

Report for: DECISION

Item Number:
12

Contains Confidential or Exempt Information	No
Title	BUDGET STRATEGY AND MTFS 2021/22 TO 2023/24
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Purpose of Report

The budget strategy report seeks to provide an update to Cabinet of developments since the last budget strategy report to Cabinet in October 2020, which impact the 2021/22 budget gap.

This report provides summary of key announcements from the 2020 Spending Review.

Due to government only announcing a one-year settlement, the report also sets out key issues faced by the Council in planning to deliver a balanced budget for beyond 2021/22.

The report also sets out an update on the 2021/22 budget strategy for the Capital Programme, Schools Funding and for the Housing Revenue Account.

1. Recommendations

It is recommended that Cabinet:

- 1.1 Notes the ongoing impact of COVID-19 and the funding shortfall of the response from Government has a significant impact on future years budget strategy.
- 1.2 Note the lack of clarity regarding the detail timing of Governments Comprehensive Spending Review beyond 2021/22 and the lack of any indication as to the value of financial settlement to Local Authorities makes budget planning, particularly in the current environment unnecessarily complex and challenging.
- 1.3 Notes that officers will continue to prepare detailed plans and budget proposals in accordance with the Administration's priorities and financial strategy objectives (paragraph 4.2. 4.3 and 4.4), taking into account emerging expenditure and funding information (section 3.4 and 3.6) and the proposed approach to savings identification (paragraph 4.5).
- 1.4 Notes the 2020 Spend Review announcements and notes that work is on-going to further refine funding assumptions following technical release (section 5).
- 1.5 Notes the 2021/22 budget gap of £27.730m, as approved by Cabinet in October 2020 and notes progress made to date (paragraph 3.8 and 5.8).
- 1.6 Notes the forecast budget gap of £65.678m over the three-year Medium-Term Financial Strategy period and sets a requirement to also bring forward proposals to close the forecast gap in 2021/22 onwards (paragraph 3.8).
- 1.7 Notes the update regarding the London Business Rates Pool for 1 April 2021 to 31 March 2022 (paragraph 5.7).
- 1.8 Notes the capital investment process as set out in the report (section 6).
- 1.9 Notes the outcome of 2021/22 School Funding Formula changes as agreed by Schools Forum (Section 7) and:
 - a) Approves Ealing Early Years Funding Formula Factors for 2021/22 (paragraph 7.4.3).
 - b) Approves the proposed 2021/22 structure of Ealing's Funding Formula for schools as set out in Appendix 1.
 - c) Agrees that, should it be necessary to adjust the funding formula for schools so that allocations are within the funding available which will be announced later in December, this would be done by adjusting the low

prior attainment factors, as was the case in 2020/21, and by capping and/or scaling gains those schools that gain funding under the formula.

- d) Authorises Assistant Director Planning, Resources and Service Development to submit the proforma to the Education and Skills Funding Agency by 21 January 2021.

1.10 Notes Housing Revenue Account Budget Strategy will be brought back for review at January 2021 Cabinet meeting (section 8).

1.11 Notes the updated budget preparation timetable as set out in the report (section 9).

2. Reason for Decision and Options Considered

2.1 The Council made significant investment in service areas as part of the 2020/21 budget process but continues to face significant budget pressures in future years and uncertainty, including the continuing uncertainty of the level of support from Central Government over the medium term and an increased demand for services alongside the potential impact of COVID-19 into future years.

2.2 This is an update report for Members consideration on the 2021/22 Budget and Medium-Term Financial Strategy (MTFS). It updates the MTFS assumptions for 2021/22 to 2023/24 and endorses officers to continue to prepare detailed budget proposals for Member consideration as part of the annual budget-setting cycle in line with the timetable in section 9.

2.3 The overarching objective is to set a priority-led budget over the medium term that is balanced and realistic; and supported by achievable savings plans. However, it must be recognised that significant budget gaps such as that set out in this report could severely curtail the ability of the Council to deliver comparable service levels and some service areas compared to the current state.

3. Financial Context

3.1 The postponement of funding reforms and the absence of government spending plans mean that there is maximum funding uncertainty, making the preparation of medium-term financial plans highly complicated and speculative.

3.2 Reducing Government support continues to be a key driver in the budget process. Uncertainty regarding the impact of local government funding reforms and widely anticipated recession that is likely to follow the pandemic present significant risks. In addition to funding reductions, there is also the potential for significant spending pressures from demand-led services, specifically in the

Children's' with Disability, Special Education Need (SEN), Adults service, new burdens which impact on the budget and new pressures seen as a result of COVID-19. Although some growth has been built into the MTFS to help alleviate some of these pressures, they continue to present a significant budget risk, particularly in respect of the demographic and contractual pressures.

- 3.3 It is unlikely that the government will be in a position in the near future to commit to public spending levels over the medium term given the current uncertainty and flux in the economy as result of COVID-19. This in turn creates a high degree of uncertainty both within and beyond 2021/22. As such the MTFS and budget strategy is being compiled in a period of unprecedented financial uncertainty and any estimate beyond one-year is very much speculative.

3.4 Budget Statements

- 3.4.1 In 2020, the Chancellor has presented two budget statements both of which were delivered against the backdrop of the coronavirus (COVID-19) outbreak:

- a) Spring Budget Statement (March 2020)
 - This was the governments first budget since October 2019 and since leaving the European Union (EU) in January 2020.
 - Budget focused significantly on measures intended to support tackling and mitigating the impact of COVID-19.
- b) Summer Budget Statement (July 2020)
 - Primarily set out measures to address the national economic recovery from COVID-19.
 - Whilst there were no new announcements related to local government funding, the reported economic indicators e.g. growth were adverse. These were followed by further updates elsewhere in government which set out revised forecasts for growth, inflation and employment levels over the short- medium term. Again, these indicated a worse position compared to a year ago.

3.5 Comprehensive Spending Review

- 3.5.1 A one-year spending review was announced on 25 November 2020, with a view for government to publish a one-year provisional local government finance settlement in mid-December 2020. The final settlement will not be known until mid to late February 2021. The longer-term comprehensive spending review (CSR) has been delayed with more immediate challenges such as the COVID-19 pandemic and Brexit dominating government attention.
- 3.5.2 Below is summary of government announcements impacting local government which we will need to interpret and understand once the detail becomes

available.

3.5.3 On the face of it the announcements appear positive for local government however initial interpretation of the headlines suggest that Ealing will still be left with significant budget gap as a result of the CSR.

a) General

- Core Spending Power to rise by 4.5% in cash terms next year. This is worth an estimated additional £2.2bn in funding for local government services. Within this, councils will have access to an additional £1bn for social care next year, made up of a £0.300m social care grant and social care precept power.
- Council Tax Referendum and Social Care Precept Limits:
 - Council Tax increase upto 2%
 - Social Care Precept can be levied up to 3% (as per above)
- Government has published its response to the Treasury's consultation on PWLB Lending Terms which confirms to end the use of the PWLB for investment property bought primarily for yield.
- Public Sector Pay:
 - Public sector workers earning less than £24,000 will receive a minimum £250 increase
 - Pay rises for NHS workers and pay freeze for the rest of the public sector in 2021/22.
- National Living Wage (NLW) and National Minimum Wage (NMW) increases from April 2021:
 - NLW - 2.2% for individuals aged 23 and over from £8.72 to £8.91
 - NMW - between 1.5% to 3.6%, depending on age and role.
- Government to bring forward proposals for sustainable improvement of the adult social care system next year.

b) Specific Grants

- Continuation of Adult and Children's Social Care, Improved Better Care Fund (iBCF) and Public Health Grant (included as cash neutral within MTFS).
- £98m additional funding to be made available to enable councils to deliver the new duty to support victims of domestic abuse and their children in safe accommodation in England.
- New Homes Bonus scheme to be extended for one year with a view to implementing reform in 2022/23.

c) Schools and Education

- Schools Budget will increase by £2.2bn in 2021/22 (in line with previous commitment)
- £1.4bn of education funding, including funding for schools in England

to help children catch up on lost learning and supplementary support for free school meals

- £44m for early years education in 2021/22 to increase the hourly rate paid to childcare providers for the government's free hours offers.
- £220m to deliver Holiday Activities and Food programme including provision of healthy meals for disadvantaged children in the Easter, summer and Christmas holidays in 2021.

d) COVID-19

- Government has announced another £1.55bn of un-ringfenced grant for the pressures expected to emerge in the first few months of 2021/22.
- £254m additional resource funding to support rough sleepers and those at risk of homelessness during Covid-19 (including £103m announced earlier this year for accommodation and substance misuse). Additional funding to support frontline services through the Rough Sleeping Initiative.
- Extension of the Sales, Fees and Charges compensation scheme to end of June 2020 (refunding 75% of eligible income loss beyond a 5% threshold).
- £670m of un-ringfenced grant funding to enable them to continue reducing council tax bills for those least able to pay, including households affected by COVID-19.
- Treasury will fund 75% of the irrecoverable 2020/21 Council Tax and Business Rates losses leaving less to be carried forward by councils.

e) Capital and Infrastructure

- Capital investment in education estates to support levelling up education across England, which includes:
 - £1.8bn to maintain and improve the condition of school buildings
 - £300m for new school places for children with special educational needs and disabilities
 - £72m to start a new programme to maintain capacity and expand provision in secure children's homes
- £19bn of transport investment, of which £1.7bn will be for local roads maintenance and upgrades to tackle potholes, relieve congestion and boost connectivity.
- The Government has published the National Infrastructure Strategy (NIS) which confirms funding for the completion of Crossrail, but confirms work on Crossrail 2 will stop, and more broadly that the Government is "pivoting investment away from London."

3.5.4 There is an expectation that further information on some of these funding issues will be addressed in the local government finance technical consultation which is yet to be released.

3.5.5 The general national and local health of the economy has both direct and indirect impacts on the Council's medium-term financial strategy. The CSR usually will provide funding outlook over the short to medium term considering the latest economic performance and projections of e.g. GDP, borrowing, taxation levels and employment rates. A one-year spend review makes it difficult to assess the financial impact of the current MTFS assumptions in the medium term.

3.6 COVID-19

3.6.1 The COVID-19 pandemic is bringing unprecedented challenges alongside some remarkable responses. This global health pandemic has seen Ealing Council act swiftly to support its residents, customer and businesses, working tirelessly to ensure that it can support the community with activities ranging from leading a pan London approach to procuring PPE, to food provision and support for the clinically vulnerable through to leading the way nationally in its distribution of grants and reliefs to over 5,000 businesses. As to be expected with such a crisis, this has unfortunately resulted in financial issues coming back to the fore that now require very careful consideration.

3.6.2 The scale of net pressure as a direct result of COVID-19 faced by Ealing is currently estimated to be £38.8m in 2020/21, the gross pressure is in excess of £72m. The net pressure of £38.8m reflects the Council being allocated £33.4m of government grants relating to COVID-19.

3.6.3 Recent analysis undertaken by London Councils on the October MHCLG COVID-19 return submission shows that;

- a) Boroughs are estimating £2.0bn of extra pressure on finances this year due to COVID-19, of which £1.1bn is due to income loss and £0.952m is due to increased expenditure.
- b) The government support announced so far equates to £1bn across London, which means there is a remaining gap of £0.986m in unfunded new financial pressures.
- c) £1.1bn of the income loss is due to falling returns from General Fund fees and charges, council tax, business rates, Housing Revenue Account and commercial income.
- d) Approximately 49% of the £0.986m is anticipated increased expenditure on adult social care and in covering planned savings that will now not be achieved. Over £50m extra is expected to be spent on homelessness and rough sleeping.
- e) The spend and income loss between March and September has already exceeded the £587m of emergency funding by £368m.

¹ The latest estimate is from the Council's sixth submission to MHCLG on COVID-19 in October

3.6.4 Clearly, the government funding received thus far has gone some way to relieve immediate financial pressures. Governments commitment to give all councils the resources they need to support their residents and businesses through this pandemic cannot waver. At this stage, the level of government funding currently agreed is considerably lower than the expected financial pressures over the coming year. The Council, alongside both the Local Government Association (LGA) and London Councils, will continue to engage with government to press for further funding support. In the absence of such funding, the Council will need to consider how it meets the increasing demand on its services within its limited resources.

3.6.5 At this stage it is extremely difficult to quantify the impact of COVID-19, but the financial pressure on the Council will be substantial, even after the Government's emergency COVID- 19 funding for local authorities is taken into account. The implications of recession for future council income could be dramatic.

3.7 Brexit

3.7.1 As the end of the transition period approaches on 31 December 2020 the focus for the Council is on the progress of trade negotiations between the UK and EU, how the outcome may effect specific aspects of policy such as procurement, data sharing and access, understanding the preparations that businesses need to undertake if trading with the EU and how the Council can support and advise them, working with the London Reliance Partnership and London Councils, and supporting residents to apply to the EU Settlement Scheme. The preparation work undertaken by the Council to date, and which is continuing, means the Council is well prepared for EU exit and has robust plans in place.

3.8 2020/21 Budget MTFs 2021/22 to 2023/24

3.8.1 The MTFs, covering the 4-year period 2020/21 to 2023/24, was approved by Cabinet and Council in February 2020. It reflects the impacts of central government funding decisions, analysis of advice and information from relevant organisations and the effects of the national and local economic context. It provides a robust financial framework to support achievement of the Council's overall objectives and delivery of services.

3.8.2 By necessity the MTFs is updated to reflect changing circumstances, updated priorities and ambitions, the latest financial situation and external factors such as Government funding settlements.

2021/22 Budget Gap as at October 2020

3.8.3 The table below sets out the indicative budget gap for 2021/22, as reported to Cabinet in October.

Table 1: 2021/22 Indicative Budget Gap as at October 2020

2021/22 Budget Gap	2021/22 £M
2021/22 Budget Gap at February 2020	13.107
Additional Service Growth Requirements	3.099
Updated estimation for Corporate Budgets	0.545
Updated estimate for Levies	0.539
Reduction in New Homes Bonus grant estimate – assumption is based on MHCLG guidance issued earlier this year confirming local authorities to receive historic payments due upto 2017/18.	0.597
Contribution to Reserves	3.500
Collection Fund Impact	6.344
Net Movements serving to increase the budget gap	14.623
Indicative Budget Gap 2020/21 as at October 2020	27.730

Source: 2021-2024 MTFS Budget Strategy Report – Cabinet October 2020

3.8.4 Whilst the range of the budget gap for 2021/22 is between £18.3m to £51.9m, the current working estimate of the 2021/22 budget gap is £27.7m ('realistic' case).

3.8.5 The table below provides an updated position of the MTFS for 2021/22 to 2023/24 as at October 2020 and shows that the overall budget gap increasing, reflective of the items noted above.

Table 2: Updated Forecasted MTFS 2021/22 to 2023/24 as at October 2020

MTFS 2021/22 to 2023/24	2021/22 (Forecast)	2022/23 (Forecast)	2023/24 (Forecast)
	£M	£M	£M
Total Funding	(241.764)	(243.168)	(244.586)
Net Budget Requirement	265.994	293.424	306.765
Contributions to (+) / from (-) reserves	3.500	3.500	3.500
Net Budget Requirement after Reserves	269.493	296.923	310.264
Forecasted Budget Gap – Incremental	27.730	26.026	11.924
Forecasted Budget Gap – Cumulative	27.730	53.756	65.680

Source: 2021-2024 MTFS Budget Strategy Report – Cabinet October 2020

3.8.6 Cabinet had approved in October 2020 for saving proposals to cover the 2021/22 budget gap of £27.730m are identified by the end of the 2021/22 budget cycle. This target was set out to enable the Council to achieve a balanced budget position in 2021/22.

Budget Monitoring Outturn Forecast 2020/21

3.8.7 As detailed in November 2020 meeting of Cabinet (Budget Update 2020/21),

at the end of quarter 2 the Council were forecasting a net overspend for the year totalling £23.260m against its General Fund revenue budget after applying management actions, grants, provisions, reserves and contingency.

Table 3: Quarter 2 Summary of Net Revenue Budget Variance

Revenue Budget	Forecasted Net Variance - Quarter 2 (£M)			Net Variance - Quarter 1 (£M)
	Pre COVID-19	COVID-19 ¹	Total	
Children's and Schools	10.233	0.000	10.233	11.198
Adults & Public Health	(3.033)	0.000	(3.033)	0.502
Chief Executive	1.550	0.000	1.550	2.205
Place	4.774	0.000	4.774	3.764
COVID-19 (Council Wide)	0.000	14.946	14.946	13.542
Net Cost of Services Sub-total	13.525	14.946	28.471	31.211
Corporate Budgets	(5.211)	0.000	(5.211)	(5.211)
Total General Fund	8.313	14.946	23.260	25.999

Source: Budget Update Report 2020/21 – November 2020 Cabinet and MHCLG COVID-19 Submission October 2020

- 3.8.8 Officers are continuing to explore potential measures by way of developing council wide mitigation plans to address the forecasted overspend relating to the non COVID-19 pressure. Progress of these will be reported through the quarterly budget monitoring process and will form part of the overall financial management strategy to help deliver a balanced position in-year conjunction with the spend control measures and technical reviews.

General Fund Balance

- 3.8.9 For 2020/21 the Council's General Fund balance was set at its risk-assessed target level of £15.919m. Having reviewed the current financial challenges being faced as a result of the pandemic, the Chief Finance Officer, as the Council's Section 151 Officer, has considered the level of General Fund Balance very carefully. Following further government funding announced and allocated for the second wave, £15.919m has been assessed as being an adequate level given the risks the Council is facing and considering Ealing's spending history. The adequacy of reserves will continue to be reviewed annually and given the uniqueness of the current challenge faced is particularly difficult to determine accurately.

Adequacy of Reserves

- 3.8.10 The Council also sets aside funding in reserves for specific purposes and to mitigate financial risks as part of the budget planning and monitoring process. At 31 March 2020 the Council's General Fund earmarked reserves (excluding COVID-19 grant) totalled £90.241m (£94.339m at 31 March 2019), of which £23.732m relate to un-ringfenced reserves.
- 3.8.11 The Council's reserve balances continues to reduced year on year and whilst prudent and appropriate for the typical budgetary requirements and normal challenges faced by Ealing, they are not meant to nor have the capacity to deal

with the COVID-19 pandemic and on this scale, nor should reserves be fully depleted without very careful consideration of the impact on future years.

- 3.8.12 At the end of quarter 2 it is estimated that £15.6m net drawdown from earmarked reserves may be required in 2020/21 to fund combination of carried forward commitments, drawdown of ring-fenced grants (including COVID-19) and capital investment; before any requirement to use reserves to address any 2020/21 overspends. If these commitments are required in year, then the overall level of reserves as set above would reduce to £84.090m by 31 March 2021.
- 3.8.13 If the current forecast for 2020/21 holds true then a further drawdown from reserves will still be necessary to balance the in-year position, which will use a significant proportion of the reserves available.
- 3.8.14 As such, the councils needs to continue to act in a prudent manner and reduce the reliance on reserves in year, and importantly, not commit to any expenditure that could expose the Council to risk that may ultimately result in further reserve commitments being required.
- 3.8.15 Reliance cannot be placed on reserves as a funding strategy for 2020/21 onwards. Recurring revenue savings from service areas or new income streams must be found to meet the forecast budget gap. Further reviews of reserves will be undertaken during 2020/21 as part of the MTFs process but it should be noted that that reserves including the use of General Fund balance will only be considered as a last resort and in exceptional case in order to fulfil the statutory obligation to set a balanced budget.

4. Approach to Budget Setting

- 4.1 The Council's approach to setting the budget was set out in the Budget Strategy Report to Cabinet on 13 October 2020, a summary of the approach is set out in this section below.

4.2 Delivering the Administration Priorities

- 4.2.1 The budget process is priority-led; aligning the allocation of resources with the priorities of the Administration. There are three key Administration priorities for Ealing as set out covering the 2018/19 to 2021/22:

- Good, genuinely affordable homes
- Opportunities and living incomes
- A healthy and great place

- 4.2.2 These are supported by nine priority areas which have been agreed with local partners in health, education, policing, employment, housing, local businesses

and voluntary and community organisations via the Future Ealing programme.

4.3 Future Ealing Outcomes

4.3.1 The Council continues to use Future Ealing as a vehicle for delivering the 2021/22 and future years budget strategy.

4.3.2 The 2021/22 Future Ealing budget strategy contains two main strands:

- 1) Future Ealing Outcomes - specific areas of focus.
- 2) Future Ealing Cross Cutting – there four main workstreams (commercial, assets, efficiency and digital) which form the core of the approach.

4.4 Key Objective and Deliverable

- 1) Set and Deliver a Balanced Budget
- 2) Maximise Future Ealing as an Organisational Development approach
- 3) Ensure safe and effective delivery of COVID-19 response

4.5 Developing Proposals

4.5.1 All proposals will need to either demonstrate or consider the following:

- 1) Set the worst-case baseline of what is deliverable as early in the programme as possible to manage financial risk
 - Power / Duties review
 - Service level choice options to target levels
- 2) Set a shared ambition to limit service reductions by a collectively agreed structured programme to develop transformational proposals:
 - Demand driven statutory spend
 - Further iterations of existing Modern Council programme
 - New Cross cutting opportunities
- 3) Agree up front that new areas of work – e.g. climate change will be investment neutral
 - Deliver through influence on existing spend
 - To be funded by spend reduction elsewhere assuming capacity
 - Identify and secure new funding resource

4.6 Progress Towards Delivery of the Budget Strategy

4.6.1 In recognition to a tight timeline for develop saving proposals and setting a balanced budget for 2021/22, the Council have procured additional project management support to bolster in-house capacity to facilitate the Future Ealing process. Work is currently underway to develop proposals that will support the Future Ealing strategy set out in this section above.

- 4.6.2 To support the delivery of a balanced budget, officers are also working in parallel to the Future Ealing programme and have undertaken power/duties review which looks to develop service level options that will support delivery of a balanced budget, if this cannot be achieved through the Future Ealing programme.
- 4.6.3 Both the Future Ealing programme and Powers/Duties review proposals will go through officer and member review and challenge process. These sessions will be held over December and January following which they will be presented to Cabinet in February for decision.
- 4.6.4 In addition to the on-going engagement and consultation with officers and members the Council has also scheduled on-line budget sessions in early December with residents, businesses and the community and voluntary sector to discuss, details of which are set out in section 21 below. The sessions have been scheduled to raise awareness of the financial challenges facing the Council and provide a context for some of the difficult decisions to come in 2021. They will also give attendees the chance to give feedback and offer suggestions.

5. December MTFS Update and 2021/22 Budget Update

- 5.1 On 25 November 2020, the Chancellor of the Exchequer announced a one-year spending review. This confirmed broad public spending allocations for the next financial year. The Spending Review contained a number of policies and announcements which are likely to have an impact on local government, however detail of these will only become clear when the Local Government Finance Settlement is published in mid to late December.
- 5.2 Overall, the spending review provides more certainty for councils next year but the long-term outlook remains unclear.
- 5.3 Though announcement of additional funding for COVID-19, council tax referendum, precept powers and additional adult and children's social care is positive step towards helping the Council to address some of the budget pressures but unfortunately will not fully address all of the pressures. The Council will still have to find substantial savings to meet its legal duty to set a balanced budget.
- 5.4 Councils will continue to face demand pressures on day-to-day services, some pre-existing (such as social care, SEND, temporary accommodation) and others made more significant by the impact of COVID-19 amid substantial income losses both from revenue generating powers and sales, fees and charges.
- 5.5 As part of the continuous budget monitoring and forecasting processes, a

number of key assumptions and estimates, along with known changes, are beginning to be modelled.

5.6 Government Funding

5.6.1 Whilst in the main the announcement looks positive for Local Government, primarily due to the allocation and continuation of one-off grants.

5.6.2 The actual impact of the Spending Review on the 2021/22 budget will not be known until specific technical details are released but any adverse impact of the settlement would require the Council to take rapid action to ensure that it can set a balanced budget for 2021/22. With this in mind the MTFS forecast has remained unchanged from what was reported to Cabinet in October 2020.

5.6.3 With local government only receiving a one-year settlement, the Fair Funding Review determining the final roll-in of key grants and a fundamental review of the baseline funding levels, has been delayed further. This should mean that in future the Council will be reliant on council tax, business rates and fees and charges to fund its expenditure, in the short term it continues to bring a level of uncertainty to financial planning matters.

5.6.4 The council has made prudent assumptions in the reduction of business rates income it is expecting to receive but without confirmation of the details of the various funding announcement, future values remains a risk that the budget gap is understated.

5.7 London Business Rates Pool Arrangement

5.7.1 The current pool arrangement operates at participating authorities to retain 67% of the business rates income (37% GLA and 30% Ealing's share). The current MTFS assumes that the Ealing will be retaining 30% share of the business rates income locally.

5.7.2 London Council's submitted an application in October 2020 to MHCLG for continuing to operate a regional pool for 2021/22. Formal decision is yet to be confirmed by MHCLG.

5.8 Summary Impact of Changes

5.8.1 At the time of writing this report the budget gap for 2021/22 remains at £27.730m, as approved by Cabinet in October 2020 details of which are set out in paragraph 3.8.3 above.

5.8.2 The working assumption from a planning purpose is that, with the exception of the items noted in the table there is no change to either the level of funding or costs at this stage. Assumptions will continue to be stress tested against

various scenarios in parallel to the budget process. Changes to the budget gap will continued to be reported in accordance with the timetable set out in section 9 below.

6. Capital Investment Proposals

6.1 As detailed in the 2020/21 Budget Update report to Cabinet in November 2020, the revised Capital Programme for the period 2020/21 to 2024/25 totalled £877.592m. A summary of the capital programme at 30 September 2020 is set out in the table below.

Table 4: Approved Capital Programme

Capital Programme Summary	2020/21 £M	2021/22 £M	2022/23 £M	2023/24 £M	2024/25 £M	Total £M
General Fund	234.078	164.740	48.869	1.850	1.850	451.386
HRA	84.535	126.369	92.414	63.868	59.020	426.206
Total	318.613	291.108	141.283	65.718	60.870	877.592

Source: 2020/21 Budget Update Report – November 2020 Cabinet (including approved slippage)

6.2 Capital Growth

6.2.1 The new investment will prioritise any capital spending required to meet unavoidable Health and Safety and any funds remaining will be allocated against other priorities agreed as part of the budget setting process.

6.3 Invest to Save Proposals

6.3.1 The Council's invest-to-save mechanism will remain in place in 2021/22. It allows services to drive innovation in service provision, by delivering budget savings that are allocated in part to replenish the Invest-To-Save Reserve. Proposals are anticipated to be developed within the scope of the planned outcome reviews and other savings initiatives.

7. Schools Funding

7.1 During September and October this year the Council consulted with schools and early years providers on the structure of Ealing's funding formulas. The consultation sought views on what funding factors should be adjusted by the Council to ensure that the funding factors remained affordable, following announcement of the Dedicated Schools Grant (DSG) allocation for 2021/22 for Early Years and Schools Block in December 2020.

7.2 Currently both Early Years and Schools DSG block formulas reflect the national funding formula (NFF). Both funding formulas consist of mandatory and discretionary factors, with the government setting the minimum level of funding that must be allocated through the respective mandatory factors. At

the Schools Forum meeting on 5 November 2020 the following decisions were discussed and agreed to be put forward to Cabinet for approval:

- a) Schools Funding Formula - to continue to move towards the national funding formula structure and factor values.
- b) Early Years Funding Formula factors for 2021/22.

7.3 Schools DSG Block Funding Formula

7.3.1 School Funding Formula Factors are proposed to be increased in line with the NFF changes. If following the announcement of the provisional finance settlement in December 2020, the DSG allocation is less than the current estimate, then the Council will be required to undertake the following to ensure overall affordability:

- Adjust the low prior attainment factors, as was the case in 2020/21; and
- Cap and/or scale back gains for those schools that gain funding under the formula.

7.3.2 Appendix 1 sets out the proposed school funding formula factors.

7.4 Early Years DSG Block Funding Formula

7.4.1 The national Early Years Funding Formula was introduced in April 2017. The funding arrangements for 2021/22 guiding the structure of the formula remain unchanged. The maximum a council will be able to retain for central spend will remain at 5% requiring for 95% pass through regulation and to manage the affordability of the formula.

7.4.2 The provisional Early Years DSG block allocation will be published in December 2020, whilst the actual allocation will not be known until end of 2021/22 as the grant is based on pupil census data taken in January 2021 and 2022.

7.4.3 The table below sets out the proposed funding formula factors for councils Early Years DSG block for 2021/22 (based on 2020/21 updated grant allocation).

Table 5: Early Years Funding Formula Factors 2020/21 (actual) and 2021/22 (proposed)

Early Years Funding Formula Factor	2020/21 All Nursery Providers	2021/22 All Nursery Providers (proposed)
Base Rate - Universal 15 hours	90% of funding £4.63 (£4.57+6p)	90% of funding £4.63

Early Years Funding Formula Factor	2020/21 All Nursery Providers	2021/22 All Nursery Providers (proposed)
Deprivation (mandatory)	5% of supplement funding £0.26	5% of supplement funding £0.26
Quality	5% of supplement funding	5% of supplement funding
Quality QTS	£0.26	£0.26
Quality EYPS	£0.22	£0.22

Source: Schools Funding 2021/22 Schools Forum Report November 2020

- 7.4.4 In addition to the above, in the current year Maintained Nursery Schools continue to receive a supplement to their funding rate of £3.24. The ESFA allocates an additional grant to provide nursery schools protection to limit the impact of the national funding formula changes and the rate for 2021/22 will be set once the grant is finalised.

8. Housing Revenue Account (HRA) Budget Strategy

- 8.1 The HRA budget strategy will be presented to Cabinet for review in January 2021.

9. Budget Process and Timetable

- 9.1 The Council has a well-established Budget Review Process that integrates financial planning with corporate planning and considers the wider impact on the community through equalities impact assessments.

Table 6: Budget Activity Timetable

Date	Activity
November 2020	<ul style="list-style-type: none"> Comprehensive Spending Review Update
December 2020	<ul style="list-style-type: none"> Budget Consultation sessions with businesses, residents and voluntary and community sector Member Workshops to consider saving proposals Provisional Local Government Finance Settlement Cabinet report reflecting the updated MTFS forecasts and funding position, including savings

Date	Activity
	<p>proposals</p> <ul style="list-style-type: none"> • Council decision to approve updated Flexible Use of Capital Receipts policy (<i>if required</i>) • Cabinet decision regarding continued participation in the London Business Rates Pool Pilot (<i>subject to updated requirements and deadline</i>)
January 2021	<ul style="list-style-type: none"> • Provisional Local Government Finance Settlement • Section 151 officer agrees Tax Base and forecast Collection Fund surplus under delegated authority • Cabinet report to approve HRA budget for 2021/22 and 30-year business plan (including capital programme)
February 2021	<ul style="list-style-type: none"> • Consultation with Ealing Business Partnership • Budget proposals to Cabinet and Overview & Scrutiny Committee • Cabinet considers final budget proposals and makes recommendations to Full Council • Council approves Budget & Council Tax for 2021/22 • Final Local Government Finance Settlement

10. Legal

- 10.1 The Council has a legal duty to set a balanced budget.
- 10.2 Some savings proposals will have more detailed legal or practical implications. Where this is the case, these detailed implications will need to be considered before a final decision is taken on whether or not to implement the proposals or to implement them in a revised format.
- 10.3 Section 114(3) of the Local Government Finance Act 1988 (the 1988 Act) requires the Chief Finance Officer to make a report, if it appears to him that the expenditure of the council incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure.

- 10.4 Section 114A of the 1988 Act requires the Chief Finance Officer to make a report to cabinet, if it appears to him that the council is about to make a decision which would involve the council incurring expenditure which is unlawful. The council would be acting unlawfully if it has taken or is about to take a course of action which, if pursued to its conclusion, would be likely to cause a loss or deficiency on the part of the council.
- 10.5 Were the Chief Finance Officer to issue a s.114A report, the cabinet would be required to prepare a report which specifies:
- a) What action (if any) cabinet has taken in response
 - b) What action (if any) cabinet proposes to take in response and when, and
 - c) The reasons
- 10.6 If adequate measures were not to be agreed in response to a s.114 or s.114A notice, the council would be at high risk of government intervention.

10.7 In regard to the London Business Rates Pool

- 10.7.1 The Secretary of State has the power to designate two or more “relevant authorities” as a pool of authorities for the purposes of the provisions of Schedule 7B of the Local Government Finance Act 1988. The authorities covered by the designation have to agree to the designation (para 34, sub para (2)). Local authorities have the power to enter into a Memorandum of Understanding to record the governing arrangements between them, under section 111 of the Local Government Act (LGA) 1972.
- 10.7.2 Given the complexity of the Pool, London Councils and London Government commissioned independent external legal advice to consider the options for appropriate governance arrangements at the Pool’s inception. Following this legal advice, it was agreed that governance arrangements would be through a quasi-contractual approach involving a lead authority in consultation with participating local authorities and operating under a Memorandum of Understanding. Further legal advice will be obtained if any significant changes to governance arrangements are proposed for the new pool. These are not anticipated for 2021/22.

10.8 In regard to Schools Funding and Dedicated Schools Grant (DSG)

- 10.8.1 The Council currently receives funding for schools through the Dedicated Schools Grant (DSG) and has the statutory responsibility under the Schools and Early Years Finance Regulations for allocating this funding to schools.
- 10.8.2 The Schools and Early Years Finance (England) Regulations published in February 2020 sets out the grant condition and accounting regulations that local authorities must follow in respect of DSG deficit and underspend

balances.

11. Value for Money

- 11.1 The budget setting process addresses the Council's performance in delivering national and local priorities and focuses on the needs of its communities. The budget process will require services to demonstrate this through their budget proposals submissions.
- 11.2 The Council consistently monitors performance and finance in tandem, to ensure that value for money services are commissioned and provided for, as well regularly adjusting its activities to improve performance and achieve better value for money. The budget process sets the approach, providing the framework in which the Council can look to improve performance and achieve better value for money.

12. Sustainability Impact Appraisal

- 12.1 Any sustainability impacts are taken into account before final decisions are taken on whether or not to implement savings proposals as part of the budget setting process. All capital budget proposals are required to set out how the proposal contributes towards carbon emission reduction.

13. Risk Management

- 13.1 It is important that spending is contained within budget so that the Council can maintain its financial standing in the face of further pressure on resources in 2020/21 and beyond as set out in the annual review of the Medium-Term Financial Strategy (MTFS) approved by Cabinet in February 2020.
- 13.2 A significant risk to achieving a balanced budget is a combination of managing and mitigating the pre-COVID pressures, delivery of 2020/21 savings and the unfunded pressures relating to COVID-19. Close monitoring by finance officers and Strategic Leadership Team of these pressures will be undertaken to reflect success and impact of spend control measures (as set out above) and other mitigations that aid in delivering a balanced budget.
- 13.3 The Council's Medium-Term Financial Strategy is continually under review and builds in projections for the MTFS period and beyond as further details and analysis become available. These updates are regularly reviewed by SLT and the Portfolio Holder and updates on the financial environment the Council is operating in are provided in Budget Update and Budget Strategy reports to Cabinet.

14. Community Safety

14.1 There are no direct community safety implications as part of this report.

15. Links to Strategic Objectives

15.1 The Council's medium-term financial strategy, budgets and capital programme are designed to deliver the Council's strategic priorities. The budget set for 2021/22 will support to address the delivery of national and local priorities.

16. Equalities Analysis Assessments (EAAs)

16.1 There is no requirement for an Equality Impact Assessment as part of this report.

16.2 An equalities impact assessment may be required for specific proposals mentioned in this report. Where that is the case, an EIA will be carried out and its results taken into account before any decision on whether or not to proceed with the proposal in question.

17. In Regard to the Council's Public Law Duties

17.1 When making decisions the Council must act reasonably and rationally. It must take into account all relevant information and disregard all irrelevant information and consult those affected, taking into account their views before final decisions are made. It must also comply with its legal duties, including those relating to equalities as referred to above. Many proposals will impact upon third parties and where this is the case there may be a requirement for the Council to consult those affected before a final decision is taken on whether or not to implement the proposal or to amend the proposal prior to implementation.

18. Staffing/Workforce and Accommodation Implications

18.1 There are no direct staffing/workforce and accommodation implications arising from this report.

19. Property and Assets

19.1 Not applicable.

20. Any Other Implications

20.1 The overall financial position of the Council impacts on the future provision of all Council services.

21. Consultation

21.1 External Consultation and Engagement

21.1.1 The Council will be holding consultation sessions in December to raise awareness of the financial challenges facing the Council and provide a context for some of the difficult decisions to come in 2021 in the lead up to the Council's annual budget setting process.

Table 7: Budget Consultation Sessions

Session*	Date	Time
Businesses	9 December	7-8pm
Residents	10 December	7-8pm
Voluntary and Community Sector (VCS)	17 December	5-6pm

* all sessions will be held on Zoom

21.1.2 The panel will consist of the Leader of the Council and cabinet member for finance and leisure, with the latter also hosting the sessions.

21.2 Internal Consultation and Engagement

21.2.1 Information and explanations have been sought from directorates on specific aspects of this report and their comments have been incorporated.

22. Appendix

- Appendix 1 - 2021/22 Ealing's School Funding Formula

23. Background Information

23.1 Cabinet reports:

- Budget Update Report 2020/21 – 10 November 2020
- 2021-2024 MTFS Budget Strategy Report – 13 October 2020
- Budget Update Report 2020/21 – 15 September 2020
- Budget Statement Report 2020/21 – 14 July 2020
- Revenue and Capital Outturn – 14 July 2020
- Budget Strategy and MTFS 2020/21 to 2022/23 – 11 February 2020

23.2 Schools Forum Report:

- Schools Funding 2021/22 – 5 November 2020
- Schools Funding 2019/20 to 2021/22 – 24 June 2020

Consultation

Name of consultee	Department	Date sent to consultee	Date response received from consultee	Comments appear in report para:
Internal				
Ross Brown	Chief Finance Officer	Continuous	Continuous	Throughout
Paul Najsarek	Chief Executive	23/11/2020	23/11/2020	Throughout
Judith Finlay Gary Alderson	Executive Directors	23/11/2020	23/11/2020	Throughout
Helen Harris	Director of Legal and Democratic Services	23/11/2020	26/11/2020	Legal section
Councillor Bassam Mahfouz	Cabinet Member for Finance and Leisure	23/11/2020	23/11/2020	Throughout
Councillor Julian Bell	Leader of the Council	23/11/2020	23/11/2020	Throughout
Russell Dyer	Assistant Director - Accountancy	23/11/2020	23/11/2020	Throughout
Gary Redhead	Assistant Director Schools Planning & Resources	13/11/2020	18/11/2020	Paragraph 1.9; Section 7

Report History

Decision type: For decision		Urgency item? No	
Authorised by Cabinet Date: member:		Report deadline:	Date report sent:
Report	Report authors and contacts for queries: Shabana Kausar, Assistant Director Strategic Finance, 020 8825 7549		