

**Report for: Cabinet**

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|-------------------------------------|-----------------------------------------------------------------|
| <b>Date of Meeting:</b>             | 8 <sup>th</sup> October 2020                                    |
| <b>Subject:</b>                     | Medium Term Financial Update – 2021/22 to 2023/24               |
| <b>Key Decision:</b>                | No                                                              |
| <b>Responsible Officer:</b>         | Dawn Calvert - Director of Finance and Assurance (S151 Officer) |
| <b>Portfolio Holder:</b>            | Cllr Adam Swersky – Portfolio Holder for Finance and Resources  |
| <b>Exempt:</b>                      | No                                                              |
| <b>Decision subject to Call-in:</b> | Yes                                                             |
| <b>Wards affected:</b>              | All Wards                                                       |
| <b>Enclosures:</b>                  | None                                                            |

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

In light of Covid-19, this report sets out the current estimated financial impact of the pandemic on the Council, the estimated impact over the three years of the Medium Term Financial Strategy and the next steps and considerations the Council is taking in the run up to presenting its draft 2021/22 budget to Cabinet in December.

### **Recommendations:**

Cabinet is requested to note:

- 1) The estimated financial impact of Covid-19 on the Council in 2020/21 as reported to MHCLG (Table 1)
- 2) The Council's strategy to tightly manage the 2020/21 revenue budget to protect reserve balances for future years (paragraph 3.5 & 3.6)
- 3) The actions the Council is taking to reduce pressures against the MTFs prior to announcements around the indicative funding settlement from central government (paragraphs 3.10 to 3.13)
- 4) The estimated range of the budget gap for 2021/22 from £22.6m to £18.8m, dependent upon a number of scenarios, and the uncertainties upon which this is based (Table 2 and paragraph 3.26)
- 5) The choices the Council face in the setting of the draft 2021/22 budget in light of the lack of clarity around the indicative funding settlement from central government (paragraph 3.27)

### **Reason: (for recommendations)**

To ensure Cabinet are updated on the estimated impact of the Covid-19 pandemic on the Council's already challenging financial position over the medium term.

## **Section 2 – Report**

### **1.0 Introductory paragraph**

- 1.1 The Cabinet has received a number of reports over recent months detailing the Council's strategic response to the Covid-19 pandemic. The financial pressure that the Council faces from Covid-19 remains the highest strategic concern and this report sets out the estimated financial pressure, over the medium term, that the pandemic places on the Council's budget. Central government have provided financial support for the current financial year but announcements on future funding arrangements, which are expected to be through the Local Government Financial Settlement in December, places the Council in

an unprecedented position as it approaches setting the draft Budget and Council Tax requirement for 2021/22. It is important to note this report is not a draft budget.

## **2.0 Background Information**

- 2.1 The financial context in which the Council operates is well documented in the annual budget report. The key points are detailed below to demonstrate the significant financial pressure the Council was already facing prior to the Covid-19 pandemic which means the Council has little resilience to manage the financial impact, both immediately and over the medium term.
- 2.2 The Council remains a low funded Council with its core spending power in 2019/20 being £170 lower than the London average and £75 lower than the rest of England.
- 2.3 The Council has managed a revenue budget shortfall of £137m over the last eight years to fund the £50m reduction in Revenue Support Grant (RSG), £61m of demand led growth pressures and £26m of inflationary pressures and capital investment.
- 2.4 The Council has not shied away from making difficult decisions around Council Tax with the rate being increased annually to the maximum referendum level including applying the Adult Social Care precept in full. However, a consequence of this, alongside the reduction in RSG, is that 77% of the revenue budget is supported by Council Tax and Harrow has the third highest Council Tax rate in London. As a borough with one of the high rates of low paid work, the borough is very susceptible to a downturn in the economy.
- 2.5 The Council's retained business rates are low and remain static at £14.9m. As a borough with one of the highest levels of SME's and micro business in London, this again potentially makes the Council's business rate base fragile and at risk of a downturn.
- 2.6 The Council's reserves are at the lower end of the lowest quartile in terms of levels across London. After taking account of earmarked reserves for items such as PFI's, insurance liabilities etc. the Council has £10m of uncommitted General Fund Reserves and a further £10m of reserves that could be re-purposed.
- 2.7 The Council does have robust financial management and has delivered a balanced revenue budget for the last 8 years and, over the same

period, has not set a revenue budget which has relied upon the use of reserves to achieve its legal requirement to balance.

- 2.8 However, when the 2020/21 budget was approved in February 2020, the Council also published a budget gap of £22.6m over the last 2 years of its Medium-Term Financial Strategy (MTFS). And for the first time in many years £3.8m of one-off reserves had to be used to balance the 2020/21 budget, used largely to fund additional demand pressures in Adult social care not fully cover by precept income and specific government grant.

### **3.0 Financial Impact of Covid-19 in 2020/21**

- 3.1 The Council has been in direct contact with the Ministry of Housing, Communities and Local Government (MHCLG) to directly explain Harrow's financial position and the challenges around the Council's ability to move forward if a sustainable financial solution is not found for Local Government.

- 3.2 Alongside this the Council is required to report monthly to MHCLG identifying the impact of the pandemic in the current financial year. Harrow's submissions are summarised below:

**Table 1: Estimated Impact of Covid-19 in 2020/21**

| <b>Submission</b>                           | <b>1</b>      | <b>2</b>       | <b>3</b>       | <b>4</b>       | <b>5</b>       |
|---------------------------------------------|---------------|----------------|----------------|----------------|----------------|
|                                             | 15/04/20      |                |                |                |                |
|                                             | £'000         | £'000          | £'000          | £'000          | £'000          |
| Est Additional Expenditure                  | 11,291        | 14,157         | 18,719         | 14,345         | 12,927         |
| Est Loss of Income                          | 23,662        | 40,663         | 25,320         | 24,053         | 23,536         |
| <b>Impact prior to funding</b>              | <b>34,953</b> | <b>54,820</b>  | <b>44,039</b>  | <b>38,398</b>  | <b>36,463</b>  |
|                                             |               |                |                |                |                |
| Less s31 Grant                              |               | -17,000        |                |                |                |
|                                             |               |                |                |                |                |
| <b>Less Emergency Funding</b>               |               | <b>-13,100</b> | <b>-13,100</b> | <b>-15,039</b> | <b>-15,039</b> |
| <b>Less estimate of Income Compensation</b> |               |                |                |                | <b>-4,700</b>  |
| <b>Impact after funding received</b>        |               | <b>24,720</b>  | <b>30,939</b>  | <b>23,359</b>  | <b>16,724</b>  |

- 3.3 Table 1 shows that, at submission 5, the Council is forecasting a financial impact of £36.463m. This figure includes a Collection Fund loss of £10.7m which is the estimated loss against receipts for collection of Council Tax (£7.5m) and Business Rates (£3.250m). In the current financial year this estimated loss is held within the Collection Fund with the impact on the revenue account applied in the 2021/22 budget which is referred to later in this report when referencing the impact on the MTFS. At the time of writing this report the Council has received £15.039m of Emergency Funding to fund additional expenditure incurred and lost income. In July the Government announced their co-payment mechanism for irrecoverable sales, fees and charges income, with the government covering 75% of losses beyond 5% of planned income. Under this mechanism, the Council are required to make 3 submissions over the course of the financial year, the first return being due at the end of September. The estimate of compensation income from this scheme is £4.7m. MHCLG submission 6 for income and expenditure is due for submission on 02 October. Whilst both these funding streams are gratefully received, they are one off and there is no indication that they will continue into 2021/22 to fund the ongoing impact of Covid-19.
- 3.4 Also, in July the government announced a mechanism to allow the repayment of Collection Fund losses over the next three years. As with all income and expenditure, the Council's Collection Fund loss will be kept under monthly review and the decision will be made at the point of setting the draft budget (December) as to whether to make use of this mechanism.
- 3.5 The Council reported its Quarter 1 Financial Performance to September Cabinet. Throughout the pandemic the Council has strived to maintain its robust financial grip to ensure a balanced budget is achieved for 2020/21 to prevent any unnecessary drawn down from reserves. One of the key messages the Council has expressed consistently to MHCLG is that Covid-19 is not a one year issue but will have a significant legacy impact over the MTFS making it highly unlikely that a number of budgets, either income or expenditure, will return to their pre Covid-19 levels. To this extent, it is crucial that the limited level of reserves the Council does hold are not used in 2020/21 and carried forward to provide much needed support whilst there remains such a lack of clarity on central government funding for 2021/22 and beyond.
- 3.6 As at Quarter 1 the monitoring process is forecasting an overall budget overspend (business as usual and Covid-19) of £1.5m. However, this position is supported by £20m of Emergency Funding and income compensation which is one off and there is no indication this support

will continue into 2021/22. The September Cabinet report explains the correlation between the Quarter 1 financial performance and the MHCLG submission. The Council remains very focused on achieving a safe balanced budget in 2020/21 to ensure there is no requirement to make a call on reserve balances.

### **Medium Financial Strategy Refresh 2021/22 to 2023/34**

- 3.7 The Councils current MTFs was approved by Council in February 2020. It covered the three years 2020/21 to 2022/23 and showed the legally required balanced budget for 2020/21 but with a significant budget gap of £22.6m for years 2 and 3. The MTFs is refreshed annually and rolled forward one year.
- 3.8 The Council finds itself refreshing the MTFs in unprecedented times against the backdrop of the long term, and in many cases unknown, impacts of the Covid-19 pandemic and a lack of any form of clarity on its funding settlement from central government. Prior to the pandemic the expectation was for the Spending Review 2020, which would set the quantum of the overall funding envelope for local government. Alongside this was the intended Fair Funding Review which would reset the needs baseline to determine how the overall quantum of funding would be distributed. The latter being a potentially important review for the Council on account of its continued low funding position with the current funding formula not keeping pace with the needs of the borough.
- 3.9 In July the government announced the 2020 Spending Review which confirmed the process would be finalised in the Autumn and cover a revenue settlement for three years and capital allocations for four years. At the time of writing this report the government have confirmed that their Autumn Budget has been cancelled and there remains much speculation that the intended three-year settlement will instead be replaced by a one-year temporary settlement. It is highly unlikely that any details of the local government financial settlement, be it one or three years, will be released before mid-December. In addition, there was a recent announcement that the government's plans to publish the much awaited Adult Social Care Green Paper has been pushed back a further year.
- 3.10 Against this backdrop of uncertainty the Council has continued with an in-depth review of its financial position to inform the refresh of the MTFs. All aspects of the budget have been reviewed and over the summer directorates were tasked with reviewing their budgets to:
- Reduce estimated expenditure pressures into future years to stem baseline increases

- Review demand pressures and potential mitigating actions
  - Review income strategies to reduce the estimated loss of impact
- 3.11 The intended outcome of the in depth reviews is to ensure that the Council has done everything it can do to reduce the pressures within the MTFS prior to the announcement of its indicative finance settlement in December at which point the budget gap can be finalised with a greater degree of clarity and the Council can agree its strategy on how to move forward.
- 3.12 The Councils Asset Management Strategy is being reviewed and updated. An immediate outcome from this review may be the small scale disposal of a number of assets that have reached the end of their strategic use and will provide much needed receipts to support the MTFS. Such actions will require Cabinet approval. One rationale for an initial immediate outcome is to make use of the government tool for capital flexibilities which is due to end in March 2022 unless extended.
- 3.13 The Councils Capital Programme is subject to a whole scale baseline review to ensure it is aligned to agreed strategic priorities, to realise any potential capital financing efficiencies and to reduce the occurrence of carrying forward slippage into future years. The outcome of this review will be the refreshed draft Capital Programme brought to Cabinet in December.
- 3.14 Table 2 below summarises the refreshed MTFS supported by a high-level explanation of adjustments and key assumptions. It is important to note that the information in the table is based on estimates and assumptions that will remain under constant review until the draft budget is set in December. The purpose of this report is to show the indicative impact of current thinking on the MTFS only and the report is not making recommendations on the budget. Therefore, the detailed schedules to support numbers shown in the table will be brought to December Cabinet when the position is finalised and forms the draft budget for consultation:

**Table 2: MTFS Refresh 2021/22 to 2023/24**

|                                                            | 2021/22       | 2022/23       | 2023/24      | Total         |
|------------------------------------------------------------|---------------|---------------|--------------|---------------|
|                                                            | £'000         | £'000         | £'000        |               |
| <b>Published Budget Gap - February 2020</b>                | <b>11,414</b> | <b>11,178</b> |              | <b>22,592</b> |
| <b>Adjustments:</b>                                        |               |               |              |               |
| Removal of estimated increases in the CT base              | 750           |               |              |               |
| <b>Directorate Pressures carried forward from 2020/21:</b> |               |               |              |               |
| Resources                                                  | -176          | -339          |              |               |
| Children's:                                                | 750           | 600           |              |               |
| Adults                                                     | 4,095         | 1,047         |              |               |
| Community:                                                 |               |               |              |               |
| Expenditure                                                | 2,445         | -750          |              |               |
| Loss of income @ 39%                                       | 7,939         |               |              |               |
| <b>Under 18's Transport - removal of subsidy from TFL</b>  | <b>860</b>    |               |              |               |
| <b>New Homes Bonus - continuation of scheme</b>            | <b>-782</b>   | <b>-728</b>   |              |               |
| <b>Freedom Passes - reductions in usage</b>                | <b>-1,086</b> | <b>-1,400</b> |              |               |
| <b>Pay and Non Pay Inflation</b>                           |               |               | 4,750        |               |
| <b>Revised Budget Gap - 20/09/20</b>                       | <b>26,209</b> | <b>9,608</b>  | <b>4,750</b> | <b>40,567</b> |
| <b>Assumption - receipt of Adult Social Care Funding</b>   | <b>-3,482</b> |               |              | <b>-3,482</b> |
| <b>Revised Budget Gap - 20/09/20</b>                       | <b>22,727</b> | <b>9,608</b>  | <b>4,750</b> | <b>37,085</b> |
| <b>Community Income Scenario's</b>                         |               |               |              |               |
| Income loss at 30%                                         | -1,789        |               |              |               |
| <b>Revised gap @ 30% income loss</b>                       | <b>20,938</b> | <b>9,608</b>  | <b>4,750</b> | <b>35,296</b> |
| Income loss at 25%                                         | -2,854        |               |              |               |
| <b>Revised gap @ 25% income loss</b>                       | <b>19,873</b> | <b>9,608</b>  | <b>4,750</b> | <b>34,231</b> |
| Income loss at 20%                                         | -3,839        |               |              |               |
| <b>Revised gap @ 20% income loss</b>                       | <b>18,888</b> | <b>9,608</b>  | <b>4,750</b> | <b>33,246</b> |

**Council Tax Base:**

3.15 The current MTFS assumption that the CT base would increase to 88,180 band D equivalent properties is removed as development across the borough has either ceased or slowed during the pandemic.

**Directorate Pressures:**

3.16 Resources – the directorate is reviewing the growth provisions included in the current MTFS with a view to reducing the strain on the MTFS.

3.17 Children's – the Qtr 1 Monitoring report to September Cabinet explained that since March 2020 there has been a net increase in the number of Looked After Children rising from 180 to 200 in July. The directorate can identify plans to partly mitigate this increase but returning to March 2020 levels is not possible and the strain is reflected in the refreshed MTFS.

- 3.18 **Adults** – at the point of setting the 2020/21 budget in February 2020, estimated growth projections were forecast for Adult Services covering the MTFS. The identified pressures were not built into the MTFS because of future funding uncertainties, the Council only received a one-year financial settlement in 2020/21 with no certainty about how social care was to be funded in future. Including the legacy impact of Covid-19, growth projections are currently estimated at £6.4m for 2021/22 and £3.7m for 2022/23. After accounting for growth already included in the MTFS, the refreshed MTFS reflects the additional strain of £5.142m. Forecasting growth under normal circumstances is challenging and the task has only increased as a result of Covid-19. The division are continuing with their modelling assumptions in the run up to the draft budget.
- 3.20 **Community** – the Qtr 1 Monitoring Report to September Cabinet reported pressures of £15.124m (£2.029m business as usual and £13.095m Covid-19 related). As a result of the review work over the summer period, expenditure pressures moving forward are estimated at £1.695m (over 2 years) and the income loss, primarily as a result of Covid-19, is estimated at £7.939m assuming a 39% reduction on budgeted income. The income estimate is based on evidence known at the time of writing this report. Table 2 also shows a number of scenario's around how the loss of income could improve and the financial benefits from this. However, as we enter a potential second wave, the income position will closely reviewed in preparation for the draft budget.
- 3.21 **Under 18's Transport** - The transfer date of this responsibility from Transport for London is now estimated to be January 2021. The MTFS strain of £860k is a high level estimate until further details are clarified.
- 3.22 **New Home Bonus (NHB)** – The current MTFS assumes the NHB will cease however it is now assessed as reasonable to assume that the grant will continue in some guise and the income is planned for re-instatement in the MTFS.
- 3.23 **Pay and non pay inflation** – The £4.750m assumes pay award inflation at 2.75% (£2.750m) leaving £2m for non-pay inflation and other pressures, (including an increase in capital financing costs of £500k to cover minimum additions to the Capital Programme in future years) .
- 3.24 **Freedom Passes** – Freedom Passes cost the Council £10m per annum and the charge in based on usage over the last two years hence a reduction in charges are anticipated as a result of the pandemic. The current estimates from TFL indicate a 2-year benefit of

£2.4m which is the midpoint of the best and worst case scenarios provided by TFL.

3.25 The conclusion of all this work can be summarised as:

- The budget gap for 2021/22 is shown to increase from £11.4m to £26.2m. Due to the delay in the Adult Social Care Green Paper, if it is assumed that additional funding is received in 2021/22 for adult social care commensurate with that received in 2020/21, the budget gap could be further reduced to £22.7m and then further potential reductions based on the loss of income scenario's.
- Based on a number of assumptions on collection rates, bad debt and CTS requirements, if Council Tax was increased to its current referendum level of 1.99% and a 2% Adult Social Care precept levied, this would generate approximately £4.8m in 2021/22 which simply does not meet the estimated budgeted gap.
- The budget gap for 2022/23 is shown to reduce from £11.4m to £9.6m. However, this does not include the impact of using any one-off measures to manage the 2021/22 budget gap. For example, if a value of one-off reserves was applied to the 2021/22 budget, the reversal of this one-off action in 2022/23 would immediately increase the budget gap
- The budget gap for 2023/24 is currently shown at £4.7m

3.26 However it must be stressed that the revised budget gap figures shown are based on a number of assumptions which are subject to constant change. It is incredibly difficult to predict the impact of a second wave of the pandemic, the implications of the changes to the furlough scheme, how the general economy will recover after Covid-19 and what will happen as Brexit approaches. This uncertainty runs alongside existing budget pressures including social care demand, demographic changes and housing and homelessness. What the Council has done is make the most appropriate assumptions to support the MTFS refresh process which will be kept under close scrutiny to ensure that the draft budget presented to Cabinet in December reflects the most accurate and up to date impact of Covid-19 and other pressures in the Council's medium term financial position.

3.27 Focusing on the estimated position for 2021/22, the Council is faced with a number of choices:

- It could embark on a drastic programme of cuts to address the budget gap. This report has highlighted all the uncertainties in terms of financial planning, the most significant being the lack of clarity on the indicative financial settlement due in December. It would be unwise to consider any programme to reduce Council services until there is clarity on the Council's funding settlement which will inform the budget gap

- The Council do have limited reserves that can be applied to the budget gap:
  - Budget Planning Reserve £2,628m
  - Commercialisation Reserve £1.264m
  - MTFs Implementation Reserve £1.775m
  - Adults Social Care Reserve £1.9m
  - Business Risk Reserve (ear marked for member investment) £2m
  - General Fund Balances £10m
- The Council will consider the need to call on reserves when setting the draft budget. The main concern is that reserves are only a temporary solution and will need to be carefully considered alongside announcements on the indicative funding settlement.

## **Options Considered**

3.28 The purpose of this report is to update members on the MTFs. Where financial scenarios are relevant, these have been identified in the report.

## **Risk Management Implications**

3.29 The inability to deliver the Council's approved MTFs and the recovery of the Council from Covid-19 are both reflected on the Corporate Risk Register.

## **Procurement Implications**

3.30 This report is for noting and there are no direct procurement implications arising from this report.

## **Legal Implications**

3.31 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.

3.32 Local authorities owe a fiduciary duty to council tax payers, which means it must consider the prudent use of resources, including control of expenditure, financial prudence in the short and long term, the need to strike a fair balance between the interests of council tax payers and ratepayers and the community's interest in adequate and efficient

services and the need to act in good faith in relation to compliance with statutory duties and exercising statutory powers.

- 3.33 These proposals will eventually 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.

## **Financial Implications**

- 3.33 This report is for noting only and there are no direct financial implications arising from this report.

## **Equalities implications / Public Sector Equality Duty**

- 3.34 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. This report is for noting but when decisions are to be made the equalities impact will be assessed on each of the proposals as they are developed. Consideration of the duties should proceed 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

## **Council Priorities**

3.35 The Council's financial plans are prepared in line with delivering the Council's priorities as set out below:

1. **Improving the environment and addressing climate change**
2. **Tackling poverty and inequality**
3. **Building homes and infrastructure**
4. **Addressing health and social care inequality**
5. **Thriving economy**

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

### **Statutory Officer:**

Signed by the Chief Financial Officer

**Date:** 29 September 2020

### **Statutory Officer:**

Signed on behalf of the Monitoring Officer – Jessica Farmer

**Date:** 29 September 2020

**Statutory Officer:**

Signed by the Head of Procurement

**Date:** 29 September 2020

**Statutory Officer:**

Signed by the Corporate Director - Resources

**Date:** 30 September 2020

## **Mandatory Checks**

**Ward Councillors notified: YES**

**EqlA carried out: NO**

This report is for noting only. No EqlA required.

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

**Contact:** Dawn Calvert – Director of Finance and Assurance (S151 Officer), dawn.calvert@harrow.gov.uk

**Background Papers: None**

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

**NOT APPLICABLE**