

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

<b>Committee name</b>	Corporate Services, Commerce & Communities Policy Overview Committee
<b>Officer reporting</b>	Iain Watters
<b>Papers with report</b>	N/A

### 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 2021 will need to be considered.

### RECOMMENDATION

**That the Committee notes the financial context in which the 2021/22 budget setting process will take place in advance of detailed savings proposals being developed and approved at Cabinet in December 2020.**

### SUPPORTING INFORMATION

1. This is the first of two opportunities within the planning cycle for the Policy Overview Committee to consider issues relating to budget planning for 2021/22 and beyond. The focus of this report is the broader financial position of the Council, with the report to be considered in January 2021 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) in December 2020.

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

2. 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 2020/21 Budget Setting Report approved by Cabinet and Council in February 2020.
3. The budget gap and savings requirement for the two years to 2022/23 stands at £19,987k or 9% of the Council's current £234,284k budget requirement after allowing for an assumed 3.8% per annum increases in Council Tax, this comprises a core Council Tax increase of 1.8%

based on 90% of the 2% anticipated increase across London alongside a 2% increase relating to an Adult Social Care Precept to fund ongoing pressures within Adult Social Care.

4. This position is expanded upon below, but in broad terms £8,146k of the budget gap reflects 'business as usual' inflation and demand-led pressures off-set by increased funding, £5,507k is driven by capital financing costs and other investment decisions, with the final £6,334k savings effectively deferred from earlier periods through use of reserves.

**Table 1: Projected Budget Gap detail**

<b>Headline MTFF Assumptions</b>	<b>2020/21 £'000</b>	<b>2021/22 £'000</b>	<b>2022/23 £'000</b>	<b>Total £'000</b>
Changes in Recurrent Funding	(7,689)	(1,019)	(2,545)	(3,564)
Changes in One-Off Funding	6,312	1,324	0	1,324
Inflation	6,222	5,861	6,198	12,059
Corporate Items (73% Capital Financing Costs)	664	3,193	4,396	7,589
Contingency (Service Pressures)	4,260	3,406	3,480	6,886
Priority Growth	23	0	0	0
<b>Underlying Savings Requirement</b>	<b>9,792</b>	<b>12,765</b>	<b>11,529</b>	<b>24,294</b>
Proposed Council Tax Increase	(4,421)	(4,695)	(4,983)	(9,678)
Approved Savings Proposals	(6,813)	(760)	(203)	(963)
Unwind Prior Use of Balances	7,776	6,334	3,000	6,334
Planned Use of Balances	(6,334)	(3,000)	0	0
<b>Net Savings Requirement</b>	<b>0</b>	<b>10,644</b>	<b>9,343</b>	<b>19,987</b>

5. An uplift of £3,564k in recurrent funding is projected over the two-year MTFF period, primarily driven by favourable movements within the taxbase contributing £5,035k, offset by a forecast reduction in Central Government support of £1,471k, which is being driven by anticipated changes within the New Homes Bonus calculation methodology.
6. This uplift in recurrent funding is expected to be damped through the falling out of £1,324k one-off funding available in 2020/21, primarily relating to the budgeted £865k additional income available through the pilot London Business Rates Pool which was budgeted to end with the implementation of the Fair Funding Review and £459k of Collection Fund surpluses, which are updated from the in-year performance of the Council's local taxes.
7. 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 £12,059k 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 £5,525k of this growth, with £4,829k 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 £1,705k inflation reflects other contracted expenditure, energy costs and other expenses.
8. Corporate Items, which primarily relate to the ongoing costs of financing capital investment, represent the second largest contributor to the budget gap with £7,589k growth required over the MTFF period. The £165,010k capital investment without a specific financing strategy in

the current capital programme is the key driver of a £5,507k growth in debt financing and repayment costs over this two-year period, with each £10,000k capital investment requiring approximately £575k 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 £150k growth in net Corporate costs associated with the Housing Benefit Subsidy and Added Years Pension Costs making up the remainder of this total.

9. Increasing demand for services linked to a growing and changing population accounts for £6,886k 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 £1,800k growth, with £2,191k increase in demand for Adult Social Care reflecting growing demand across the full range of care provision. Provision of £1,577k is included to manage growing demand across Children’s Services, with £1,318k uplifts on SEN Transport partially driven by the ongoing impact of the 2014 Children’s and Families Act.
10. The position presented would result in a net increase of £33,628k in the cost of delivering services to residents. However, the reliance upon £6,334k of General Balances to deliver a balanced budget in 2020/21 increases the budget gap to £39,962k. The following table sets out the outline budget strategy presented to Cabinet in February 2020 over the two-year period 2021/22 – 2022/23 to manage this savings requirement, approved by Cabinet in February 2020.

**Table 2: Savings Requirement (February 2020) 2021/22-2022/23**

<b>Outline Budget Strategy</b>	<b>2020/21 £'000</b>	<b>2021/22 £'000</b>	<b>2022/23 £'000</b>	<b>3 year Total £'000</b>
<b>Underlying Savings Requirement</b>	<b>9,792</b>	<b>12,765</b>	<b>11,529</b>	<b>24,294</b>
Proposed Council Tax Increase	(4,421)	(4,695)	(4,983)	(9,678)
Approved Savings Proposals	(6,813)	(760)	(203)	(963)
<i>Proposed Savings Programme</i>	<b>0</b>	<b>(10,644)</b>	<b>(9,343)</b>	<b>(19,987)</b>
Unwind call on General Balances	7,776	6,334	3,000	6,334
<b>In-year Call on General Balances</b>	<b>(6,334)</b>	<b>(3,000)</b>	<b>0</b>	<b>(3,000)</b>
<b>Closing General Balances</b>	<b>27,905</b>	<b>24,905</b>	<b>24,905</b>	<b>N/A</b>

11. Inflationary Council Tax increases of 3.8% per annum have been reflected in the outline budget strategy, providing a mechanism to offset £12,059k 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 £9,267k or 46% of the budget gap. The remaining budget gap consists of £5,507k financing for local investment decisions, primarily linked to capital financing costs,

alongside £6,334k savings effectively deferred from earlier periods through the use of balances.

## **2020/21 General Fund Revenue Monitoring & COVID-19 Impact**

12. General Fund pressures totalling £25,182k are projected in relation to the impacts of the COVID-19 pandemic and the Council's response during the 2020/21 financial year, with confirmed grant awards from the first 2 tranches of Covid-19 funding totalling £15,617k and an estimated further £8,500k to come from the recent tranche 3 announcement which includes funding for 75% of fees and charges pressures over a 5% threshold. £1,964k of the confirmed funding was applied in 2019/20 leaving £13,653k to fund 2020/21 pressures. It is expected that these funding allocations, together with the use of earmarked reserves of £3,029k will contain this exceptional pressure in the current financial year. The Council has earmarked reserves available that can be applied to meet the balancing funding requirement and any additional pressures should they materialise. The Council set aside £3,293k into an earmarked reserve to fund potential unfunded COVID-19 pressures as part of the outturn for 2019/20. In addition to this, the Council holds £2,356k of earmarked Public Health Reserves which can also be directed at COVID-19 related spend that meets the criteria for Public Health grant spend. There are further service specific reserves of £3,477k that take the total available to £9,126k and give sufficient headroom to avoid any requirement to call on General Balances.
13. On the assumption that this funding strategy for COVID-19 pressures can be achieved, an underspend of £361k is projected across General Fund budgets at Month 2 consisting of £241k service underspends alongside a £120k underspend on capital financing and funding. Taking account of the budgeted £6,334k drawdown from General Balances, this will result in unallocated General Balances totalling £28,266k at 31 March 2021 – which is marginally higher than anticipated in the budget strategy approved by Cabinet and Council in February 2020. This position reflects the likelihood of a higher than budgeted pay award for 2020/21, although this ongoing cost pressure is being offset by temporary underspends.

## **Corporate Overview - Other Funds**

14. The Housing Revenue Account (HRA) is subject to a statutory ring-fence, with £57,872k 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 495 new dwellings over the period to 2024/25, providing a mechanism to replace an expected 240 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.
15. 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 that 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.

16. As highlighted in the monthly budget monitoring reports to Cabinet throughout 2019/20, 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 £7,175k deficit for 2020/21, which would result in the cumulative deficit on the DSG reaching £20,827k by 31 March 2021.
17. The Council submitted a disapplication request to the Secretary of State in regard to the Schools Budget proposals, seeking to transfer 3.1% of funding from individual school budgets to high needs to mitigate the £7,175k deficit. This request was rejected on 4 February 2020, although Dedicated Schools Grant conditions for the 2020/21 financial year clearly state that any such deficit can only be covered from the General Fund with specific approval from the Secretary of State for Education.
18. However, the budget position has further deteriorated since budget setting. The outturn for 2019/20 was £1,350k worse than assumed at Council Tax setting and the month 2 revenue monitoring update shows a £1,158k overspend on the £7,175k deficit budget for 2020/21. This results in the projected deficit on the DSG being £23,335k by 31 March 2021.

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

19. There is a higher level of uncertainty than usual within the MTFP projections. Firstly the Spending Review 2020 has been delayed, meaning all Local Authorities across the country are uncertain of the levels of future funding they can expect to receive as the Spending Review 2019 covered only a one year settlement to March 2021. At the same time, the expected review of the Business Rates Retention policy has also been delayed, whereby Local Authorities were anticipating moving towards a 75% retention scheme for all growth above an agreed baseline, the impact of the delay in this review is the expectation that the 50% retention scheme will continue for at least another year. Finally, the pandemic itself has left Councils facing large pressures, with Hillingdon forecasting the pressures of COVID-19 to be £25,182k in 2020/21, with this pressure being covered by a number of funding streams from Central Government and earmarked reserves, however, the medium term impacts of the pandemic and the level of Government funding remain uncertain.
20. However, irrespective of the uncertainty the Council is well placed to respond to the ongoing financial challenge, with a solid track record of delivering balanced budgets and retaining £34,239k unallocated General Balances at 31 March 2020. Over the four-year period from 2016/17 to 2019/20, the Council has successfully implemented a £46,081k savings programme, responding to the combined challenges of reducing funding and growing demand for services while minimising the impact on services to Residents. This total increases to £52,894k covering the 5 year MTFP period to 2020/21, with delivery of the value of the in-year

savings programme of £6,813k being hindered by COVID-19, with £4,413k being reported as being at an earlier stage of implementation or at risk.

21. A thematic overview of the savings programmes for 2016/17 to 2019/20 is presented below, with the following themes continuing to form the basis of development of savings proposals for 2020/21 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 3: 2016/17 to 2019/20 Savings Programme**

	2015/16	2016/17	2017/18	2018/19	2019/20	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Service Transformation	(3,864)	(7,222)	(3,936)	(2,816)	(2,130)	<b>(19,968)</b>
Zero Based Reviews	(3,705)	(4,691)	(2,536)	(638)	(1,107)	<b>(12,677)</b>
Effective Procurement	(1,388)	(2,171)	(1,385)	(294)	(1,918)	<b>(7,156)</b>
Preventing Demand	(1,171)	(407)	(2,695)	(987)	(677)	<b>(5,937)</b>
Commercialisation & Maximising Income	(854)	(1,017)	(103)	(1,874)	(981)	<b>(4,829)</b>
Change of Responsibility & Funding Streams	(2,327)	0	0	0	0	<b>(2,327)</b>
<b>Savings Programme</b>	<b>(13,309)</b>	<b>(15,508)</b>	<b>(10,655)</b>	<b>(6,609)</b>	<b>(6,813)</b>	<b>(52,894)</b>

## MTFF Process Update and Timetable

22. 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 4: MTFF Timetable**

<b>2020/21 Budget Setting and Medium Term Financial Forecast</b>	
March 2020 to February 2021	Monthly Updates to the Corporate Management Team and HIP Steering Group
July 2020 to September 2020	BID Reviews Conducted
	Corporate Funding Review
	Budget Scoping Reports to September POCs
October 2020	Autumn Challenge Sessions
November 2020	Autumn Budget Report to the Administration
December 2020	Provisional Local Government Finance Settlement
	Consultation Budget Report to Cabinet
January 2021	Public Budget Consultation
	2021/22 Budget Proposals to January POCs
February 2021	Final Local Government Finance Settlement
	Final Budget to Cabinet and Council

### Next Steps

23. The Medium Term Financial Forecast setting out the draft revenue budget and capital programme will be considered by Cabinet in December 2020 and issued for consultation during the remainder of December 2020 and January 2021. This will include detailed consideration by each of the Policy Overview Committees of the proposals relating to their respective services.

24. Key issues within the remit of Corporate Services, Commerce & 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 2020/21.

## **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 2020/21 – reports to Cabinet 13 February 2020 and Council 20 February 2020.

The Council's Budget: 2020/21 Revenue and Capital Month 2 Budget Monitoring – report to Cabinet 23 July 2020