

<b>COUNCIL</b>	<b>DATE</b> 26 February 2020	<b>ITEM NO:</b> 12
<b>TITLE</b> Medium Term Financial Strategy 2020/21+	<b>WARD (S)</b> All	
<b>CHIEF OFFICER</b> Director of Finance	<b>CABINET MEMBER</b> Finance and Resources	
<b>DECISION CLASSIFICATION</b> Key Non-exempt	<b>IS THE FINAL DECISION ON THE RECOMMENDATIONS IN THIS REPORT TO BE MADE AT THIS MEETING?</b> Yes	

## I **Decisions required**

Council is requested to:

- I.1 Agree the 4-year Medium Term Financial Strategy as set out in this report, including an updated set of Budget Principles (Section 2.3)
- I.2 Note that the impact of a decade of government austerity combined with demographic pressures has led to a structural deficit of £25m in gross service spending (Section 3.2)
- I.3 Note that the proposals within the report lead to a £20m reduction in the overall MTFS gap, down to £37m by 2023/24 (Section 6.17)
- I.4 Note the potentially significant financial risks to the MTFS going forward (Section 6)
- I.5 Note the contribution that a Continuous Improvement programme will have upon outcomes for residents and the Council's finances. (Section 7)
- I.6 Take into account the results of the public consultation which took place between 14 January 2020 – 7 February 2020 (Section 8)
- I.7 Note the comments of the Overview and Scrutiny Committee on 28 January 2020 (Appendix C)
- I.8 Note the comments of Cabinet on 19 February 2020 on the Medium Term Financial Strategy (to follow)

## 2 Links to the Royal Greenwich Strategy

2.1 This report relates to the delivery of all of the high-level objectives contained within the Royal Greenwich Strategy.

### Budget Principles

2.2 The authority's budget principles (Table I) for the current Medium Term Financial Strategy (MTFS) reflected that the Council had moved into a period of utilising financial capacity to meet the requirements under the government's current funding regime, which places a premium on business and housing growth.

2.3 Embarking on the next chapter of the journey, building a Fairer Greenwich, demands a refresh of those principles (Table I).

*Table I – Budget Principles*

<b>Principle</b>	<b>Description</b>
A Fairer Greenwich	<i>an inclusive economy with financial inclusion reducing poverty, improving life quality and increasing opportunities for disadvantaged residents</i>
Maintaining the highest possible quality and efficient services commensurate with the cuts imposed by Central Government	<i>this underpins a commitment to continuing to provide value for money services and seeking to keep increases in council tax to a minimum</i>
Recognition of front line service pressures	<i>this recognises the prioritisation of key services, in particular those provided to children and vulnerable adults, as well as those that underpin the quality of life in the public realm and support reductions in violent crime</i>
Maintenance of reserves at a prudent level	<i>this allows the Council to maintain and deliver service stability, longer term plans and respond to a range of financial risks and uncertainties, thus supporting the Council's approach to developing its financial standing whilst delivering major capital investment</i>
Investing in and delivering the Growth Strategy	<i>this means maximising, as far as possible, investment and delivery of the Growth Strategy and prioritising interventions which</i>

	<i>will have the greatest impact on growing the local economy with the consequent benefit for jobs, housing (including New Homes Bonus) and business rate growth</i>
Deepening Financial Resilience	<i>developing new sustainable strategies within a Continuous Improvement context, to manage resources and ensure continuity of service delivery</i>
Effective Governance in the context of diminishing resources	<i>using information about costs and performance to facilitate effective and informed decision making</i>

### **3 Introduction and Background to Austerity and Local Government Funding**

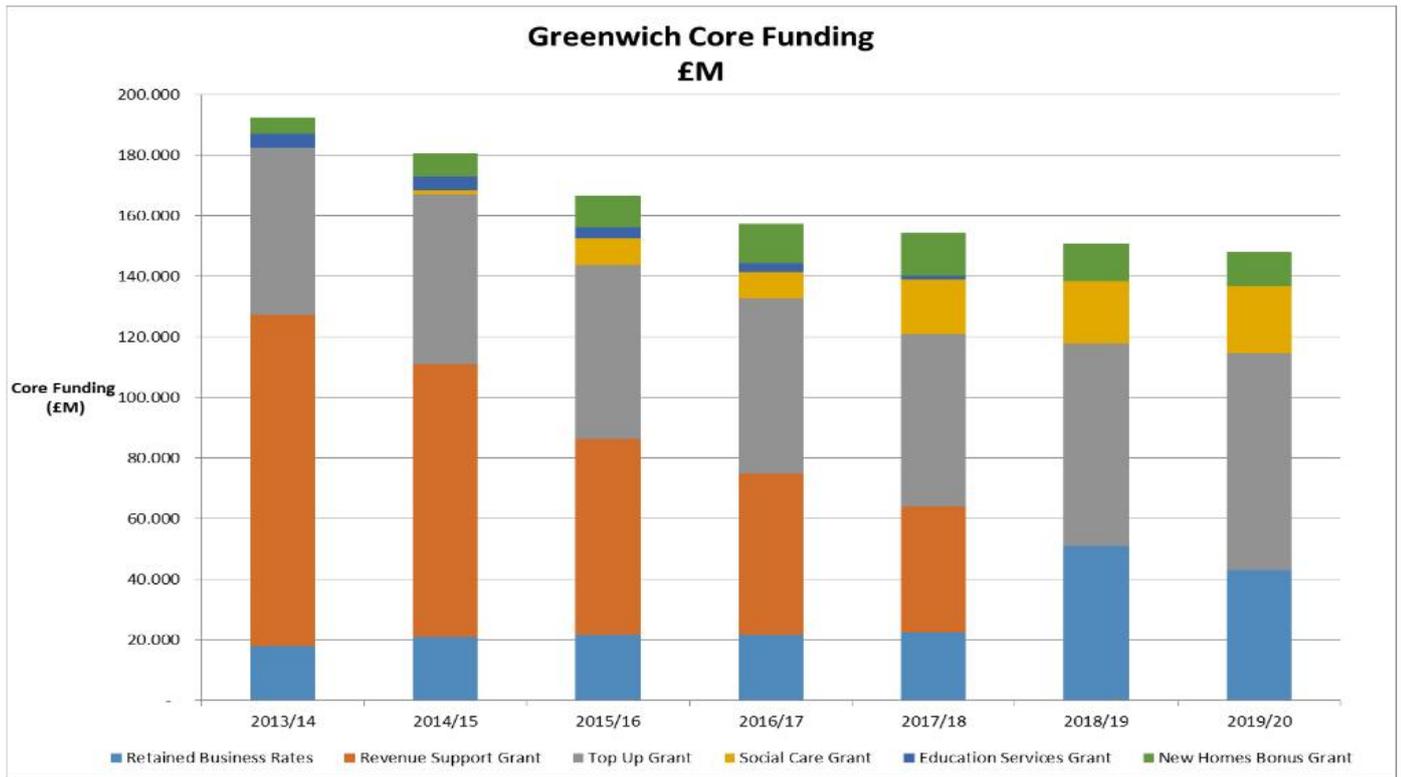
3.1 This report contains the sections set out in Table 2.

*Table 2 – Structure of the Report*

<b>Ref</b>	<b>Section</b>
3	Introduction and Background to Austerity and Local Government Funding
4	Medium Term Financial Strategy
5	Budget for 2020/21
6	Looking Ahead / Risk
7	Continuous Improvement
8	Consultation and Timetable
9	Cross Cutting Issues and Implications
App A	Comments of the Cabinet on 19 February 2020 (to follow)
App B	Equality Impact Assessment
App C	Comments of the Overview and Scrutiny Committee on 28 January 2020

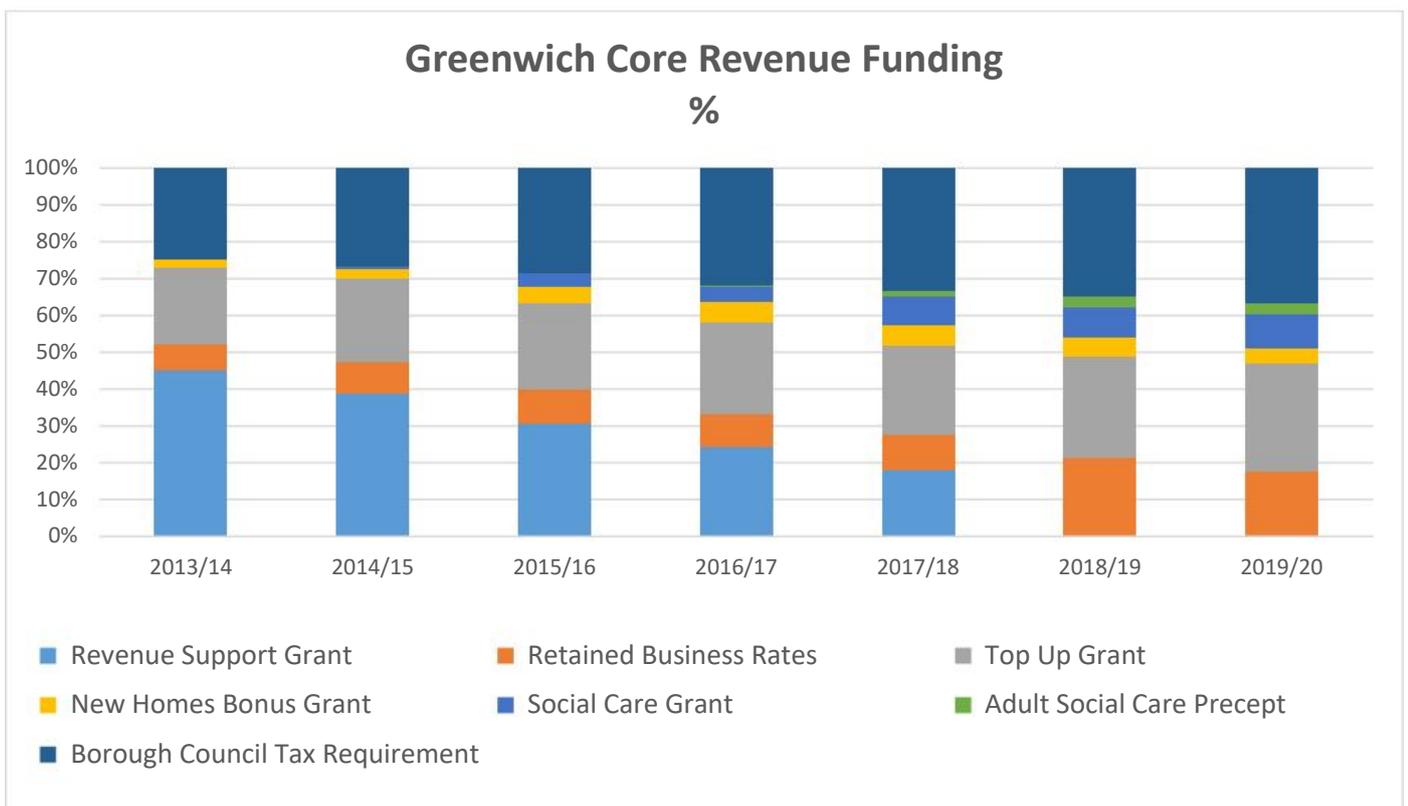
3.2 Since the start of austerity in 2010, the pressures on scarce revenue resources have grown and over the last few years increasing demand from a growing population, complex need patterns, price increases and reduction in funding have combined to a point where Greenwich has in excess of £25m of service pressures within the system.

3.3 Government funding changed in 2013/14 with the introduction of the business rates retention scheme. Since then, core funding from the government has decreased (Chart 1).



*Chart 1: Core Funding*

3.4 A growing importance has therefore been placed on Council Tax funding, including the Adult Social Care (ASC) Precept (Chart 2)



*Chart 2: Funding Stream Composition 2013/14 to date*

- 3.5 No local authority can manage increasing demand, rising costs and ever decreasing resources indefinitely – services for vulnerable residents will be at risk if this situation continues.
- 3.6 New government policy and a possible end of austerity is no guarantee that the financial difficulties local authorities face will ease. The policy of the government of “rebalancing” the national economy is likely to lead to a regional shift in resources away from London and metropolitan areas to other areas within the UK.

#### **4 Medium Term Financial Strategy**

- 4.1 The uncertain political situation towards the end of 2019, resulted in the Government producing only a one-year Spending Round, where normally the government would produce a spending review covering a 3 to 4-year window.
- 4.2 Medium term financial planning is central to a robust financial management framework and to this end the authority has continued to plan for the medium term, despite a lack of certainty in relation to government funding for the years after 2020/21.
- 4.3 As reported to Council on 30 October 2019 (Table 3), multi-year modelling of many scenarios across key MTFS drivers produced a central path of projections that point to steady growth pressures. This accumulates to a total base budget gap of £57m by the end of the next 4-year MTFS planning window in 2023/24, with the initial gap for 2020/21 being £24m, including overspending brought forward.

*Table 3 - MTFS central forecast*

<b>MTFS Driver</b>	<b>Baseline</b>	<b>20/21</b>	<b>21/22</b>	<b>22/23</b>	<b>23/24</b>	<b>Total</b>
Structural	25					<b>25</b>
Overspend						
Price and Demand		10	10	10	10	<b>40</b>
Funding Reductions		3	3	4	3	<b>13</b>
Budget Recovery	<b>(7)</b>					<b>(7)</b>
Board						
Business Rates	<b>(5)</b>					<b>(5)</b>
Economic Growth		<b>(2)</b>	<b>(2)</b>	<b>(2)</b>	<b>(3)</b>	<b>(9)</b>
<b>Total</b>	<b>13</b>	<b>11</b>	<b>11</b>	<b>12</b>	<b>10</b>	<b>57</b>

4.4 It is key to note:

- that the main driver surrounds price and demand factors (the forecasts also exclude any new service growth proposals or changes in the level of council tax).
- that possible significant funding reductions beyond 2020/21 - that discussed in section 6 - are not reflected in the £57m gap.

4.5 Enhanced reviews of Adults & Health, Children's and Communities & Environment, Housing and DRES are being undertaken during this financial year to help deliver cogent and robust plans to reduce spending levels and increase income generation in these areas. Action is taking place via the Budget Recovery Board (BRB), with proposals worth £7m identified to date and progress is being closely monitored and more proposals to come.

4.6 These further measures will contribute to closing the £57m gap in the MTFS. The structural deficit less BRB actions leaves a balance of £18m overspend to be found. The other elements within the previous table have resource (budget) implications in each year. An abbreviated format of the MTFS reflecting this approach is shown in Table 4.

*Table 4 – Summary MTFS (£m)*

<b>Year</b>	<b>Overspend</b>	<b>Net Budget</b>	<b>MTFS</b>
2020/21	18	6	<b>24</b>
2021/22	18	17	<b>35</b>
2022/23	18	29	<b>47</b>
2023/24	18	39	<b>57</b>

4.7 The council is taking a twin track approach to resolving the financial gap – on the one hand undertaking measures to reduce the level of the overspend and on the other, balance in year resources.

**Latest Monitor for 2019/20**

4.8 In the latest monitoring report for 2019/20 to Cabinet in February based on period 8 information, overspend pressures consistent with those identified above were reported.

## Management Action

- 4.9 In addition to the extended reviews of the BRB, Greenwich is taking robust management action in the following areas to control the pressures it faces:
- utilisation of capital receipts to invest for long-term cost-reduction benefits and dampen revenue spend
  - austerity measures on staffing and value for money
  - departmental savings proposals being progressed worth £7m, to reduce the overspend. These proposals were considered by Cabinet on the 19 February 2020 and the Equalities Impact Assessment is shown in Appendix B
  - a programme of Continuous Improvement, including the end to end process started in Adults and Health worth £8m, initially to reduce the overspend and then potentially impact upon demand and generate longer term structural savings (section 7)

## 5 Budget for 2020/21

- 5.1 Cabinet has considered the availability of additional one off and ongoing resources on 19<sup>th</sup> February.

*Table 5 – One Offs Resources*

<b>One Offs Resources</b>	<b>£m</b>
(i) Business Rates	(4.000)
<b>One Off Capacity c/f</b>	<b>(4.000)</b>

*Table 6 – Ongoing Resources*

<b>Ongoing Resources</b>	<b>£m</b>
(i) Government funding	(6.146)
(ii) Local Taxbase Growth	(2.200)
(iii) New Homes Bonus	(0.840)
(iv) Improved Collection Rate	(0.260)
<b>Ongoing Capacity c/f</b>	<b>(9.446)</b>

- 5.2 Cabinet also considered the deployment of these resources. These are summarised in Tables 7 and 8 respectively.

*Table 7 – One Offs Capacity Deployment*

<b>One Offs Position</b>	<b>£m</b>	<b>£m</b>
One Off Capacity b/f		(4.000)
(i) Greener Greenwich:	1.500	
• Parks initiatives	1.000	
• Greener Community Fund	0.500	
(ii) BCF enhanced scheme	0.750	
(iii) Workforce changes	0.750	
(v) Bellwin	0.500	
(vi) ReSET (if needed)	0.067	3.567
<b>One Off Capacity c/f</b>		<b>(0.433)</b>

- 5.3 The residual one-off resources of £0.433m was proposed to be set aside to cover pressures occurring within the year.

*Table 8 – Ongoing Capacity Deployment*

<b>Ongoing Position</b>	<b>£m</b>	<b>£m</b>
Ongoing Capacity b/f		(9.446)
(i) Price / Demand	10.328	
(ii) Local Council Tax Support	1.535	
(iii) Emergency Support Scheme	0.750	
(iv) Universal Credit Support Team	0.350	
(v) Emergency Planning	0.050	
(vi) External Audit	0.035	13.048
<b>Deficit to be financed c/f</b>		<b>3.602</b>

- 5.4 Cabinet has considered the options for financing the deficit above. A proposed council tax increase to finance the ongoing deficit of £3.6m is addressed in the Budget and Council Tax Setting 2020/21 report, which is being considered on this agenda. This will see the passporting of £1.8m for Adult Social Care pressures.
- 5.5 Further details of the above availability and deployment of resource proposals are included in the Medium Term Financial Strategy 2020/21+ report to Cabinet on 19<sup>th</sup> February 2020.

## 6 Looking Ahead / Risk

- 6.1 Significant change is likely in the way local government resources are allocated at the national and local level.
- 6.2 The introduction of fair funding reform is likely to produce new formulae to allocate local government funding between Councils comprising:
- a main formula funding to cover most services delivered
  - specific formulas for Social Care and Children's Services
- 6.3 There is likely to be significant change to how the business rate retention system operates which are scheduled for introduction in 2021/22.
- 6.4 These reforms are likely to impact adversely on Greenwich for the following reasons which are explored below:
- size of National Funding Pot
  - full reset of the Business Rates Baseline
  - Area Cost Adjustments (ACA)
  - replacement / update of the NHB.

### National Funding Pot

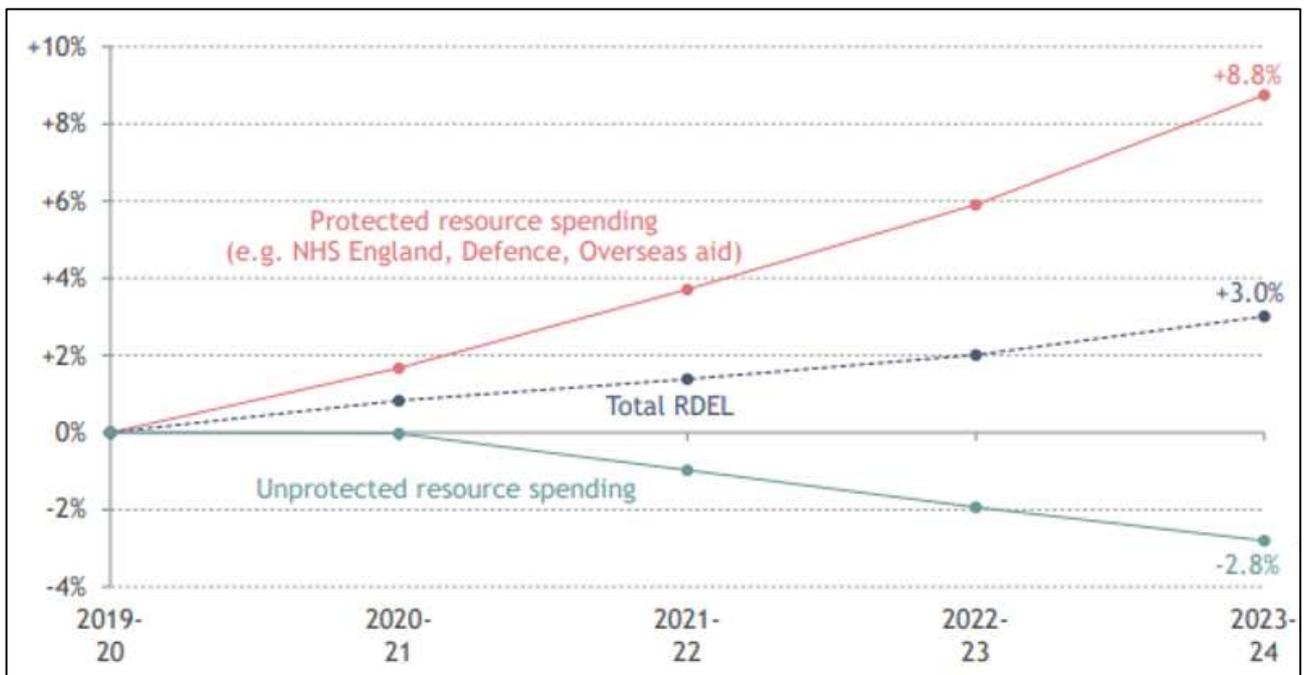


Chart 3: Projected Government Expenditure to 2023/24

Source: Resolution Foundation

- 6.5 If the approach over the last two Spending Reviews continues (SR10 and SR15), certain elements of government expenditure will be protected in funding terms (for example NHS). Local Government has **not** been one of these in the past and is unlikely to be in the future. (Chart 3).
- 6.6 Therefore although the share of government spending across the public sector may go up, local government spending could well reduce in real terms as demonstrated in the unprotected resource spending projection shown above.

## **Business Rates**

### Full reset of the Business Rates Baseline

- 6.7 No reset has been conducted since the Business rates retention system was introduced in 2013/14. A full reset, the government's favoured approach, will redistribute all the growth gains across the country into funding assessment base positions in 2021/22. This has the effect to share the growth of all high growth authorities (including London) around the country. Depending on the method **this could lead to Greenwich losing significant elements of growth achieved over the last 8 years.**
- 6.8 In 2020/21 Greenwich will budget above the Government's Funding Assessment for Greenwich. A full reset of Business rates retention system is likely to remove a significant slice, if not all, of this base surplus position in 2021/22.

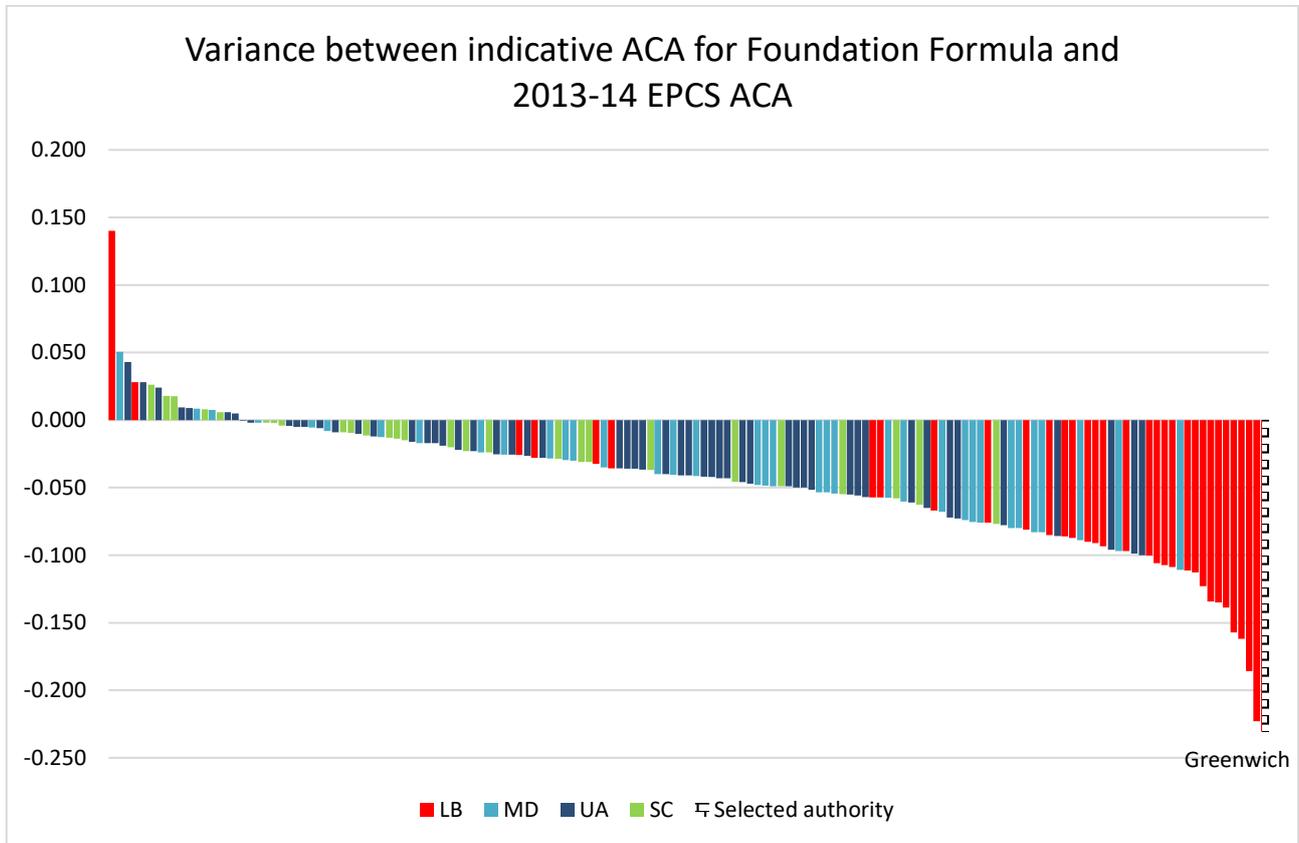
### Revaluation 2021

- 6.9 The government is planning for another revaluation of businesses in 2021.

## **Fair Funding - the Area Cost Adjustment (ACA)**

- 6.10 Certain funding elements were locked into the 2013/14 Business rates retention system from the previous formula funding system. This has continued to date. One such element was an adjustment based on the costs in the local authority area. Greenwich were in a group with inner London boroughs who received the highest possible uplift for area costs.
- 6.11 Initial reform proposals indicate rurality will be given a significantly more important weighting in the factor that adjusts for area costs. This will have an adverse impact on the funding assessment for Greenwich.

6.12 Chart 4 compares the likely change in ACAs from the position locked into the 2013/14 Business rates retention system, represented by comparison to the ACA used in 2013/14 for environmental, protective and cultural services. Greenwich would be the worst affected across all English authorities.



*Chart 4: Area Cost Adjustment comparison*  
*Source: Pixel Financial Management*

6.13 However so many uncertainties exist about the changes likely to be introduced in 2021/22, that the exact effect is difficult to quantify, but this could result in a probably the most significant loss from the changes in the funding system.

### **Changes to the New Homes Bonus Scheme**

6.14 The new allocation for 2020/21 (Table 9) will not result in legacy payments being made in subsequent years for that element. NHB is once again under review and the funding source may well be significantly reduced from 2021/22 onwards. Modelling indicates that overall losses could be in the region of around £6m in 2021/22.

*Table 9 – NHB Total Payment Breakdown for 2020/21*

<b>Period</b>	<b>Amount</b>
Year 7	£3.6m
Year 8	£2.7m
Year 9	£2.1m
Year 10	£3.6m
<b>Total</b>	<b>£12.0m</b>

## **Transition**

- 6.15 Greenwich will need to pay close attention as to the details of these reforms as they emerge, particularly regarding the transitional arrangements, if Greenwich is adversely affected by the changes.
- 6.16 Significant change to funding regimes normally include transitional arrangements to smooth the full effects of adverse changes over several years. These will be important to Greenwich if the new funding changes in a way that disadvantages the borough.

## **Conclusion**

- 6.17 Initial Gap projections to 2023/24 of £57m were presented in section 4. The report enables an updated position to be shown (Table 10) i.e. a £20m reduction to £37m. However, the impact of significant government funding changes is currently not reflected in these estimates. Until the multi-year spending review and anticipated local government funding consultation are released – it is unclear what the actual severity of these anticipated cuts will be.

*Table 10 – Revised Summary MTFS (£m)*

<b>Year</b>	<b>Overspend</b>	<b>Net Budget</b>	<b>MTFS</b>
2020/21	12	0	<b>12</b>
2021/22	9	12	<b>21</b>
2022/23	6	24	<b>30</b>
2023/24	3	34	<b>37</b>

- 6.18 The funding changes likely from 2021/22 represent by far the most significant risk within Greenwich’s Medium Term Financial Strategy. Transitional arrangements will be key to managing any adverse changes.

## **7 Continuous Improvement**

### Overview

- 7.1 Like all local authorities the Council has been and will be, going through a significant period of change. The Council therefore must be able to continuously adapt and modernise its Services to ensure they best meet the requirements of the future. The Council does not have a dedicated resource to identify, plan, support, challenge, embed and review this change. The lack of recourse to support this work has been identified as a weakness for the Council.
- 7.2 This weakness will be addressed through the implementation of the new Continuous Improvement Model, which includes the creation of a small core Continuous Improvement Team. This team will work in a matrix-based approach with all Council Services to support, enable and challenge Services in delivering positive and sustainable change.
- 7.3 It will support the development of the crosscutting streams as identified by GMT. In addition, it will play an important role in working with services to meet the requirements of the upcoming medium-term financial strategy.
- 7.4 The team is focused on enabling systems, structures and resources so that directorates can be supported to deliver savings. It will support the harnessing of resources across the Council to create a “One Council” approach aimed at improving the customer journey for residents and optimising the use of the Council’s shrinking resources. All this will require the development and creation of new capabilities and target operating models across the Council. The team’s core principle is about enabling and supporting this work, not doing it to others.
- 7.5 The team will be funded from flexible use of capital receipts and will initially be organised for two years. After this period, it will be reviewed to ascertain the future need of the resource.

### **Crosscutting Streams**

- 7.6 There are a number of crosscutting streams that will form the initial Continuous Improvement Model (Figure 1).

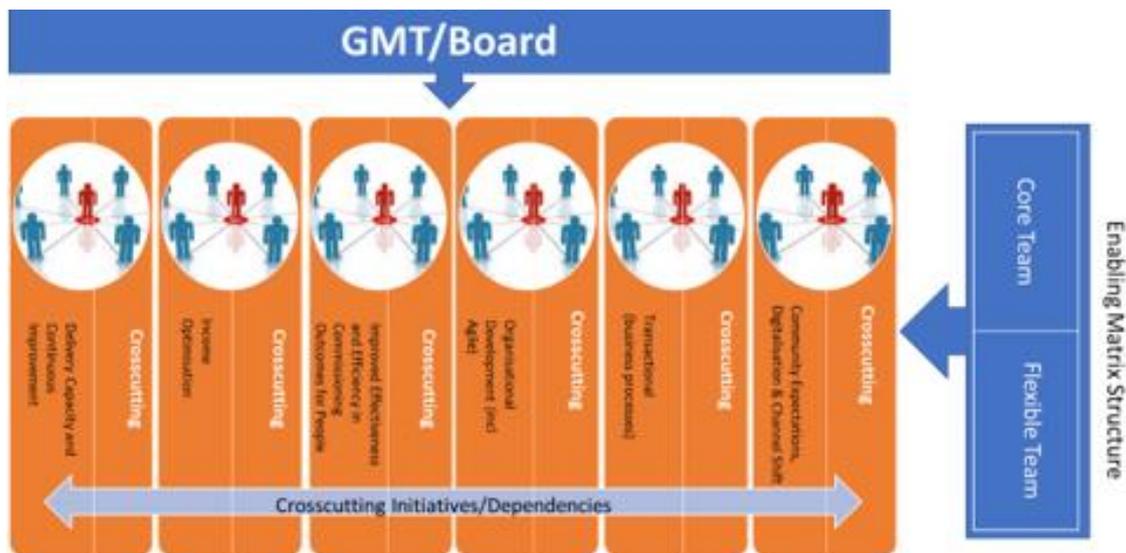


Figure 1: Continuous Improvement Model

(i) Community Expectations, Digitalisation & Channel Shift

- development of digital services and tools to deliver better access to services for residents
- focus on delivering sustainable and effective Digital Channel shift.

(ii) Transactional (Business Processes)

- reviewing and benchmarking of business processes
- re-engineering of businesses processes to deliver efficiencies
- synergies with the *Community Expectations, Digitalisation & Channel Shift* theme.

(iii) Organisational Development (including Agile)

- support a change in the culture of the Council to enable staff to feel invested and empowered to make positive change and be more citizen-centric in their actions
- communicating what change needs to happen and the skills that will be needed to support this
- review of training and development programme to ensure it addresses our current challenges and strengthens our core skill set
- transform the workforce into an agile workforce that is delivers better outcomes through flexible working and being less tied to premises/ICT equipment.

- (iv) Improved Effectiveness and Efficiency in Commissioning Outcomes for People
  - a. focusing on an integrated model for commissioning of services for people, including personalised commissioning
  - b. this will include reviewing current practices, an appraisal of available options and creating an implementation plan.
  
- (v) Income Optimisation
  - a. optimising income opportunities from creating charging and debt recovery
  - b. identifying opportunities where income can be generated from new business delivered via local authority direct trading or other vehicles.
  - c. identify invest to yield opportunities on commodities that may bring additional investment income.
  
- (vi) Delivery capacity and Continuous Improvement
  - a. this is the creation of the Core Continuous Improvement team and implementation of the wider Continuous Improvement Network which will involve matrix-based approach involving all Council Directorates.
  - b. the cross-cutting streams set out the initial starting point of this work, but it is anticipated that once initiated synergies between streams will be identified, and additional themes brought in.

7.7 The work emanating from this model will be felt across the council with the effect of helping to drive down the overspend, introducing leaner processes and channel demand into lower cost areas of the business.

7.8 Over time, proposals for efficiencies and improvements will be generated and where applicable, brought before members for consideration.

### **Adult Social Care – end to end review**

7.9 This corporate change capacity also has control and coordinates the consultancy led intervention within adult social care focussed on stabilising and improving its services. This includes oversight from a dedicated Assistant Director level resource within the core team. Links will be drawn between work within adult social care and the wider Continuous Improvement Model to share learning and enhance skills.

## 8 Consultation and Timetable

8.1 This year, the authority has engaged in an on-line consultation regarding proposals for 2020/21. The consultation was for the period 14 January 2020 until 7 February 2020.

8.2 Cabinet took account of this consultation when considering the MTFS 2020/21+ in February.

8.3 A total of 460 respondents engaged with the consultation. It provided an opportunity for stakeholders to input their feelings on key themes. The headlines were as follows:

- 85% want front line services to be protected
- 77% want the council to make efficiencies
- 61% want to increase income by way of fees and charges
- 54% want to increase income by way of a council tax increase

8.4 In terms of the priorities around building a fairer, greener Greenwich, respondents provided replies to a number of further questions as follows:

- 79% want the council to reshape social care services to improve outcomes for residents
- 72% want the council to tackle climate emergency and environmental issues
- 68% want the council to reduce poverty by helping working age residents on the lowest incomes
- 67% want the council to offer business rate relief to retail food premises that offer healthy eating options

8.5 The governance timetable is shown in Table 11.

*Table 11 – Governance Timetable*

<b>Meeting</b>	<b>Date</b>	<b>Subject</b>
Consultation	14 Jan – 7 Feb	MTFS
O&S	28 Jan	MTFS
Cabinet	19 Feb	MTFS / Budget Recommendations
GLA Assembly	24 Feb	Precept Agreed
Council	26 Feb	Budget Approval

**9**      **Cross-Cutting Issues and Implications**

<b>Issue</b>	<b>Implications</b>	<b>Sign-off</b>
<b>Legal</b>	<p>The proposals in this report provide the foundations to allow the Council to meet its statutory obligations to set a balanced budget each year in accordance with the Local Government Finance Act 1992 and the Local Government Act 2003.</p> <p>In considering proposals concerning services, it is important that Members consider the policy choices about those services it wishes to fund and the extent of that funding. Members should consider all relevant factors in reaching a decision and balance the needs of those who might have a call on resources against the resources available.</p> <p>Cabinet and Council will consider recommendations in relation to the Council’s budget and council tax at their February meetings.</p>	<p>John Scarborough, Director of Legal Services, 13 February 2020</p>
<b>Finance</b>	<p>This report is authored by the Director of Finance and there are no other financial implications arising.</p>	<p>Damon Cook, Director of February 2020</p>
<b>Equalities</b>	<p>Decision-makers are reminded of the requirement under the Public Sector Equality Duty (s149 of the Equality Act 2010) to have due regard to (i) eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act, (ii) advance equality of opportunity between people from different groups, and (iii) foster good relations between people from different groups. The decisions recommended through this report could directly impact on end users.</p>	<p>Stephen Parratt, Accountancy Business Change Manager, February 2020</p>

	<p>Proposals affecting staff will be assessed in accordance with the relevant policies and procedures regarding reorganisation.</p> <p>With regards to other proposals considered by Cabinet on the 19 February 2020, the results of the Equality Impact Assessment are attached at Appendix B.</p>	
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## 10 Report Appendices

10.1 The following documents are to be published with and form part of the report:

- Appendix A: Comments of the Cabinet on 19 February 2020 (to follow)
- Appendix B: Equality Impact Assessment
- Appendix C: Comments of the Overview and Scrutiny Committee on 28 January 2020

### Background papers:

Medium Term Financial Strategy 2020/21+ Cabinet 19/02/20

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