

CABINET

17 July 2018

Title: Medium Term Financial Strategy Update 2018/19 to 2020/21	
Report of the Cabinet Member for Finance, Performance and Core Services	
Open Report	For Information
Wards Affected: None	Key Decision: No
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Accountable Strategic Leadership Director: Claire Symonds, Chief Operating Officer	
Summary This report updates the Medium Term Financial Strategy presented to Assembly in February 2018.	
Recommendation(s) The Cabinet is recommended to: (i) Note the budget gap between 2018/19 to 2020/21 which has now decreased from £15.616m reported in February to £11.505m in July 2018; (ii) Note the budget gap for 2019/20, which is now £4.6m; and (iii) Note the process for closing the 2018/19 budget gap as set out in section 6 of this report.	
Reason Financial planning is key in supporting the Council to deliver its vision of “One borough; one community; London’s growth opportunity”.	

1. Background

- 1.1 On the 28th February 2018, Assembly approved a balanced budget for 2018/19 and the Council’s Medium Term Financial Strategy (MTFS) to 2020/21.
- 1.2 The position reported in February was a gross budget gap of £56.567m, with savings, additional income and one-off use of reserves of £40.952m, leaving a revised budget gap of £15.615m to 2020/21.
- 1.3 The budget gap for 2019/20 in February 2018 was £13.719m.

2. Creation of the New Kind of Council and the impact on the budget

- 2.1 The delivery of the 2018/19 budget will be reported regularly to Cabinet. This report focuses on the Council's financial position from 2019/20 onwards.
- 2.2 As has been said before, Local Government as a whole faces unprecedented financial challenges with year on year cuts to the funding from central government, while the demand for services is rising. Councils can respond to this level of challenge in a variety of ways that reflect the scale of their ambition for their residents. This Council has chosen to take a bold, new and ambitious approach based on investing in services, maximising economic growth and the consequent opportunities and transforming the way the council runs.
- 2.3 Over the last two years we have adopted a growth focused transformation programme which means investing to meet local needs and deliver our ambitions. We have restructured the council into new Service Delivery blocks and new traded entities shaped around the needs of our people, the place and our ambitions. We have begun to work in different ways with new Target Operating Models in a number of our service delivery blocks being embedded.
- 2.4 We have created a New Kind of Council. 2018/19 is a key year with significant savings and ambitious income targets to be made as well as ensuring the new models deliver the services expected. In recognising that last year was one where the council changed its structure, there was also a great deal of work done through the development of the MTFs to ensure that each service block has a base budget which should be adequate.
- 2.5 It is of course recognised that there are pressures and that managers are going to have to be diligent in not only working within their budgetary envelope but also to make already agreed savings or hit new income targets. This is the year in which all of these things come together and the Council will be monitoring vital signs to see budgetary control alongside service improvement and demand management.
- 2.6 For us this is a year of consolidation and our approach to our budget strategy is to reinforce the need to stay within budget and contain growth.

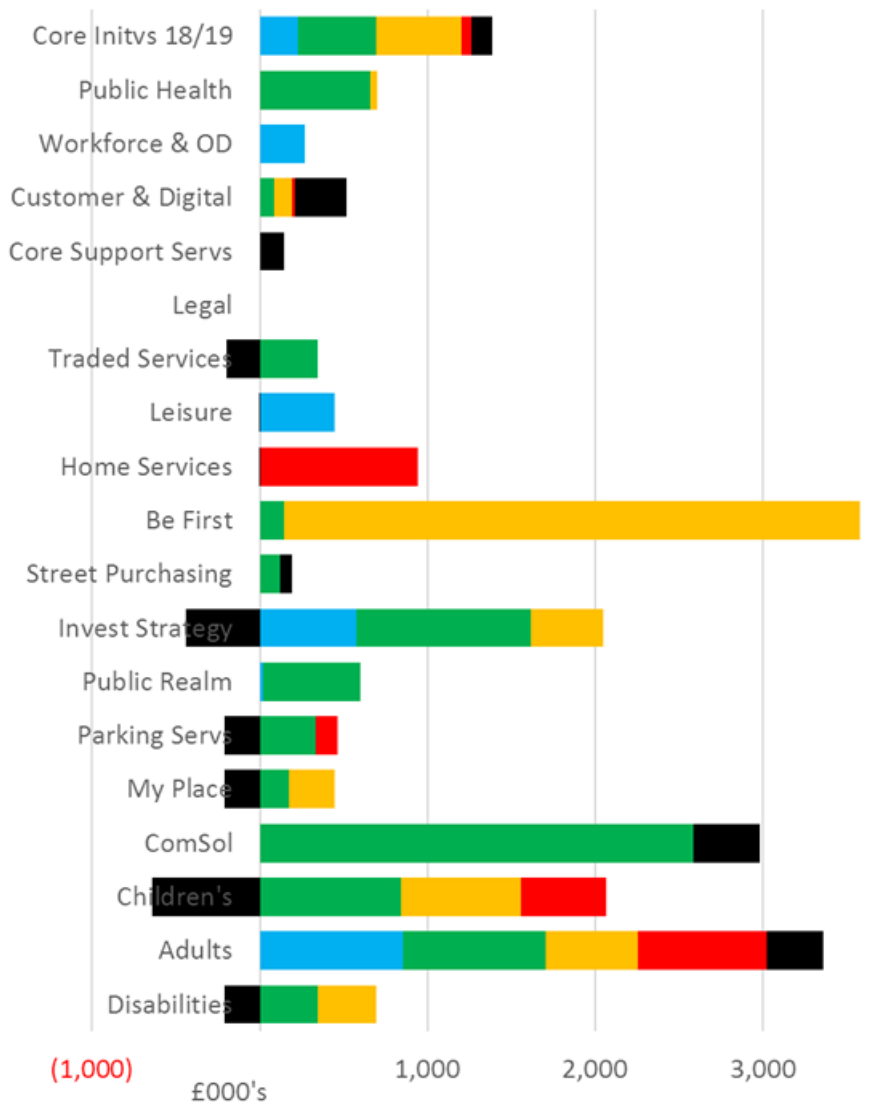
3. Risk Update on the Transformation Programme

- 3.1 Members will be well aware of the Council's Transformation Programme which is to deliver £47.9m budget reduction through a fundamental review of the Council's operating model to sustainably transform services to support our residents to live independently. An additional £9.6m 2018/19 of measures were agreed by Cabinet in November 2017 and further adjustments were agreed at February 2018 Cabinet resulting in measures totalling between 18/19 and 20/21 £41.5m, with £23.099m being within scope for 18/19.
- 3.2 All initiatives are monitored monthly and risk scored as 'delivered' or 'low / medium / high risk'. The vast majority of initiatives are on track to be delivered. Inevitably, due to the scale and sheer complexity of the transformation programme, there are some initiatives which have significant associated risks to delivery both in timing and quantum. As would be expected, later years of the programme show higher risk and mitigating actions are being progressed to address these. A provision of

£2m was also created in 2018/19 to recognise potential non-delivery of savings/income targets.

3.3 Monthly officer risk focussed reporting is in progress and the quarterly Cabinet budget monitoring report reviews in-year activity and that across the entire programme to 2020/21, assessing the risks associated with delivery and implementation of the proposals. The table below table shows the risk profile of the 18/19 initiatives:

3.4 Table 1.



3.5 Table 1 shows that in many areas we are well on track to deliver, however it highlights significant areas of risk which are primarily in the care and support arena and particularly so in this financial year and next. These areas are still to develop comprehensive and robust action plans that will deliver change.

4. Government Funding and changes in legislation/new burdens

4.1 The Government has made clear its long-term intention for Local Government Funding is to move to a system based on locally generated income coming from Council Tax and Business Rates. The expectation is that from 2020 general

government grant funding will be entirely phased out potentially along with other ring-fenced grants including Public Health Grant and HB Admin Subsidy. However, the final details of how this will work has not yet been announced. We expect more information to become publicly available over the next year or so and we will update Cabinet as more is known. At the time of writing this report, no further changes to funding or policy changes have been announced. For this reason, we are not currently extending the MTFS beyond 2020.

- 4.2 However, as part of the movement to this new system a Business Rates pooling exercise is running in London. LBBB is part of this pool. Under current predictions for growth in the London economy this should result in increased income for the borough. The revised MTFS includes a further £1.4m income in 2019/20.

5. Proposed changes to the MTFS

- 5.1 Appendix A details the MTFS agreed by Assembly in February 2017. A number of proposed changes to the MTFS in line with the discussion above are put forward:

Staff inflation and pay awards

- 5.2 The MTFS incorporates £1m for staff inflation and the national pay award of 2%. Following discussions, it is felt that most of this increase can be absorbed within existing budgets by managing vacancies within the Council and other measures to improve workforce productivity. But that a fund of £0.5m would be created for those departments facing significant pressure, at this time it is expected that this will be mostly required by Childrens services.

Non-staff inflation

- 5.3 There is currently a £2.1m provision within the MTFS relating to non-staff inflation for contracts/commissioned services. Given the demand led pressures elsewhere across the Council, an assessment has been made that containing inflationary pressures within existing budgets will not be detrimental to current contractual arrangements with service providers.

Impact of legislative changes

- 5.4 There has been little in terms of policy changes/legislative burdens that will have a quantifiable impact on the MTFS at the time of writing this report. Removing this provision entirely from the MTFS is not without risk as any policy changes should they arise will then need to be dealt with as a funding pressure in year or will increase the budget gap, leaving very short notice on how it can be resolved. One piece of legislative change is the Children and Social Work Act 2017 which extends councils responsibilities to care leavers to age 25, we are expecting the Department of Education to provide new burdens funding, however this is not yet quantified.

Demographic pressures

- 5.5 This Council already has an innovative approach with Community Solutions which joins up services to support residents to help themselves. We will build on this and our new operating model for Childrens and Adults by working across all our services to create a whole council approach to prevention and demand management. Whereas previously we have had a blanket expectation that demand

will grow year on year we will work with our residents to build resilience. This provision is therefore no longer relevant.

Re profiling of savings

- 5.6 In some areas we have reprofiled savings in line with business and/or actions plans the most significant change is that for Be First where the MTFS is now aligned to their Business Plan.
- 5.7 The adjustments above removes £9.096m of pressures/growth items from the MTFS. This revises the 2019/20 budget gap to £4.620m. Full details are shown in the appendices.

6. Process for closing the 2019/20 budget gap & onwards – Next steps

- 6.1 The revised budget gap is now £4.620m for 2019/20 and work is underway to bridge the gap with proposals being be put forward to Members in the November 2018 Budget Strategy report with the public consultation process commencing thereafter.

7. Financial Implications

- 7.1 Financial implications feature throughout this report.

8. Legal Implications

Implications provided by: Paul Feild, Senior Corporate Governance Solicitor

- 8.1 Local authorities are under an explicit duty to ensure that their financial management is adequate and effective and that they have a sound system of internal control and management of financial risk. This report contributes to that requirement. Specific legal advice may be required in due course on the detailed implementation of savings options.
- 8.2 Where there are proposals for the closure or discontinuance of a service or services, appropriate consultation will need to be carried out. In the event that savings proposals affect staff, it will require consultation with Unions and staff. In addition to that Members will need to be satisfied that Equality Impact Assessments have been carried out before the proposals are decided by Cabinet. If at any point a resort to constricting expenditure is required, it is essential that due regard is given to statutory duties and responsibilities. In particular the Council must have regard to:
- any existing contractual obligations covering current service provision. Such contractual obligations where they exist must either be fulfilled or varied with agreement of current providers;
 - any legitimate expectations that persons already receiving a service (that is earmarked for reduction) may have to either continue to receive the service or to be consulted directly before the service is withdrawn;
 - any rights which statute may have conferred on individuals that as a result of which the council may be bound to continue its provision. This could be where

an assessment has been carried out for example for special educational needs following a statement of special educational needs;

- the impact on different groups affected by any changes to service provision as informed by relevant equality impact assessments;
- the response to any consultation undertaken.

Public Background Papers Used in the Preparation of the Report: None

List of appendices:

Appendix A: MTFS February Assembly (2018-19 to 2020-21)

Appendix B: MTFS July 18 Update (2018-19 to 2020-21)