

2020/21 BUDGET PLANNING REPORT FOR SERVICES WITHIN THE REMIT OF CORPORATE SERVICES, COMMERCE AND COMMUNITIES POLICY OVERVIEW COMMITTEE

Committee name	Corporate Services, Commerce and Communities Policy Overview Committee
Officer reporting	Gemma McNamara
Papers with report	N/A
Ward	All

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 and 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 2020 will need to be considered.

RECOMMENDATIONS

1. That the Committee notes the financial context in which the 2020/21 budget setting process will take place in advance of detailed savings proposals being developed and approved at Cabinet in December 2019.

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 2020/21 and beyond. The focus of this report is the broader financial position of the Council, with the report to be considered in January 2020 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 12 December 2019.

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 2019/20 Budget Setting Report, approved by Cabinet and Council in February 2019.
4. The budget gap and savings requirement for the three years to 2022/23 stands at £28,467k, or 12%, of the Council's current £229,928k budget requirement after allowing for an assumed 2.99% per annum increases in Council Tax, with the budget gap front-loaded as a result of the heavy reliance on use of reserves in the current financial year.

5. This position is expanded upon below, but in broad terms, £11,837k of the budget gap reflects 'business as usual' inflation and demand-led pressures off-set by increased funding, £8,854k is driven by capital financing costs and other investment decisions, with the final £7,776k savings effectively deferred from earlier periods through use of reserves.

Table3: Projected Budget Gap detail

Headline MTFF Assumptions	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	Total £'000
Changes in Recurrent Funding	(457)	(4,326)	(2,848)	(3,515)	(10,689)
Changes in One-Off Funding	375	7,636	0	0	7,636
Inflation	7,352	5,889	6,029	6,175	18,093
Corporate Items (90% Capital Financing Costs)	1,200	3,257	3,065	2,972	9,294
Contingency (Service Pressures)	6,207	2,545	3,006	3,090	8,641
Priority Growth	1,442	(440)	0	0	(440)
Underlying Savings Requirement	16,119	14,561	9,252	8,722	32,535

6. An uplift of £10,689k in recurrent funding is projected over the three-year MTFF period, primarily driven by an expected £10,000k uplift arising from a combination of additional investment in the local government sector from Spending Review 2019 and distributional gains from the Fair Funding Review, combined with a smaller net favourable movements across the local taxbase.
7. This uplift in recurrent funding is expected to be damped through the falling out of £7,636k one-off funding available in 2019/20, primarily relating to the budgeted £6,600k additional income available through the pilot London Business Rates Pool, which will end with the implementation of the Fair Funding Review and £1,036k of Collection Fund surpluses to be secured in 2018/19 and 2019/20.
8. Inflation represents the single largest element of the underlying savings requirement, reflecting the growing cost of maintaining current service provision, with a headline pressure of £18,093k over the MTFF period. Workforce inflation through anticipated annual 2% pay awards and an expected 0.5% per annum increase in employers' pension contributions accounts for £8,915k of this growth, with £6,656k increases on the cost of care provision where annual pay inflation of around 4% is expected to keep pace with growth in the London Living Wage. The remaining £2,522k inflation reflects other contracted expenditure, energy costs and other expenses.
9. Corporate Items, which primarily relate to the ongoing costs of financing capital investment, represent the second largest contributor to the budget gap with £9,294k growth required over the MTFF period. The £142,949k capital investment without a specific financing strategy in the current capital programme is the key driver of a £7,000k growth in debt financing and repayment costs over this three-year period, with each £10,000k capital investment requiring approximately £540k ongoing revenue support. Alongside capital financing charges and a number of minor items, £1,274k growth would be required to maintain current investment in service transformation should current powers to use capital receipts end in 2022/23 and £1,095k growth in the net cost of the Older People's Discount Scheme following one-off use of earmarked reserves in 2019/20 make up the remainder of this total.

10. Increasing demand for services linked to a growing and changing population, accounts for £8,641k of the projected savings requirement, which reflects a continuation of current trends across Waste disposal, Adult Social Care, SEN Transport and Children’s Social Care. Annual growth of approximately 5.5% in the cost of waste disposal due to a combination of population growth and price increases is expected to require £2,650k growth, with £2,576k increase in demand for Adult Social Care reflecting growing demand across the full range of care provision. Provision of £2,319k is included to manage growing demand across Children’s Services, with £1,428k uplifts on SEN Transport partially driven by the ongoing impact of the 2014 Children’s and Families Act. These specific growth items are partially offset by stepping down the level of General Contingency to £500k.
11. Taken together with the release of £440k of one-off Priority Growth allocated to Ward Budgets in 2019/20, this would result in a net increase of £32,535k in the cost of delivering services to residents. However, the reliance upon £7,776k of General Balances to deliver a balanced budget in 2019/20 increases the budget gap to £40,311k. The following table sets out the outline budget strategy presented to Cabinet in February 2019 over the three-year period 2020/21 – 2022/23 to manage this savings requirement, approved by Cabinet in February 2019.

Table 3: Savings Requirement (February 2019) 2020/21-2022/23

Outline Budget Strategy	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	3-year Total £'000
Underlying Savings Requirement	16,119	14,561	9,252	8,722	32,535
Proposed Council Tax Increase	(2,684)	(3,509)	(3,689)	(3,884)	(11,082)
Approved Savings Proposals	(6,609)	259	(20)	(1)	238
<i>Proposed Savings Programme</i>	0	(14,087)	(8,543)	(5,837)	(28,467)
Unwind call on General Balances	950	7,776	5,000	2,000	N/A
In-year Call on General Balances	(7,776)	(5,000)	(2,000)	(1,000)	(8,000)
Closing General Balances	33,863	28,863	26,863	25,863	N/A

12. Inflationary Council Tax increases of 2.99% per annum have been reflected in the outline budget strategy, providing a mechanism to offset £11,082k of the inflationary growth in the cost of services, while remaining lower than the average level of growth across London since 2016/17. This additional income provides a mechanism to finance an element of inflationary and demand-led growth in cost of current service provision, reducing growth in the net cost of ‘business as usual’ to £11,837k or 42% of the budget gap. The remaining budget gap consists of £8,854k financing for local investment decisions and Priority Growth, primarily linked to capital financing costs, alongside £7,776k savings effectively deferred from earlier periods through the use of balances.

Corporate Overview - Other Funds

13. The Housing Revenue Account (HRA) is subject to a statutory ringfence, with £56,186k 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 428 new dwellings over the period to 2023/24, providing a mechanism to replace an expected 300 sales of properties to sitting tenants through the Right to Buy. The

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 Council receives funding for Schools' Budgeted Expenditure through the Dedicated Schools Grant (DSG), which is a ring fenced grant. The DSG funds both the delegated individual schools budget and items which the School and Early Years Finance (England) Regulations allow to be retained centrally by the Council, including Special Educational Needs, Alternative Education provision and Early Years provision.
15. As highlighted in the monthly budget monitoring reports to Cabinet throughout 2018/19, funding provided by the Department for Education through the DSG has failed to keep pace with growing demand on High Needs following the introduction of the 2014 Children's and Families Act. At the time of budget setting this was expected to contribute towards a £3,499k deficit for 2019/20, which would result in the cumulative deficit on the DSG reaching £10,880k by 31 March 2020. The Council was successful in securing authority from the Secretary of State for Education to transfer 1.6% of funding from individual schools budgets to High Needs, on a one-off basis, to mitigate the majority of the emerging pressure in 2019/20.
16. Following new direction from the Department for Education, the Council was required to submit a Deficit Recovery Plan by 30 June 2019. While the Deficit Recovery Plan outlines a comprehensive programme of activity, including investment in additional SEND provision, a significant remodelling of support for SEND across the Council's education functions and proposals around redistribution of individual schools' balances it is unlikely that this will be sufficient to mitigate the growing in-year pressure, let alone make good the cumulative deficit. This plan was jointly approved by the Council and Schools Forum, with the response supportive of the broader lobbying effort to secure additional resources from government to recognise this unfunded burden.

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 £40,344k unallocated General Balances at 31 March 2019. Over the five year period since 2015/16, the Council has successfully implemented (or in the case of 2019/20 are expected to be delivered in full) a £53,633k 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;
 - 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

	2015/16	2016/17	2017/18	2018/19	2019/20	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Service Transformation	(1,269)	(3,864)	(7,222)	(3,936)	(2,816)	(19,107)
Zero Based Reviews	(1,863)	(3,705)	(4,691)	(2,536)	(638)	(13,433)
Effective Procurement	(2,002)	(1,388)	(2,171)	(1,385)	(1,281)	(8,227)
Preventing Demand	(2,231)	(1,171)	(407)	(2,695)	(1,874)	(8,378)
Commercialisation & Maximising Income	(493)	(854)	(1,017)	(103)	0	(2,467)
Change of Responsibility & Funding Streams	(742)	(1,279)	0	0	0	(2,021)
Savings Programme	(8,600)	(12,261)	(15,508)	(10,655)	(6,609)	(53,633)

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

2020/21 Budget Setting and Medium Term Financial Forecast	
March 2019 to February 2020	Monthly Updates to the Corporate Management Team and HIP Steering Group
July 2019	Zero Based Review of 2019/20 Budgets
	Summer Challenge Sessions
	Summer Budget Report to Members
	Budget Scoping Reports to July POCs
October 2019	Autumn Challenge Sessions

November 2019	Autumn Budget Report to Members
December 2019	Provisional Local Government Finance Settlement
	Consultation Budget Report to Cabinet
January 2020	Public Budget Consultation
	2020/21 Budget Proposals to January POCs
February 2020	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 12 December 2019 and issued for consultation during the remainder of December 2019 and January 2020. 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 and Communities Policy Overview will continue to be tracked through the Council's budget monitoring process, with monthly reports to Cabinet detailing the latest position and outlook for 2019/20.

Implications on related Council policies

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

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 2019/20 – reports to Cabinet 14 February 2019 and Council 21 February 2019.

The Council's Budget: 2019/20 Revenue and Capital Month 2 Budget Monitoring – report to Cabinet 25 July 2019

Classification: Public

Corporate Services, Commerce and Communities Policy Overview Committee – 23 July 2019