

Cabinet 19 September 2017	
Report of: Zena Cooke (Corporate Director of Resources)	Classification: Unrestricted
Medium Term Financial Strategy 2018 – 2021	

Lead Member	Councillor David Edgar, Cabinet Member for Resources
Originating Officer(s)	Neville Murton (Divisional Director, Finance and Procurement)
Wards affected	All
Key Decision?	No
Community Plan Theme	All

Executive Summary

In February 2017 the Council agreed its budget for 2017/18 and set out a Medium Term Financial Strategy (MTFS) covering the period to 2020. Savings of £52m were identified and approved to be delivered over the MTFS period thereby setting a balanced budget for 3 years with a requirement of £2.8m from general fund reserves. The Council's Capital programme was also reviewed and updated taking into account the current programme and decisions made during the year and new schemes added on and extended to 2021/22.

In 2016/17, the Council adopted an Outcomes Based Budgeting approach to revenue budget setting thereby putting the Council's Strategic Priorities and outcomes for its residents at the heart of financial planning and decision making. This aims to directly link how resources are allocated to the strategic priorities of the Council. An outcomes based approach considers the efficiency and effectiveness of the Council's services by evaluating comparable information such as financial benchmarking and outcome performance measures. This information provides the starting point for critically reviewing the Council's relative performance and provides the basis and evidence for its budget decisions.

Furthermore, the Council published a revised Capital Strategy marking a fundamental review of the Council's capital priorities that will begin to reshape the capital programme and decision making going forward, focusing on an outcomes based approach and aligning it more explicitly to the Council's strategic priorities. Further work has been undertaken in 2017 to review the current programme, its links to other key strategies such as the Housing Strategy, ICT Strategy, Leisure Strategy, Asset Management Strategy and Parks and Open Spaces Strategy and the capital investment needs arising from them and consider Members' capital aspirations over the longer term to refresh the capital programme and develop a funding strategy that

supports the implementation of that vision.

Since that time the Council has

- Set up the Corporate programme office to deliver the 3 year approved savings programme of £52m;
- Held 2 initial workshops in June and July to review the current capital programme and align it to strategic priorities adopting the Outcomes based budgeting approach
- Children Services directorate has undergone an OFSTED inspection and an Ofsted improvement plan is being devised to address the recommendations arising from the inspection

In addition to this, announcements in the Chancellor's spring budget on 8th March 2017 and the Queen's speech on 21st June 2017 included a commitment to publish a green paper this year on the future of Social Care Funding, new business rates reliefs for small business, those adversely affected by business rate revaluations and public houses, which should be cost neutral for local authorities. The government also announced an efficiency review to deliver £3.5 billion savings in 2019/20, but in light of the multi-year funding settlement the impact on local government is expected to be minimal.

Given the previously agreed multi-year settlement there are unlikely to be any fundamental changes to Government grant which means that the Council does not envisage making any significant changes to the current Medium Term Financial Strategy, subject to any minor changes that may be announced in the provisional finance settlement during expected in November/December this year and the final settlement due in February 2017.

This report updates the Cabinet on the progress to date since the MTFs was agreed in February 2017, key announcements since then and sets out the next steps in updating the MTFs and agreeing a final budget for 2018/19. This is aimed at consulting on and agreeing a balanced budget position across the MTFs period, extended to 2020/21, as part of its annual budget setting process which will conclude in February 2018. As in previous years this will also include proposals relating to the Council's Housing Revenue Account (HRA) including rent setting considerations and the Dedicated Schools Budget (DSB) strategy.

Recommendations:

The Mayor in Cabinet is recommended to:

1. Note the Council's Outcomes Based Budgeting approach to prioritising resources over the Medium Term Financial Strategy from 2018-19 to 2020-21.
2. Note the issues and actions set out in this report which are informing the development of the Council's MTFs for 2018 – 2021;
3. Note the timescales and next steps for reviewing and consulting on budget proposals;
4. Authorise the Corporate Director Resources after consultation with the

Mayor and Lead Member for Resources, to confirm to London Councils the in principle decision to proceed with participation in the London wide pilot for 100% business rates retention.

1. REASONS FOR THE DECISIONS

- 1.1. The Council is under a duty to set a balanced and sustainable budget and maintain adequate reserves such that it can deliver its statutory responsibilities and priorities.
- 1.2. A Medium Term Financial Strategy (MTFS) covering the entirety of the resources available to the Council is considered to be the best way that resource prioritisation and allocation decisions can be considered and agreed in a way that provides a stable and considered approach to service delivery and takes into account relevant risks and uncertainty.

2. ALTERNATIVE OPTIONS

- 2.1. Whilst the Council will adopt a number of approaches to the identification of measures aimed at delivering its MTFS there is no alternative other than to set a legal and balanced budget and agree its Council Tax before the statutory deadline.
- 2.2. The Council could return to the approach of agreeing proposals on an annual basis but this does not support a strategic approach which allows for proposals to be managed and implemented over a longer period of time leading to evidenced based policy decisions and better overall outcomes.

3. DETAILS OF REPORT

3.1. Background

- 3.1.1. The medium term financial planning process is an essential part of the Council's resource allocation and strategic service planning framework. The Medium Term Financial Strategy (MTFS) integrates strategic and financial planning over a three year period. It translates the Strategic Plan priorities into a financial framework that enables the Mayor and officers to ensure policy initiatives can be delivered within available resources, and can be aligned to priority outcomes.
- 3.1.2. The drivers for the Council's financial strategy are:
 - To set a balanced budget over the life of the MTFS whilst protecting residents from Council Tax increases as far as possible.
 - To fund priorities agreed within the Strategic Plan, ensuring that service and financial planning delivers these priorities.
 - To deliver a programme of planned reviews and savings initiatives designed to keep reductions to service outcomes for residents to a minimum.

- To maintain and strengthen the Council’s financial position so that it has sufficient reserves and balances to address any future risks and unforeseen events without jeopardising key services and delivery of service outcomes for residents.
 - Ensuring the Council maximises the impact of its spend to deliver priority outcomes.
- 3.1.3. Since 2011/12 in the face of unprecedented reductions in Government funding and increasing demand on services, the need to make savings has dominated the Council’s financial planning process.
- 3.1.4. In February 2017 the Council agreed a balanced budget for 2017-18 and a Medium Term Financial Plan (MTFP) to 2019/20 identifying savings of £52m to be delivered over the medium term period and a requirement to use £2.8m of general fund reserves.
- 3.1.5. This report begins to explore the challenges facing the Council in the context of a number of fundamental changes to the financial environment in which Local Authorities operate. In particular it outlines a process that will deliver a balanced budget position over the course of the MTFS period; and gives a commitment to report a more granular analysis by the December Cabinet meeting.

3.2. Strategic Approach

- 3.2.1. The Council has a well-embedded approach to strategic and resource planning. Key priorities are agreed with residents and partners and these are reflected in a set of strategic objectives in the Council’s three year Strategic Plan and these underpin the Medium Term Financial Strategy.
- 3.2.2. The Strategic Plan focuses on two priority outcomes and an enabling objective. These are:

Priority 1 - To create opportunity by supporting aspiration and tackling poverty.

Priority 2 - To create and maintain a vibrant and successful place.

The Council aims to deliver its two key priority outcomes by designing and delivering services that meet the following objectives:

- 1.1 A dynamic local economy, with high levels of growth benefiting us.
- 1.2 More residents in good-quality, well-paid jobs.
- 1.3 Young people realising their potential.
- 1.4 More people living healthily and independently for longer.
- 1.5 Reducing inequality and embracing diversity.
- 2.1 An improved local environment.
- 2.2 Better quality homes for all.
- 2.3 Less crime and anti-social behaviour.
- 2.4 Engaged, resilient and cohesive communities.

These two key priority areas are supported by a third **enabling objective** which focusses on “Working smarter together as one team with our partners and community” to ensure we;

- 3.1 Make best use of Council Resources
- 3.2 Support an organisational culture based on transparency, trust and effective relationships
- 3.3 Deliver an organisational transformation programme
- 3.4 Develop an effective workforce strategy
- 3.5 Nurture an outward looking culture, by asserting our place and relationships in London
- 3.6 Deliver an effective communication plan

3.3. Outcome Based Budgeting

3.3.1. Outcome Based Budgeting (OBB) aims to directly link how resources are allocated by having our budget mapped to the strategic priorities of the Council. The Council’s Medium Term Financial Strategy (MTFS) 2017-2020 reflects OBB principles, delivering the Council’s priority outcomes as set out in the Strategic Plan, while making savings through planned budget reductions rather than cutting costs on a service by service basis.

3.3.2. Star Chamber and budget style meetings are planned for September to November which will;

- Review and challenge the Current Capital programme which needs to be a priority of this year’s planning process; agree governance arrangements, capital resources prioritisation, funding and new programmes for inclusion in the capital programme;
- Review the current MTFS savings and growth proposals, mayoral priority items;
- Extend the MTFP to 2020/21; identifying the gap arising from recent funding announcements and options;
- Consider the impact of the Fair Funding Review, which is likely to be further in the future than previously anticipated;
- and the potential pan London Pilot for 100% Business Rates retention due to be implemented in 2018/19.

3.4. Future Outlook for the Council’s Finances

Government Funding

3.4.1. The current guaranteed funding settlement to 2020 indicates a reduced amount for the Revenue Support Grant (RSG) meaning the Council will need to generate income or deliver more savings to fund service needs going forward. This has not fundamentally changed although there may be some minor changes in the settlement for 2018/19.

Business Rates

- 3.4.2. In the December 2016 Cabinet report members received details of the impact of the business rate revaluation process which has resulted in the Council moving from being a top-up authority to a tariff authority; one of only two authorities in London to have done so.
- 3.4.3. There still remains a risk of the impact of revaluation on the business rates multiplier and appeals by business rates payers.
- 3.4.4. The government's policy intentions with regards to 100% retention of business rates remain unclear following the general election in June. Draft proposals regarding an expanded London business rates retention pilot via a pan-London pool has been issued by London Councils in July 2017 for each of the 34 prospective pooling authority's consideration.

London Business Rates Pilot pool 2018/19

- 3.4.5. In April 2017, the government established pilots in 6 areas of the country including London where the Greater London Authority's (GLA) level of retained business rates increased from 20% to 37%.; replacing Transport for London (TfL) grants and RSG. An expanded London pilot in 2018-19 would require all 33 London Boroughs and the Mayor of London to agree to pool income from business rates.
- 3.4.6. This arrangement will mean no authority participating in the pool would be worse off than they would otherwise be under the 50% scheme and all members would receive some share of any net financial benefits arising from the pool pilot.
- 3.4.7. This would deliver early retention of 100% growth across London; savings from the scrapping of levy on growth; and potentially transfer of Central list properties such as water companies, Network Rail stations and the London Underground Network to London increasing the pool's capacity to benefit from growth and possibly trialling greater flexibility over some mandatory reliefs. There could also be broader strategic benefits to developing some governance arrangements resulting in the ability to influence the DCLG and HM Treasury departments of central government.
- 3.4.8. The development of the government's 100% business rate retention scheme will potentially have wide ranging impacts on other funding sources as the assumption is that a number of existing funding streams will be subsumed into this new source of funding.
- 3.4.9. How such a pilot would operate including how any additional benefits would be shared are being developed and will be consulted on in due course. However, based on current proposals, participating in the pilot would mean that the Council is no worse off than the current levels of business rates income built into the MTFs. On balance Council is more likely to benefit from increased amounts it can retain through the stopping of the levy payment and a share of any overall growth going forward.
- 3.4.10. A 2018/19 pilot would require agreement with the government at or around the autumn Budget, most likely November. This in turn requires all London Councils to agree in principle by the 10th October 2017 whether they wish to proceed with participation in the pilot.

- 3.4.11. The Corporate Director Resources considers on balance that it makes sense for the Council to participate in the pilot and this report includes a recommendation that Cabinet authorises the Corporate Director Resources, after consultation with the Mayor and Lead Member for Resources, to make the necessary “in principle” decision to proceed on that basis. Participation in the pilot does not bind an authority to operate under a pooled arrangement should the government proceed with countrywide proposals for a 100% retention scheme at some future date.
- 3.4.12. Final details of the pooling agreement would be negotiated with the DCLG to be published in February 2018 to commence in April 2018.

Council Tax

- 3.4.13. In addition to the increasing importance of Business Rates, Council Tax will continue to be an important source of revenue. As part of the provisional settlement in 2017, the government announced changes to the Adult Social care precept. Local authorities could increase the ASC precept by up to 3% per annum in 2017/18 and 2018/19. However, authorities are only permitted to go ahead with a maximum of 3% increase each year provided that the total increase over the three-year period to 2020 does not exceed 6%.
- 3.4.14. However, in the context of the need for savings being front loaded and the significant cost pressures being seen in ASC services, the Council considered it appropriate to phase the remaining maximum 6% rise in the ASC precept over the period to 2020 on the basis of increases of 3%, 2%, and 1%. This was agreed in principle and there appears to be no financial reason to vary this.
- 3.4.15. A further general increase of 1.99% was applied in 2017-18 for inflation; no increases from 2018-19 onwards are currently planned but it is anticipated the council tax base could rise by up to 3%. This will need to be reviewed and the MTFs updated accordingly.

Improved Better Care Fund

- 3.4.16. The initial tranche of Improved Better Care Fund was allocated as part of the government’s 2015 Spending Review, as follows £1.6m; £7.7m & £12.8m for 2017/18; 2018/19 and 2019/20 respectively.
- 3.4.17. In the Chancellor’s spring budget, another tranche of one-off IBCF funding was announced as follows for 3 years: £7m; £4.2m & 2.1m for 2017/18; 2018/19 and 2019/20 respectively.
- 3.4.18. New schemes are being identified by the service to utilise in the current year as well as investment in adult social care sustainability.

Fair Funding Review

- 3.4.19. Following the general election, the government confirmed its continued commitment to the Fair Funding Review as an important way to address concerns about fairness of current funding distributions to local authorities.

- 3.4.20. The Fair Funding Review will:
- Set new baseline funding allocations for local authorities
 - deliver an up-to-date assessment of the relative needs of local authorities
 - examine the relative resources of local authorities
 - focus initially on the services currently funded through the local government finance settlement; and
 - be developed through close collaboration with local government to seek views on the right approach.

Ofsted Improvement Plan

- 3.4.21. Ofsted Improvement Plan - Following the outcome of the Ofsted Report published in April 2017, Children's Services have recently submitted their Ofsted Improvement plan; initial costings are estimated at £5.1m over two years and will be funded from the Councils Risk Reserve. The outcome of the Ofsted report will also result in additional short term pressures in staffing and placements.

3.5. Capital Strategy and Programme 2017/18 onwards

- 3.5.1. The capital strategy published in February 2017 marks a fundamental review of the council's capital priorities which will reshape the capital programme and decision making
- 3.5.2. Initial capital workshops have been held in June and July to review the current capital programme; aligning current planned spend to strategic priorities; identifying future capital ambitions and to discuss prioritisation of capital schemes.
- 3.5.3. The council currently holds significant balances in S106 funding and CIL with future projected income over the MTFs period. These resources will need to be considered fully alongside all other funding sources for the Council's Capital Strategy to ensure that outcomes for residents and businesses are maximised
- 3.5.4. Next steps will include a review of the governance arrangements, prioritisation of capital schemes , long term capital ambition and aligning priorities to key strategies

3.6. Savings Programme

- 3.6.1. The Council approved a 3 year savings programme to 2019-20 as part of addressing the £58m funding gap. The delivery of the savings is currently underway with full equalities impact analyses being undertaken in all areas to ensure public consultations in advance of any changes.
- 3.6.2. Star Chamber sessions have been set up through September to review the progress of savings for 2017/18. A savings tracker identifies the

progress being made, any challenges services are facing in delivering the savings and any mitigating actions where savings are not being achieved.

3.7. Refresh of the MTFP to 2020/21

- 3.7.1. Growth and inflation requirements for 2017/18 to 2019/20 will be reviewed to establish service growth requirements. Additional growth will mean the need to identify more savings in the relevant year or funding from reserves.
- 3.7.2. Assumptions for Council Tax base growth is 3%; there will need to be some consideration on amounts to be raised for supporting increased pressures in adult social care.
- 3.7.3. Business rates will be reviewed in light of the deficit balance on the Collection Fund brought forward from 2016/17.

3.8. Next Steps

- 3.8.1. A further report will be brought to the December Cabinet which will provide a detailed update of the financial planning assumptions underpinning the current MTFS. The outcome of this will be a confirmation of the estimated funding gap over the period to 2021.
- 3.8.2. In the December Cabinet report, Members will be presented with updated information relating to our assumptions for Council tax and Business Rates and any impact those changes have on the MTFS.
- 3.8.3. The report will also bring forward a number of draft savings and investment proposals, covering in full the medium term planning period to 2021 alongside a strategy that fully meets the identified funding gap and with the intention of initiating formal consultation.

3.9. Budget Star Chamber and Scrutiny

- 3.9.1. The draft timetable for the budget setting process is as follows:

Activity	
Capital Strategy and long term capital programme; MTFS savings and growth, impact of London wide business rates pilot and fair funding review; investment strategy discussions.	September – November 2017
London Wide Business Rates Pilot/ Fair Funding Review	31 st October 2017 Cabinet
Review of Capital Strategy And Long term capital programme and Governance arrangements	28 th November 2017 Cabinet

Consultation with Business rates payers	
Review of the Existing MTFP in light of the settlement; Capital Strategy & programme (OBB) and additional One year 2020/21 identification of potential gap and options to close the gap	19 th December 2017 Cabinet
First Full Council meeting to Consider Budget and Council Tax 2018/19	21st February 2018 Full Council
Agree Final budget and setting of the Council Tax	1 st March 2018 Full Council

Budget Scrutiny Process 2018/21

- 3.9.2. The Overview and Scrutiny Committee (OSC) is developing its capacity to meet the challenge of providing effective budget scrutiny, especially as a three year budget is now in place. The following sets out the role of overview and scrutiny in the budget preparation process. Some of these reflect the formal constitutional arrangements and others propose additional activity to strengthen the role of OSC in the development of the rolling three year budget.
- 3.9.3. In addition to the scrutiny of relevant revenue savings and investment proposals the Committee will undertake similar scrutiny of capital programme proposals. They will also have an overview of the Medium Term Financial proposals being considered for approval by the Board of Tower Hamlets Homes (THH), including proposals for rent setting, and also the budget strategy for the Dedicated Schools Budget (DSB) which will be proposed for approval by the Cabinet, from the Schools Forum.

Activity	Date	Outcome
London Wide Business Rates Pilot/ Fair Funding Review	25th October 2017	London Wide Business Rates Pilot/ Fair Funding Review
Budget and Policy Framework – Budget Scrutiny meeting	15th & 24th January 2018 5th February 2018 (if there are any changes to budget following Cabinet on 30th Jan)	Review final Cabinet budget proposals and provide comments for consideration by Cabinet and Full Council.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

- 4.1. All financial issues have been fully considered within this report and there are no additional points to make.

5. LEGAL COMMENTS

- 5.1. 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.
- 5.2. 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 Regulations 2015 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.
- 5.3. The Council is a best value authority within the meaning of section 1 of the Local Government Act 1999. As such the Council is required under section 3 of the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness (the best value duty). The setting of a medium term financial plan is one of the ways in which the Council can achieve best value.
- 5.4. The Council is required to consult for the purposes of deciding how to fulfil its best value duty. It must consult with representatives of council tax payer, business rates payers, persons likely to use services and persons appearing

to have an interest in any area within which the Council carries out functions. As the adoption of a medium term financial plan is one of the Council's existing arrangements, it is arguable that consultation is not required prior to its amendment. However, best value consultation will likely be required at the time of preparing the 2018/2019 budget.

- 5.5. When considering the medium term financial plan, any savings proposals and the strategic 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 (the public sector equality duty). A proportionate level of equality analysis is required to inform the consideration required by the public sector equality duty. The report provides the borough equality analysis and sets out how equality impacts are addressed in relation to savings proposals. To the extent that savings proposals involve service changes which impact on individuals, consultation may be required to understand the impacts on those people.
- 5.6. Any consultation carried out for the purposes of either the best value duty or the public sector equality duty will need to comply with the following requirements: (1) it should be at a time when proposals are still at a formative stage; (2) the Council must give sufficient reasons for any proposal to permit intelligent consideration and response; (3) adequate time must be given for consideration and response; and (4) the product of consultation must be conscientiously taken into account. The duty to act fairly applies and this may require a greater deal of specificity when consulting people who are economically disadvantaged. It may require inviting and considering views about possible alternatives.

6. ONE TOWER HAMLETS CONSIDERATIONS

- 6.1. The development of a rolling three year Medium Term Financial Strategy will support the more effective delivery of One Tower Hamlets priorities.

7. BEST VALUE (BV) IMPLICATIONS

- 7.1. The Council is required to consider the value for money implications of its decisions and to secure best value in the provision of all its services. It is important that, in considering the budget, Members satisfy themselves that resources are allocated in accordance with priorities and that full value is achieved.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 8.1. The sustainable action for a greener environment implications of individual proposals in the budget will be set out in the papers relating to those proposals.

9. RISK MANAGEMENT IMPLICATIONS

- 9.1. Managing financial risk is of critical importance to the Council and maintaining financial health is essential for sustaining and improving service performance. Setting a balanced and realistic budget is a key element in this process. Specific budget risks will be reported to Cabinet as the budget process develops.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

- 10.1. The crime and disorder implications of individual proposals in the budget will be set out in the papers relating to those proposals.

11. SAFEGUARDING IMPLICATIONS

- 11.1. The safeguarding implications of individual proposals in the budget will be set out in the papers relating to those proposals.

Linked Reports, Appendices and Background Documents

Linked Report

- None.

Appendices

- None.

Background Documents – Local Authorities (Executive Arrangements)(Access to Information)(England) Regulations 2012

- None.

Officer contact details for documents:

N/A