

## 2019/20 BUDGET PLANNING REPORT FOR SERVICES WITHIN THE REMIT OF CORPORATE SERVICES, COMMERCE & COMMUNITIES POLICY OVERVIEW COMMITTEE

<b>Committee name</b>	Corporate Services, Commerce & Communities Policy Overview Committee
<b>Officer reporting</b>	Iain Watters, Financial Planning Manager
<b>Papers with report</b>	None

### HEADLINES

This is the first opportunity for the Policy Overview Committee to discuss the current stage of development of budget planning work with regard to services within the remit of Corporate Services, Commerce & Communities Policy Overview Committee. This paper gives a strategic context in which the detailed proposals to be discussed at Policy Overview Committee meetings in January 2019 will need to be considered.

### RECOMMENDATIONS

1. **That the Committee notes the financial context in which the 2019/20 budget setting process will take place in advance of detailed savings proposals being developed and approved at Cabinet in December 2018.**

### SUPPORTING INFORMATION

2. This is the first of two opportunities within the planning cycle for the Policy Overview Committee to consider issues relating to budget planning for 2019/20 and beyond. The focus of this report is the broader financial position of the Council, with the report to be considered in January 2019 setting out the detailed budget proposals for relevant services, those proposals having been included in the report to Cabinet on the Medium Term Financial Forecast (MTFF) on 13 December 2018.

#### **Corporate Overview – General Fund**

3. While the focus of the discussion for the Policy Overview Committee should be the specific services within its remit, it is important that this discussion is conducted in the context of the overall corporate financial position. The following paragraphs outline the medium term financial position presented in the 2018/19 Budget Setting Report approved by Cabinet and Council in February 2018.
4. A challenging outlook for the medium term was outlined in February, with a headline budget gap of £54,987k over the four years 2019/20 to 2022/23 against a 2018/19 budget requirement of £220,336k. £20,635k of this headline savings requirement falls in 2019/20, which is the final year of the current multi-year funding settlement. This opening position

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assumes no Council Tax increases or Use of General Balances to delay the requirement for savings.

5. As in previous years, this gap is driven by a combination of inflation, service pressures and funding reductions, with the additional challenge of substantial increases in the debt servicing costs to support planned capital expenditure. The following table outlines the relative contribution of each of these factors, with capital financing accounting for close to 90% of the £9,313k Corporate Items figure quoted below.

**Table 1: Projected Budget Gap (2019/20 to 2022/23)**

	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Inflation	7,064	5,626	5,683	5,741	24,114
Contingency	3,045	3,298	3,453	3,455	13,251
Corporate Items	3,417	1,998	2,043	1,855	9,313
Loss of One-Off Funding	3,561	5,400	0	0	8,961
Change in Recurrent Funding	3,548	(1,340)	(1,355)	(1,505)	(652)
<b>Annual Budget Gap</b>	<b>20,635</b>	<b>14,982</b>	<b>9,824</b>	<b>9,546</b>	<b>54,987</b>
<b>Cumulative Budget Gap</b>	<b>20,635</b>	<b>35,617</b>	<b>45,441</b>	<b>54,987</b>	

6. The £24,114k inflation pressure is primarily driven by workforce costs and uplifts in the cost of social care packages, with only £4,452k provided against other contracted out services, facilities costs and external levies. This inflation projection is built around a central assumption that the Consumer Prices Index returns to the 2% Bank of England target rate over coming twelve months.
- Workforce expenditure accounts for £12,814k of this pressure, with the second year of the current pay offer of 5.3% over two years assumed to be followed by 2% per annum increases, alongside a projected 2.5% increase in Employer's Pension Contributions.
  - Adult Social Care placements account for a further £5,898k inflation, assuming 2% per annum increases are required to keep wages in the sector competitive with the broader economy.
  - Similar demands on Children's Placement providers are expected to require a further £1,433k increases over the four-year period.
7. Increased demand on services from a growing and changing population is expected to drive a £13,251k growth in contingency budgets, reflecting material movements in demand across Adult Social Care, Waste Disposal, Children's Services and SEN Transport.
- The cost of Adult Social Care placements are projected to grow by £6,667k in line with 2% per annum growth in older population alongside the impact of children transitioning into the service from education and other settings.
  - An uplift of £3,450k in the cost of Waste Disposal is expected to be driven by annual increases in waste volumes and disposal costs of around 5.5%.

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- c. Across Children's Services and SEN Transport a combination of a growing population and increasing complexity of need is expected to drive annual increases in excess of 5% per annum at a combined cost of £3,334k.
8. The projected £9,313k growth required for Corporate Items is primarily linked to the uplift in capital financing costs associated with £152,558k borrowing set out in the Council's 2017/18 to 2022/23 Capital Programme. The annual revenue cost of this borrowing would total £8,133k at current interest rates, with a £10,000k movement in the capital programme resulting in a £540k change in revenue financing costs. Alongside capital financing costs and smaller technical items, £855k growth will be required in 2022/23 should the Council no longer be able to capitalise expenditure on the BID Team and other transformation resource.
9. The ending of £8,961k of time limited funding available to support the 2018/19 budget contributes to this overall savings requirement, consisting £5,400k forecast additional income from the 100% Business Rates Pilot Pool, £2,611k Collection Fund surpluses arising from a review of bad debt provisions and £950k of General Balances.
10. Finally, the headline level of funding is expected to remain broadly steady over the four years from 2019/20, assuming no material movement in levels of grant support or fundamental changes to the Business Rates Retention system. On current projections, annual growth of around 1.2% in the Council Tax Base is expected to raise an additional £5,342k income, with a further £1,231k expected from commercial growth in borough to deliver £6,573k through new development. Combined with £4,525k inflationary uplifts in Business Rates and £10,446k grant reductions linked to the austerity programme, this would result in a net gain of £652k in funding by 2022/23.
11. There remains a level of uncertainty within the funding position, as a result of the on-going Fair Funding Review, which will see a redistribution of resources between local authorities, and the long awaited expansion of the 50% Business Rates Retention system to 75% and ultimately 100%. It is likely that on balance these measures will benefit rather than adversely affect Hillingdon given the borough's strong population growth and substantial Business Rates base. Although as any favourable movement could be phased in over a number of years from 2020/21, and would likely not exceed £5,000k, this cannot be relied upon as a single solution to the financial challenge facing the Council.
12. The forthcoming Green Paper on Adult Social Care may provide a more tangible contribution towards managing this emerging budget gap, hopefully providing a national approach to funding the twin pressures of growing demand for care and increasing costs of providing care. These twin pressures account for £12,565k of the overall £54,987k budget gap, with potential for a dedicated funding stream providing a mechanism to finance this cost.

### **Corporate Overview - Other Funds**

13. The Housing Revenue Account (HRA) is subject to a statutory ringfence, with £55,932k of rental income from the Council's social housing provision being reinvested in maintenance, improvement and expansion of housing stock. The approved capital programme includes funding to acquire 545 new dwellings over the period to 2022/23, providing a mechanism to replace an expected 439 sales of properties to sitting tenants through the Right to Buy. The

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financial standing of the HRA remains sound, with the 30 Year Business Plan demonstrating sustainability of the current operation over the longer-term.

14. The Schools Budget is subject to statutory ring-fence, requiring that annual funding allocations from the Department for Education through the Dedicated Schools Grant (DSG) are fully deployed in support of education services. For 2018/19, individual schools were protected by a Minimum Funding Guarantee limiting any losses in per pupil funding to -1.5%. As part of the move to the National Funding formula Central Government provided additional funding that would ensure school budgets increased by at least 0.5%. For Hillingdon, the actual increase was 2.2%.
15. The DSG has competing demands across the four funding blocks (Early Years, Schools, High Needs and Central School Services), with particular pressures in High Needs, where any increase in funding has not been sufficient to meet the cost of growth relating to both pupil numbers and complexity. The implementation of the ring fenced arrangement between the relevant funding blocks has resulted in a shortfall of funding in the High Needs block with a balanced budget only achieved due to agreement with Schools Forum to transfer 0.5% of Schools Block funding to fund the increasing cost of High Needs. The 2018/19 budget approved by Schools Forum did not provide additional resources to offset the cumulative deficit accruing on the Schools Budget, which at totalled £4.1m at 31 March 2018.
16. It is expected that the implementation of the 'hard' National Funding Formula will have a significant impact on the ability of the Schools Forum to set a balanced budget in future years as the expectation is that funds will no longer be allowed to be transferred between the funding blocks. In order to address this, the process of developing a three year budget to try to understand what pressures the DSG will be under along with a major review of all expenditure covered by the DSG is being undertaken. However, it should be noted that these options will be limited, as the total of the Central Services Funding Block is £2.8 million, which in itself is less than the cumulative DSG deficit.

### **Strategy to deal with the Budget Gap**

17. The Council is well placed to respond to the on-going financial challenge, with a solid track record of delivering balanced budgets and retaining £40,321k unallocated General Balances at 31 March 2018. Over the four year period since 2015/16, the Council has successfully implemented (or in the case of 2018/19 are expected to be delivered in full) a £47,024k savings programme, responding to the combined challenges of reducing funding and growing demand for services while minimising the impact on services to Residents.
18. A thematic overview of the savings programmes for 2015/16 to 2018/19 is presented below, with the following themes continuing to form the basis of development of savings proposals for 2019/20 and future years:
  - a. Service Transformation represents the single largest category of savings, with items presented in this category primarily linked to implementation of the BID Programme;
  - b. Savings proposals from Zero Based Reviews represent budgets which have been identified as being surplus to requirements through the line-by-line review of outturn and similar exercises being undertaken by Finance;

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- c. Effective Procurement savings capture the benefits secured from efficiency savings from contracted services and reviews of delivery models in a number of areas;
- d. Preventing Demand - initiatives such as the Supported Living Programme where investment in early intervention and other support can avoid more costly intervention at a later date;
- e. Income Generation & Commercialisation proposals primarily relate to amendments to Fees and Charges; and,
- f. Changes of Responsibility & Funding Streams relates to mechanisms such as the New Homes Bonus, Troubled Families Grant and the synergies / efficiencies arising from transfers of functions to and from Local Government such as Education and Public Health.

**Table 2: 2015/16 to 2018/19 Savings Programme**

	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Service Transformation	(1,269)	(3,864)	(7,222)	(3,936)	(16,291)
Zero Based Reviews	(1,863)	(3,705)	(4,691)	(2,536)	(12,795)
Effective Procurement	(2,002)	(1,388)	(2,171)	(1,385)	(6,946)
Preventing Demand	(2,231)	(1,171)	(407)	(2,695)	(6,504)
Commercialisation & Maximising Income	(493)	(854)	(1,017)	(103)	(2,467)
Change of Responsibility & Funding Streams	(742)	(1,279)	0	0	(2,021)
<b>Savings Programme</b>	<b>(8,600)</b>	<b>(12,261)</b>	<b>(15,508)</b>	<b>(10,655)</b>	<b>(47,024)</b>

### **MTFF Process Update and Timetable**

19. The timetable for the budget process has been refreshed and the first MTFF sessions with Groups took place during early July to review the detailed budget proposals developed by each group. Progress on the development and delivery of these proposals will be monitored monthly by the Corporate Management Team, HIP Steering Group and the Leader of the Council throughout the remainder of the year.

**Table 3: MTFF Timetable**

<b>2019/20 Budget Setting and Medium Term Financial Forecast</b>	
March 2018 to February 2019	Monthly Updates to the Corporate Management Team and HIP Steering Group
May 2018	Initial Report to Leader on Scoping a Financial Strategy
	Zero Based Review of 2018/19 Budgets
July 2018	Summer Challenge Sessions
	Summer Budget Report to Members
	Budget Scoping Reports to July POCs
October 2018	Autumn Challenge Sessions
November 2018	Autumn Budget Report to Members
December 2018	Provisional Local Government Finance Settlement
	Consultation Budget Report to Cabinet
January 2018	Public Budget Consultation
	2019/20 Budget Proposals to January POCs
February 2018	Final Local Government Finance Settlement
	Final Budget to Cabinet and Council

**Next Steps**

20. The Medium Term Financial Forecast setting out the draft revenue budget and capital programme will be considered by Cabinet on 13 December 2018 and issued for consultation during the remainder of December 2018 and January 2019. This will include detailed consideration by each of the Policy Overview Committees of the proposals relating to their respective services.
21. Key issues within the remit of Corporate Services, Commerce & Communities Policy Overview Committee will continue to be tracked through the Council's budget monitoring process, with monthly reports to Cabinet detailing the latest position and outlook for 2018/19.

**Implications on related Council policies**

Policy Overview Committees are at the heart of how the Council shapes policy at Member level.

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## **How this report benefits Hillingdon residents**

Policy Overview Committees directly engage residents in shaping policy and recommendations from the Committees seek to improve the way the Council provides services to residents.

## **Financial Implications**

None at this stage.

## **Legal Implications**

None at this stage.

## **BACKGROUND PAPERS**

The Council's Budget: General Fund Revenue Budget and Capital Programme 2018/19 – reports to Cabinet 15 February 2018 and Council 22 February 2018.

The Council's Budget: 2018/19 Revenue and Capital Month 2 Budget Monitoring – report to Cabinet 26 July 2018.