Cabinet

Date: 19 September 2016

Subject: Draft Business Plan 2017-21

Lead officer: Caroline Holland – Director of Corporate Services

Lead member: Councillor Mark Allison – Deputy Leader and Cabinet Member for Finance

Contact Officer: Paul Dale

Urgent report:
Reason for urgency: The chairman has approved the submission of this report as a matter of urgency as it provides the latest available information on the Business Plan and Budget 2017/18 and requires consideration of issues relating to the Budget process and Medium Term Financial Strategy 2017-2021. It is important that this consideration is not delayed in order that the Council can work towards a balanced budget at its meeting on 1 March 2017 and set a Council Tax as appropriate for 2017/18.

Recommendations:

1. That Cabinet notes the rolled forward MTFS for 2017 - 21.
2. That Cabinet confirm the latest position with regards to savings already in the MTFS.
3. That Cabinet agrees the approach to setting a balanced budget using weighted controllable expenditure for each department as the basis for the setting of targets.
4. That Cabinet agrees the proposed departmental targets to be met from savings and income.
5. That Cabinet review the targets and the MTFS at the next meeting in light of the actions identified in response to the monitoring report recommendations set out elsewhere on this agenda.
6. That Cabinet agrees the timetable for the Business Plan 2017-21 including the revenue budget 2017/18, the MTFS 2017-21 and the Capital Programme for 2017-21.
7. That Cabinet note the process for the Service Plan 2017-21 and the progress made so far.
8. That Cabinet consider and review the draft Efficiency Plan at Appendix 3 and request officers to submit a final version to the DCLG by the deadline of 14 October 2016 in order to qualify for the four year funding offer.

1. **Purpose of report and executive summary**

1.1 This report presents an initial review of the Medium Term Financial Strategy and updates it for development as part of the business planning process for 2017/18.

1.2 The report sets out the approach towards setting a balanced budget for 2017-2021 and a draft timetable for the business planning process for 2017/18. It also proposes initial departmental targets to be met from savings and income over the four year period of the MTFS.

Details

2. Medium Term Financial Strategy 2017-21

2.1 **Background**

Council on 2 March 2016 agreed the Budget 2016/17 and MTFS 2016-20. Whilst a balanced budget was set for 2016/17 and indicated for the following three years requiring the use of reserves , there was a gap remaining in 2019/20 and beyond on the same basis, which needs to be addressed, as shown in the following table:-

	2017/18 £m	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**
MTFS gap before savings	9.429	15.173	18.642	35.294
Savings identified	(9.429)	(15.173)	(15.173)	(15.173)
MTFS gap (cumulative)	0	0	3.469	20.121

2.2 The initial phase of the business planning process is to re-price the MTFS and roll it forward for an additional year. Development of the MTFS in recent budget processes allowed for various scenarios on a range of key variables to be modelled and it is intended to do the same this year and where feasible, to improve the approach to modelling.

2.3 **Review of Assumptions**

The pay and price calculations have been reviewed using the approved budget for 2016/17.

2.3.1 <u>Pay</u>
The current assumptions regarding pay inflation incorporated into the MTFS are

- 1.0% in each year of the MTFS

The local government pay award for 2016/17 has been agreed and will cover the two years from April 2016. For the lowest paid (those on spinal points 6-17) this means a pay rise of between 6.6% and 1.01% in the first year, and between 3.4% and 1.3% in the second. Those on spinal points 18-49 will receive 1% in year one and the same again the following year. The offer also includes a joint review of the NJC pay spine and term-time working for school support staff.

As reported to Cabinet on 4 July 2016, in the monitoring report for May 2016, the pay inflation resulting from the agreed award is estimated to be as set out in the following table and these amounts will be incorporated into the updated MTFS

Provision for Pay Inflation:

(Cumulative)	2017/18	2018/19	2019/20	2020/21
Pay inflation (%)	1.0%	1.0%	1.0%	1.0%
Original MTFS 2016-19 (cumulative £000)	884	1,767	2,651	3,534
Revised estimate (cumulative £000)	932	1,864	2,796	3,728
Change (cumulative £000)	48	97	145	194

Prices

The provision for price inflation in the 2016/17 budget was 0.5%, with 1.5% in subsequent years. The estimates have been reviewed using the Approved Budget 2016/17 and are set out in the following table:-

	2017/18	2018/19	2019/20	2020/21
Price inflation in MTFS (%)	1.5%	1.5%	1.5%	1.5%
Original MTFS 2016-19 (cumulative £000)	2,223	4,446	6,669	8,892
Revised estimate (cumulative £000)	2,190	4,380	6,570	8,760
Change (cumulative £000)	(33)	(66)	(99)	(132)

The annual change in the Consumer Prices Index (CPI) remained at 0.6% in the year to August 2016, unchanged from July. The main upward contributors to the change in the rate were rising food prices and air fares, and a smaller fall in the price of motor fuels than a year ago.

These upward pressures were offset by falls in hotel accommodation prices, in addition to smaller rises in the prices of alcohol, and clothing and footwear than a year ago.

CPIH, a measure of UK consumer price inflation that includes owner occupiers' housing costs, rose by 0.9% in the year to August 2016, unchanged from July.

The RPI 12-month rate for August 2016 stood at 1.8%, down from 1.9% in July 2016.

Outlook for inflation

The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target and in a way that helps to sustain growth and employment.

At its meeting ending on 3 August 2016, the MPC reduced Bank Rate to 0.25% from 0.5%, the first change in rates for six years. In the minutes to the meeting, the MPC set out it's a rationale for the action it proposed, commenting that "following the United Kingdom's vote to leave the European Union, the exchange rate has fallen and the outlook for growth in the short to medium term has weakened markedly. The fall in sterling is likely to push up on CPI inflation in the near term, hastening its return to the 2% target and probably causing it to rise above the target in the latter part of the MPC's forecast period, before the exchange rate effect dissipates thereafter. In the real economy, although the weaker medium-term outlook for activity largely reflects a downward revision to the economy's supply capacity, near-term weakness in demand is likely to open up a margin of spare capacity, including an eventual rise in unemployment. Consistent with this, recent surveys of business activity, confidence and optimism suggest that the United Kingdom is likely to see little growth in GDP in the second half of this year. These developments present a trade-off for the MPC between delivering inflation at the target and stabilising activity around potential. The MPC's remit requires it to explain how it has balanced that trade-off. Given the extent of the likely weakness in demand relative to supply, the MPC judges it appropriate to provide additional stimulus to the economy, thereby reducing the amount of spare capacity at the cost of a temporary period of above-target inflation. Not only will such action help to eliminate the degree of spare capacity over time, but because a persistent shortfall in aggregate demand would pull down on inflation in the medium term, it should also ensure that inflation does not fall back below the target beyond the forecast horizon. Thus, in tolerating a temporary period of above-target inflation, the Committee expects the eventual return of inflation to the target to be more sustainable."

The latest inflation and unemployment forecasts for the UK economy, based on a summary of independent forecasts are set out in the following tables:-

Source: HM Treasury - Forecasts for the UK Economy (August 2016)			
2016 (Quarter 4)	Lowest %	Highest %	Average %
CPI	0.1	3.0	1.3
RPI	0.9	3.4	2.1
LFS Unemployment Rate	4.9	6.0	5.3
2017 (Quarter 4)	Lowest %	Highest %	Average %
CPI	1.5	4.0	2.5
RPI	2.3	4.5	3.0
LFS Unemployment Rate	4.8	6.6	5.6

Source: HM Treasury - Forecasts for the UK Economy (August 2016)					
	2016	2017	2018	2019	2020
	%	%	%	%	%
CPI	0.7	2.3	2.3	2.0	2.0
RPI	1.7	2.8	3.0	3.1	3.3
LFS Unemployment Rate	5.1	5.5	5.9	5.9	5.8

2.3.3 Inflation > 1.5%:
There is also a corporate provision which is held to assist services that may experience price increases greatly in excess of the 1.5% inflation allowance provided when setting the budget. This will only be released for specific demonstrable demand. An example of this would be contractors having to pay National Living Wage where the increase is 7.5% over current minimum wage.

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Inflation exceeding 1.5%	536	536	536	536

The cash limiting strategy is not without risks but if the Government's 2% target levels of inflation were applied un-damped across the period then the budget gap would increase by c. £2.8m by 2019/20.

2.3.4 Growth
The MTFS does not currently include any provision for growth from 2017/18 to 2020/21.

2.4 **Income**

2.4.1 The MTFS does not include any specific provision for inflation on income from fees and charges. However, in the business planning process for last year, service departments were able to identify increased income as part of their savings proposals.

2.5 **Pension Fund**

2.5.1 A revaluation will be undertaken using data at 31/3/2016. This will be implemented at 1st April 2017. There will be discussions during the current financial year with the actuary Barnett Waddingham LLP who will undertake the revaluation and progress will be reported as part of the Business Planning process later in the financial year.

2.6 Forecast of Resources and Local Government Finance Settlement

2.6.1 Background

Each year in December, the Department of Communities and Local Government (DCLG) notifies local authorities of their Provisional Local Government Finance Settlement. The final Settlement figures are published the following January/February but are generally unchanged or very similar to the provisional figures. The total amount of funding available for local authorities is essentially determined by the amount of resources that Central Government has allocated as part of its annual Departmental Expenditure Limit.

2.6.2 Following the referendum decision to leave the EU, the new Chancellor of the Exchequer said (22 July 2016) that he would review economic data over the coming months stating that "Over the medium term we will have the opportunity with our Autumn Statement, our regular late year fiscal event, to reset fiscal policy if we deem it necessary to do so in the light of the data that will emerge over the coming months." The date of the Autumn Statement has been announced as 23 November 2016. This will provide details of Government Department Expenditure Limits (DELs) from which the Provisional Local Government Finance Settlement follows in mid-late December 2016.

2.6.3 Officers will be reviewing all available information as part of the business planning process throughout the year as more information becomes available to produce as accurate forecasts of Government funding as possible. At the moment there is potentially a wide margin of variation around the core assumptions used in the forecast as the impact of the referendum result on the economy is currently uncertain.

2.6.4 Multi-Year Funding Forecasts

When the Department for Communities and Local Government published the provisional local government finance settlement for English authorities in December 2015, the consultation document also described the offer of a four year funding settlement to any council that wished to take it up, alongside indicative allocations for each year of the Spending Review period, subject to authorities publishing an efficiency plan.

On 10 March 2016, the Secretary of State for Communities and Local government wrote to all local authorities setting out further details about the offer and the need to publish an efficiency plan.
The Government propose that the production of an efficiency plan should be as straightforward as possible and is not intended to create additional bureaucracy. As stated in the Secretary of State's letter on 10 March the "offer is entirely optional. It is open to any council to continue to work on a year by year basis, but I cannot guarantee future levels of funding to those who prefer not to have a four year settlement."

However, since then the referendum has been held and the UK has opted to leave the European Union. In light of the economic uncertainty that has resulted from this decision it is possible that the Government will have to revisit the proposed funding guarantee. No announcements have yet been made but it is necessary to continue the process in order to keep our options open.

The Council could choose not to take up the offer and continue to receive annual financial settlement announcements as it currently does. It would then not be necessary to publish an Efficiency Plan but as stated in the annex to the Secretary of State's letter of 10 March 2016 :-

"Those councils that chose not to accept the offer, or do not qualify, will be subject to the existing yearly process for determining the local government finance settlement.

Allocations could be subject to additional reductions dependant on the fiscal climate and the need to make further savings to reduce the deficit.

At present we do not expect any further multi-year settlements to be offered over the course of this parliament. "

Given that the referendum result was for Brexit, this may mean that the guarantees previously offered will need to be reviewed. It is important then to be aware of how this is progressing and remain as flexible in our approach as possible.

2.6.5 The MTFS set out in Appendix 1 includes the latest forecast of resources agreed by Council in March 2016/17. Following the referendum result there is currently uncertainty regarding funding going forward and this will probably continue until after the Autumn Statement has been published on 23 November 2016 and evaluated. Until then, the best available information is the four year funding offer published by the Government as part of the Provisional Settlement 2016/17 and work will continue to prepare a draft Efficiency Plan so that the Council can keep its options open.

2.6.6 Business Rates: 100% Retention

The Government has announced that, by the end of this Parliament (2020), local government will collectively retain 100 per cent of business rate revenue. As a consequence, Revenue Support Grant, the main central government grant for local authorities, is to be phased out and, given that there will be resulting additional local tax revenues, local government will be required to take on new responsibilities. The significance of these reforms should not be underestimated, which, while incentivising councils to promote local growth and economic development, could lead to significant divergences in authorities' spending power. There is a lack of correlation between business rate revenue and local authority need and without Revenue Support Grant, a mechanism to shift resources to authorities in direct response to need across all local authorities is an issue that will need to be resolved.

Redistribution between authorities more and less able to generate revenue will clearly be a crucial aspect of the reformed system, and the challenge for the Government and local authorities is to structure the redistribution mechanism in such a way that preserves strong incentives for authorities to promote growth and success. To ensure funding over the longer-term, this may involve local government being awarded greater control over a wider range of more comprehensive fiscal powers, including greater control over council tax, and the ability for councils to vary business rates. This is critical for councils to be able to meet the continually increasing demands for services, such as social care, in the future.

On 5 July 2016 the Government issued a consultation document “Self-sufficient local government: 100% Business Rates Retention” and a further document “Business Rates Reform Fair Funding Review: Call for Evidence on Needs and Redistribution.” The deadline for responses to the consultation is 26 September 2016.

It is intended that the Government will continue to set the Business Rates multiplier and “propose the same system of revenue neutral revaluations with economic growth cancelled out through a change to the multiplier will continue to apply for the 100% business rates retention scheme. “ although “authorities will have additional flexibilities around the operation of the multiplier”.

The Government is required at the revaluation to reset the multiplier to ensure no more is raised in business rates. So if rateable values increase overall at the revaluation the multiplier will fall (and vice-versa). As a result, at the national level, any increase in the economic value of the tax base does not lead to any additional business rates income.

The Government has announced that the move to 100% business rates retention will be fiscally neutral. To ensure this, the main local government grants will be phased out and additional responsibilities will be devolved to local authorities in order to match the additional funding from business rates.

As announced in the Budget 2016, the Government is taking the opportunity to pilot the approach to 100% business rates retention in Greater Manchester and Liverpool City Region, and will increase the share of business rates retained in London. In summary the setting of multipliers is expected to remain with the Government and therefore Council control on the level of business rates is not expected to change greatly.

Regular updates will be provided as part of the Business Planning process throughout the year.

2.6.7 Business Rates Revaluation

The next business rates revaluation will come into effect on 1st April 2017 and will re-assess all business properties in England and Wales based on rental value as at 1st April 2015. It has been a full seven years since business rates were last assessed, increasing the difficulty in predicting individual bills. At revaluation, the multipliers are revised so that the overall national business rates bill only changes in line with inflation.

Revaluation is done to maintain fairness in the system by redistributing the total amount payable in business rates, reflecting changes in the property market. Revaluation does not raise extra revenue overall.

The Valuation Office Agency (VOA) uses a wide range of property information and rental and other evidence to compare values across similar types of properties in order to set the rateable value.

2.6.8 Business Rates Appeals

The Government is committed to delivering an improved business rates (non-domestic rates) appeals system. There is widespread agreement that the current system is not working, especially for businesses. Too many appeals are held up for too long, creating costs and uncertainty for businesses and for local authorities. The Department for Communities and Local Government's (DCLG) "Check, challenge, appeal: Reforming business rates appeals" consultation sought views on proposals for a new three-stage approach to business rates appeals. The Government plans to draft regulations for consultation and intend the reformed business rates appeals system to apply to the new rating list when it comes into effect on 1 April 2017.

2.6.9 The current level of Revenue Support Grant and Business Rates income (based on 50:30:20 split between central government: Merton and GLA) assumed in the MTFS is as follows:-

	2017/18 £000	**2018/19 £000**	**2019/20 £000**	**2020/21 £000**
Revenue Support Grant	(15,520)	(10,071)	(5,076)	0
Business Rates (inc. Section 31 grant)	(34,847)	(35,553)	(36,295)	(36,952)

2.7 Council Tax and Collection Fund

2.7.1 Council Tax

The Council Tax income forecast in the current MTFS agreed by Council in March 2016 assumes that the Council Tax Base will increase by 0.5% per year with a collection rate 97.25%. It also assumes a freeze in Council Tax over the period of the MTFS.

On the basis of these assumptions the Council Tax income included over the period of the MTFS is:-

	2017/2018	2018/2019	2019/2020	2020/2021
Council Tax Base	71,683.5	72,041.9	72,402.1	72,764.1
Council Tax (Band D £)	1,102.25	1,102.25	1,102.25	1,102.25
Council Tax Yield (£m)	**79.013**	**79.408**	**79.805**	**80.204**

However, in its calculation of core spending power for local authorities in the Local Government Finance Settlement for 2016-20, the Government assumed that Council Tax will rise by an average of 3.75% per year (1.75% CPI + 2% adult social care council tax flexibility).

It is currently the administration's policy to freeze council tax, although the council is currently consulting residents on this. However if, from 2019/20 onwards, after the next election, the government's assumed increase of 3.75% is built into the figures above (1.75% Council Tax inflation, and 2% ASC Council Tax flexibility), the following adjustments to the MTFS would result:-

	2017/2018 £m	2018/2019 £m	2019/2020 £m	2020/2021 £m
Council Tax inflation @ 1.75%	0	0	1.397	2.807
ASC Council Tax flexibility @ 2%	0	0	1.596	3.198
Total increase in Council Tax Yield	**0**	**0**	**2.993**	**6.005**
Less: Increased budget in Social Care	0	0	(1.596)	(3.198)
Net Increase in Council Tax Funding	**0**	**0**	**1.397**	**2.807**

2.7.2 Collection Fund

The shares to preceptors of the collection surplus/deficit for Council Tax and NNDR based on the estimated Collection Fund balance at 31 March 2016 are summarised in the following table:-

	Estimated surplus/ (deficit) as at 31/03/16	Estimated surplus/ (deficit) as at 31/03/16	Total surplus/ (deficit) as at 31/03/16
	Council Tax	NNDR	
	£000	£000	£000
Central Government	N/A	(2,868)	(2,868)
GLA	853	(1,147)	(294)
Merton	3,200	(1,721)	1,479
Total	4,053	(5,736)	(1,683)

2.7.3 Merton's share of the surplus (council tax) and deficit (NNDR) were built into the MTFS agreed by Council in March 2016.

2.7.4 Since then, the Council has produced its 2015/16 accounts as at 31 March 2016 which have been audited. The accounts for 2015/16 include the following surplus/deficit for Council Tax and NNDR as at 31 March 2016:-

	Surplus/ (deficit) as at 31/03/16 Outturn	Surplus/ (deficit) as at 31/03/16 Outturn	Total surplus/ (deficit) as at 31/03/16
	Council Tax	NNDR	
	£000	£000	£000
Central Government	N/A	(2,174)	(2,174)
GLA	803	(869)	(66)
Merton	3,007	(1,304)	1,703
Total	3,810	(4,347)	(537)

2.7.5 The overall change in shares of surpluses/deficits is:-

	Surplus/ (deficit) as at 31/03/15	Surplus/ (deficit) as at 31/03/15	Total surplus/ (deficit) as at 31/03/15
	Council Tax	NNDR	
	£000	£000	£000
Central Government	N/A	694	694
GLA	(50)	278	228
Merton	(193)	417	224
Total	(243)	1,389	1,146

2.7.6 The net change in Merton's share of the surplus/deficit is therefore:-

	Estimated Surplus/ (deficit) as at 31/03/16	Outturn Surplus/ (deficit) as at 31/03/16	Surplus/ (deficit) as at 31/03/16 Change
	£000	£000	£000
Council Tax	3,200	3,007	(193)
NNDR	(1,721)	(1,304)	417
Total	1,479	1,703	224

2.7.7 There is no change to the surplus/deficit figures agreed for 2016/17 as all variations are managed via the Collection Fund. However, the net surplus of £0.224m will need to be taken into account when calculating the Merton General Fund's share of any surplus/deficit due to/from the Collection Fund in 2017/18.

2.7.8 The calculation of the estimated surplus/deficit on the Collection Fund as at 31 March 2017 will be made later in the budget process when key variables are firmed up and council tax base and NNDR returns have been completed. Until this time, the increase in the net surplus carried forward from 2016/17 of £0.224m will be included in the draft MTFS for 2017/18.

2.8 Capital Financing.

2.8.1 In setting the 2016/17 budget substantial savings on the revenue budget were achieved by maximising the use of capital receipts on the existing programme. The capital programme will be continually reviewed throughout the financial year. Further details on the Capital Programme are provided in paragraph 4 and options around financing will be considered

2.9 Draft Outturn 2015/16 – Change in Reserve for Use in Future Year's Budgets

2.9.1 The overspend as a result of the draft outturn has been charged against the Reserve for use in Future Year's Budgets. As a result the amount budgeted to be credited to the reserve in 2015/16 has reduced from £0.806m to £0.113m.

2.9.2 This means that the use of the Reserve for Use in Future Year's budgets has changed as follows:-

	Balance on Reserve	2016/17	2017/18	2018/19	2019/20	2020/21
	£000	£000	£000	£000	£000	£000
Budget	6,558	2,394	1,785	(2,919)	(7,817)	0
Draft Outturn	5,865	2,394	1,785	(2,919)	(7,124)	0
Change	693	0	0	0	693	0

2.10 Review of Outturn 2015/16 and Current Budget and Spending 2016/17

2.10.1 There may be issues identified during the final accounts process and from monthly monitoring, elsewhere on this agenda, that have on-going financial implications which need to be addressed in setting the budget for 2017-21.

2.10.2 Monitoring 2016/17

At period 4 to 31st July 2016 the year end forecast is a net £5.36m overspend compared to the current budget. This has increased by £2.6m from June. The budget monitoring process will continue to focus on adult social care and children's social care as these areas are forecasting significant overspends.

2.11 **Re-priced MTFS 2017-21**

2.11.1 Taking into account the latest available information as summarised in this report, with revised assumptions

- Updated inflation
- Council Tax increase of 1.75% from 2019/20
- Adult Social Care Council Tax flexibility of 2% from 2019/20
- Capital Programme – July monitoring
- Collection Fund surplus/deficit based on Final Account 2015/16
- Reserve for use in future year's budgets reflects outturn

the opening position for the re-priced MTFS is set out in the following table:-

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Budget Gap	0	0	2,224	15,043
Budget Gap (Cumulative)	0	0	2,224	17,267

2.11.2 A more detailed MTFS is included as Appendix 1. The gap over the four year period is c. £17.3m which is substantial and does not make any revisions to government funding which will not be known until the provisional Local Government Finance Settlement is announced in December 2016 following central government's Autumn Statement which is due to be published on 23 November 2016.

2.11.3 There are risks involved from the current economic situation which may increase the gap and similarly, use of reserves if available to fund the gap only provides one-off funding and there is still a necessity to find ongoing savings in future years to maintain a balanced budget.

2.11.4 The flexibility introduced to enable service departments to look at income increases and savings proposals together should assist in achieving effective planning.

2.12 **Summary**

2.12.1 There has been a substantial improvement in the council's strategic approach to business planning in recent years and it is important that this is maintained.

Planning should be targeted towards the achievement of a balanced budget over the four year MTFS period. The progress made in reducing the gap to more manageable levels has to be continued this year.

2.12.2 Progress made in recent years in identifying savings over the whole period of the MTFS has reduced pressure on services to make short-term, non-strategic cuts. However, because there is still a sizeable gap over the four year period, and there is utilisation of the Reserve for Use in Future Year's budgets (amounting to c. £6m in the current MTFS) there is a need to set savings targets aimed at eliminating this gap on an ongoing basis.

3. Approach to Setting a Balanced Budget

3.1 This is the initial report on the business planning process for 2017/18 and there is a great deal of work to be done, including the following key areas that are expected to be at the forefront.

a) Review of Central Items
All central items will be closely reviewed to assess the implications for 2017-2021.

b) Further Departmental Savings/Income Targets
The MTFS 2017-21 includes the full year effect of savings and income proposals amounting to c. £15.2m .Initial targets have been set for departments to identify new savings and/or income proposals for c. £3.5m. Details of the draft targets set are included in paragraph 3.5.2.

Work is currently underway on developing proposals to achieve these targets.

c) Review of funding
It is too soon in the financial year to accurately predict what the ongoing impact, particularly over a four year period in the current economic climate, will be but the information will be updated during the business planning process.

d) Capital Programme 2017-21
Changes in the capital programme may arise due to slippage, re-profiling and addition/deletion of schemes. This will have an impact on the capital financing costs of the programme. There is a more detailed analysis and discussion of capital related issues in Section 4 of this report.

3.2 Formula Grant and Business Rates Retention

3.2.1 Further analysis and review in the current year will be undertaken to try to improve forecasting, particularly over the longer term.

3.3 Savings agreed and incorporated into the MTFS

3.3.1 As indicated in paragraphs 2.1 and 2.10.1 , the draft budgets in 2017/18 and 2018/19 are currently balanced assuming that departments achieve the savings/income proposals previously agreed by Council. The MTFS includes the following amounts for previously agreed savings/income proposals:-

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Savings in MTFS (cumulative)	9,429	15,173	15,173	15,173

3.3.2 However, it is also dependent on pre agreed savings for 2016/17 of c. £14m being achieved and, as reported elsewhere on this agenda, this is not currently the case.

Savings Effect in 2016/17	**Estimated 2016/17 Shortfall in 2014/15 Savings target**	**Estimated 2016/17 Shortfall in 2015/16 Savings target**	**Estimated 2016/17 Shortfall in 2016/17 Savings target**	**Estimated Total Shortfall in 2016/17 Savings target**
Department	£000's	£000's	£000's	£000's
Corporate Services	0	0	288	288
Children Schools & Families	0	0	0	0
Community & Housing	1,080	14	2,217	3,311
Environment & Regeneration	25	28	337	390
Total	**1,105**	**42**	**2,842**	**3,989**

It is imperative that firm discipline is maintained in delivering savings and departments should be beginning the planning for delivering 2017/18 savings now. Where difficulties are foreseen with achieving any of the savings currently incorporated into the MTFS, then alternative measures must be identified before the 2017/18 budget is set.

3.4.2 In addition to reviewing savings, the impact of changes in capital financing, potential changes in grant income and adjusting profiling of planned use of reserves will be utilised to assist in balancing the budget. All potential avenues will be reviewed and modelled throughout the Business Planning process.

3.4.4 Some savings will however be required to balance budgets over the period of the MTFS and draft targets are proposed for this. Draft proposals will be brought forward during the budget process and subject to scrutiny as has been the case in previous years.

3.5 **Savings Targets for 2017-21**

3.5.1 The approach to setting savings targets for departments for this year's Business Planning process is again based on using controllable budgets and aimed to protect front-line services and services to the vulnerable in line with the 'July principles'. Weightings for each department; Corporate Services, Environment and Regeneration, Community and Housing, and Children, Schools and Families in the ratio (100%) : (100%) : (67%) : (50%), have been applied which reduces the impact on Adult Social Care, Children's Social Care and vulnerable groups. The targets set also take into account the level to which departments have identified savings against targets set for previous years.

3.5.2 Initial targets to balance the MTFS agreed by Council in March 2016 to 2019/20 at this stage have been calculated for each department based on controllable spend and shortfalls in previously identified targets, and are set out in the following table:-

SERVICE DEPARTMENT's SAVINGS TARGETS FOR 2017-2021 BUSINESS PLANNING PROCESS	**Total £000**
Corporate Services	586
Children, Schools & Families	912
Environment & Regeneration	1,659
Community & Housing	312
Total Savings/Income Proposals	3,469

3.5.3 Progress on identifying draft proposals will be included in reports throughout the Business Planning process.

3.6 **Replacement Savings**

3.6.1 Monitoring of the delivery of savings is important and it is essential to recognise as quickly as possible where circumstances change and savings previously agreed are either not achievable in full or in part or are delayed.

3.6.2 If this is the case, departments will need to identify replacement savings from elsewhere within their overall budgets.

4. Capital Programme for 2017-21

4.1 Since the capital programme was approved by Council in March 2016 and the revenue implications built into the MTFS, there have been a number of amendments arising from outturn 2015/16, monthly monitoring and a review by project managers. There has been a great deal of effort made to ensure that the capital programme set is realistic, affordable and achievable within the capacity available. This has been accompanied by improved financial monitoring and modelling of the programme's costs over the period of the

MTFS which has enabled the budgets for capital financing costs to be reduced and therefore scarce resources to be utilised more effectively.

4.2 It is important to ensure that the revenue and capital budgets are integrated and not considered in isolation. The revenue implications of capital expenditure can quickly grow if the capital programme is not contained within the Council's capacity to fund it over the longer term. For example, assuming external borrowing, the capital financing costs of funding £1m (on longer-life assets and short-life assets financed in 2017/18) for the next four years of the MTFS would be approximately:

Capital financing costs of £1m over the MTFS period	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Longer life Assets	10	53	53	52
Short-life assets	10	216	212	208

4.3 The bidding process for 2020/21 was launched on 27 June 2016. The closing date for submission of bids was 5 August 2016. Any resulting revisions to the programme, including further slippage and new schemes, will be reported to Cabinet in October 2016.

4.4 The current capital provision and associated revenue implications in the currently approved capital programme including forecast slippage, based on July 2016 monitoring information and maximum use of capital receipts, are as follows:-

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Capital Programme	45,651	32,795	17,502	14,731
Revenue Implications	12,686	11,765	12,800	13,318

4.5 The potential change in the capital programme since Council in March 2016 is summarised in the following table:-

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Capital Programme:				
- As approved by Council	38,743	32,070	12,307	14,822
- Revised Position with Slippage revisions	45,651	32,795	17,502	14,731
Change	6,908	725	5,195	(91)
Revenue impact				
As approved by Council	12,370	12,200	13,091	13,426
Revised	12,686	11,765	12,800	13,318
Change	316	(435)	(291)	(108)

5. Service Planning for 2017-21

5.1 The Service planning process for 2017-21 was launched in August 2016. A plan has been created for each council service. These plans describe what the service does, its plans for the future linked to the Target Operating Model (TOM), its key performance indicators and how its plans will take place within the budget.

5.2 There will be three versions of service plans; First Draft, Second Draft and Final.

6. Alternative Options

6.1 The range of options available to the Council relating to the Business Plan 2017-21 and for setting a balanced revenue budget and fully financed capital programme will be presented in reports to Cabinet and Council in accordance with the agreed timetable.

7. **Consultation Undertaken or Proposed**

7.1 All relevant bodies have been consulted.

8. Timetable

8.1 In accordance with current financial reporting timetables.

8.2 A chart setting out the proposed timetable for developing the business plan and service plans is provided as Appendix 2.

9. Financial, resource and property implications

9.1 As contained in the body of the report.

10. Legal and statutory implications

10.1 As outlined in the report.

11. Human rights, equalities and community cohesion implications

11.1 None for the purposes of this report, these will be dealt with as the budget is developed for 2017 – 2021.

12. **Crime and Disorder Implications**

12.1 Not applicable.

13. Risk Management and health and safety implications

13.1 There is a specific key strategic risk for the Business Plan, which is monitored in line with the corporate risk monitoring timetable.

14. Appendices – The following documents are to be published with this Report and form part of the Report.

Appendix 1 – Draft MTFS 2017-21: Re-priced and rolled forward
Appendix 2 – Business Plan and Service Planning Timetable 2017-21
Appendix 3 - Draft Efficiency Plan

15. Background Papers

15.1 The following documents have been relied on in drawing up this report but do not form part of the report:

2015/16 Budgetary Control and Final Accounts Working Papers in the Corporate Services Department.
2016/17 Budget Monitoring working papers
MTFS working papers

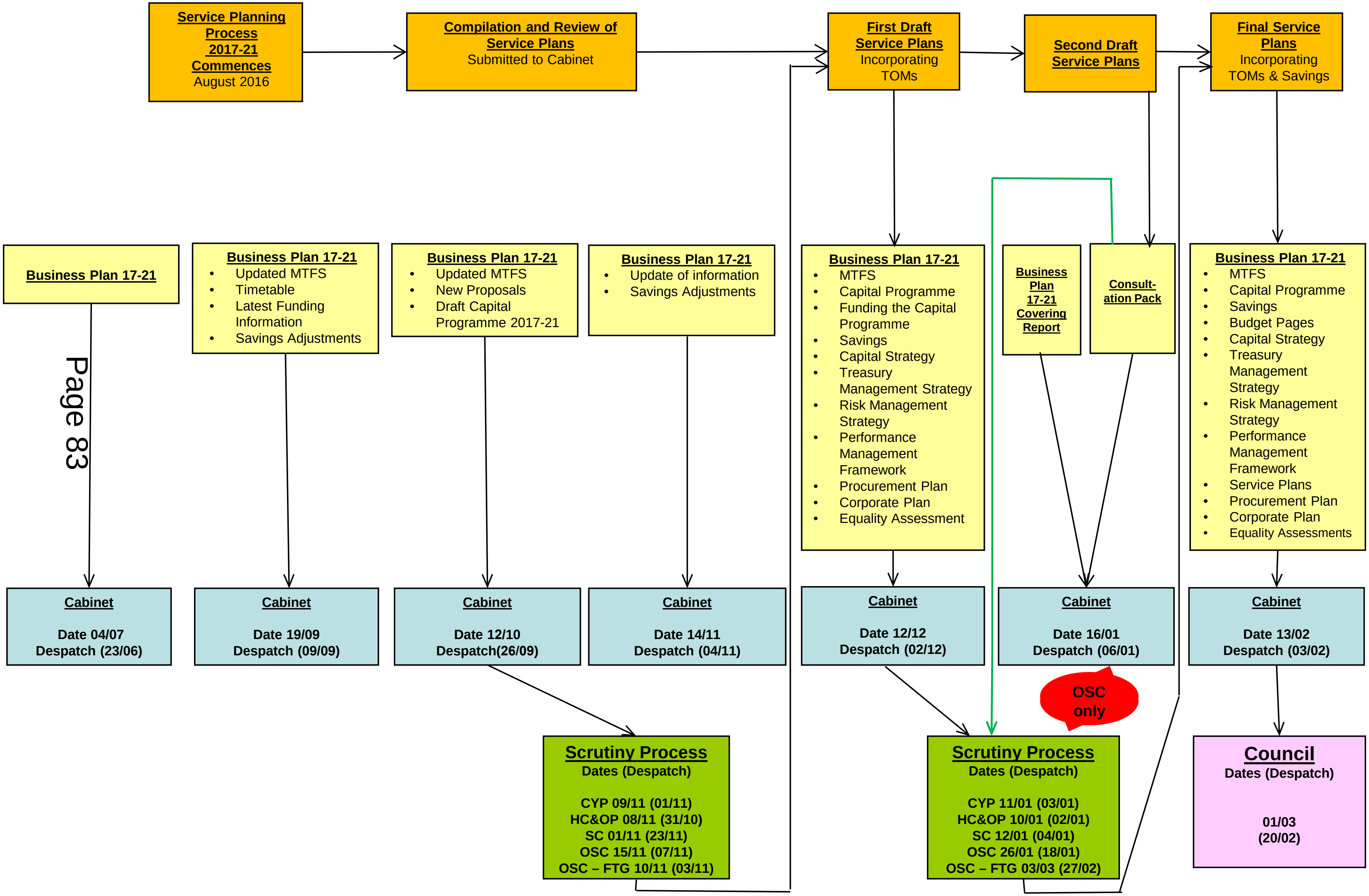
16. **REPORT AUTHOR**
- Name: Paul Dale
- Tel: 020 8545 3458
email: **paul.dale@merton.gov.uk**

APPENDIX 1

DRAFT MTFS 2017-21:				
	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Departmental Base Budget 2016/17	**139,982**	**139,982**	**139,982**	**139,982**
Inflation (Pay, Prices)	3,122	6,244	9,366	12,488
Autoenrolment/Nat. ins changes	857	1,172	1,172	1,172
FYE – Previous Years Savings	(9,429)	(15,173)	(15,173)	(15,173)
Amendments to previously agreed savings	0	0	0	0
Change in Net Appropriations to/(from) Reserves	(1,281)	(1,767)	(1,478)	(1,981)
Taxi card/Concessionary Fares	450	901	1,351	1,801
Other	71	144	1,816	3,470
Re-Priced Departmental Budget	**133,772**	**131,503**	**137,036**	**141,758**
Treasury/Capital financing	12,686	11,765	12,800	13,318
Pensions	4,592	4,799	5,015	5,015
Other Corporate items	(13,171)	(12,824)	(13,175)	(13,175)
Levies	628	628	628	628
Sub-total: Corporate provisions	**4,735**	**4,368**	**5,268**	**5,786**
Sub-total: Repriced Departmental Budget + Corporate Provisions	**138,507**	**135,871**	**142,304**	**147,544**
Savings/Income Proposals 2017/18	0	0	0	0
Sub-total	**138,507**	**135,871**	**142,304**	**147,544**
Appropriation to/from departmental reserves	(719)	(233)	(522)	(19)
Appropriation to/from Balancing the Budget Reserve	1,676	(2,515)	(7,420)	0
BUDGET REQUIREMENT	**139,464**	**133,123**	**134,362**	**147,525**
Funded by:				
Revenue Support Grant	(15,520)	(10,071)	(5,076)	0
Business Rates (inc. Section 31 grant)	(34,847)	(35,553)	(36,295)	(36,952)
PFI Grant	(4,797)	(4,797)	(4,797)	(4,797)
New Homes Bonus	(4,763)	(2,993)	(2,871)	(2,000)
Council Tax inc. WPCC	(79,313)	(79,708)	(83,098)	(86,509)
Collection Fund – (Surplus)/Deficit	(224)	0	0	0
TOTAL FUNDING	**(139,464)**	**(133,123)**	**(132,137)**	**(130,258)**
GAP including Use of Reserves (Cumulative)	**0**	**0**	**2,224**	**17,267**

APPENDIX 2

BUSINESS PLANNING TIMETABLE - BUSINESS PLAN 2017-21



LONDON BOROUGH OF MERTON

MULTI-YEAR SETTLEMENTS 2016-2020

EFFICIENCY PLAN

The Offer

	2016/17 £m	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
Revenue Support Grant	22.589	14.963	10.071	5.076
Transition Grant	0.567	0.557	0.000	0.000
Total	**23.156**	**15.520**	**10.071**	**5.076**

In addition, tariffs and top-ups in 2017-18, 2018-19 and 2019-20 will not be altered for reasons related to the relative needs of local authorities, and in the final year may be subject to the implementation of 100% business rates retention.

Comment by Leader of the Council

Comment by the Chief Executive

Merton Council is an award winning authority and a recent winner of the MJ Council of the Year. We have an ambitious change programme to become London's best council by 2020.

Medium Term Financial Strategy 2016-20 (MTFS)
Merton's MTFS includes the following assumptions:-

- No Council Tax increase in 2016/17, 2017/18, 2018/19, and 1.75% in 2019/20
- Take up of the 2% adult social care council tax flexibility in 2019/20 only with 2017/18 and 2018/19 currently out for consultation
- Settlement Funding Assessment as set out in the Local Government Finance Settlement 2016-20 including those set out in the offer
- Savings of c.£30m over the period 2016-20, in addition to savings of £69.2m already found over the period 1 April 2009 to 31 March 2016

On the basis of these assumptions, the budget gap Merton is facing over the period 2016-20 is as follows:-

	2016/17 £m	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
MTFS gap before savings	15.686	20.861	22.009	24.081
Savings identified	(15.686)	(20.861)	(22.009)	(22.009)
MTFS gap (cumulative)	0	0	0	2.072

Residents Satisfaction

In the most recent Annual Residents Survey (2014/15), residents continue to be positive about Merton council, with the proportion of residents agreeing that Merton is doing a good job remaining at 79% for the third consecutive year. This is a significantly higher score than the London average.

The proportion of residents that think Merton is efficient and well run is up from 61% in 2009/10 to 72% in 2014/15.

The proportion of residents that think Merton provides good value for money for the council tax they pay is up from 43% in 2009/10 to 57% in 2014/15.

The Future

Our top priority will continue to be to provide safe services of the best possible quality within financial constraints and the July 2011 principles. We will deliver services that customers want and need and, where possible, involve our customers in service specification and design.

The July 2011 Principles are a set of guiding strategic priorities and principles, as adopted by the council on 13 July 2011:

- Merton should continue to provide a certain level of essential services for residents. The order of priority of 'must' services should be:
  i) Continue to provide everything that is statutory.
  ii) Maintain services – within limits – to the vulnerable and elderly.

- After meeting these obligations Merton should do all that it can to help residents who aspire. This means we should address the following as priorities in this order:
  i) Maintain clean streets and keep council tax low.
  ii) Keep Merton as a good place for young people to go to school and grow up.
  iii) Be the best it can for the local environment.
  iv) All the rest should be open for discussion.

The financial pressures facing Merton mean we should no longer aim to be a 'place-maker' but be a 'place-shaper'. The council should be an enabler, working with partners to provide services.

The Authority is utilising best practice in project management/ transformation to assess the future direction of services and the required staff, process and IT development to deliver this change. Internal decision making structures have been established to maximise Authority wide assessment and development.

The Community Plan has been developed by the Merton Partnership and sets the overall direction and vision for the borough until 2019.

Transformation Statement

By 2020 Merton Council will be transformed by the fruition of a number of change projects which will maximise the use of information technology and streamline processes and service provision. Providing value for money services to our residents is at the heart of our business and we must be able to demonstrate that all of our services represent best value for money. We will do this by continuing to find innovative solutions to maximise future efficiency.

To set the future vision for the Council and its services, we have done a great deal of work on developing a Target Operating Model (TOM). TOM documents set a vision for each of the departments and detail the shape of our future business model, covering all aspects of the organisation, including: services, processes, structures, people and technology.
We are committed to continue making Merton a great place for people to live, work and learn. The Council provides high quality services and we work with the community to enhance resident satisfaction. In the face of the economic climate, we set out to provide excellent value for money and continue to challenge the way we deliver our services to improve outcomes for our residents. We aim to do this by finding innovative solutions to maximise future efficiency. Our customers must be at the heart of our service planning. We will deliver services that customers want and need and involve our customers in service specification and design.
We are continuously reviewing and updating our delivery models and are at the forefront of new developments, such as partnership working including shared

services and flexible working. The financial pressures facing Merton mean we will now take on the role of 'place-shaper' whereby the Council should be an enabler, working with partners to provide services.
Continued delivery of quality and value for money services for our residents has been achieved through reviewing our service delivery models and developing innovative solutions, including shared services, partnership working and the development of volunteering in the borough. Continuous improvement is at the heart of our approach and we have introduced lean methodology to drive out waste from our processes and now work in a highly focused and lean operation.

Procurement Plan
Cost reduction and efficiency targets will not be achieved if the Council fails to approach competition positively, taking full account of the opportunities for innovation and genuine partnerships which are available from working with others in the public, private and Voluntary, Community and Faith Sectors ("VCFS").
The Procurement Plan provides a corporate focus for procurement. It embraces the Council's commitment to strategic procurement and sets out the Council's aspirations. The overarching objectives of this strategy are:-

- To evaluate and improve current procurement practices to achieve better value for money and to ensure customer/client needs are met
- To ensure best practice examples are identified and applied consistently across the organisation.
- To align procurement activities with other strategies adopted and to ensure that corporate objectives are addressed
- To ensure that current and future procurement activities are planned, monitored, and reviewed effectively including identifying opportunities for collaboration with both private and public sector bodies and the VCFS

In taking this strategy forward, the Council expects to realise the following benefits:
- Demonstrate continuous improvement and achieve value for money through the efficient procurement of goods and services
- Encourage communication and interaction with local and national suppliers to understand their views
- Develop relationships between the Council, the business community and the broader voluntary sector which create mutually advantageous, flexible and long term relations
- More efficient procurement processes
- Better risk management
- Strategic procurement planning
- Effective spend analysis and measurable cash savings
- Proactive contract management
- Greater use of standard processes and templates
- Compliance with appropriate legislation
- Compliance with Contract Standing Orders
- Collaboration, including with other authorities, local businesses and the VCFS
- Greater use of the E-Tendering system

Our vision for procurement is to provide a first class service for our residents whilst we build on best practice to ensure value for money in all our procurement exercises. Procurement is not simply about lowest price; instead it is a strategic tool to ensure that we receive best value whilst putting the needs of Merton's residents first.

Risk
The effective management of risk is at the core of our approach to delivering cost effective and efficient services as well as sound corporate governance and is a continuous and evolving process, running through our strategies and service delivery arrangements. As risk is very much concerned with our objectives, the management of it will be closely linked to the creation of our strategic, service, project and partnership objectives and plans. Our risk management process will be continuous and will support internal and external change. The risk management process will be fully integrated with the normal business management processes across the authority.

Performance Management
Merton is committed to delivering customer-focused services. To achieve this, it is essential that we measure our performance, both against our own intentions, and the performance of others, and that we use that information to improve local services. Performance management enables us to ensure that we are constantly meeting our goals, whilst simultaneously allowing us to identify best practice and address areas of concern. It provides the framework for consistently planning and managing improvements to our services to ensure continuous improvement in line with Lean principles. Sustainable improvements in services are unlikely to happen without this framework. Everyone in the organisation has a part to play in monitoring our services and achieving our ambition.

The framework helps us to understand:

- what we are trying to achieve as an organisation
- how we are going to achieve this
- how we will monitor and report progress
- how the contribution of staff, managers, teams and departments relate to each other to help deliver the targets set for the whole organisation

The framework has three parts

- The planning framework
- The planning, monitoring and review cycle
- Taking responsibility for results

Reserves
An analysis of the Council's budget is undertaken and a risk based assessment is used to determine a suitable level of General Fund Reserve. Reserves are under continuous review and reported regularly as part of the Council's budget monitoring procedures.

Merton's General Fund Reserve was £15.151m as at 31/03/2016 and earmarked reserves totalled £28.740m as at 31/03/2016. Current expectations agreed by Merton Council in March 2016 are that the General Fund Reserve will reduce to £12.546m by 31/03/2020 and earmarked reserves will total £6.544m by 31/03/2020.

Although reserves are likely to reduce overall, this is a result of their use for the purposes they were established. The overall level therefore remains adequate, subject to regular review and impacts of financial outturn.

Merton's approach to Medium Term Financial Planning provides a great deal of flexibility in decision making and enables the impact of alternative options to be modeled. This has assisted with progress towards a balanced budget over the four year plan. Part of this approach includes the use of a reserve "For use in future years budgets" which is used to help balance the budget over the MTFS period, pending the implementation of planned savings. This has enabled the Council to move away from ad hoc annual paring of the budget to more strategic, long-term planned changes to the budget over the life of the MTFS.

Capital Investment

This Capital Strategy is a fundamental component of our approach to business planning since it reflects our strategic priorities across the council and endeavours to maximise the contribution of the council's limited capital resources to achieving our vision. We will work closely with residents, community organisations and businesses to focus our resources and those of our partners effectively. The strategy also sets out the management arrangements for allocating resources to individual schemes, establishing funding for projects, monitoring progress, managing performance and ensuring that scarce capital resources are allocated efficiently.

Details of major schemes ?? New school,leisure centre, IT investment etc

Asset Management Plan

Links to Business Plan.

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