

Report to Council

Medium Term Financial Strategy 2016/17 to 2020/21

Portfolio Holder:

Councillor Jabbar, Cabinet Member for Finance and HR

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Reason for Decision

To present the Medium Term Financial Strategy (MTFS) for the financial years 2016/17 to 2020/21 having regard to the uncertainties around a number of issues including the level of reductions in future funding from Central Government and the consequent changes required of the Council.

Executive Summary

The report advises Council that based on current information and assumptions; trends and demand pressures the Council will continue to be required to make considerable revenue budget savings over the MTFS period of 2016/17 to 2020/21. The budget for 2016/17 is now balanced after the identification of £16.044m of budget reduction proposals.

The Local Government Finance Settlement was announced on 8 February 2016 alongside supplementary grant allocations paid from Central Government. The Final Settlement did not change funding allocations notified by the Provisional Settlement of 17 December 2015. Current estimates are that savings required for 2017/18 will be £20.464m and that over the period 2017/18 to 2020/21 the total budget reduction target will be £63.584m. The MTFS was subject to scrutiny at the Overview and Scrutiny Performance and Value for Money Select Committee on 21 January 2016. It was presented to and approved by Cabinet on 11 February 2016.

By having regard to the projections in the report, the Council will however, be well placed, to prepare in an appropriate manner for the challenges ahead and therefore be able to respond accordingly.

Recommendations

It is recommended Council approves the MTFS attached at Appendix 1.

1 Background

- 1.1 Each year, the Council has to identify what it needs to spend on Council services for the following year as part of the budget setting process. This process also involves the identification of provisional spending plans for future financial years. This ensures the Council's future spending plans are balanced against the expected funding from Government, Council Tax payers and Business Rate payers. These plans form part of the Council's Medium Term Financial Strategy (MTFS).
- 1.2 The MTFS is designed to build on the work and achievements of previous years and to help meet the challenges of the future and is one of the key strategic plans of the Council. The strategy sets out the Council's proposed revenue spending plans for the next five years 2016/17 to 2020/21 together with the key factors which influence this.
- 1.3 The MTFS was presented to the Overview and Scrutiny Performance and Value for Money Select Committee on 21 January 2016 for review and consideration. Members of the Committee were able to ask questions about the assumptions underpinning the projections and the financial challenges facing the Council. The Committee was content to accept the report as presented and recommend it to Cabinet.
- 1.4 Cabinet considered the MTFS at its meeting of 11 February 2015. It was content to approve the report and to commend it to Council for approval.

2 Current Position

The National Context

- 2.1 The General Election held in May 2015 returned a majority Conservative Government. The Chancellor's Emergency Budget of July 2015 highlighted £37bn of further spending cuts by 2020 outlining the Government's intention to continue with its plans to deliver a national surplus by the end of the Parliament. The Government's plan includes £12bn of welfare cuts, £5bn from tax avoidance, and a £20bn reduction in departmental budgets. Whilst there were no in-year cuts for Local Authorities, each unprotected department (including the Department for Communities and Local Government (DCLG) was asked to develop saving plans for 25% and 40% of their budget in preparation for the Spending Review.
- 2.2 The Government announced its 2015 Spending Review and Autumn Statement on 25 November 2015. This gave a five year view of the Government's spending plans looking at the budgets of all the Government's departments. It confirmed how £4 trillion of taxpayers' money will be spent by setting the maximum amount that each department can spend.
- 2.3 Over the Parliament, the Government plans to deliver a £10.1bn national budget surplus. A key strand in the Governments strategy to achieve this is cutting departmental spending by an average of 0.8% year on year. It is expected that this will impact on Local Government funding with reductions in Local Government grants of £6.1bn. As a result the way in which Local Government is funded going forward will need to be reformed. A number of consultations on changes to be made to the Local Government Finance System are expected.

2.4 The main reform announced and to be consulted upon is the implementation of the 100% business rates retention by the end of the Parliament. This will be consulted upon along with a review of all resources available to Local Authorities. There is also a planned phasing out of the Revenue Support Grant (RSG) and additional responsibilities to be given to Local Authorities. Other planned reforms announced were:

- An additional 2% Council Tax precept to fund the costs of social care
- Additional Better Care Fund funding to support the integration of health and social care
- The use of capital receipts to fund the revenue costs of service transformation
- Changes to the payment of the New Homes Bonus grant with savings generated expected to be used to fund the costs of social care

The Government also encouraged the use of reserves to fund change.

2.5 Some of these initiatives are effective from 2016/17, others will be introduced later. The Council will have to respond to these reforms and the financial challenges they present. Whilst the Council continues to identify budget reductions, evidence suggests this will need to be achieved by considering how services can be delivered differently over the next five years.

The Council's Challenge

2.6 The 2016/17 Provisional Local Government Finance Settlement (PLGFS) was released on 17 December 2015. It was issued by the Secretary of State for Communities and Local Government the Rt. Hon. Greg Clark MP, setting out the Government's formal proposals for funding English Local Authorities for 2016/17.

2.7 The Final Local Government Finance Settlement was issued on 8 February 2016. It confirmed all the 2016/17 funding information notified by the Provisional Settlement. The Settlement provided indicative funding allocations covering four financial years, 2016/17 to 2019/20 in an aim to assist Local Authorities with their financial planning. However as there is only certainty in relation to 2016/17, this has only helped to frame the financial forecast for 2016/17 and provide background information for forecasts for 2017/18 and future years. The Government has offered certainty of funding over the period 2016/17 to 2019/20 if Councils submit an Efficiency Plan. As yet there is no detail as to what such a plan would require. This is due to be announced over the coming weeks. The advantages of funding certainty for the MTFS process are obvious however there are still many other issues that will impact on financial projections and the financial position of the Council over the period to 2019/20.

2.8 Work has been on-going during 2015/16 to revise the budget reduction target and to identify and embed budget reductions for the 2016/17 financial year. The Local Government Finance Settlement has enabled the Council to confirm that the achievement of the target has allowed a balanced budget position to be delivered.

2.9 The spending reductions included in the MTFS mean that the Council will have to continue to significantly transform its business and organisational arrangements over future years in order to meet the funding reductions and demand pressures. The Council's ambition is for a co-operative future for Oldham, one where citizens, partners and staff work together to improve the borough with the focus continuing to ensure a productive borough with confident communities supported by a Council that works co-operatively to drive change and add value.

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- 2.10 The MTFS projects that in addition to the revised £16.044m budget reduction proposals for 2016/17, the Council will have to find another estimated £37.164m over the 2017/18 (£20.464m) and 2018/19 (£16.700m) period. Whilst the MTFS shows budget reduction targets to 2020/21, it is more difficult to make accurate projections so far into the future as there are many variables that can change. However, including projections from 2017/18 to 2020/21, the requirement rises to £63.584m.
- 2.11 The preparation of the MTFS sets the framework for the challenges ahead and using the information it contains will therefore enable the Council to determine an appropriate course of action to meet the financial challenge it faces. The MTFS will be regularly reviewed throughout 2016/17.
- 2.12 The MTFS also contains projections for the Housing Revenue Account, capital programme, levies, precepts and information on the Treasury Management Strategy and schools funding, all of which are influential in determining the Council's financial planning framework.
- 3 Options/Alternatives**
- 3.1 The alternatives are to adopt the MTFS presented as an Appendix to this report or to let the existing MTFS run unchanged.
- 4 Preferred Option**
- 4.1 The preferred option is that the 2016/17 to 2020/21 MTFS attached at Appendix 1 is approved.
- 5 Consultation**
- 5.1 The Council has consulted on its budget proposals to achieve the 2016/17 savings target included in the MTFS by a number of means which are more fully detailed in the Budget Report for 2016/17 on this agenda.
- 5.2 Presentation to the Overview and Scrutiny Performance and Value for Money Select Committee on 21 January 2016 and Cabinet on 11 February 2016 were part of the consultation process.
- 6 Financial Implications**
- 6.1 Dealt in full within the report.
- 7 Legal Services Comments**
- 7.1 The Council has a legal obligation to pass a resolution to agree its budget and Council Tax resolutions by March 2016.
- 8. Co-operative Agenda**
- 8.1 The revenue, capital and HRA budget projections have been prepared so that they embrace the Council's co-operative agenda with resources being directed so that the aims, objectives and co-operative ethos of the Council are enhanced.

9 **Human Resources Comments**

9.1 Any outcomes arising from the MTFS which directly or indirectly impacts on the People Strategy, employees or their employment terms in this and future years will be considered and dealt with in accordance with the Council's practices, policies and procedures and any statutory requirements in place at that time. This will include proper and meaningful engagement with Trades Unions and staff. (Sally Blackman)

10 **Risk Assessments**

10.1 There are a whole range of issues which could impact on the MTFS and projections. A regular review of projections will ensure that any key changes are highlighted immediately. The MTFS addresses financial resilience at Section 5.

11 **IT Implications**

11.1 Any impacts on IT will be factored into the budget proposals identified in order to meet the savings targets shown in the MTFS.

12 **Property Implications**

12.1 Any impacts on asset management will be factored into the budget proposals identified in order to meet the savings targets shown in the MTFS.

13 **Procurement Implications**

13.1 Any budget proposals required to achieve the savings targets included in the MTFS that impact on the procurement of goods and services will be addressed in full liaison with procurement and in compliance with all necessary Council and statutory requirements.

14 **Environmental and Health & Safety Implications**

14.1 Any budget proposals required to achieve the savings targets included in the MTFS that impact on Environmental and Health and Safety issues will be dealt with so that the impact is minimised.

15 **Equality, community cohesion and crime implications**

15.1 There is a positive duty on all public bodies, including councils, to promote race, gender and disability equality. The Council meets the requirements.

16 **Equality Impact Assessment Completed?**

16.1 N/A

17 **Key Decision**

17.1 Yes

18 **Key Decision Reference**

18.1 CFHR-27-15

19 **Background Papers**

19.1 The following is a list of the background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents, which would disclose exempt or confidential information as defined by that Act.

File Ref: Background papers are provided in Appendix 1 to the report
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20 **Appendices**

20.1 Appendix 1 Medium Term Financial Strategy