

MEDIUM TERM FINANCIAL STRATEGY

To: **General Purposes Committee**

Meeting Date: **26th July 2016**

From: **Chief Finance Officer**

Electoral division(s): **All**

Forward Plan ref: **Not applicable** *Key decision:* **No**

Purpose: **This report sets out the Council's draft Medium Term Financial Strategy for the next five years. The strategy is updated annually at the commencement of the business planning process but is refined during the process as the financial climate and the Council's approach to its finances gain greater clarity. The final Strategy is adopted at the Council meeting in February that agrees the Business Plan and the revenue and capital budgets. Its core purpose is to provide a financial framework within which individual service proposals can develop before Council approves the budget and the Business Plan in February.**

Recommendation: **It is recommended that General Purposes Committee:**

- a) Acknowledges the indicative departmental cash limits and the move towards transformation;**
- b) Confirms, in light of the move towards a more corporate approach to Business Planning, the policy for 2016-21 on whether any additional savings requirement arising from service pressures and investments be:**
 - allocated directly to the relevant services; or**
 - allocated corporately and redistributed on the basis of services' budget size; and**
- c) Recommends the Draft Medium Term Financial Strategy to Council for approval subject to the above recommendations.**

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1. BACKGROUND

- 1.1 The Council has for a number of years adopted an integrated approach to service planning and budget setting. It does this through the business planning process that culminates annually with the Council agreeing the Business Plan in February.
- 1.2 The Business Plan covers a five year timeline and integrates policy objectives, resource allocations, and performance targets. The General Purposes Committee has a responsibility in owning and overseeing this process (as well as being the Service Committee on behalf of Corporate and LGSS Managed Services).
- 1.3 This year, the Council has replaced its traditional approach to developing Business Plan proposals with a Transformation Delivery Model focussed on six cross organisation priority programmes and five traditional service based programmes. Every saving proposal will fall in to at least one of these eleven Transformation Workstreams. As a consequence, the Council has created a significant transformation resource in order that it can re-shape the Council in to one that is leaner, more efficient, more cross cutting, and focused on outcomes.
- 1.4 A combination of continuing reductions in grants, population and demographic increases and inflation means we will have significantly less money available in the coming years than we need to deliver the same services in the same ways as we currently do. This is on the back of substantial efficiency, service cuts and increased charging that has already been implemented as part of the austerity measures.
- 1.5 The Council were offered the opportunity to agree a fixed four year settlement as part of the Comprehensive Spending Review. At this point we do not know whether the 'Brexit' vote will have any impact on public spending projections albeit, as a result of the vote, the Chancellor has stated that he does not believe that getting the UK public finances in to a surplus position by 2020 is a deliverable target. The £236.4m savings that the Council identified between 2011-12 and 2016-17 were achieved by making efficiencies, cutting services and raising charges. The opportunity to make further efficiencies is minimal.
- 1.6 The Council's scope to make wholesale service cuts is constrained by the statutory responsibility it has to deliver some services. The key areas where budgets are becoming unsustainable are care package budgets which cover a wide range of users from older people through to learning disabilities, SEN and looked after children. We do not have the option to simply stop providing services in these areas or to provide less than the statutory requirements. The users of these services are vulnerable people and we cannot relinquish our statutory responsibilities for their care.
- 1.7 The Council's ability to make on-going service reductions in the way that it has in the past is very restricted. The only real answer therefore is to manage demand particularly those that are budgets of high areas of spend. This means a combination of preventing the need for Council support in the first place or reducing the level of support provided.
- 1.8 Consequently, the Council has changed the way it approaches these challenges, moving towards the development of transformational and

innovative proposals. The Council still has to make some stark and unpalatable choices but we are in a much better position to mitigate the implications of the financial environment than we were this time last year.

- 1.9 A key component of the Business Plan is the Medium Term Financial Strategy, which sets the financial framework that services should adopt in the construction of their budget proposals at the start of the business planning process. The MTFS and the Business Plan, including departmental cash limits, are the sole responsibility of Council. GPC recommends budget proposals to Council but this is in the form of a recommendation which Council must agree, or not, as part of the budget setting decision making process. The draft 2017-22 MTFS can be found in **Appendix B**. The financial estimates underpinning the draft MTFS, including inflation, demography, pressures and funding forecasts, are provisional and will be refined during this year's business planning process prior to consideration by Council in February.

2. PURPOSE AND KEY DEVELOPMENTS

- 2.1 One of the major functions of the MTFS is to set out the Council's projected resources for the next five financial years. It also establishes a framework for the construction of the detailed budget proposals. It does not set out these detailed budgets and the individual savings proposals as these are contained elsewhere in the Business Plan. These proposals will be considered by service committees throughout the Autumn and Winter before being finally approved by Council in February. A more detailed summary of the Business Planning timetable is included as **Appendix A**.
- 2.2 The MTFS does however establish a guide and a context to support services in this work and agrees a number of corporate methodologies for this process.
- 2.3 The Committee will be aware that the Council has previously managed the budgeting process through the allocation of cash limits. These cash limits, issued on a service block basis, set the resource envelope within which services must operate.
- 2.4 While the traditional incremental cash limit model has been at the core of the Council's Business Plan approach for many years, the Council is moving to a budget where the transformation programme is at the heart of its construction. As a consequence the Council is now taking a significant step away from the previous methodology. Although the base budget is predicated on the cash limit model, and therefore it will take some time to completely remove it from our financial model, any changes that arise on an on-going basis will, where possible, be funded through the cross cutting approach to transformation.
- 2.5 The Transformation Delivery Model is an alternative, cross-cutting, approach being developed to support the 2017-22 business planning process. It is designed to ensure we maximise the opportunities across the Council and with partners to deliver services in a different way.
- 2.6 Given that this is the first year the Business Plan has been developed using the Transformation Delivery Model it was felt appropriate to include a section within the MTFS outlining the vision.

- 2.7 The Business Plan recommended to Council in February will still contain cash limits for individual services, but these will be arrived at in a much more cross-cutting, holistic, way that will flex cash limits determined using the traditional incremental approach to accommodate the outcome-based proposals generated through the transformation workstreams.
- 2.8 At this point in the business planning process cash limits should be regarded as provisional as there will be a number of factors that affect the final allocations. Such changes will arise from flexing to reflect the proposals brought forward through the transformation workstreams, as well as changes that could arise from the next Spending Review, changes to legislation, or unforeseen service pressures.
- 2.9 The Transformation Delivery Model, whilst providing a more realistic opportunity for producing a balanced budget in the medium term cannot be seen as a panacea to the challenges. The Council will still have to make very difficult decisions over service levels, income generation and asset utilisation. These decisions will affect real people in real communities and, regrettably, are a direct consequence of inadequate funding.

3. SAVINGS TARGETS

- 3.1 Savings targets are agreed as part of the Business Plan, on a five year rolling basis updated to take account of changes to funding and expenditure, including projections on demography, inflation, and service pressures.
- 3.2 It is important for the Business Plan to reflect a realistic assessment of likely changes in cost due to inflation, demography and other service pressures as this ensures that the Council considers how it will realistically balance its budget by setting out a clear plan to achieve this through savings proposals.
- 3.3 The following table sets out the current savings requirement for the organisation as a whole, summarising the factors giving rise to the savings. Note that the overall savings requirement and other figures outlined below will be refined during the course of the business planning process as pressures are identified, assumptions around inflation and demand refreshed, and funding levels published by government.

Reason for Savings	2017-18 £000	2018-19 £000	2019-20 £000	2020-21 £000	2021-22 £000	Total £000
Loss (+) / Gain (-) of funding	7,015	461	-8,765	-7,645	-5,342	-14,276
Inflation	7,820	8,791	9,023	9,481	9,479	44,594
Demand	6,582	6,208	6,269	6,313	6,313	31,685
Pressures and investments	-3,942	5,847	7,039	6,988	6,849	22,781
Capital	3,303	795	-264	-330	-	3,504
Reserves	2,932	-2,016	1,963	133	-6,843	-3,831
Other	22	-40	-38	-36	-68	-160
Total	23,732	20,046	15,227	14,904	10,388	84,297

- 3.4 The inclusion of service pressures, and other budgetary changes, within the financial model affects the overall level of savings. During last year's business

planning process this Committee recommended that savings arising from service pressures and investments should be assigned to the specific services to which the pressures and investments relate.

3.5 Given the advent of the new Transformation Delivery Model, with its strong focus on cross-organisation Business Planning, the Committee is asked whether the approach implemented last year is still applicable. Members are therefore asked to recommend the approach to be followed this year as we commence a move away from the old silo based approach to Business Planning:

- Option 1: continue to allocate savings arising from service pressures and investments directly to the individual services to which the pressures and investments relate; or
- Option 2: allocate savings arising from service pressures and investments corporately.

3.6 The published 2016-21 Business Plan contains a significant proportion of unidentified savings. As part of this year's business planning process Services have reviewed existing 2016-21 Business Plan proposals to allow quantification of the scale of the savings yet to be identified.

3.7 The following table sets out the current savings requirement for the Council and indicates the level of savings yet to be identified. Identified savings exclude all savings proposed through transformation workstreams.

	2017-18 £000	2018-19 £000	2019-20 £000	2020-21 £000	2021-22 £000	Total £000
Identified savings	18,295	12,186	8,104	8,260	2	46,847
Unidentified savings	5,437	7,860	7,123	6,644	10,386	37,450
Total	23,732	20,046	15,227	14,904	10,388	84,297

3.8 The most pressing focus for this year's business planning process is, naturally, to ensure that the Council has a balanced budget for the forthcoming year. However, the Transformation Delivery Model approach has a strong focus on redesigning the Council's delivery of services, operating with a real term reduction in resource. Consequently, this business planning process will seek to address unidentified savings across the full five years of the Business Plan by setting out an achievable phased transition to that future Council, although it is expected that the detail of proposals will be most fully developed for 2017-18.

4. ALIGNMENT WITH CORPORATE PRIORITIES

4.1 Developing the local economy for the benefit of all

This report sets out the provisional revenue cash limits and a proposed capital programme for all service areas. Whilst not a direct result of this report there could be impacts associated with the local economy from the detailed proposals that will arise from the aforementioned allocations.

4.2 Helping people live healthy and independent lives

This report sets out the provisional revenue cash limits and a proposed capital programme for all service areas. Whilst not a direct result of this report there could be impacts associated with the people living healthy and independent lives from the detailed proposals that will arise from the aforementioned allocations.

4.3 Supporting and protecting vulnerable people

This report sets out the provisional revenue resource and a proposed capital programme for all service areas. Whilst not a direct result of this report there could be impacts associated with supporting and protecting vulnerable people from the detailed proposals that will arise from the aforementioned allocations.

5. SIGNIFICANT IMPLICATIONS

5.1 Resource Implications

This report sets out the provisional revenue resource and a proposed capital programme for all service areas. The final resource allocation will be approved by Council as part of the Business Plan in February 2017.

5.2 Statutory, Risk and Legal Implications

This report sets out provisional revenue resource and a proposed capital programme for all service areas. Whilst not a direct result of this report there will be risks associated with implementation of the detailed savings proposals that will come forward as part of the Business Plan.

5.3 Equality and Diversity Implications

This report sets out provisional revenue resource and a proposed capital programme for all service areas. Whilst not a direct result of this report there could be equality and diversity implications arising from the detailed proposals and these will be identified in the individual equality and impact assessments of associated with each proposal.

5.4 Engagement and Consultation Implications

There will be a public consultation and engagement process that will support the final Business Plan proposals and these will support the development of the Business Plan to be considered by the Council in February.

5.5 Localism and Local Member Involvement

There are no issues directly arising from this report.

5.6 Public Health Implications

There are no issues directly arising from this report.

Source Documents	Location
Draft Medium Term Financial Strategy 2017-22	Octagon First Floor Shire Hall Cambridge
Council Business Plan 2016-21	http://www.cambridgeshire.gov.uk/info/20043/finance_and_budget/90/business_plan_2016_to_2017

Appendix A – Business Planning Timetable

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Finance	Drafting MTFS & capital strategy				Inflation process				Members' alternative budget proposals reviewed by Officers		
		Issue 'in principle' cash limits			Issue final cash limits						
Research		Demography reviewed and refined			Consultation process undertaken						
General Purposes Committee				MTFS, Capital Strategy & cash limits agreed			Consider capital prioritisation		Consider full draft plan (all sections)	BP for Council agreed	
Service Committees				Consider/challenge initial update & early savigns plans		Consider draft capital proposals, fees & charges report	Consider full draft revenue proposals and CIAs	Review final draft budget tables, final CIAs			
Transformation Programmes	Workstreams assigned SMT sponsors	Development of ideas, plans and options into an agreed long-list of SMT business planning proposals by mid-July		Proposals are developed in more detail and tested with Members in advance of October Service Committees							
Informal Workshops		GPC/SMT Workshop		GPC/SMT Workshop		GPC/SMT Workshop		GPC/SMT Workshop		GPC/SMT Workshop	
Full Council							Capital strategy agreed				Final BP agreed