

<b>Committee/Meeting:</b> Cabinet	<b>Date:</b> 9 <sup>th</sup> October 2013	<b>Classification:</b> Unrestricted	<b>Report No:</b> CAB 039/134
<b>Report of:</b> Acting Corporate Director, Resources  <b>Originating officer(s)</b> Paul Thorogood - Interim Service Head for Finance and HR Development		<b>Title:</b> Medium Term Financial Plan Update – 2014-17  <b>Wards Affected:</b> All	

<b>Lead Member</b>	Cllr Alibor Choudhury (Cabinet Member for Resources)
<b>Community Plan Theme</b>	One Tower Hamlets
<b>Strategic Priority</b>	Ensuring Value for Money across the Council

## 1. **SUMMARY**

- 1.1. Council has previously agreed a balanced medium term financial plan to March 2015, and outline an approach for savings to be delivered in 2015/16 of some £25m. However our working assumption has always been that this would be the first tranche of a further period of significant savings on the back of the current Government's austerity programme.
- 1.2. Subsequently there has been a further Spending Round (26th June 2013) followed at the end of July by a series of consultations from the Department for Communities and Local Government (DCLG) and officers have had to revisit assumptions. The 2013 Spending Round only dealt with 2015/2016, setting out expenditure limits for each government department, but we have to plan on the basis that public sector spending reductions will continue along the current trajectory for at least a further two years beyond 2015/16. Clearly during the intervening period there is potential for both the economic and political environment to change, which could impact on our assumptions.
- 1.3. This report provides Cabinet with a draft Medium Term Financial statement, on the back of the Spending Review, covering the three year period from 2014/2015 to 2016/2017 including:
  - The likely financial resources available to the Council;
  - the likely cost of providing existing services as set out in the February Council report

- the overall level of savings that need to be identified to be agreed to give a balanced, sustainable budget over the medium term financial planning period.

1.4. The Medium Term Financial Plan, of necessity, includes a number of key planning assumptions which will need to be closely tracked as part of the Council's established financial and performance monitoring process. This will ensure that any significant variances are quickly identified together with appropriate mitigating actions.

## **2. DECISIONS REQUIRED**

The Mayor in Cabinet is recommended to:

2.1 Consider and comment on the draft Medium Term Financial Plan set out in paragraph 6 and Appendix 1 of the report, in the context of the Spending Review 2013.

2.2 Consider the financial outlook and medium term projections set out in this report and agree that, on this basis, no immediate action is required to develop additional savings for 2014/2015.

2.3 Note that the financial position is subject to many unknowns and that officers will monitor the financial position closely and report to the Corporate Management Team and the Mayors Advisory Board for Strategic and Resource Planning during the financial year on developments in Government policy and their implication on the medium term financial plan.

2.4 Agree that officers, after consultation with the Mayor and Lead Member for Resources continue to develop further spending reduction options for the 2015/2016 financial year and the medium term.

## **3. REASONS FOR THE DECISIONS**

3.1 The Council's integrated financial and business planning process is the key mechanism for reviewing plans and strategies to ensure priorities are being met and that resources are allocated effectively to underpin their achievement. The process concludes in changes to the budget and medium term financial strategy that delivers a revised Community Plan and Strategic Plan.

3.2 While many key decisions, including the formal setting of Council Tax, are undertaken annually, these decisions need to be set in the context of a longer term plan. Forward planning offers greater opportunities to link service outcomes to the level of resources available, especially as Government funding reduces.

3.3 The planning process needs to be informed by an up-to-date understanding of the priorities for our residents and partners.

3.4 This report is intended to provide the financial context in which future decisions will need to take place.

#### 4. **ALTERNATIVE OPTIONS**

This report is primarily for information. Any decision not to develop options to address future spending reductions would have serious ramifications for the Council.

#### 5. **BACKGROUND INFORMATION**

5.1 The Council's budget and medium term financial plan sets out:

5.1.1 Growth pressures likely to bear upon the Council's revenue budget over the next three financial years

5.1.2 Ongoing reductions achieved by savings agreed in previous budget rounds

5.1.3 Assumed income from Council Tax, business rates and Government grants

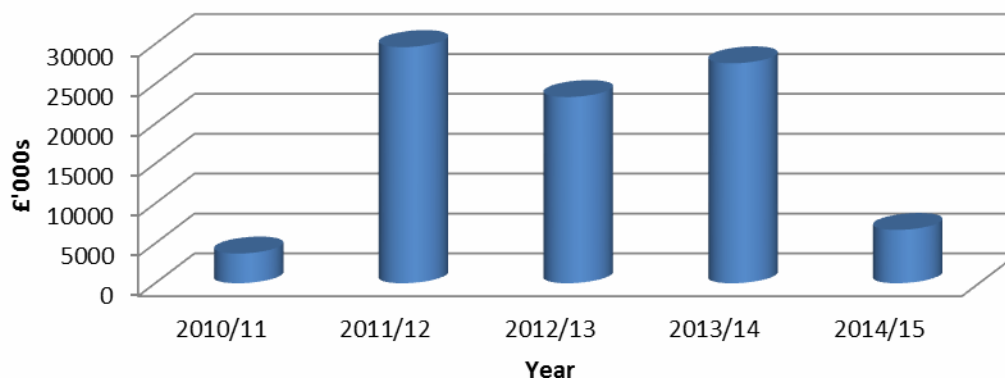
5.1.4 Use of reserves and budget contingencies and the impact on the revenue budget of changes to these

5.2 The budget set by Council for 2013/2014 agreed a further £5.2m of savings, delivering a reduction of £91m by 2014/2015 compared with a baseline in 2010/2011.

5.3 The savings agreed to date represent the largest reduction in spending ever experienced by this authority, some 24% and has been achieved through a series of efficiencies with minimal impact on service delivery and with only a minimal need for compulsory redundancy.

5.4 The graph below provides the savings agreed to be made in each financial year from 2010/2011 to date:

**Table 5.1**



## 6. SPENDING REVIEW 2013

- 6.1 The 2013 Spending Round was announced on 26<sup>th</sup> June 2013 and set out expenditure limits for individual Government departments for 2015/2016. Subsequently a number of consultations have been issued by the Department for Communities and Local Government, providing further detail and clarity on a number of elements referred to in the announcement.
- 6.2 The announcement and subsequent consultations identify there will be a 9.8% reduction in the local government Revenue Distribution Expenditure Limit in 2015/2016 and not specifically from revenue support grant which was the expectation in the previous medium term financial plan.
- 6.3 The table below sets out how the 10% reduction has been applied to the Revenue Distribution Expenditure Limit:

**Table 6.1**

	2014-15 £'bn	2015-16 £'bn	2015-16 % Change (real terms)
<b>Local Government RDEL</b>	<b>25.600</b>	<b>23.500</b>	<b>-9.8%</b>
Local share of business rates	11.254	11.570	1.0%
Revenue Support Grant	12.360	8.950	-28.9%
<b>Settlement Funding Assessment</b>	<b>23.614</b>	<b>20.519</b>	<b>-14.6%</b>
New Homes Bonus topslice	0.800	1.100	35.1%
Safety Net topslice	0.120	0.050	-59.1%
Capitalisation topslice	0.050	0.000	-100.0%
Other grants and payments	0.799	1.831	77.0%
Other expenditure	0.164		
Unknown	0.053		
<b>Local Government Revenue Distribution Expenditure Limit</b>	<b>25.600</b>	<b>23.500</b>	<b>-9.8%</b>

- 6.4 The above table identifies that the revenue support grant decreases by 28.9% and although retained business rates increased by 1.0%, the settlement funding assessment element of overall Revenue Distribution Expenditure Limit decreased by 14.6%.
- 6.5 In addition, it can be seen that £1.8bn has been held back. This may be passed to the Council in the future, however the rationale and purpose of the funding is not known at this time and whether any conditions or extra deliverables will be applied to secure it. In view of the uncertainty, we are continuing to work with London Councils, the Local Government Association

and other bodies to assess the position and reduce the level of uncertainty. At this stage we are not able to factor any of this funding into the MTFP.

- 6.6 Given that Tower Hamlets relies more on government funding, the cut in revenue support grant results in a 28.9% loss compared to 27.6% nationally. Revenue Support Grant will fall from approximately £150m in 2013/14 to less than £90m from 2015.
- 6.7 In addition, as part of the 2013 Spending Round the Government have stated that the New Homes Bonus national funding pot will be top sliced by 35% in 2015/2016, with the money being channelled through regional and sub-regional Local Enterprise Partnerships as part of the Single Local Growth Fund, for reinvestment at regional level. This was unexpected, and what it means is that the Council is likely to lose 35% of its whole allocation from 2015 onwards – a loss of some £7-8m of grant per annum. The decrease in New Homes Bonus could have a greater adverse impact on Tower Hamlets than any other local authority in the country given the borough's continued success in delivering new homes.
- 6.8 The 2013 Spending Review has continued to invest funding for health and social care to deliver services for vulnerable clients and families, an investment of £3.8bn in 2015/2016 to support pooled budgets and a further £200m to extend the Troubled Families programme. To support this £200m will be transferred from the NHS in 2014/2015.
- 6.9 There may be an opportunity to utilise a proportion of whatever allocations Tower Hamlets may receive of the redistributions outlined above to align with existing mainstream funding to facilitate more effective use of local resources. This could enable part of the funding to be used to support the medium term financial plan. However, the impact of the Health and Social Care Bill on the Council will need to be considered when further detail is made available to carry out the service and financial modelling. Again, at this stage no assumptions on funding are factored into the MTFP.

## **7. UPDATED MEDIUM TERM FINANCIAL PLAN**

- 7.1 The Council's medium term financial position reported to Council in February 2013 for the period 2013/2014 through to 2015/2016 is summarised below:

**Table 7.1**

	<b>2013/2014 £'000</b>	<b>2014/2015 £'000</b>	<b>2015/2016 £'000</b>
Total Funding Requirement	297,806	301,117	309,382
Funding	(312,019)	(286,658)	(272,658)
Budget Deficit Surplus	(14,213)	14,459	36,724
Contributions to/from Gen. Fund Reserves	14,213	(14,459)	(12,551)
Unfunded Gap			24,173
<b>General Fund Balance</b>	<b>52,481</b>	<b>32,551</b>	<b>20,000</b>

7.2 The table below provides an update to the Council's medium term financial plan through to 2016/17, following the Spending Review announcements:

**Table 7.2**

	<b>2013/ 2014 £'000</b>	<b>2014/ 2015 £'000</b>	<b>2015/ 2016 £'000</b>	<b>2016/ 2017 £'000</b>
Total Funding Requirement	295,945	296,830	312,095	326,695
Assumed Funding	(316,458)	(289,609)	(261,586)	(246,124)
Budget Deficit (Surplus)	(20,513)	7,221	50,509	80,572
Contributions to/(from) Gen. Fund Reserves	20,513	(7,221)	(22,044)	(9,516)
Gap			28,465	71,056
<b>General Fund Balance</b>	<b>58,781</b>	<b>51,560</b>	<b>29,516</b>	<b>20,000</b>
<b>Savings to be Identified</b>			<b>28,465</b>	<b>42,590</b>

A more detailed version is attached as Appendix A.

7.3 The updated MTFP makes the following assumptions:

- A continued reduction in revenue support grant from 2015/2016
- Local tax base income to increase by approximately 2% over the period of the MTFP
- Appropriate utilisation of general reserves to mitigate the impacts of the Spending Round whilst ensuring they do not fall below £20m

7.4 As per the above table, the unfunded gap for the Council is forecast to be £71m over the period covering 2015/2016 through to 2016/17.

7.5 Despite the bad news that the Spending Round brought us, through careful financial management in 2012/13 we have been able to significantly reduce the savings target from that set out in the budget report, and if we are able to maintain that discipline during 2013/14, and deliver this year's savings programme we will be in a position to set aside further albeit limited resources as contingency against 2016/17.

## **8. STRATEGIC APPROACH TO SAVINGS IDENTIFICATION**

8.1 The Council has a well-embedded approach to strategic and resource planning. Key priorities are agreed with residents and partners in the Community Plan 2020 and these are reflected in a set of strategic objectives in the Council's three year Strategic Plan.

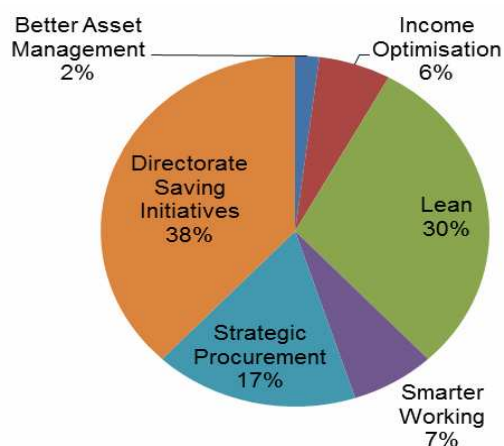
8.2 Notwithstanding the need to manage within a very challenging financial context, the Council remains focused on delivering its key policy objectives. Specifically the Mayor has made clear those priorities that he wishes to see reflected in the allocation of Council resources, namely: improving the condition of social housing; increasing the supply of affordable social housing (particularly family sized housing); maintaining the provision of services for young people; delivering programmes of skills development,

employment and enterprise activity; maintaining support to vulnerable adults; minimising the impact on resident household budgets and; protecting investment in activity that promotes community safety. Whilst that provides some strategic direction it is more difficult to assess services that as a consequence are not deemed priority.

8.3 Since 2010/2011 the Council has used five key strands to delivering savings which have been developed through the budget process:

- A leaner workforce: with a particular focus on rationalising senior management; stripping out duplication and bureaucracy; and creating a flatter, more generic operational structure designed both to enable the progression of talented employees and to be more acutely focused on serving the needs of our residents.
- Smarter Working: with a particular focus on the vacation of Anchorage House in 2013; more localised patterns of working; better use of new technology to enable council officers to do their jobs more effectively and at less cost and; opening up opportunities for residents to access our services in ways that reflect the realities of their lives be that in their homes, on-line, over the phone or in our offices and one stop shops.
- Better utilisation of our assets: with a particular focus on underutilised buildings being put to better use and, where not possible, disposed of to support the council's capital programme and a root and branch review of our treasure management and capital planning arrangements.
- Income Optimisation: with a particular focus on ensuring that charges are set fairly and in a manner that protects our most vulnerable residents; ensuring money owed to us is collected in a timely and efficient manner; and on a review of our commercial charges.
- Better Buying: with a particular focus on supporting local businesses to access the council's supply chain, ensuring a continuing role for the third sector in the delivery of services and ensuring that private sector contractors give value for money and deliver efficiency savings where appropriate, whilst working within the values and ethos of the council.

8.4 A summary of the savings delivered to date through each of these streams is shown below:



8.5 Officers are continuing to develop opportunities for saving options for the 2015/2016 year onwards, based on the principles outlined above with a particular focus on those prioritised by the Mayor in the February budget report – those being:

- Looking again at workforce efficiency, including management layers and spans of control
- Reviewing the use of information management to improve organisational efficiency
- Further reviewing third party spend, testing the capacity for alternative and better value sourcing options
- Joint working with businesses, other public bodies and the third sector to investigate joint procurement opportunities and reduce duplication

An outline programme of proposals and contingencies to deliver the 2015/16 reductions are in progress and will be appraised and tested, in consultation with relevant Cabinet Members, for presentation to Cabinet as part of the annual budget process.

## 9. **SUMMARY**

9.1 The priority for the Council continues to deliver its services in line with both Members and residents aspirations to the standard and quality that is expected and the Council strives itself on delivery, whilst at the same time doing this through a significant reduction in resources.

9.2 As identified within the report, the financial outlook for the Council continues to be extremely challenging, with a reduction in financial resources from Central Government and an increase in demand for Council services through demographic change.

9.3 The level of savings required to be achieved for the period 2015/2016 through to 2016/17 are likely to be in the region of £71m, and the spending reductions are anticipated to continue into 2017/18.

9.4 The medium term financial plan continues to be balanced for 2014/2015 with no additional savings required to be delivered.

## 10. **COMMENTS OF THE CHIEF FINANCIAL OFFICER**



10.1 The comments of the Chief Financial Officer are contained within this report.

## **11. LEGAL COMMENTS**

11.1 The report proposes consideration of a revised medium term financial plan. This is a matter that informs the budget process and may be viewed as a related function. It is, in any event, consistent with sound financial management and the Council's obligation under section 151 of the Local Government Act 1972 for the Council to adopt and monitor a medium term financial plan.

11.2 The report provides information about risks associated with the medium term financial plan and the budget. This is, again, consistent with the Council's obligation under section 151 of the Local Government Act 1972 to make proper arrangements for the management of its financial affairs. It is also consistent with the Council's obligation under the Accounts and Audit (England) Regulations 2011 to have a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk. The maintenance and consideration of information about risk, such as is provided in the report, is part of the way in which the Council fulfils this duty.

11.3 When considering the medium term financial plan, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't.

## **12. ONE TOWER HAMLETS CONSIDERATIONS**

12.1 The budget and Medium Term Financial Plan is one of the main instruments through which the Council delivers its Strategic Plan, including its objective to promote One Tower Hamlets. It is important that decisions taken as part of the budget process take account of equalities and diversity issues.

## **13. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

13.1 Sustainable action for a greener environment considerations have been taken into account in the forecasts.

## **14. RISK MANAGEMENT IMPLICATIONS**

14.1 The absence of a forward financial forecast would expose the Council to the risk of making decisions which are not sustainable in the longer term, or of missing opportunities which might only be identified through a longer term planning horizon. Furthermore, inadequate integration of service and financial planning gives rise to the possibility of service planning without regard to affordability, or a budget that does not direct resources to service priorities.

14.2 This report, and its subsequent development, is intended to substantially address those risks.

**15. CRIME AND DISORDER REDUCTION IMPLICATIONS**

15.1 There are no crime and disorder reduction implications arising from this report.

**16. EFFICIENCY STATEMENT**

16.1 The efficiency and value for money implications of individual budget proposals will be set out as part of the budget process as it progresses.

**17. APPENDICES**

17.1 Appendix 1 – Summary Draft Medium Term Financial Plan 2013/14 to 2016/17

**Local Authorities (Executive Arrangements) (Access to Information) (England) Regulations 2012**

Brief description of “background papers”	Name and telephone number of holder and address where open to inspection.
--	---

<b>None</b>	<b>N/A</b>
-------------	------------