

REPORT TO:	Cabinet 21st September 2020
SUBJECT:	Finance Review and Medium Term Financial Strategy
LEAD OFFICER:	Lisa Taylor, Director of Finance, Investment and Risk (Section 151 Officer) Jacqueline Harris-Baker, Executive Director Resources & Monitoring Officer
CABINET MEMBER:	Councillor Tony Newman, Leader Of The Council Councillor Simon Hall, Cabinet Member For Finance And Resources
WARDS:	All
CORPORATE PRIORITY/POLICY CONTEXT: The Council's budget and Medium Term Financial Strategy (MTFS) underpins the resource allocation for all corporate priorities and policies and in particular, the corporate priority for the delivery of value for money for the residents of the borough of Croydon. The Finance Review underpins this by the effective monitoring of current year financial performance and the setting of a robust three-year budget for the future.	
FINANCIAL SUMMARY: This report updates members with progress on the Finance Review and work on preparing a three-year Medium Term Financial Strategy and Detailed Budget for 2021/22.	
FORWARD PLAN KEY DECISION REFERENCE The recommendations in section 1.1 are not executive decisions and therefore are not key decisions.	

1.0 RECOMMENDATIONS

1.1 That Cabinet note:

- I. The work undertaken to date under the auspices of the Finance Review Panel and their plans for further development; and
- II. The progress and plans for setting a budget for 2021/22 and the development of a three-year Medium Term Financial Strategy.

2.0 EXECUTIVE SUMMARY

- 2.1 This report sets out the progress of the Finance Review Panel (FRP) to date in identifying the future financial outlook and required level of spending

pressures and level of savings and efficiencies required to set a balanced three year budget.

- 2.2 The FRP has recommended that the Council, in accordance with best practice, annually refreshes its Medium Term Financial Strategy (MTFS) as part of its annual budget setting process. The process currently being undertaken considers a three-year planning horizon between 2021/22 and 2023/24. Modelling has suggested a target of £79m over the three years made up of £20m service efficiencies to meet corporate pressures and a further £59m of savings or mitigations to address future departmental cost pressures.
- 2.3 Indicative three-year changes to existing departmental budgets have been agreed as a starting point for services to identify potential options within those funding envelopes and initial submissions are due to be returned by mid-September. Budget Development meetings are scheduled to review all proposals, and refine any remaining gap for further proposals to be developed through October.
- 2.4 Recognising the impact the Covid19 pandemic has had on the Council's in-year budget position, the FRP has endorsed a series of "immediate measures" work streams to deliver savings in the current financial year, with £11.1m of savings recognised to date. Such measures have the potential to deliver on-going savings which in themselves will contribute to balancing the future budget position, or to reduce potential in-year net overspends. An element for such savings being of an ongoing nature has been built into the modelling of the potential three-year MTFS funding gap.

3.0 2021/22 Budget Setting and MTFS

- 3.1 Having set a balanced budget for 2020/21 at the beginning of March 2020, the Council has, in the same way as all other local authorities, seen significant pressures emerge in year because of the Covid19 pandemic. A separate report on this agenda sets out the latest in-year financial monitoring position and forecasts at quarter one for 2020/21, which forecasts a £49m overspend on the General Fund.
- 3.2 Whilst the pandemic has had a significant detrimental impact on the in-year financial performance (with some of its effects likely to be felt beyond the current financial year) other underlying pressures, historical budget decisions and further growth requirements will need to be addressed in setting a balanced, robust and deliverable budget for 2021/22.
- 3.3 Recognising that (especially in these current uncertain times and with the low level of reserves in Croydon) the need to regularly update the future financial outlook over a longer than one year planning horizon, the budget development process this year refreshes the MTFS over the three year planning horizon 2021/22 to 2023/24. This accords with the recommendation emerging as part of the work of the FRP.
- 3.4 Work has commenced on preparing the MTFS and forecast budget gap for the forthcoming three years and a "headline" need to find savings of £79m over the three year period 2021/22 to 2023/24. That £79m over the three

years consists of annual changes of £47m; £16m; and £16m in each of the next three financial years respectively and is summarised in table 1 below.

Table 1. Three Year Savings required

	Annual Change			Cumulative Change		
	2021/22 (£m's)	2022/23 (£m's)	2023/24 (£m's)	2021/22 (£m's)	2022/23 (£m's)	2023/24 (£m's)
Risk and Contingency Provision	4.7	4.7	4.7	4.7	9.3	14.0
Group Finances	10.0	-	-	10.0	10.0	10.0
Capital Financing Costs	1.6	4.9	2.4	1.6	6.5	8.9
Transformation Fund	-	5.0	-	-	5.0	5.0
Tax Base Risk / General Reserves	5.0	-	-	5.0	5.0	5.0
Other Corporate Budgets	4.9	(6.5)	0.0	4.9	(1.6)	(1.6)
Corporate Spend Pressures	26.2	8.0	7.1	26.2	34.2	41.3
Growth in NNDR and RSG	(1.7)	(1.7)	(1.8)	(1.7)	(3.5)	(5.2)
Council Tax Increases	(7.7)	(4.0)	(4.1)	(7.7)	(11.7)	(15.8)
Corporate Income Opportunities	(9.4)	(5.8)	(5.9)	(9.4)	(15.2)	(21.1)
Net Corporate Items	16.8	2.2	1.2	16.8	19.1	20.2
Demographics & Underlying Pressures	30.0	5.0	5.0	30.0	35.0	40.0
Pay and Contract Inflation	9.9	10.0	10.0	9.9	19.9	29.9
Investment Property Rents	5.4	(1.4)	-	5.4	4.0	4.0
Immediate Measures Savings	(15.0)	-	-	(15.0)	(15.0)	(15.0)
Net Service Growth	30.3	13.6	15.0	30.3	43.9	58.9
Total Savings & Efficiencies	47.1	15.8	16.2	47.1	63.0	79.1

- 3.5 The above three year savings target represents a snapshot in time in the assessment of the funding gap and has been determined as a starting point to indicate the potential level of savings required over the medium term. Further pressures or opportunities will naturally emerge over the coming months either as the result of further information and trends becoming known or by active management to mitigate pressures or identify further opportunities.
- 3.6 A brief explanation of the items contained in the above table is provided below:
- 3.6.1 Risk and Contingency – any budget contains within it the inherent risk that unforeseen pressures will emerge or that savings and efficiencies proposals will take longer to implement than originally foreseen. This corporate pressure allows for such contingencies and would be released in each year as circumstances dictate where mitigating actions cannot be identified.
- 3.6.2 Group Finances – the current base budget includes interest and dividend receipts payable to the Council which may prove difficult to deliver in the coming years due to potential structural changes in the housing market caused by any potential downturn in the economy.
- 3.6.3 Capital Financing Costs – using the annuity method of calculating minimum revenue payments [MRP] the revenue charge relating to historic capital borrowing necessarily rises each year, whilst current and future capital requirements further increase the annual cost year-on-year.
- 3.6.4 Transformation Fund – in delivering long term transformational change, initial costs are often incurred. In recent years Councils have temporarily been able

to use capital receipts for this purpose. However those powers cease at the end of 2021/22. £5m per year has been identified to provide (subject to individual business case approval) funding for such costs.

- 3.6.5 Tax Base / General Reserves – forecasts for income from Council Tax and Business Rates / Revenue Support Grant (RSG) take no account of the potential for either taxbase or government funding to decline as a result in the nature of either property base. Coupled with future reviews of the business rates system and local government financing (as well as New Homes Bonus (NHB)) this element of the assessed future pressure allows for potential shortfalls. Any lesser call on this item would be used to bolster general reserves, increase the contingency provision, or could be released to allow decision makers greater flexibility when considering savings proposals.
- 3.6.6 Other Corporate Budgets – In addition to the above, corporate budgets include a range of other items including pension deficit contributions, levies, collection fund adjustments, carbon credits and apprenticeship levies.
- 3.6.7 Growth in NNDR and RSG – whilst a fundamental review of the localised business rates system and Fair Funding Review of the Revenue Support Grant (RSG) model was planned to be implemented for 2021/22, this has been deferred by central government. Additional reliefs granted in-year by central government will be funded by s31 grants. Assumptions within this model assume annual increases by 2% per year. Potential shortfalls in year will be spread over the coming three years, but a risk exists that the taxbase will see longer term reductions – provision for such a circumstance is contained within 3.6.5 for taxbase reductions.
- 3.6.8 Council Tax Increases – for the purposes of modelling, a 2% increase has been modelled for Council tax increase (with a further 2% in the first year for the Adult Social Care precept). Provision for any underlying decline in the taxbase is contained within 3.6.5.
- 3.7 Taken as a net funding requirement, resources available to fund service spend are modelled to reduce by £20m over the coming three years - £17m in 2021/22 followed by £2m and £1m over the subsequent two years.
- 3.8 A number of service pressures are also recognised in the overall gap, and are summarised below:
 - 3.8.1 Demographic and Underlying Cost Pressures – service overspends as a result of underlying demand and service pressure mainly in Adult and Children's services have been funded over the past two years from one-off resources at the year end. This is not sustainable and the budget must be built around anticipated costs from the start. Based on the closing position for 2019/20 before such adjustments £30m has been allowed for service growth in 2021/22 and rises by £5m per year thereafter.
 - 3.8.2 Pay and Contract Inflation – allowance of 2% per year growth for each has been built into the model. Both however will be retained corporately and distributed to services in year according to submission of business cases demonstrating the actual need.

- 3.8.3 Investment Property Rents – are expected to decline compared to approved budget assumptions as further acquisitions remain uncertain due to the current market conditions. A higher pressure is recognised in 2021/22 relating to existing vacant tenancies.
- 3.8.4 Immediate Measures – action being taken in-year to mitigate the significant impact of the Covid19 pandemic are currently modelled to deliver £15m of ongoing savings that will roll forward into the starting base budget for 2021/22. Whilst progress on identifying these options is being made, some may be not repeatable year-on-year or helping to reduce current potential overspend rather than producing savings below existing base budget.
- 3.9 Collectively, the service related funding gap or pressures set out above in paragraphs 3.8 represent a three year pressure of £59m, which when added to the corporate funding requirement total the £79m three-year savings target. These gaps make no assumption regarding any capitalisation direction from MHCLG, which if granted would reduce and smooth the profile of the budget gap.
- 3.10 In order to enable services to work towards the formulation of proposals to bridge this assessed £79m funding envelope projection over the next three years, indicative targets have been allocated to departments.
- 3.11 Recognising that opportunities to deliver service efficiencies or savings may be delivered from either expenditure or income budgets, but that the ability to control certain budget classifications (such as government grants or transfer payments), a pro-rata allocation was made on a Gross Adjusted Transactional Value (GATV) basis, where both expenditure and income budgets were added together rather than being netted off. These allocations were circulated to senior management and onward to service managers and are summarised below:

Table 2 – Indicative Savings and Efficiencies Targets

	Children, Families & Education (£m's)	Health, Wellbeing & Adults (£m's)	Place (£m's)	Resources (£m's)	Total (£m's)
Gross Adjusted Spend Budgets (1)	126.6	186.5	115.5	80.3	509.0
Gross Adjusted Income Budgets (2)	1.1	46.2	54.4	4.9	106.6
Gross Adjusted Transactional Value	127.8	232.7	169.9	85.2	615.6
Pro-Rata Share	21%	38%	28%	14%	100%
2021/22	9.8	17.8	13.0	6.5	47.1
2022/23	3.3	6.0	4.4	2.2	15.8
2023/24	3.4	6.1	4.5	2.2	16.2
Three-Year Savings & Efficiency Target	16.4	29.9	21.8	11.0	79.1

(1) Includes Employees, Premises, Transport, Supplies & Services and Third-Party/Contract Payments

(2) Includes: only Customer and Client Receipts (excludes Grant Funding and Other Contributions)

- 3.12 As a percentage of the gross budget and GATV, the above £79m three-year change to the funding envelope respectively represents a 9% and 13% reduction from the current approved budget.
- 3.13 Standardised templates for the capturing of budget change proposals have

been issued by Corporate Finance to allow identified options to be collated, understood and verified. Initial proposals are due to be submitted in mid-September. A number of Budget Development sessions are scheduled to be held. Members will be appraised of progress towards meeting the three-year savings and efficiencies targets following an initial officer-led review of all received proposals.

- 3.14 A further round of proposal submissions is likely to be required, dependent upon the first review in the latter half of September, at which point the overall funding gap and allocation of remaining savings targets will be refreshed. This will culminate in a report to Cabinet on the latest future funding envelope position in December.
- 3.15 A number of uncertainties remain at this stage, and indeed may not be fully known by the time of the December Cabinet meeting. These include the Local Government Finance Settlement (setting out the basis for allocation of RSG; the operation of localised business rates; New Homes Bonus) as well as the longer term impact on the local economy and Council's finances of any potential second spike in the coronavirus pandemic.
- 3.16 The Budget and MTFS process will culminate in late February / early March when Cabinet and Full Council will consider for approval the 2021/22 Budget and Three-Year MTFS and set the Council Tax.

4.0 Summary and Conclusions

- 4.1 The Council, along with most other local authorities, faces a challenging financial future as the result of in-year and potential longer term impacts brought about by the Covid19 pandemic. To address the need to recognise pressures beyond solely the next financial year, a three-year budget setting and Medium Term Financial Strategy outlook has been adopted. This principle accords with recommendations from work undertaken by the Finance Review Panel.
- 4.2 Modelling has identified up to £79m of savings and efficiencies will need to be identified by services to produce a three-year balanced budget, of this £59m allows for service growth and underlying pressures to be funded. This represents efficiencies of 9% of existing gross expenditure budgets over three years.
- 4.3 The overall savings target has been pro-rata allocated between services and years using a gross adjusted transactional value basis.
- 4.4 Services are working towards identifying proposals to bridge this funding gap and initial returns are due to be submitted by mid-September, after which a number of Budget Development sessions are scheduled. Following that round of scrutiny, further proposals may need to be developed, as well as the outlook for the overall pressures being reviewed, following a potential second round of budget development meetings, it is expected Cabinet will receive an update on the financial outlook in their December meeting.

5.0 Financial Considerations

- 5.1 The report contains the initial planning assumptions around the potential available funding envelope for the years 2021/22 to 2023/24 and the allocation of the resultant savings and efficiencies targets between services. Services are scheduled to put forward proposals to address this gap by mid-September after which Budget Development sessions are scheduled.
- 5.2 A further round of proposals may be required following this initial stage and Cabinet will receive a report in December summarising progress towards delivering a balanced 2021/22 Budget and three-year MTFS. The Budget will formally be considered for approval at the end of February.

6.0 LEGAL CONSIDERATIONS

- 6.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance that this report details updated information required to comply with the Council's statutory duty to set a balanced budget.

Approved by: Sandra Herbert Head of Litigation and Corporate Law for and on behalf of the Director of Law and Governance

7.0 HUMAN RESOURCES IMPACT

- 7.1 Any budget proposals that may have an impact on the workforce would be managed in accordance with the Council's normal policies and procedures, and be in line with agreed formal consultation arrangements with the recognised trade unions.

Approved by Debbie Calliste on behalf of Sue Moorman, Director of HR

8.0 EQUALITIES CONSIDERATIONS

- 8.1 There are no specific issues arising from this report.
- 8.2 Equality analysis will need to be undertaken to ascertain the potential impact on staff, service users, vulnerable groups and wider communities groups that share protected characteristics and take actions to mitigate any negative impact as each project is developed and implemented
- 8.3 The Council will ensure that as part of the process of delivering current and future savings, it will protect the most vulnerable in our communities and ensure when making difficult decisions about funding it maintains an absolute commitment to promoting equality for everyone who lives and works in the Borough

Approved by Yvonne Okiyo, Equalities Manager

9.0 ENVIRONMENTAL IMPACT

9.1 There are no specific issues arising from this report

10.0 SCRUTINY COMMITTEE

10.1 The budget has been an agenda item on two recent Scrutiny and Overview Committees. In July the Committee scrutinised the July Financial review and Responding to the Local Government Financial Challenge Cabinet papers and called them back in for further scrutiny in August.

11.0 CRIME AND DISORDER REDUCTION IMPACT

11.1 There are no specific issues arising from this report

12.0 REASONS FOR RECOMMENDATIONS/PROPOSED DECISION

12.1 These are detailed within the report.

13.0 OPTIONS CONSIDERED AND REJECTED

13.1 The options considered are detailed in the report. The only option rejected was the one of do nothing as this is not viable.

REPORT AUTHOR:

Lisa Taylor, Director of Finance,
Investment and Risk, Section 151 Officer

BACKGROUND DOCUMENTS:

None