaken on the growth requirement considering any changes brought about because of the pandemic. Therefore, in the final budget the £6.239m growth requirement is funded as follows:

|                             |                |
|-----------------------------|----------------|
| Funding already in the MTFS | £2.996m        |
| Additional direct growth    | £1.322m (1)    |
| Ear marked reserve          | <u>£1.921m</u> |
|                             | £6.239m        |

- (1) The additional direct growth has reduced from £1.776m to £1.322m as a result of a precept increase of £264k and the additional social care direct grant reducing from £1.044m at draft budget to £326k.

Along with all services, the adult's budget will be robustly monitored in 2021/22, including the growth requirement, to ensure the adjusted funding methodology is sufficient for 2021/22 and future years.

- 1.56 **Additional Covid 19 expenditure grant / Multiplier grant / lower tier grant and New Homes Bonus** – The lower tier grant was newly announced at settlement with the other three grants all increasing in value in the financial settlement. The challenge is, except for the New Homes Bonus, the grant income is non recurrent in nature and must be reversed out of the MTFS in 2022/23.
- 1.57 **Additional Council Tax Support Grant**- This is a new grant to help local authorities support households least able to afford Council Tax. The Council has been given an indicative allocation of £2.325m with the final value subject to confirmation. The draft budget explained that

£1.78m has been reduced from the council tax base (loss of 1,421 properties) due to the growth in Council Tax Support as a result of the weakening economy and the pandemic. Therefore £1.78m of the grant is being applied to the 2021/22 budget to compensate for the CTS related loss in the base. £370k will be set aside to award everyone receiving CTS as at 1/4/2021 a one off council tax hardship award which will negate the inflationary increase of 4.99%. It will not however cover the GLA element within any overall yearly increases. Based on the average band D band, CTS recipients will therefore be awarded between £35 and £60 (depending on their Council Tax band and the percentage of CTS entitlement). Additionally, an extra £50k has been set aside to also ensure the same inflationary award is granted to any further new claimants of CTS throughout 2021/22 as and when they are assessed as eligible. The balance of £125k will be set aside for further hardship support during the year.

- 1.58 **Planned £2m underspend in 2020/21 to support 2021/22** – The report ‘P3 2020/21 Revenue and Capital Monitoring 2020/21’, elsewhere on this agenda, shows a forecast underspend against the business as usual budget of £1.985m which supports the target £2m being achieved.
- 1.59 **Use of none ear marked reserves-** The draft budget assumed using £6.251m of reserves to achieve a balanced budget, at final budget this has reduced significantly to £852k releasing £5.399m of reserve to support the MTFS.
- 1.60 The draft budget included a reduction in the cost of **Freedom Passes** of £1.108m, the reduction has been confirmed at £1.292m, an improvement of £184k. The final budget has not been adjusted on account of several other levies payable by the Council have yet to be confirmed for 2021/22 and the benefit of £184k will be held to offset any adverse variances in the outstanding levies.

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

- 1.61 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 2021/22 and 2022/23 have been reviewed to ensure that they can either be taken forward or removed as part of this draft budget.
- 1.62 Table 4 summarises the total savings and growth put forward as part of the budget process last year in respect of financial years 2021/22 and 2022/23. Table 4 shows total savings of £8.410m between 2021/22 and 2022/23 and growth of £2.067m, so net savings of £6.343m across 2 years. The net saving for 2021/22 is £4.799m. The detail is set out in Appendix 1B.

**Table 4: Savings and Growth from the 2020/21 Budget Process**

|                                 | 2021-22        | 2022-23        | Total          |
|---------------------------------|----------------|----------------|----------------|
|                                 | £000           | £000           | £000           |
| <b>Savings Summary</b>          |                |                |                |
| Resources                       | (1,934)        | -              | (1,934)        |
| Children                        | (410)          | -              | (410)          |
| Community                       | (1,125)        | -              | (1,125)        |
| Corporate                       | (2,719)        | (2,222)        | (4,941)        |
| <b>Total Savings</b>            | <b>(6,188)</b> | <b>(2,222)</b> | <b>(8,410)</b> |
| <b>Growth Summary</b>           |                |                |                |
| Resources                       | 493            | 678            | 1,171          |
| Adults                          | 652            | -              | 652            |
| Children                        | -              | -              | -              |
| Community                       | -              | -              | -              |
| Corporate                       | 244            | -              | 244            |
| <b>Total Growth</b>             | <b>1,389</b>   | <b>678</b>     | <b>2,067</b>   |
| <b>Total Savings and Growth</b> | <b>(4,799)</b> | <b>(1,544)</b> | <b>(6,343)</b> |

1.63 Table 5 sets out the total changes in terms of Growth/reversed savings and growth and savings proposed as part of the 2021/22 budget process. Table 5 shows a net growth as a result of reversed savings/growth and new growth of £13.327m over the three-year period 2021/22 to 2023/24. The impact in 2021/22 is net growth of £13.494m. The detail is set out at Appendix 1A.

The net impact on the 2021/22 budget from the £4.799m net saving in Table 4 and the £13.494m of net growth in Table 5, is net growth on the budget of £8.695m.

| <b>Table 5: Growth/Reversed savings and savings from 2021/22 Process</b> |               |              |                |               |
|--|---------------|--------------|----------------|---------------|
|  | 2021-22       | 2022-23      | 2023-24        | Total         |
|  | £000          | £000         | £000           | £000          |
| <b>Reversal of prior year savings/ growth and new savings</b>            |               |              |                |               |
| Resources  | (176)         | (177)        | -              | (353)         |
| Children   |               |              |                | -             |
| Community  | (250)         | (300)        | (600)          | (1,150)       |
| Corporate  | 1,175         | 1,475        | 600            | 3,250         |
| <b>Total</b>   | <b>749</b>    | <b>998</b>   | <b>-</b>       | <b>1,747</b>  |
| <b>Growth and reversal of prior year savings</b>                         |               |              |                |               |
| Resources  | 234           | -            | -              | 234           |
| Adults   | 1,787         | 1,047        | -              | 2,834         |
| Children   | 2,004         | 1,205        | -              | 3,209         |
| Community  | 8,838         | (1,918)      | (1,499)        | 5,421         |
| Corporate  | (118)         | -            | -              | (118)         |
| <b>Total</b>   | <b>12,745</b> | <b>334</b>   | <b>(1,499)</b> | <b>11,580</b> |
| <b>Net Impact of Reversals/Growth and Savings</b>                        | <b>13,494</b> | <b>1,332</b> | <b>(1,499)</b> | <b>13,327</b> |

## **INVESTMENT**

1.64 In the 2020/21, £965k was invested into front line services, funded by an earmarked amount in the Business Risk Reserve. A balance of £1m is within the reserve to cover investments in 2021/22 and 2022/23 and those being funded in 2021/22 are detailed:

investments will continue into 2021/22:

- Street Sweeping (2 weekly sweeping within the borough) (£184k)
- School Improvement (£90k)
- Enforcement (£100k)
- Ward Priorities (£21k)
- Community Cohesion (£70k)

## **CAPITAL RECEIPTS FLEXIBILITY**

1.65 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.

1.66 The Council signified its intent to make use of this flexibility in its final budget report to Cabinet and Council in February 2016. The final budget for 2021/22 includes capital flexibilities of £2m.

## **SCHOOLS BUDGET – Dedicated Schools Grant (DSG) 2021/22**

1.67 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 based on 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.

1.68 There are no proposed changes to the **structure** of the formula for 2021/22 however, there are several changes which impact on school budgets.

1.69 The LA undertook a consultation with all schools, academies and free schools in Harrow to seek views on aspects of school funding for 2021/22 in the autumn term.

1.70 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**

1.71 In 2020/21 the total public health grant to local authorities totalled £3.279bn, with £11.150m being allocated to Harrow. The grant is ringfenced for use on public health functions exclusively for all ages of the population and must be spent in accordance with grant conditions on expenditure incurred by local authorities for the purposes of their public health functions, as specified in Section 73B(2) of the National Health



Service Act 2006.

- 1.72 The Public Health commissioning intentions detailed in Appendix 7 are based on the current (2020/21) grant allocation as Public Health England have yet to announce national funding for 2021/22. These commissioning intentions reflect alignment with the Health & Wellbeing Strategy, Borough Plan and evidence of population priorities. At this stage there is no assumption of additional duties arising from the pandemic being placed on local authorities on an ongoing basis, and as a result 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 need's assessment.
- 1.73 In the event that additional duties are required by Councils, and if these were unfunded, the commissioning intentions would need to be reviewed considering the allocated grant envelope.

#### **BETTER CARE FUND (BCF)**

- 1.74 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 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.
- 1.75 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.
- 1.76 The Better Care Fund Policy statement announced at the beginning of December advised that the CCG contribution will again increase by 5.3% in line with the NHS Long Term Plan settlement. Whilst the Policy Framework and Planning Requirements which provide the detailed guidance is expected to be published in early 2021 (usually March), the requirements around integration and collaborative working are expected to continue.
- 1.77 The 2021/22 Adults budget assumes that funding for the Protection of Social Care through the BCF will remain at the agreed 2020/21 level of £6.436m, although this should be expected to increase by up to 5.3% in light of the NHS increase committed within the spending review.
- 1.78 The 2021/22 BCF plan will be signed off by the Health & Wellbeing Board ahead of submission to, and assurance by, NHS England.

#### **RESERVES AND CONTINGENCIES**

1.79 Reserves and contingencies need to be considered in the context of their role 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. At the time of writing this report, the Council has £42.802m of reserves (detailed in Appendix 9 – Reserves Forecast):

**Ear marked reserve of £23.352m** – ear marked to specific items of expenditure, for example Community Infrastructure Levy, PFI and Public Health. Within this figure there is £1.969m which relates to Adult Social Services (£1.753m in the Carry Forward Reserve and £216k in the Revenue Grant Reserve) which will now form the ear marked Adult Social Care growth reserve.

**Non ear marked reserve of £9.450m** – covers those reserves which are currently titled Business Risk, Budget Planning, Children's Social Care, Capacity and Transformation, MTFs Implementation and Commercialisation. In the 2020/21 outturn report these reserves will be transferred into one single Budget Risk Reserve with 2 sums moved into ear marked reserves to cover:

- Equality, Diversity and Inclusion £250k
- London Living Wage £250k

#### **General Fund Reserve of £10m**

1.80 The Councils holds a recurrent contingency for unforeseen items in its revenue budget of £1.248m.

1.81 The Director of Finance and Assurance will report on the adequacy of the Council's reserves as required in the budget setting report in February 2021.

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

1.82 Appendix 4 sets out the main levies, contributions to other bodies, and subscriptions that the Council will pay in 2021/22. These sums are set by other bodies and are outside the Council's control. With the exception of the subscriptions to London Councils.

#### **BUDGET PROCESS 2022/23 and 2023/24**

1.83 There is a good track record of containing revenue expenditure within annual budget. Since 2017/18 underspends have been declared at outturn allowing very low reserve balances to be added to and the current financial year is forecasting a budget underspend on business as usual to support 2021/22. This report does recommend a balanced budget for 2021/22 but a significant budget gap of £29.7m remains over the last two years of the MTFs. Whilst the Council will continue its lobbying for a fairer funding settlement which meets the needs of the borough, the Council must have a strategy in place to tackle its financial challenges and for this reason the Council must develop a fully costed budget and implementation plan, to the value of a minimum £10m,

ready to bring to Cabinet in the summer / autumn ready to feed into the budget setting round for 2022/23.

### **COUNCIL TAX MODEL RESOLUTION**

- 1.84 The draft Council Tax Model Resolution is attached at Appendix 11 which proposes the Band D council tax of £1598.70 and assumes a GLA precept of £363.66. This is still subject to confirmation of the GLA precept which is expected to be confirmed on 25 February 2021.

The proposed GLA precept for 2021/22 of £363.66 is an increase of 9.5%. This takes the aggregate Council Tax increase to 5.8%.

### **MEMBERS ALLOWANCES**

- 1.85 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. Member allowances are to be frozen for 2021/22 and hence will remain the same as 2020/21.

### **ANNUAL PAY POLICY STATEMENT**

- 1.86 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.

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

### **LONDON BOROUGH GRANTS SCHEME**

- 1.87 Harrow's contribution to the London Borough's Grant Scheme was £187k in 2020//21 and will be £186,875 in 2021/22.

## **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 three-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

2.4 The consultation closed on Thursday 28 January 2021. There were 22 respondents to the general survey. Over the three main questions, responses disagreed with the draft budget and proposed increases in Council Tax:

**Question 1** - Given the extent of the savings required, overall do you agree with the Council's proposed draft budget? (7 agree, 15 disagree).

**Question 2** - Given the Council's funding situation, do you agree with the Council's proposal to increase Council Tax by 1.99%? (9 agree, 13 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 3% adult social care precept? (8 agree, 14 disagree).

The response rate was not high enough to mean that any equalities breakdown of the responses would be statistically significant.

2.5 Key stakeholder consultation meetings have taken place as detailed below:

**Table 6: Key Stakeholder Consultation**

| Stakeholder           | Meeting  | Date         |
|-----------------------|--|--------------|
| Unions                | Corporate Joint Committee                            | 13/01/21     |
| Health Partners       | Health & Care Executive Meeting                      | 05/02/21 (1) |
| Local Businesses      | Harrow Business Consultative Panel                   | 25/01/21     |
| Overview and Scrutiny | Special meeting of the O & S Committee to review the | 12/01/21     |

|                    |                 |              |          |
|--------------------|-----------------|--------------|----------|
|                    | budget          |              |          |
| Unions / Employees | Employees Forum | Consultative | 25/01/21 |

(1) A verbal update will be provided at Cabinet if appropriate

2.6 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 2021/22 savings and may be subject to a separate cabinet report.

### 3.0 PERFORMANCE ISSUES

3.1 In terms of financial performance, Cabinet are updated quarterly of forecast spend against the agreed budget and achievement of savings built into the budget. The same information is also presented to the Performance and Finance Scrutiny Sub Committee regularly throughout the year.

### 4.0 RISK MANAGEMENT IMPLICATIONS

4.1 Risks included on corporate or directorate risk register? **Yes**

4.2 Separate risk register in place? **No**

4.3 The relevant risks contained in the register are attached/summarised below. **Yes**

4.4 The following key risks should be taken onto account when agreeing the recommendations in this report:

| Risk Description  | Mitigations   | RAG Status |
|---|---|------------|
| Inability to deliver the Council's approved MTFS - over the next 3 years leading to an inability to set a balanced budget and provide core services. At Quarter 3 2020/21 this risk is rated at B2 – high likelihood and critical impact. | <ul style="list-style-type: none"> <li>▪ Annual budget setting process</li> <li>▪ Process to challenge and quality assure MTFS</li> <li>▪ Process to ensure MTFS accurately reflects demand &amp; legislative changes</li> <li>▪ In-year Revenue &amp; Capital monitoring reported to CSB, Cabinet and all members regularly</li> <li>▪ In-year budget on track for delivery to minimise impact on MTFS</li> <li>▪ Watching brief maintained on the external environment and financial impact</li> <li>▪ Refreshed MTFS reported to Oct Cabinet in advance of draft 21/22 budget</li> <li>▪ Revenue budget contingency remains in place for unforeseen items</li> </ul> |            |

|   |  |  |
|---|--|--|
|   | <ul style="list-style-type: none"> <li>▪ Clean bill of health on our 18/19 Statement of Accounts and VFM audit from the External Auditors</li> <li>▪ Strategic financial planning with CSB &amp; Cabinet</li> </ul>  |  |
| <p>A balanced budget position is not achievable in 2022/23 or 2023/24 due to the overall reduction in revenue/funding, increases in the population, disproportionately high impact of Covid-19 on the borough, economic uncertainty and the difficulty of finding sustainable savings year on year. This leaves the Council in a grave financial position, facing very difficult budget decisions and potentially at risk of being unable to meet the demand for services, particularly Adult Social Care, Children's Placements and Accommodation and SEN.</p> | <ul style="list-style-type: none"> <li>▪ Tight financial management</li> <li>▪ Maintaining the level of reserves and using them with caution</li> <li>▪ Increasing Council Tax in line with referendum limits</li> <li>▪ Full use of Adult Social Care precept</li> <li>▪ Ongoing efficiencies</li> <li>▪ The generation of income</li> <li>▪ A budget strategy for savings</li> </ul> |  |
| <p>In preparing the final budget for 2021/22 it is accepted that there is an element of risk until the Final Financial Settlement is received mid-February 2021.</p>  | <ul style="list-style-type: none"> <li>▪ The revenue budget includes a contingency for unforeseen items of £1.248m</li> </ul>  |  |

## 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 taxpayers, 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 taxpayers and ratepayers and the community's interest in adequate and efficient services and the need to act in good faith in relation to compliance with statutory duties and exercising statutory powers.

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

## **6.0 FINANCIAL IMPLICATIONS**

6.1 Financial Implications are integral to this report.

## **7.0 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 Relevant directorate proposals will be subject to an initial equalities impact assessment followed by a full assessment where appropriate. These are published with this report. There is also a cumulative equalities impact on the budget which shows an overall minor adverse impact on age but the equalities impact indicates that mitigation is in place to minimise this impact.

## **9.0 COUNCIL PRIORITIES**

9.1 The Council's draft budget for 2021/22 has been prepared in line with the Council's priorities:

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

## **Section 3 - Statutory Officer Clearance**

**Statutory Officer: Dawn Calvert**

Signed by the Chief Financial Officer

**Date: 02/02/2021**

**Statutory Officer: Jessica Farmer**

Signed on behalf of the Monitoring Officer

**Date: 02/02/2021**

**Chief Officer: Charlie Stewart**

Signed off by the Corporate Director

**Date: 02/02/2021**

**Head of Procurement: Nimesh Mehta**

Signed by the Head of Procurement

**Date: 02/02/2021**



**Head of Internal Audit: Susan Dixon**

Signed by the Head of Internal Audit

**Date: 02/02/2021**

## **Mandatory Checks**

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

*EqlA carried out: NO - Cumulative equalities impact on the budget*

*EqlA cleared by: Jessica Farmer*

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

**Contact: Dawn Calvert, Director of Finance and Assurance, tel: 0208 4209269, [dawn.calvert@harrow.gov.uk](mailto:dawn.calvert@harrow.gov.uk)**

### **Background Papers:**

- Equality Impact Assessments
- Reference from Performance and Finance Sub-Committee
- Reference from Overview and Scrutiny Committee
- Recommendation from Harrow Business Consultative
- Recommendation from Employees' Consultative Forum

### **Call-in waived by the Chair of Overview and Scrutiny Committee**

**NOT APPLICABLE (decisions reserved to Council)**