

<p>Cabinet</p> <p>6 September 2016</p>	 <p>TOWER HAMLETS</p>
<p>Report of: Zena Cooke (Corporate Director of Resources)</p>	<p>Classification: Unrestricted</p>
<p>Medium Term Financial Strategy 2017 - 2020</p>	

Lead Member	Councillor Edgar, Cabinet Member for Resources
Originating Officer(s)	Neville Murton (Service Head Finance and Procurement)
Wards affected	All
Key Decision?	No
Community Plan Theme	[State Theme]

Executive Summary

In February 2016 the Council agreed its budget for 2016/17 and set out a Medium Term Financial Strategy (MTFS) covering the period to 2020. The MTFS identified that further savings of c£60m were required over that period in order to deliver a balanced budget position in each of the years.

Since that time the Council has been considering its approach to financial planning in the light of a number of issues including the offer of a four year 'guaranteed' financial settlement from the government.

The planning stability offered by that guarantee has been used as a catalyst to extend the financial planning horizon to cover the period 2017 – 2020 and develop revenue proposals aimed at establishing a balanced MTFS. In support of that aspiration the Council has adopted a far more strategic approach to prioritising its resources Outcomes Based Budgeting and more effectively identify savings proposals. The Council has also recognised the need to adopt a similar outcome based approach to its use of Capital resources alongside the development of its revenue budget.

This report updates the Cabinet on the progress to date and sets out the next steps in this process aimed at consulting on and agreeing a balanced budget position across the MTFS period (2017 – 2020) as part of its budget setting process which will conclude in February 2017. 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. Endorse the Council's Outcomes Based Budgeting approach to prioritising resources and the move to a rolling multi-year Medium Term Financial Strategy from 2017-18 to 2019-2020.
2. Note the issues and actions set out in this report which are informing the development of the Council's MTFS for 2017 – 2020;
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 continue with the current 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 2016 the Council agreed a balanced budget for 2016-17 and a Medium Term Financial Plan (MTFP) that showed a budget gap over the period 2017-2020 of £60m.
- 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 October 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-Creating opportunity by supporting aspiration and tackling poverty – has the following outcomes:

- 1.1 A dynamic local economy, with high levels of growth;
- 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.

Priority 2- Creating and maintaining a vibrant, successful place – has the following outcomes:

- 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.

Enabling objective-A transformed Council, making best use of resources and with an outward looking culture - has the following outcomes:

- 3.1 Making best use of Council resources;
- 3.2 Support an organisation 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.

3.2.3. In the past this strategic approach has not been reflected in the Government's annual announcement of financial resources and, in recent times, in year reductions to previously announced funding levels. However, at the time of the 2016-17 Provisional Local Government Funding Settlement an announcement was made offering a 'guaranteed' financial settlement for the four year period 2016-2020.

3.2.4. Whilst the guarantee is limited in its scope and requires the production of an, as yet determined, Efficiency Plan it does provide a platform for longer term financial planning and the Council is proposing to adopt such an approach by seeking to agree budget proposals spanning the whole of the remaining MTFS period (i.e. 2017 – 2020). It is also adopting an Outcome Based Budgeting approach in order to inform its proposals.

3.3. Outcome Based Budgeting

3.3.1. Outcome Based Budgeting (OBB) aims to directly link how resources are allocated through budget mapped to the strategic priorities of the Council. OBB seeks to break down traditional departmental approaches in terms of the assumptions around how budgets should be set and the basis for making savings. The Council's new Medium Term Financial Strategy (MTFS) 2017-2020 seeks to reflect 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. Proposals will be identified covering the whole of the MTFS planning period and bridging the total identified funding gap – currently £60m.

3.3.3. This approach allows for a programme of savings to be planned and undertaken over a longer timeframe which should result in proposals that will allow for the development of more detailed future operating models alongside partners and stakeholders. It also allows for the support necessary to deliver the changes successfully to be better matched and planned for; this would include for example programme management arrangements and support and training for staff that may need to operate in new ways in the future.

3.4. Future Outlook for the Council's Finances

3.4.1. Notwithstanding the fact that the Government is proposing a four year funding guarantee, this substantively applies to the relatively small and diminishing amount of Revenue Support Grant (RSG). Since 2013/14 Councils have retained an element of the business rates that they collect (30% for Tower Hamlets). The total retained business rates for 2016-17 is £121m. There are a number of developments relating to the retention of business rate that could, given the significance of business rates in the Borough, have a fundamental effect on the Council's finances.

3.4.2. In particular:

- The revaluation of Business Rates which will take effect from next April and is based on April 2015 business rate values;
- The impact of the above revaluation on the business rate multiplier (in order to maintain a neutral impact overall to valuation changes);
- The impact of the above revaluation on appeals by business ratepayers which, in the early years are often significant and which the Council is now exposed to financial risk on;
- The 'resetting' of the system of top-ups and tariffs that accompanies the Business Rate Retention Scheme and takes into account relative need which was originally proposed to happen in 2020 but could be reviewed as part of the revaluation process; and
- The development of the government's 100% business rate retention scheme which 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.

3.4.3. In addition to the increasing importance of Business Rates, Council Tax will continue to be an important source of revenue. After several years of Council tax freezes, enabled by a specific Council tax freeze grant, the government withdrew the freeze grant and allowed Councils to increase Council Tax in 2016-17 by up to 4%. 2% of which was to support Adult Social Care pressures and up to a further 2% was for more general purposes as a consequence of the cessation of the freeze grant.

3.4.4. A new measure of Core Spending Power (CSP) was introduced which assumed a number of actions going forward in order to introduce a consistent measure of funding changes over time; key amongst these assumptions was that Councils would take advantage of the ability to increase its Council tax for both elements. The government has therefore assumed in its funding allocations that the Council will continue to increase Council Tax each year. Even taking into account those assumed increases the Tower Hamlets CSP would fall by 3.7% over the period to 2020.

3.4.5. In the October Cabinet report, Members will be presented with updated information relating to its locally generated sources of funding and any impact that changes, subsequent to the February report, have on the MTFS.

3.4.6. The Council is also awaiting details of possible changes to the operation of the New Homes Bonus (NHB) which was the subject of a consultation by the Department for Communities and Local Government (DCLG) from December 2015 to March 2016. This issue together with a revised assessment of the impact upon other funding sources such as grants – Education Support Grant, Public Health Grant etc. totalling £62million will also be brought back to inform the latest funding position for the Council.

3.5. Strategic Support

- 3.5.1. In order to support the Council's strategic long term approach the Council has begun a procurement exercise to identify a partner who will work alongside Council staff to provide additional support and capacity given that there are likely to be a number of transformational activities happening concurrently. The partner will also assist the Council in accessing specialist resources where other organisations have already undertaken and implemented similar proposals.
- 3.5.2. The Invitation to Tender identifies that work has already been undertaken in this area to date with Grant Thornton and CIPFA and identifies a number of potential constraints:
- The capacity of the organisation to work concurrently on a number of complex proposals;
 - The intention to develop proposals that draw on evidence based data and best practice.
 - The need to develop coherently a large number of proposals against a timescale that requires the approval of the Council's budget in February 2017.
- 3.5.3. The strategic partner could be an individual, a company or a consortium with previous experience in supporting the identification and establishment of proposals for both investment and savings in the context of service transformation linked clearly to Priority Outcomes. The key areas of support are identified as:
- Support the Outcome Based Budgeting methodology;
 - Support the MTFs & devise a Transformation Strategy
 - Support Member participation in Outcome Based Budgeting
 - Leadership, People & Culture

3.6. Next Steps

- 3.6.1. A further report will be brought to the October 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 savings gap over the period to 2020.
- 3.6.2. The report will also bring forward a number of draft savings and investment proposals, covering in full the medium term planning period to 2020 alongside a strategy that fully meets the identified funding gap and with the intention of initiating formal consultation.

3.7. Budget Consultation and Scrutiny

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

Activity	
Emerging budget proposals developed which are informed by the four year financial settlement, a review of funding assumptions and planned savings targets	July – September 2016
Draft budget, including consultation proposals for savings and investment.	4 th October 2016 Cabinet
Proposed Budget agreed by Cabinet for approval at Council	7 th February 2017 Cabinet
Agree Final budget and setting of the Council Tax	2 nd March 2017 Full Council

Budget Scrutiny Process 2017/20

- 3.7.2. 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 will be in place by March 2017. 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.
- 3.7.3. 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
The Cabinet Member and Officers to outline the rationale for the new rolling three year outcome based budget approach. This presentation will include; the aims of the budget, how this differs from the traditional Tower Hamlets way of budget making, relevant timelines and the role of scrutiny in making it a success.	Overview and Scrutiny Committee meeting – 1 st September 2016	Develop understanding of new budget setting process and how OSC can effectively contribute to this.
Budget scrutiny training for OSC Members	At present the evenings of 29 th September and the 3 rd , 5 th and 6 th of October are available	Explain the role of OSC Members in budget scrutiny and highlight good practice that demonstrates how this can be effectively carried out.
Pre-decision scrutiny of draft budget proposals	Overview and Scrutiny Committee 28 th September.	Review draft budget proposals and identify areas of priority which OSC would like to further consider in detail.
Budget Scrutiny Working Group	Mid Nov – Mid Dec 2016 – Dates TBC	<p>Arrange up to 2 additional OSC sessions for November or early December to give OSC Members opportunity to consider specific proposals in depth and help better understand the impact on service users.</p> <p>The outcomes from these sessions will be reported to Cabinet on 6th December or 10th Jan 2017.</p>
Budget and Policy Framework – Budget Scrutiny meeting	<p>23rd January 2017</p> <p>13th February 2017 (if there are any changes to budget following Cabinet on 7th Feb)</p>	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 2017/2018 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 leave 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