

BUSINESS PLANNING - MEDIUM TERM FINANCIAL STRATEGY

To: **General Purposes Committee**

Meeting Date: **28th July 2015**

From: **Chief Finance Officer**

Electoral division(s): **All**

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

Purpose: **This report sets out the Council's Medium Term Financial Strategy for the next five years. This strategy is updated annually at the commencement of the business planning process. 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;**
- b) Confirms, in light of the move towards a more corporate approach to Business Planning, the policy for 2016-21 on whether savings arising from service pressures and investments should be:**
 - allocated directly to the relevant services; or**
 - allocated corporately and redistributed on the basis of services' budget size.**
- c) Recommends the 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.
- 1.3 This year, the Council has refocused its strategic planning on achieving seven outcomes in order to find new ways of meeting the needs of Cambridgeshire's communities. The Council has taken this step as its approach to addressing the huge challenge it faces of delivering viable services to the residents of Cambridgeshire. The Council's Operating Model considers what the organisation needs to look like by 2020-21 in order to deliver its outcomes in the context of a significant reduction in available resource.
- 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 would 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 has emerged from the last parliament of austerity and now faces another. The £195.5m savings identified between 2011-12 and 2015-16 were achieved by making efficiencies, cutting services and raising charges. The scope to make further efficiencies is minimal. Consequently, the Council now confronts the reality that more severe and widespread service cuts are unavoidable. The authority's financial position is such that it would be reckless to suggest otherwise. The decisions that will need to be taken in developing the 2016-21 Business Plan will be unpalatable. Making and implementing these difficult decisions to cut services will test severely the resolve of the Council.
- 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. The Council does 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 the Council cannot relinquish its statutory responsibilities for their care.
- 1.7 For such services, there is very little remaining scope to make simple efficiency savings, i.e., doing the same thing for less money. Even if the Council decide to protect these services by cutting everything else, it is unlikely that the savings that would accrue would meet the savings targets required. The only real answer therefore is to manage demand for these budgets. This means a combination of preventing the need for Council support in the first place or reducing the level of support provided.
- 1.8 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. General Purposes Committee (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 2016-21 MTFS can be found in **Appendix A**. 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 Medium Term Financial Strategy (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.
- 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 currently manages the budgeting process through the allocation of cash limits. These cash limits set the resource envelope within which services must operate. These are issued on a service block basis.
- 2.4 The Council has used Cash Limits for a number of years. A strict definition of this term simply denotes a defined figure set by the Council that represents the maximum net expenditure a service block can spend. Cash Limits have become synonymous with the Council's incremental, silo-based, approach to budget setting. This salami-slicing distribution of savings is not in the long-term interest of the Council. This approach was recognised last year as rapidly reaching the point where it is not fit for purpose and it is this approach that the Operating Model seeks to change.
- 2.5 The Operating Model is an alternative, cross-cutting, approach being developed to support the 2016-21 business planning process and, at least in the short term, will operate alongside the traditional process.
- 2.6 Given that this is the first year the Business Plan has been developed using the new outcome-based Operating Model it was felt appropriate to include a section within the MTFS outlining the Operating Model.
- 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 by the Operating Model approach.

- 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 Operating Model approach, as well as changes that could arise from the next Spending Review, changes to legislation, or unforeseen service pressures.
- 2.9 The Operating 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. Difficult and unpalatable decisions will still be required. These will test the resolve of all Members particularly when there is a direct impact on their local communities.

3. CASH LIMITS AND SAVINGS TARGETS

- 3.1 Cash Limits are agreed as part of the Business Plan. The limits are agreed on a five year rolling basis and are 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	2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000	2020-21 £000	Total £000
Loss (+) / Gain (-) of funding	7,455	2,710	3,800	-2,939	-12,673	-1,647
Inflation	9,863	8,946	9,344	9,237	9,237	46,627
Demand	9,935	10,268	10,316	10,667	10,667	51,853
Pressures and investments	554	-449	117	100	-	322
Capital	4,957	825	35	-841	623	5,599
Reserves	313	3,066	-2,814	-2,356	1	-1,790
Other	200	-	-	-	-	200
Total	33,277	25,366	20,798	13,868	7,855	101,164

- 3.4 The inclusion of service pressures, and other budgetary changes, within the financial model affects the level of savings that are then redistributed through the Cash Limit methodology. 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 Operating 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, to then be distributed across services relative to the scale of their budget in line with the Cash Limit methodology.

3.6 The published 2015-20 Business Plan contains a significant proportion of unidentified savings. As part of this year's business planning process Services have reviewed existing 2015-20 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.

	2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000	2020-21 £000	Total £000
Identified savings	17,388	13,319	777	671	-	32,155
Unidentified savings	15,889	12,047	20,021	13,197	7,855	69,009
Total	33,277	25,366	20,798	13,868	7,855	101,164

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 Operating Model approach has a strong focus on designing the future Council of 2020-21 that operates with significantly less 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 2016-17.

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 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 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 cash limits and a proposed capital programme for all service areas. The final cash limits will be approved by Council as part of the Business Plan in February 2016.

5.2 Statutory, Risk and Legal Implications

This report sets out provisional revenue cash limits 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 cash limits 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 2016-21	Octagon First Floor Shire Hall Cambridge
Council Business Plan 2015-20	http://www.cambridgeshire.gov.uk/info/20043/finance_and_budget/90/business_plan_2015_to_2016