CABINET

15 November 2016

Title: Budget Strategy 2017/18 to 2020/21	
Report of the Cabinet Member for Finance, Growth and Investment	
Open Report	**For Decision**
Wards Affected: All	**Key Decision:** No
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Summary

This report presents the Council's Medium Term Financial Strategy for 2017/18 to 2020/21.

The Council faces an unprecedented financial challenge: Government cuts the likes of which have not been seen since the second world war and year on year increases in demand for services as the Borough's population grows and as it gets simultaneously older and frailer and, also, younger. Gone are the days when the budget process could be an annual affair confined to the winter months of the year. Today it is a year-round process of near constant test, challenge and refinement as funding assumptions ebb and flow and as long term savings proposals mature and deliver. In this context, it is also about the judicious use of carefully managed reserves and balances to help smooth the short-term impact of changes to funding and the delivery of long-term savings so that services are protected.

It is in this context that the report updates Cabinet on changes to the Council's medium term financial position since July 2016 as further information, particularly about funding has become available and, as savings proposals have been further tested and refined.

Appendix 2 sets out the Council's expenditure by service blocks for 2017/18. These will form the basis of the Council's budget consultation exercise. Alongside the combination of savings that were widely consulted upon as part of the finalisation of the Ambition 2020 recommendations (April to July 2016), the Council also intends to protect services during 2017/18 by drawing down on reserves and utilising one off funds, in order to achieve a balanced position – something that we will also consult upon as part of the budget consultation exercise.

This report has been written in advance of the Chancellor's Autumn Statement and also before publication of the Local Government Finance Settlement (due in December 2016). Both announcements may require changes to our strategy and these will be incorporated in the statutory Budget Framework report, which will be presented to Cabinet in February.

It is important to note that since July, there have been a number of changes to the funding assumptions which have impacted the projected 2017/18 budget gap. Further changes announced to the Education Services Grant and potential changes to the multiplier for business rates have now been built into the assumptions, increasing the budget gap reported in July from £5.344m to £7.250m. The Government are also consulting on changing how New Homes Bonus will be paid in 2017/18. No further updates have been announced since the consultation closed in Summer so the MTFS assumes no reductions on the New Homes Bonus at this stage, but this remains a risk.

Recommendation(s)

The Cabinet is recommended to:

(i) Note the latest position regarding the Council's Budget Strategy 2017/18 to 2020/21, as summarised in the report;

(ii) Note that the projected revised savings arising from the Transformation Programme had increased by £2.4m to £47.9m overall as outline business cases were tested and challenged through to becoming final business cases and that, through the same testing and challenge process, the benefits from the programme anticipated to be delivered in 2017/18 were now £9.275m;

(iii) Note that the savings from the Transformation Programme would be finalised as final business cases were completed in December 2016/January 2017;

(iv) Note that the final business cases would provide details of the implementation costs of the Transformation Programme that had yet to be factored into the MTFS;

(v) Note that the impact of changes to Government funding and likely changes to the NNDR multiplier had increased the funding gap in 2017/18 by £1.967m;

(vi) Note that changes in the income and assumptions have been based on the best known information at the present time, in advance of the Autumn Statement and the Local Government Finance Settlement;

(vii) Approve the changes to the Medium Term Financial Strategy as outlined in sections 3 to 6 and Appendix 2 of the report; and

(viii) Agree that an 8-week budget consultation exercise be commenced on the proposed Council expenditure on each service block and how the Council intended to set a balanced budget for 2017/18.

Reason(s)

Effective financial planning underpins the Council's ability to achieve its vision of becoming London's Growth Opportunity and a well run organisation.

1 Introduction and Background

1.1 Cabinet in July approved changes to the Council's Medium Term Financial Strategy which set out the financial changes/pressures known at the time.

1.2 The July report saw an increase of the Council's budget gap from £63m as presented to Assembly in February 2016, to £66m, due to worsening assumptions on funding reductions, additional pressures and growth to the budget.

1.3 Cabinet in April received the concluding recommendations of the Council's Ambition 2020 Programme. As Members will recall, this was a year-long exercise designed to discern savings and service improvements that could be delivered without the need for traditional service cuts or a 'salami slicing' approach to budget setting. Following a three-month consultation on all recommendations, Cabinet agreed to proceed with their implementation at the end of July. Since that time officers have been further testing and refining these proposals bringing their implementation together into a single 'transformation' programme of change that also includes other corporate priorities such as the Council's Smarter Working (office reduction) programme and some key recommendations of the Growth Commission. Working in this way brings greater visibility and transparency to the implementation process and helps to manage the risks of double counting, missed dependencies and cost overruns. Based on the high-level outline business cases available to inform the Cabinet report in July, savings anticipated to be delivered through implementation of the transformation programme, were predicted to be £45.5m per year by 2020/21 and some £9.282m per year in 2017/18.

1.4 Table 1 below shows the budget gap and revised savings presented to July Cabinet in the MTFS update report:

Pressure £'m	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**Total**
Gap – February 2016	19,801	15,844	13,977	13,395	63,017
Potential Gap – July 2016	**14,626**	**18,169**	**16,977**	**16,395**	**66,167**
Expected savings	9,282	13,239	7,844	15,155	**45,520**
Revised gap after A2020	**5,344**	**4,930**	**9,133**	**1,240**	**20,647**

1.5 Following further testing and scrutiny by Strategic Directors and their interim Commissioning Directors, the budget gap for 2017/18 was revised downwards from £19.8m to £14.6m by removing inflationary growth, delaying increasing the interest budget and stripping out an element of the growth for demographic pressures. While recognising that such an approach increases the inherent risks to service budgets (from years of managing growth and inflationary pressures), it is an approach that also reduces the level savings that the Council is required to make and the counter risk of having to cut services prematurely. Accordingly, Cabinet agreed these changes at their meeting in July.

1.6 Cabinet in July approved for the remaining £5.344m budget gap for 2017/18 to be balanced by using a drawdown from reserves, cashable in-year savings from the voluntary redundancy process (projected before the scheme was concluded), and a small number of additional potential in-year savings that could be delivered in this financial year.

1.7 Table two below outlines the impact of the decisions taken by Cabinet in July on the medium term financial plan as projected at that point in time:

Pressure £'m	2017/18	2018/19	2019/20	2020/21	Total
Revised gap after implementation of outline business case proposals	**5,344**	**4,930**	**9,133**	**1,240**	**20,647**
Budget gap c/f 17/18		**5,344**			
Projected cashable savings VR as anticipated at the point of report writing	2,100				
Anticipated additional cashable in year 16/17 savings	944				
Drawdown from reserves	2,300				
Revised gap after adjustment	**0**	**10,274**	**9,133**	**1,240**	**20,647**

2 Update on the Transformation Programme savings

2.1 Since July, further work has been carried out to refine, test and challenge the outline business cases (that formed the basis of the projected savings in the July report to Cabinet) as work is concluded on the development of final business cases. Most business cases will be finalised by the end of January 2017. At the time of writing the impact as seen the overall projected savings rise by £2.4m per from £45.5m to £47.9m with a slight reduction from £9.282m to £9.275m in 2017/18.

2.2 Table 3 below shows the impact of these changes compared to savings forecast in July.

Pressure £'m	2017/18	2018/19	2019/20	2020/21	Total
Expected savings July 2016	9,282	13,239	7,844	15,155	**45,520**
Expected savings November 2016	9,275	11,344	12,784	14,538	**47,941**
Differences in savings expected	**7**	**1,895**	**(4,940)**	**617**	**(2,421)**

2.3 As noted above, the July report to Cabinet set out the potential to exploit some additional in-year savings that could then be carried forward to mitigate the budget gap in 2017/18. The majority of this projected sum of £0.994m came from additional parking income of £0.6m and income from Legal Services of £0.3m. Upon closer scrutiny by both the incoming Operational Director: Enforcement, and colleagues in Finance, the figure attributable to parking is found to have been a double count with income increases already included in the base budget. Income increases achieved by the Legal services are now being used to help mitigate in-year budget pressures as set out in the budget monitoring report elsewhere on this agenda.

2.4 The Council's Voluntary Redundancy exercise concluded at the end of July 2016 with final decisions about some applications not being concluded until September. It was obviously important to ensure that the desire of staff to leave, the protection this afforded to colleagues otherwise at risk of compulsory redundancy and the need to maintain service delivery were carefully balanced. At the end of June, based on the number of applications received, a projection of £2.1m of in-year savings was included in the July update. On conclusion of the scheme, slightly fewer posts were released and accordingly the level of in-year savings reduced to £1.8m.

2.5 It is important to stress that, the majority of final business cases currently in development will not be concluded until the end of January 2017. The savings outlined above are predicated on a number of assumptions and the best information known at the time of drafting this report. Some changes to the numbers should therefore be anticipated as the organisation moves through verification through to implementation.

2.6 Any such changes will need to be reflected in the Council's Budget Framework report which will be presented to Cabinet in February and then onto Assembly for ratification.

2.7 A copy of the MTFS reported to Cabinet in July as attached as Appendix 1 to this report.

3 In year budget pressures and impact on the 2017/18 budget

3.1 There are still two main risks in the 2016/17 that will have a knock-on impact on the 2017/18 budget.

3.2 The impact of programme SAFE has been positive. Providing all the actions are delivered as per the recovery plan (reported to Cabinet in regular budget monitor reports) then Children's Care and Support should be on track to deliver a balanced budget for 2017/18. This will represent a tremendous achievement given that just thirteen months ago, the service was reporting a potential overspend of £11m. The main risk here is assuming no changes in current demographic profile. Children's Care and Support will also be delivering savings of £0.49m through further reductions of looked after children placements.

3.3 As reported in the quarter 1 and 2 monitoring reports the homelessness service is experiencing a significant overspend this year due to changes in Government policy and the rapid increase in rental prices in the Borough. In particular, the fact that two thirds of private sector rented (PSR) accommodation is no longer cost neutral to the

Council. Previously, the cost of PSR accommodation could be covered by housing benefit. However, towards the end of the last financial year and the beginning of this, a tipping point of rental increases was breached, leading to a pressure for the Council. Since the spring, officers have been working on a detailed recovery plan and as result of this work policy change options are being considered by Cabinet that will in time support the management down of this overspend. At this juncture, it is anticipated that a proportion of this overspend position will carry forward into next year. Work is on-going in this area and accordingly it is proposed that growth of £1.8m be included in the MTFS to cover a large element of this pressure.

4 Changes to the July 2016 Medium Term Financial Strategy

Council Tax base increase

4.1 The July MTS assumed a prudent increase of c500 properties for 2017/18. The latest Council Tax base numbers show an increase of c1500 properties over and above the MTFS assumptions. The increase is not as a result of additional properties built in the borough, but as a result of a recent audit undertaken that has significantly reduced the number of single person discounts awarded, thereby increasing the Tax base. These numbers will be confirmed by the Council Tax base numbers produced on the statutory date of 30th November to determine the Council's tax base for the preceding year. The Council Tax base report will be presented to Cabinet for approval in January. The estimated increase in the Tax base equates to an additional £1.5m to what was assumed in the MTFS in July and a further £0.1m from the planned increases to Council Tax.

Changes to the Education Services Grant

4.2 Shortly after the July MTFS update report was presented to Cabinet, the Department for Education (DfE) announced further changes to the Education Services Grant. The MTFS had already assumed a reduction of £1.4m for 2017/18, however, following announcements made in Summer, it is likely that all the Education Services Grant will be cut from 2017/18. The DfE will be transferring £0.6m of the grant to the Dedicated Schools Grant which effectively ring fences this grant solely for the purposes for Education. To mitigate the transfer of £0.5m into the DSG, corresponding income from the General Fund for statutory education expenditure will be also transfer into the DSG. The DfE have indicated that there will be an element of transitional protection to reduce the loss of grant in 2017/18, but no further details have been received to date. The net impact of these changes is a further grant decrease of £0.8m.

Proposed changes to the Business Rates revaluation

4.3 The effect of the recent revaluation of Business Rates has seen an increase in London on average of 24%. Barking and Dagenham's revaluation is one of the lowest in London, at 8%. At present, any effect of revaluations is cancelled through a corresponding adjustment in the top up grant/levy. The effects of future revaluations are yet to be determined as the Government works through responses to the Business Rates consultation exercise which closed on the 26th September. However, potential changes to the multipliers for businesses may mean reduce the level of business rates collected by the Council. The Government are proposing to decrease the multipliers and also increase the threshold before small businesses have to pay business rates. Taking these factors into consideration, the potential reduction in collectible business rates may reduce by £1.5m to £2m, of which the impact to Council will be 30% or £0.5m to £0.67m. This has been added as a pressure in 2017/18. Changes to the business rates system will be announced during the Autumn Spending Review 2016.

Potential changes to the ELWA levy

4.4 The MTFS in July assumed an increase of £0.32m on the ELWA levy. However, given the increase the in Council Tax base, a further increase of £0.33m has been assumed for 2017/18. The final ELWA levy will not be known until January/February.

Potential changes to the New Homes Bonus

4.5 In Summer, the Government consulted on potential changes to how New Homes Bonus should be paid. There were several models being consulted upon, proposing to reduce the number of years New Homes Bonus should be paid (from six years to four years), and reducing the amount of New Homes Bonus that will be paid, as well as reducing the length of time it is paid over. No further announcements have been since the consultation closed in summer so the MTFS assumes no reductions to the level of New Homes Bonus for 2017/18. However, if the Government proposes to reduce New Homes Bonus to be paid over four years, this could potentially reduce the grant by £1.7m. This has not been factored into the MTFS assumptions, given the lack of certainty over which of the models proposed is likely to be implemented.

Improved Better Care Fund

4.6 Further guidance was issued in Summer about the Improved Better Care Fund which indicates that this is additional funding allocated to Local Authorities for Adult Social care. The additional income has now been factored into the MTFS.

Staff pay awards & other adjustments

4.7 The MTFS currently factors £1m for staff pay awards for 2017/18, to reflect a 1% increase in salaries for next year. Given the number of funding changes since July, and other increased costs, such as the land development acquisition budget and the homelessness pressure that is now likely to continue into 2017/18, it is proposed that increases to staff pay awards are managed within existing service block budgets.

Adult demographic pressures

4.8 Following a review of the demographic and other pressures impacting on Adult Care & Support, the £0.4m set aside to fund demand led increases has been removed from the MTFS.

Children's demographic pressures and Implications of the Care Act

4.9 Similarly following a review of the demographic and other pressures impacting on Children's Care & Support, £0.5m set aside to fund demand led increases has been removed from the MTFS. This should also be sited as a success of the SAFE programme. Further analysis of the implications of the Care Act has led to the removal of £0.1m from the MTFS. The £0.6m will be used to fund other demographic pressures.

Clean and Green staffing pressures

4.10 The interim management structure introduced in April 2016 has brought greater clarity and clear accountability of expenditure within the different service blocks. As a result of separating the services, a large staffing budget shortfall has been identified which has previously been subsidised by holding back spend in other areas for a number of years. Due to this level of transparency, a base budget pressure on the Clean and Green staffing budget of £0.591m has been identified. The MTFS seeks to resolve this pressure on an on-going basis, so there is sufficient budget available to provide the standard of service expected.

5 Autumn Statement 2016

5.1 This report is being written in advance of the Chancellor's Autumn Statement, as there are a number of unknowns for local government at this stage.

5.2 Any change that has a significant impact on the Council's budget for 2017/18 will be incorporated as part of the February 2017 Budget Framework report.

6 Implementation costs of the savings proposals and land development acquisition strategy

6.1 In order to deliver the level of savings required to achieve agreed savings, sums will need to be set aside to pay for the costs of implementation. Implementation costs are currently being calculated and will be incorporated as part of the final business cases. A number of costs are capital which will follow the Council's capital bid process. For 2017/18, the Council has set aside £1.4m of interest and borrowing costs to fund both capital works across the Council and capital investment required to implement savings. Scaled up, this equates to approximately £15m of investment in the Council's capital programme. In order to prioritise the total funding available, all capital bids will be managed through the same process. A report outlining the proposed bids will be presented to Cabinet for approval in December 2016.

6.2 One of the largest savings targets being governed through the transformation programme relates to the implementation of the Council's Investment strategy, which is elsewhere on this agenda. In order to generate the revenue income and returns required towards the budget gap, an element of investment is fundamental to the realisation and delivery of the Investment Strategy. By 2020/21, the Investment Strategy is expected to deliver to c£5.2m of net income, per year. To generate this level of income requires the Council to own freehold interest in land throughout the Borough. Until the land is developed, the holding costs of the capital purchases such as interest will be a pressure on the revenue budget. Interest costs alone for the recent sites acquired total £1.0m with provision of a further £0.5m in 2018/19. Finance officers will seek to manage the Council's cash flow to mitigate interest costs.

7 Revised Medium Term Financial Strategy

7.1 Incorporating all the changes outlined in the sections 3 to 6 above, the revised MTFS by 2020/21 now has a budget gap of £16.5m.

7.2 Table 4 below shows the impact to the MTFS per year (pressures are shown as positive numbers, income increases are shown as negative numbers):

Pressure £'m	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**Total**
Gap – July 2016	**14,626**	**18,169**	**16,977**	**16,395**	**66,167**
Homelessness budget growth	1,800				**1,800**
Staff pay award	(900)				**(900)**
Reduce Adults demand pressure	(400)				**(400)**
Reduce Children's demand pressure	(500)				**(500)**
Reduction in the Implications of the Care Act pressure	(100)				**(100)**
Potential impact of demographic pressures	600				**600**
Increase in ELWA Levy	330				**330**
Education Services grant	849	(1,000)	(1,000)	(270)	**(1,421)**
Business Rates revaluation	667				**667**
Council Tax base increase and 1.99% Increase	(1,638)	(94)	(84)	(73)	**(1,889)**
Clean and Green Establishment pressure	591				**591**
Land development acquisition	1,000	500			**1,500**
Improved Better Care Fund	(400)	(1,000)	(2,000)		**(3,400)**
Potential Gap (Revised)	**16,525**	**16,575**	**13,893**	**16,052**	**63,044**

8 Balancing the 2017/18 budget and revised budget gap to 2020/21

8.1 Table 4 above sets out the revised budget gap, taking into account changes outlined in sections 3 to 6 of this report.

8.2 Table 5 below shows the revised budget gap after considering the revised savings as at November 2016, which will require further scrutiny as final business cases are developed to ensure that the savings put forward are robust and deliverable for 1st April 2017 where stated.

Pressure £'m	2017/18	2018/19	2019/20	2020/21	Total
Gap – July 2016	14,626	18,169	16,977	16,395	66,167
Potential Gap – Nov 2016	**16,525**	**16,575**	**13,893**	**16,052**	**63,044**
Expected savings governed by the transformation programme	9,275	11,344	12,784	14,538	47,941
Revised gap after savings	**7,250**	**5,231**	**1,109**	**1,514**	**15,104**
Cumulative budget gap		**12,481**	**13,590**	**15,104**	

8.3 In order to accommodate these changes, it is proposed that balances built up in the Council's Collection Fund be drawn down as a one off cashable amounts to balance the 2017/18 budget. This approach brings with it risks in so far as this amount will not be available as a contingency to help manage future budget pressures, including the risk of future losses to the Collection fund.

8.4 Table 6 below summarises how the 2017/18 gap will be addressed and also the knock on impact of this approach in future years, particularly 2018/19.

Pressure £'m	2017/18	2018/19	2019/20	2020/21	Total
Revised gap after savings	**7,250**	**5,231**	**1,109**	**1,514**	**15,104**
Budget gap c/f 17/18		**7,250**			
Use of collection fund surplus	3,150				
Cashable savings VR	1,800				
Drawdown from reserves	2,300				
Revised cumulative gap after adjustment	**0**	**12,481**	**13,590**	**15,104**	

9 Summary, conclusions and next steps

9.1 The adjustments to the MTFS set out in this report have now been applied to the service expenditure blocks. This is shown in Appendix 2 to this report.

9.2 The changes to the MTFS see projected savings over the course of period rise from £45.5m overall to £47.9m, but projected changes to the profile of those savings set out in this report require the Council to direct an additional £3.2m of one off funding into the 2017/18 to retain a balanced position. The cumulative impact of these changes increases the projected for 2018/19 from £10.3m to £12.5m. Offices are already working on proposals to close this cap and an update to Cabinet will follow in due course. An updated MTFS is attached as Appendix 3 of this report.

9.3 Final business cases and autumn CSR and LG settlement will no doubt change the numbers and assumptions in this report. Final changes will be incorporated in the February budget Framework.

10 Financial implications

10.1 Financial implications feature throughout this report

11 Legal implications

Implication completed by Dr Paul Feild, Senior Governance lawyer

11.1 This report sets out the Council's Medium Term Financial Strategy. The Director of Finance has a statutory duty, under Section 151 of the Local Government Act 1972 and Section 73 of the Local Government Act 1985, to ensure that there are proper arrangements in place to administer the Council's financial affairs.

11.2 Furthermore the Local Government Act 1999 places a duty on the Council as a 'Best Value' authority to secure continuous improvement in the way its functions are exercised to secure economy, efficiency and effectiveness. The MTFS is linked in to the overall corporate strategy led by the Ambition 2020 plan. Setting challenging key performance indicators are a necessary component of effective performance management.

11.3 The Council is required under the Local Government Finance Act 1992 to produce a 'balanced budget'. As set out in this report, the projected MTFS outlook takes place in the context of significant and widely known reductions in public funding to local authorities. Inevitably over a period while allowances and contingencies may be made, the MTFS is inevitably going to need ongoing review and adjustment. Should the need emerge to make reductions or changes in service provision as a result of changes in the financial position, the Council may vary its policy and consequent service provision to engage with the change. However, it must at the same time have regard to public law considerations in making any such decisions that it is properly informed including carrying out appropriate consultation with interested parties. This is necessary to avoid or defeat any challenge by judicial review and in any event Members will also wish to ensure adherence as part of good governance. Should such steps be required, then specific legal advice will be available on the detailed implementation of savings options.

12 Risk management

12.1 Setting a balanced budget is a statutory requirement. Although the Council is proposing to deliver a balanced budget for 2017/18, this would be achieved through the use of one-off cash, a drawn down from reserves and also by using the Collection Fund surplus.

12.2 This poses immediate risks to the 2018/19 budget setting process as the gap has now widened by c£3m, notwithstanding that savings projected over the course of the MTFS have increased from £45.5m overall to £47.9m.

Public Background Papers used in the preparation of the report: None

List of appendices

- Appendix 1 - Medium Term Financial Strategy 2017/18 to 2020/21 – July 2016
- Appendix 2 - Proposed expenditure levels by service block 2017/18
- Appendix 3 - Revised Medium Term Financial Strategy 2017/18 to 2020/21 – November 2016
- Appendix 4 – Savings per Transformation Programme work stream by year