

<p style="text-align: center;">Cabinet</p> <p style="text-align: center;">25 July 2018</p>	
<p>Report of: Zena Cooke, Corporate Director, Resources</p>	<p>Classification: Unrestricted</p>
<p>Medium Term Financial Strategy Refresh & 2019-20 Budget Planning</p>	

Lead Member	Councillor Ronald, Cabinet Member for Resources and the Voluntary Sector.
Originating Officer(s)	Neville Murton (Divisional Director, Finance, Procurement and Audit)
Wards affected	All
Key Decision?	No
Community Plan Theme	A transformed council, making best use of resources and with an outward looking culture

Executive Summary

In February 2018 the Council agreed its budget for 2018-19 and set out a Medium Term Financial Strategy (MTFS) covering the period 2018-2021. This included savings over and above those already approved of £10.788m to be delivered over the MTFS period thereby setting a balanced budget for 3 years with a requirement of £6.102m 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; it identified a number of new schemes and began the process of delivering an 10 year capital programme by extending the programme to 2027-28.

The Council continues to implement an Outcomes Based Budgeting approach in delivering its MTFS for the period 2018 to 2021. At the heart of its financial planning and decision making process, the Council aims to directly link financial resources to its Strategic Priority Outcomes and has mapped budgets in line with its desired outcomes for residents.

This report reminds the Cabinet of the key assumptions that underpin the current MTFS agreed in February 2018, highlights any new developments and government announcements since then; and sets out the next steps necessary to update the MTFS by extending it to 2021-22 and finalise and agree a budget and Council tax for 2019-20. 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 MTFS from 2019-20 to 2021-22.
2. Note the challenges and actions set out in this report that will inform the development of the Council's MTFS for 2019-2022;
3. Note the timescales and next steps for reviewing and consulting on budget proposals;

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 excessive Council Tax increases.
- 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.
- Ensuring the Council maximises the impact of its spending 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 2018 the Council agreed a balanced budget for 2018-19 and a Medium Term Financial Plan (MTFP) to 2020-21 identifying further savings of £10.788m to be delivered over the medium term period and a requirement to use £6.102m 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 keep members informed throughout the process leading up to the approval of the budget and MTFS including in particular the results of public consultation exercises and the views of the Overview and Scrutiny Committee.

3.2. Strategic Approach

3.2.1. The Council has a well-embedded approach to strategic and resource planning. The 2018-19 Strategic Plan has been developed using the Outcome Based Accountability (OBA) Framework to enable us to better understand the impact our activities are having and linked to this the resources being utilised to deliver the activities

3.2.2. The Strategic Plan focuses on the three priorities set out below

Priority 1 - People are aspirational, independent and have equal access to opportunities

Priority 2 - A borough that our residents are proud of and love to live in

Priority 3 - A dynamic outcomes-based Council using digital innovation and partnership working to respond to the changing needs of our borough

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

- 1.1 People access a range of education, training, and employment opportunities
- 1.2 Children and young people are protected so they can realise their potential
- 1.3 People access joined-up services when they need them and feel healthier and more independent
- 1.4 Inequality is reduced and people feel that they fairly share the benefits from growth
- 2.1 People live in a borough that is clean and green
- 2.2 People live in good quality and affordable homes and well-designed neighbourhoods
- 2.3 People feel safer in their neighbourhoods and anti-social behaviour is tackled
- 2.4 People feel they are part of a cohesive and vibrant community
- 3.1 The Council is open and transparent putting residents at the heart of everything we do
- 3.2 The Council works collaboratively across boundaries in strong and effective partnerships to achieve the best outcomes for residents
- 3.3 The Council continuously seeks innovation and strives for excellence to embed a culture of sustainable improvement

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.
- 3.3.2. The Council's Medium Term Financial Strategy (MTFS) 2018-2021 has been prepared using these OBB principles and ensures that the Council is 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.
- 3.3.3. We intend to continue with this approach going forward and challenge sessions involving senior officers and lead Cabinet Members are planned for July to November which will;
 - Review the current MTFS savings and growth proposals, including mayoral priority investment items;
 - Extend the MTFP to 2021-22; identifying the gap arising from recent funding announcements and the options for eliminating any shortfall in funding;

- Review and challenge the Current Capital programme; governance arrangements, capital resource prioritisation, financing approaches and agree new programmes and projects for inclusion in the capital programme;
- Consider the impact of the Fair Funding Review on the Council's resources which is due to be implemented in 2020; an initial review of the proposed changes indicate London could be significantly disadvantaged.
- Consider in the light of any proposed continuation of the London Business Rates pilot; whether its potential benefit of boosting Business rates income; and access to the strategic investment pot justifies the Council's continued commitment to a pooled arrangement
- Include development of an income generation strategy using powers to trade under localism act and taking account of best practice and innovative approaches in this area.

3.4. Current Assumptions and Future Outlook

Overview

- 3.4.1. The currently approved MTFP assumes that the Council's net general fund budget will reduce from £343.730m in 2018-19 to £329.422m by 2020-21.
- 3.4.2. This includes £6.704m base budget growth, principally to cover demographic pressures, and £15.097m of one off growth funded from reserves to deliver specific mayoral priorities that are aligned to the Council's strategic priorities.
- 3.4.3. The Council has already approved the delivery of specific savings of £18.3m in 2018-19 and is also progressing projects to deliver a further £14.7m in 2019-20. Proposals for £9.030m of savings have also been agreed for 2020-21 and detailed business cases now need to be developed to support the delivery of these projects.
- 3.4.4. Budget review sessions are being arranged to take place from July to September to allow members to review growth and savings performance and consider future changes in these areas, particularly with in relation to the balance between one off and base budget growth as well as the need for new savings or the re-profiling of existing savings in the light of implementation experience.
- 3.4.5. The current MTFP assumes that approximately £6.102m will be required from the Council's general fund non earmarked reserves to ensure a balanced budget over the period. By the end of the MTFS period general balances are estimated to be at £26m which is considered to provide an adequate level of protection against unforeseen risks.

Government Funding

- 3.4.6. The current guaranteed funding settlement to 2020 indicates that Government grant in the form of Revenue Support Grant (RSG) will continue to diminish, decreasing from around £54m in 2017-18 to around £33m in 2019-20 when the 4 year settlement ends.
- 3.4.7. Beyond 2019-20 the future of government funding will change as a result of the fair funding review and the government's stated intention to extend the business rate retention scheme nationally, details of which are considered below. However a continued reduction in resources seems likely.
- 3.4.8. This will mean that the Council will need to continue to generate additional income or deliver further savings in order to achieve a balanced budget and continue to deliver an expected increase in service needs going forward.

Business Rates Income and the London Business Rates Pooling Pilot 2019-20

- 3.4.9. An increasing proportion of the Councils General fund services are funded through locally generated income from retained Business Rates and the Council Tax.
- 3.4.10. Business Rates income is expected to increase from £131m in 2017-18 to around £140m by 2020-21 irrespective of changes to the business rate retention scheme including the London business rate pilot.
- 3.4.11. The Government formally confirmed its agreement to establishing a 100% business rate retention pilot in London from April 2018 in the Autumn 2017 Budget. This was supported by a memorandum of understanding (MOU) signed by the Chair of London Councils, the Mayor of London, the Minister for London and the Secretary of State for Communities and Local Government.
- 3.4.12. The Council agreed to participate in the Pool during 2018-19 and as a consequence an estimated additional income of £8m was included in the current MTFS for 2018-19 only to support one off mayoral priority growth initiatives over the MTFS period.
- 3.4.13. The future of this Pooling arrangement into 2019-20 is currently unknown although further information is expected from the government in the next few weeks.
- 3.4.14. Should there be an option to continue with the pooling arrangements during 2019-20, the Council will need to consider the financial implications of this and decide whether it should continue to participate alongside other London boroughs and the GLA.
- 3.4.15. Beyond 2019-20 the government is considering plans for resetting the business rates base, used to distribute business rate resources alongside the fair funding review of needs based distribution formulae. The revaluation of business rates in 2021 and centralisation of the appeals process are also relevant considerations relating to the overall level of resources to be generated from that funding source.

- 3.4.16. Little information has been published to date on how these changes will be implemented and further consultation is expected in the coming months. However, these changes are likely to have a significant impact on Council resources given the prominence of business rate properties in the borough.

Council Tax

- 3.4.17. Council Tax will also continue to be an important source of revenue for the Council. As part of the 2017 local government finance settlement, the government announced changes to the Adult Social Care precept. Local authorities could levy the ASC precept by an amount up to 3% per annum from 2017-18. However, authorities are only permitted to go ahead with a maximum of 3% increase each year and also provided that the total increase over the three-year period to 2020 does not exceed 6%.
- 3.4.18. 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 ASC precept over the period from 2017 to 2020 on the basis of increases of 3%, 2%, and 1% respectively. This was agreed in principle and there appears to be no financial reason to vary this assumption at this stage.
- 3.4.19. Government controls over the level of Council tax increases for that element not covered by the ASC precept, are currently set at 'no more than 3%' meaning any proposals to increase Council Tax levels beyond that level would require a binding referendum to be held.
- 3.4.20. No increase beyond that of the ASC precept have been planned over the MTFS period although it has been anticipated that the council tax base could rise by up to 3% from the creation of additional properties. This assumption will need to be reviewed and the MTFS updated accordingly.

Improved Better Care Fund

- 3.4.21. As part of the government's 2015 Spending review, an initial tranche of the Improved Better Care Fund was allocated; with another subsequent tranche announced in the Chancellors 2017 Spring Budget. These amounts have been included in the current MTFS assumptions as follows: £11.9m for 2018-19 and £14.9m for 2019-20.
- 3.4.22. This funding has, as required, been utilised to support continued investment in adult social care. The future of this funding source and any impact on it from the Funding review is not known; in particular whether these resources will be rolled in to any business rate retention scheme alongside other existing grants is still subject to uncertainty.

Ofsted Improvement Plan

- 3.4.23. Following the outcome of the Ofsted Report published in April 2017, the Council has committed to providing additional investment funded via

Transformation Reserve to support the implementation of the improvement plan. The estimated cost of the improvement plan over 2 years is expected to be £4.2m and progress against the investment and improvements from it will continue to be reported to Members as part of the Council's normal budget management reporting mechanisms.

In addition to this transitional resource, additional resources of £5.2m have been identified and included as part of the 2018-2021 MTFS to address pressures in a range of areas, most of which feature in the improvement plan

Fair Funding Review

- 3.4.24. The government has committed to reforming the way local authorities are funded through a new fair funding review and has set out its intention to introduce the new funding formula from 2020-21.
- 3.4.25. 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.
- 3.4.26. A number of detailed consultations have started to take place and these will continue over the next 12 months with decisions made by government within a short period of time to agree the way forward.
- 3.4.27. The first of these consultations was published by the MHCLG on the 19th December 2017. This was a technical consultation and focussed specifically on potential approaches that have been identified to measure the relative needs of local authorities.
- 3.4.28. The consultation closed on 12 March 2018 and feedback indicates;
- Broad support for a having a single foundation formula that determines the overall funding allocation and maintaining a smaller number of service specific formulas
 - Mixed views regarding the continued use of the key cost drivers; population, deprivation and rurality
- 3.4.29. Changes in population, levels of deprivation and approaches to reflecting area cost differences are significant factors in Tower Hamlets and how they are used in the new formula could have a material impact on Council funding under the new arrangements.

- 3.4.30. The large number of changes to different but inter-linked parts of the MTFS mean that assumptions made for 2020-21 and beyond are likely to be considerably different to the final settlement numbers.

3.5. Income Strategy

- 3.5.1. The Council has had to deliver average savings of approximately £15m per year and current assumptions are that savings of this magnitude will continue to be required to ensure services are protected and a balanced budget can be achieved going forward.
- 3.5.2. While the savings challenge has generally been delivered through generating additional income and reducing cost/spend, to date the latter appears to have made a greater contribution than the former.
- 3.5.3. With greater powers to charge for services and the continued budget gap, the Council will need to take a more strategic approach to income generation and to help with that we will need to develop a more comprehensive income strategy.
- 3.5.4. Work is being undertaken to review opportunities across all Council services, using learning from work done by the Association of Public Excellence (APSE) on income generation as well as what other local authorities have done and to develop a tailored income strategy for the Council.

3.6. Refresh of the MTFS to 2021-22

- 3.6.1. Growth and inflation requirements for 2018-19 to 2020-21 will need to be reviewed to establish evidence based service growth requirements. Any additional growth will require compensatory savings to be identified in the relevant year.
- 3.6.2. 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.
- 3.6.3. Business rates will need to be reviewed in light of the deficit balance on the Collection Fund brought forward from 2017-18 and in light of any decisions around pooling arrangements.

3.7. Next Steps

- 3.7.1. A further report will be brought to the September Cabinet which will provide a detailed modelling and sensitivities of the financial planning assumptions underpinning the current MTFS. The outcome of this will be a confirmation of the estimated funding gaps over the period to 2022 and in the individual years'.
- 3.7.2. In the September report, Members will also be presented with updated information relating to our assumptions for Council tax and Business Rates and any impact those changes have on the MTFS and the latest position in respect of the developing proposals for business rate reform.

- 3.7.3. The report will also bring forward a number of proposed savings and investment proposals, covering in full the medium term planning period to 2022 alongside a strategy that fully meets the identified funding gap and with the intention of initiating formal consultation with stakeholders.

3.8. Budget Development and Scrutiny

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

Activity	
MTFS Report – Budget Gap and proposals to close; Income generation strategies; Fair Funding review update post consultation	September – November 2018
Future of Business rates pool and Impact on the MTFS Agree Proposals in advance of Budget Consultation	31 st October Cabinet
Review of the Existing MTFP in light of the settlement; Capital Strategy & programme (OBB) and additional One year 2021/22 identification of potential gap and options to close the gap	9 th and 30 th January Cabinet
Agree Final budget and setting of the Council Tax	By 1 st March 2019 Full Council

Budget Scrutiny Process 2019-22

- 3.8.2. The Overview and Scrutiny Committee (OSC) is developing its capacity to meet the challenge of providing effective budget scrutiny, to the Council's three year budget proposals. 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 rolling three year budgets.
- 3.8.3. 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 the budget strategy for the Dedicated Schools Budget (DSB) which will be proposed for approval by the Cabinet, from the Schools Forum.

Scrutiny Activity

Activity	Date	Outcome
Future of Business rates pool and Impact on the MTFP Agree Proposals in advance of Budget Consultation	29 th October 2018	Future of Business rates pool and Impact on the MTFP Review Proposals in advance of Budget Consultation
Budget and Policy Framework – Budget Scrutiny meeting	14 th & 28 th January 2019 4 th February 2019 (if there are any changes to budget following Cabinet on 30 th 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. The report is primarily financial in nature and therefore all financial issues have been fully considered within the main body of the report.

5. LEGAL COMMENTS

- 5.1. Section 151 of the Local Government Act 1972 legally obliges the Council to “make arrangements for the proper administration of their financial affairs”
- 5.2. The report proposes consideration of a revised medium term financial plan which relates directly to the proper administration of the Council’s financial affairs. The report is therefore compliant with the Council’s legal obligations in this regard.
- 5.3. There are no other direct legal implications arising from this noting report. However, when making further decisions based upon the contents of this report the Council will need to ensure that it complies with its Best Value duty in accordance with section 3 of the Local Government Act 1999 and with its Equality Duty under section 149 of the Equality Act 2010.

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:

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