Cabinet

Date: 18 September 2017

Subject: Draft Business Plan 2018-22

Lead officer: Caroline Holland – Director of Corporate Services

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

Contact Officer: Roger Kershaw

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 2018/19 and requires consideration of issues relating to the Budget process and Medium Term Financial Strategy 2018-2022. It is important that this consideration is not delayed in order that the Council can work towards a balanced budget at its meeting on 28 February 2018 and set a Council Tax as appropriate for 2018/19.

Recommendations:

---

1. That Cabinet notes the rolled forward MTFS for 2018 - 22.
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 corporate and departmental targets
5. That Cabinet agrees the timetable for the Business Plan 2018-22 including the revenue budget 2018/19, the MTFS 2018-22 and the Capital Programme for 2018-22.
6. That Cabinet note the process for the Service Plan 2018-22 and the progress made so far.

---

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 2018/19.

1.2 The report sets out the approach towards setting a balanced budget for 2018-2022 and a draft timetable for the business planning process for 2018/19. It also proposes initial corporate and departmental targets to be met from savings and income over the four year period of the MTFS.

Details

2. Medium Term Financial Strategy 2018-22

2.1 Background

Council on 1 March 2017 agreed the Budget 2017/18 and MTFS 2017-21. Whilst a balanced budget was set for 2017/18 there was a gap remaining in future years which needs to be addressed, as shown in the following table:-

	2018/19 £m	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**
MTFS gap (cumulative)	3.485	9.708	18.087	19.929

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 2017/18.

2.3.1 Pay

The current assumptions regarding pay inflation incorporated into the MTFS are

- 1.0% in each year of the MTFS

The last local government pay award was for two years covering 2016/17 and 2017/18. There will therefore need to be a new deal for 2018/19 and future years. The Government had planned to retain a ceiling, restricting annual public sector pay increases to 1% p.a. up to 2019/20. This was agreed prior to the General Election on 8 June 2017.

On 14 June 2017, three unions (UNISON, Unite and the GMB), representing more than 1.6 million local government employees in schools and councils across England, Wales and Northern Ireland submitted a pay claim for the year from April 2018 requesting to move the lowest paid staff onto the real living wage of £8.45 an hour (£9.75 in London). In addition the unions want all employees to receive a five per cent pay rise and deletion of the bottom of the NJC and London pay spines points 6-9. The claim follows eight years of government-imposed pay restraint, which has seen wages either frozen or held to a one per cent increase.

The National Employers hope to be in a position to make an initial pay offer to the unions in response to the pay claim in September 2017. It is anticipated that this will be structured around the following principles:-

- A 2 year offer to allow time and preparation for moving to a new national pay spine in 2019;
- 2018 will be a traditional pay award that is bottom loaded;
- 2019 will propose a new pay spine with proposed assimilation arrangements, a minimum hourly rate and more even amounts between increments.

The MTFS agreed by Council on 1 March 2017 includes the following provision for pay inflation

Provision for Pay Inflation:

(Cumulative)	2018/19	2019/20	2020/21	2021/22
Pay inflation (%)	1.0%	1.0%	1.0%	1.0%
Original MTFS 2017-21 (cumulative £000)	972	1,943	2,915	3,886

This has been reviewed using the approved budget for 2017/18 along with the early indications of the implications of the Employers offer and the latest estimates for inflation arising from the pay awards are:-

(Cumulative)	2018/19	2019/20	2020/21	2021/22
Pay inflation (%)	2.0%	2.0%	1.0%	1.0%
Revised Estimate (cumulative £000)	1,558	3,116	3,894	4,673

Further details on the pay negotiations and the impact on the MTFS, particularly in the latter part of it, will be reported when they are known.

Prices

The current assumptions regarding price inflation incorporated into the MTFS are

- 1.5% in each year of the MTFS

The MTFS agreed by Council on 1 March 2017 includes the following provision for price inflation

Provision for Prices Inflation:

	2018/19	2019/20	2020/21	2021/22
Price inflation in MTFS (%)	1.5%	1.5%	1.5%	1.5%
Original MTFS 2017-21 (cumulative £000)	2,200	4,400	6,599	8,799

This has been reviewed using the approved budget for 2017/18 and the latest estimate based on 1.5% price inflation is:-

(Cumulative)	2018/19	2019/20	2020/21	2021/22
Price inflation (%)	1.5%	1.5%	1.5%	1.5%
Revised Estimate (cumulative £000)	2,217	4,435	6,652	8,869

Net change in Pay and Price inflation provision:

The overall change in inflation provision since Council in March 2017 is

(Cumulative) (£000)	2018/19	2019/20	2020/21	2021/22
Latest Inflation estimate	3,775	7,551	10,546	13,542
Original MTFS 2018-22 (Council March 2017)	3,172	6,343	9,514	12,685
Change	603	1,208	1,032	857

The Consumer Prices Index (CPI) 12-month rate was 2.9% in August 2017, up from 2.6% in July 2017. Rising prices for clothing and motor fuels were the main contributors to the increase in the rate between July and August 2017. Air fares also rose between July and August but the rise was smaller than between the same two months a year ago and so resulted in a partially offsetting, downward contribution.

CPIH , a measure of UK consumer price inflation that includes owner occupiers' housing costs, 12-month inflation rate was 2.7% in August 2017, up from 2.6% in July.

The RPI 12-month rate for August 2017 stood at 3.9%, up from 3.6% in July 2017.

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 2 August 2017, the Committee voted by a majority of 6-2 to maintain Bank Rate at 0.25%. The Committee voted unanimously to maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at £10 billion. The Committee also voted unanimously to maintain the stock of UK government bond purchases, financed by the issuance of central bank reserves, at £435 billion. The August 2017 Inflation Report was published on the 3 August 2017.

In the minutes to its meeting, the MPC noted that "CPI inflation rose to 2.6% in June from 2.3% in March, as expected. The MPC expects inflation to rise further in coming months and to peak around 3% in October, as the past depreciation of sterling continues to pass through to consumer prices. Conditional on the current market yield curve, inflation is projected to remain

above the MPC's target throughout the forecast period. This overshoot reflects entirely the effects of the referendum-related falls in sterling. As the effect of rising import prices on inflation diminishes, domestic inflationary pressures gradually pick up over the forecast period. As slack is absorbed, wage growth is projected to recover. In addition, margins in the consumer sector, having been squeezed by the pickup in import prices, are projected to be rebuilt. Consequently, inflation remains at a level slightly above the 2% target."

In the August 2017 quarterly Inflation Report, the MPC sets out its view on the prospects for inflation and the report notes that "Although CPI inflation has been volatile, it has risen over 2017 and was 2.6% in June. It is expected to remain around 2¾% in the near term, boosted by higher import prices as a result of the depreciation in sterling, before easing back towards the 2% target during 2018. Growth in firms' imported costs appears to have started moderating. Domestically generated inflation appears to have remained relatively subdued and inflation expectations remain consistent with the MPC's 2% target."

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

Table 11: Forecasts for the UK Economy

Source: HM Treasury - Forecasts for the UK Economy (August 2017)			
2017 (Quarter 4)	Lowest %	Highest %	Average %
CPI	2.2	3.4	2.9
RPI	2.5	4.3	3.7
LFS Unemployment Rate	4.2	5.2	4.7
2018 (Quarter 4)	Lowest %	Highest %	Average %
CPI	1.8	3.0	2.5
RPI	2.2	4.0	3.2
LFS Unemployment Rate	4.0	5.5	4.9

Independent medium-term projections for the calendar years 2017 to 2021 are summarised in the following table:-

Source: HM Treasury - Forecasts for the UK Economy (August 2017)					
	2017	2018	2019	2020	2021
	%	%	%	%	%
CPI	2.7	2.6	2.2	1.9	1.9
RPI	3.5	3.5	3.0	3.0	3.0
LFS Unemployment Rate	4.5	4.7	4.8	4.8	4.8

Clearly where the level of inflation during the year exceeds the amount provided for in the budget, this will put pressure on services to stay within budget and will require effective monitoring and control.

2.3.3 Provision for Excess Inflation:

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.

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Inflation exceeding 1.5%	457	468	472	474

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. £3.1m by 2021/22.

2.3.4 Growth

The following provision for growth was approved as part of last year's budget

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	Total £000
Adult Social Care	9,345	252	(2,891)	0	6,706
Waste and Regeneration	1,582	222	(115)	0	1,689
Children's Services	1,000	500	500	500	2,500
Total	11,927	974	(2,506)	500	10,895
Cumulative total	11,927	12,901	10,395	10,895	

2.4 Income

2.4.1 The MTFS does not include any specific provision for inflation on income from fees and charges, as these have now been subsumed into the overall gap and therefore approach to targets. However, in the business planning process for recent years, service departments have been able to identify increased income as part of their savings proposals and increased income currently makes up c.17% of future savings.

2.5 Pension Fund

2.5.1 The Pension Fund is revalued every three years and the last valuation based on the position as at 31 March 2016 was implemented in the 2017/18 financial year. The next revaluation will be based on the position as at 31 March 2019 and will be implemented in 2020/21.

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. Revised Government Department budgets are not expected to be announced until the autumn, probably late November 2017.

2.6.2 The current level of resources included in the draft MTFS 2018-22 is as follows and the Revenue Support Grant figures are based on the Government's offer of a four year funding allocation for the period 2016/17 to 2019/20:-

DRAFT MTFS 2018-22:				
	2018/19 £000	**2019/20 £000**	**2020/21 £000**	**2021/22 £000**
Revenue Support Grant	(10,071)	(5,076)	0	0
Business Rates (inc. Section 31 grant)	(36,304)	(37,176)	(37,725)	(38,285)
PFI Grant	(4,797)	(4,797)	(4,797)	(4,797)
New Homes Bonus	(3,110)	(2,984)	(2,000)	(1,500)
Corporate Government Grant in the MTFS	(54,282)	(50,033)	(44,522)	(44,582)

2.6.3 At the Autumn Statement on 23 November 2016, the Chancellor of the Exchequer announced that the government will move to a single major fiscal event each year. This means that following the spring 2017 Budget which was delivered on 8 March 2017 and the associated Finance Act, Budgets will be delivered in the autumn, with the first one taking place in autumn 2017, recently announced to be on 22 November 2017, and then annually, in the autumn thereafter.

The Office for Budget Responsibility (OBR) is required by law to produce two forecasts a year. One of these will remain at Budget time. The other will fall in the spring and the government will respond to it with a Spring Statement.

These are the latest guidelines set out on the .gov.uk website and it is as yet unknown whether this will change following the General Election which was held on 8 June 2018.

The result of the General Election has introduced further uncertainty into future funding of local government and the timetable by which financial information will be made available.

2.6.4 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 General Election, and ongoing Brexit negotiations on the wider national economy is currently uncertain.

2.6.5 Adult Social Care Funding

In addition to Merton increasing Council Tax by 3% in 2017/18 for the Adult Social Care precept and Adult Social Care Support grant of £0.751m for 2017/18 only, as part of the Spring 2017-18 Budget announcement on 8 March 2017, a total of £2.021 billion was announced as supplementary funding to the improved Better Care Fund (iBCF). This is to be distributed as £1.01 billion in 2017-18, £674 million in 2018-19 and £337 million in 2019-20. Merton's share of this allocation is:-

Additional funding for adult social care announced at Budget 2017			
	2017/18 £	2018/19 £	2019/20 £
Merton	2,745,896	2,114,651	1,053,738

As part of the process for receiving additional funding and for approving the Adult Social Care precept for 2017/18, the Government required local authorities to submit a return ensuring that the funding is used towards adult social care. It is anticipated that a similar process will be required for 2018/19 and the overall adult social care budget provision will need to be carefully set to ensure that year on year changes in budgeted expenditure and funding are comparable as it is not clear how previously planned savings impact on the DCLG forecasted budget numbers . Based on current projections it is estimated that the following adjustments to the Adult Social Budget may be required over the MTFS period in order to ensure that the Government do not withdraw existing funding:-

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Current MTFS provision for ASC	50,390	49,329	46,468	46,271
DCLG forecast of ASC resources	50,390	49,329	48,275	48,275
Adjustment required	0	0	1,807	2,004

2.6.6 Business Rates : 100% Retention - Update

In October 2015 the government committed that local government should retain 100% of taxes raised locally. Subject to Parliamentary approval the aim was to introduce 100% retention by the financial year 2019/20. The government introduced into Parliament, primary legislation that is intended to provide the framework for the reformed 100% business rates retention system.

The Queen's Speech delivered on 21 June 2017 made no mention of the Local Government Finance Bill.

However, on 1 September 2017 the Secretary of State for Communities and Local Government announced a new pilots scheme and encouraged Councils "to join forces and put forward proposals to retain the growth in their business rates income." From April 2018, pilots across economic areas will be able to retain 100% of the growth in income raised locally through business rates. Findings from this tranche of pilots will inform the business rates retention process going forward. The deadline for submission of proposals is 27 October 2017 and successful pilots will be announced in December 2017. The DCLG will support authorities in preparing for implementation in April 2018. Pilot local authorities will retain 100% of the growth in their business rates income in the year of the pilot (2018 to 2019) meaning that the central government share will stay in the local area.

London boroughs are considering proposals to submit a bid to be a pilot for 100% retention in a pool in 2018/19.

Clarity is required about the funding of local government, as the Revenue Support Grant is being phased out, originally to be replaced by 100% business rates retention.

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 2017 assumes that the Council Tax Base will increase by 0.5% per year with a collection rate 97.25%. It also assumes the following changes in Council Tax over the MTFS period with 2017/18 shown for comparison:-

	2017/18 %	2018/19 %	2019/20 %	2020/21 %	2021/22 %
Council Tax increase - General	0	0	2	2	2
Council Tax increase – Adult Social Care	3	3	0	0	0
Total	3	3	2	2	2

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

(Cumulative figures)	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Council Tax - No change in rate	(79,850)	(80,249)	(80,650)	(81,053)	(81,459)
Council Tax - Adult Social Care up to 3% flexibility	(2,395)	(4,815)	(4,839)	(4,863)	(4,888)
Council Tax Change 2% General increase	0	0	(1,613)	(3,242)	(4,888)
Council Tax income	(82,245)	(85,064)	(87,102)	(89,159)	(91,234)

The Council Tax Base will be updated later in the year following the return of the Government's CTB statistical return, usually in October, which is based on properties on the valuation list in September.

2.7.2 Collection Fund

In the MTFS approved by Council on 1 March 2017, the shares to preceptors of the collection surplus/deficit for Council Tax and NNDR based on the estimated Collection Fund balance at 31 March 2017 are summarised in the following table:-

	Estimated surplus/ (deficit) as at 31/03/17	Estimated surplus/ (deficit) as at 31/03/17	Total surplus/ (deficit) as at 31/03/17
	Council Tax	NNDR	
	£000	£000	£000
Central Government	N/A	634	634
GLA	346	254	600
Merton	1,386	380	1,766
Total	1,732	1,268	3,000

2.7.3 Merton's share of the surplus for council tax and NNDR were built into the MTFS agreed by Council in March 2017.

2.7.4 Since then, the Council has produced its draft 2016/17 accounts as at 31 March 2017 which are currently being audited. The draft accounts for 2016/17 include the following surplus/deficit for Council Tax and NNDR as at 31 March 2017:-

	Surplus/ (deficit) as at 31/03/17 Outturn	Surplus/ (deficit) as at 31/03/17 Outturn	Total surplus/ (deficit) as at 31/03/17
	Council Tax	NNDR	
	£000	£000	£000
Central Government	N/A	(449)	(449)
GLA	411	(180)	231
Merton	1,663	(269)	1,394
Total	2,074	(898)	1,176

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

	Surplus/ (deficit) as at 31/03/17	Surplus/ (deficit) as at 31/03/17	Total surplus/ (deficit) as at 31/03/17
	Council Tax	NNDR	
	£000	£000	£000
Central Government	N/A	(1,083)	(1,083)
GLA	65	(434)	(369)
Merton	277	(649)	(372)
Total	342	(2,166)	(1,824)

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

	Estimated Surplus/ (deficit) as at 31/03/17	Outturn Surplus/ (deficit) as at 31/03/17	Surplus/ (deficit) as at 31/03/17 Change
	£000	£000	£000
Council Tax	1,386	1,663	277
NNDR	380	(269)	(649)
Total	1,766	1,394	(372)

2.7.7 There is no change to the surplus/deficit figures agreed for 2017/18 as all variations are managed via the Collection Fund. However, the net deficit of £0.372m 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 2018/19.

2.7.8 The calculation of the estimated surplus/deficit on the Collection Fund as at 31 March 2018 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 reduction in the net surplus carried forward from 2017/18 of £0.372m will be included in the draft MTFS for 2018/19.

2.8 Treasury Management: Capital Financing Costs and Investment income

2.8.1 Council in March 2017, with a further update in April 2017 for the Housing Company, approved the following Capital Programme for 2017-21:-

Capital Expenditure	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
Capital Expenditure	**39,541**	**33,205**	**16,076**	**8,432**
Slippage	843	1,704	597	102
Total Capital Expenditure *	40,384	34,909	16,673	8,534
Financed by:				
Capital Receipts *	19,600	900	900	900
Capital Grants & Contributions	15,070	13,081	5,486	628
Revenue Provisions	5,482	1,537	4	0
Net financing need for the year	**232**	**19,391**	**10,284**	**7,006**

* includes finance leasing expenditure

2.8.2 Following the closing and preparation of draft final accounts for 2016/17, the programme is currently under review to assess the level of slippage required from 2017/18 and the reprofiling of schemes over the programming period to ensure that the level of capital budget is aligned with the Council's capacity to deliver it. In addition new capital projects commencing in 2021/22 may be identified in accordance with achievement of the Council's forward strategic plan. The capital programme will be continually reviewed throughout the financial year and further details including options around financing will be included in future reports as appropriate.

2.8.3 The level, profiling and funding strategy used for the capital programme will have a significant revenue impact that needs to be incorporated into the MTFS. More details on the latest assumptions regarding the Capital Programme 2018-22 are provided in Section 4 of this report.

2.8.4 <u>Investment Income</u>
There are two key factors that impact on the level of investment income that the Council can generate:-

- The amount invested
- The interest rate that is achieved

Based on latest information, the projected levels of investment income over the period of the MTFS have been revised. The following table show the latest projections compared with the amounts included in the MTFS approved by Council in March 2017:-

Investment Income	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000
MTFS (Council March 2017)	**(942)**	**(782)**	**(517)**	**(386)**
Latest projections	**(393)**	**(283)**	**(258)**	**(276)**
Change	**549**	**499**	**259**	**110**

Currently in the monthly monitoring report for July it is forecast that investment income will be £0.596m against the estimate of £1.186m due to the reduction in interest rates for short term investments.

Work is currently ongoing to produce a robust cash flow forecast and forward projection of the level of interest rates that will be achievable. This will be included in a future report.

2.8.5 Possible change to Treasury Management Policy

Officers are currently in discussion with the external auditors regarding a possible change to treasury management policy which, if introduced, will result in a more prudent approach to treasury management and result in a reduction in the cost of treasury management over the medium term. If this proposed change is regarded as acceptable to the external auditors full details will be provided in a future report for Cabinet and Council approval.

The potential financial impact of the proposed change over the period of the MTFS is as follows:-

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Impact of possible policy change	(1,800)	(1,649)	(1,503)	(1,363)	(1,229)

2.9 Review of corporate items

2.9.1 P3 Site

There is a £0.400m budget provided in the MTFS for loss of parking income arising from disposal/redevelopment in Wimbledon. This provision has been reduced to £0.200m in 2018/19 and 2019/20.

2.9.2 Autoenrolment

There is a £0.300m provision for the costs of autoenrolment which is no longer required as this budget is now allocated within departmental employees budgets.

2.9.3 Corporate provision for Utilities Inflation

There is a £0.300m budget for utilities inflation which is now included within the overall provision for inflation.

2.9.4 The overall reduction in corporate items within the MTFS is £0.800m in 2018/19 and £0.600m thereafter.

2.10 Reserve for Use in Future Year's Budgets

2.10.1 The Business Plan and MTFS for 2017-21 approved by Council on 1 March 2017 forecast that a contribution of £2.443m would be required in 2017/18 with the balance of £3.442m applied in 2018/19.

2.10.2 Following the final accounts process for 2016/17, it was possible to consolidate some reserves with the Reserve for use in Future Year's Budgets and as a result the balance (subject to audit) on the Reserve as at 31 March 2017 is £7.789m. This includes an amount of £450k which is earmarked for savings for Balance Sheet Management – Council Tax and NDR credits.

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

Reserve for Use in Future Year's Budgets	Opening Balance on Reserve	Movement in Year	Closing Balance on Reserve
	£000	£000	£000
2017/18	7,789	(2,893)	4,896
2018/19	4,896	(2,150)	2,746
2019/20	2,746	(2,746)	0

2.10.4 It should be recognised that the use of reserves is a one-off form of funding and alternative ongoing savings would need to be identified to address the budget gap over the long-term.

2.10.5 <u>In-year review of Reserves</u>
The use and availability of Reserves is monitored throughout the year as part of the monthly monitoring process. The latest review has identified that the balance of £0.554m on the Reserve for Merton Adult Education redundancies is no longer required and this will be appropriated to the Reserve for use in future year's budgets for use over the MTFS period.

2.11 **Review of Outturn 2016/17 and Current Budget and Spending 2017/18**

2.11.1 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 2018-22.

2.11.2 <u>Monitoring 2017/18</u>
At period 4 to 31st July 2017 the year end forecast is a net £1.423m overspend compared to the current budget. This has reduced by £0.351m from June. The budget monitoring process will continue to focus on Children, Schools and Families (SEN transport, unaccompanied asylum seeking children, no recourse to public funds, social work staffing) and Community and Housing (Adult Social Care, Housing) as these areas are forecasting overspends.

2.12 **Re-priced MTFS 2018-22**

2.12.1 As indicated in the report, there have been a number of changes to information and data to factors which impact on the Council's MTFS and budget gap. Taking into account the latest available information as summarised in this report, with revised assumptions for

- Updated inflation
- Adult Social Care funding
- Collection Fund surplus/deficit change following draft outturn for 2016/17
- Change in reserve following draft outturn for 2016/17
- Change to Treasury Management policy, subject to External Audit approval
- Changes to corporate items
- Capital financing projections based on July monitoring (paragraph 4 refers)

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

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Budget Gap	0	5,619	15,284	828
Budget Gap (Cumulative)	0	5,619	20,903	21,731

2.12.2 A more detailed MTFS is included as Appendix 1. The changes made to the MTFS since Council in March have reduced the gap in the short term but do not address the overall shortfall, which will require ongoing savings and/or funding over the longer term.

2.12.3 The gap over the four year period is c. £22m 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 2017 following central government's Autumn Budget 2017 which is to be held on 22 November 2017. 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.

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

2.13 Summary

2.13.1 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.

2.13.2 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. £7.8m in the revised 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 2018/19 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 2018-2022.

b) Further Departmental Savings/Income Targets
The MTFS 2018-22 includes the full year effect of savings and income proposals amounting to c. £8.7m .Initial proposals to address the remaining budget gap are set out in paragraph 3.4.

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

c) Review of funding
Given the uncertain economic climate due to the Brexit negotiations and result of the General Election in June 2017, it is too soon in the financial year to accurately predict the ongoing impact on central Government funding particularly over a four year period. There will be regular updates during the business planning process as more information becomes available.

d) Capital Programme 2018-22
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 The MTFS includes the following amounts in service department budgets for previously agreed savings/income proposals:-

	2018/19 £000	**2019/20 £000**	**2020/21 £000**	**2021/22 £000**
Savings in MTFS (cumulative)	7,018	8,737	8,737	8,737

3.3.2 However, it is also dependent on pre agreed savings for 2017/18 of c. £9.2m being achieved. The July monitoring report includes the following details of progress on meeting savings agreed in 2017/18. Details of prior year savings shortfall and the full year effect in 17/18 will be reported with August monitoring information.

Department	Target Savings 2017/18	Projected Savings 2017/18	Period 4 Forecast Shortfall	Period 3 Forecast Shortfall	Period Forecast Shortfall
	£000	£000	£000	£000	%
Corporate Services	1,484	1,366	118	118	8.0%
Children Schools and Families	1,110	1,073	37	23	3.3%
Community and Housing	2,673	2,031	642	619	24%
Environment and Regeneration	3,050	2,148	902	902	29.6%
Total	**8,317**	**6,618**	**1,699**	**1,662**	20.4%

It is imperative that firm discipline is maintained in delivering savings and departments should be beginning the planning for delivering 2018/19 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 2018/19 budget is set.

3.3.4 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.

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

3.3.6 It should also be recognised that in setting the 2017/18 budget, proposals to fully meet the savings targets set were not identified and agreed over the duration of last year's budget setting period, leaving a balance still to be found. Before setting new targets for 2018/19 onwards (using controllable budgets for 2017/18), departments will be required to identify savings/income proposals to meet the balance of the savings targets set in last year's business planning process.

3.3.7 The balance of savings not met by each department is as follows:-

2017/18 SAVINGS TARGETS BY DEPARTMENT	Targets £000	Savings £000	Balance £000
Corporate Services	586	586	-
Children, Schools and Families	678	228	450
Environment and Regeneration	1,659	913	746
Community and Housing	339	339	-
Total	3,262	2,066	1,196

3.4 **Savings Targets for 2018-22**

3.4.1 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.

3.4.2 There is a change proposed this year to the approach adopted to setting savings targets:-

- To reduce the pressure on Children, Schools and Families and Community and Housing, no additional savings will be required from these departments until 2020/21, giving them time to identify and plan strategic savings over a longer term. However, this means the burden will fall on Corporate Services and Environment and Regeneration departments in 2019/20 and savings targets have been apportioned for these two departments on a 50:50 basis, adjusted for controllable budgets.

3.4.3 Based on these assumptions and using the revised MTFS gap set out in paragraph 2.12.1, the new savings targets are :-

SAVINGS TARGETS BY DEPARTMENT	**2018/19 £000**	**2019/20 £000**	**2020/21 £000**	**2021/22 £000**	**Total £000**
Corporate Services	0	2,363	1,911	169	4,443
Children, Schools and Families	0	0	3,328	132	3,460
Environment and Regeneration	0	3,256	3,352	262	6,870
Community and Housing	0	0	6,693	265	6,958
Total	**0**	**5,619**	**15,284**	**828**	**21,731**
Cumulative	**0**	**5,619**	**20,903**	**21,731**	

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

3.4.5 Care needs to be taken regarding savings in Adult Social Care to ensure that the Council continues to comply with DCLG guidelines and doesn't jeopardise government requirements regarding funding levels.

3.5 **Replacement Savings**

3.5.1 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.

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

4. Capital Programme for 2018-22

4.1 Since the capital programme was approved by Council in March 2017 and the revenue implications built into the MTFS, there have been a number of amendments arising from outturn 2016/17, 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 2018/19) for the next four years of the MTFS would be approximately:-.

Capital financing costs of £1m over the MTFS period	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Longer life Assets	10	60	60	60
Short-life assets	10	220	220	220

4.3 The bidding process for 2021/22 was launched on 26 June 2017. The closing date for submission of bids was 4 August 2017. Any resulting revisions to the programme and new schemes will be reported to Cabinet in October 2017.

4.4 The current capital provision and associated revenue implications in the currently approved capital programme, based on July 2017 monitoring information and maximum use of capital receipts, are as follows:-

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Capital Programme	55,013	25,883	8,432	8,944
Revenue Implications	11,506	13,567	14,731	13,717

4.5 The potential change in the capital programme since Council in April 2017 is summarised in the following table:-

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Capital Programme: - As approved by Council - Revised Position with Slippage revisions	 33,204 55,013	 16,076 25,883	 8,432 8,432	 8,944 8,944
Change	21,809	9,807	0	0
Revenue impact As approved by Council Revised	 10,917 11,506	 12,290 13,567	 12,917 14,731	 13,114 13,717
Change	589	1,277	1,814	603

4.6 It is considered that these figures represent the worst case, with further work currently ongoing to review and challenge the assumptions these figures are based on.

5. Service Planning for 2018-22

5.1 The Service planning process for 2018-22 was launched in August 2017. 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 2018-22 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 2018 – 2022.

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 2018-22: Re-priced and rolled forward
Appendix 2 – Business Plan and Service Planning Timetable 2018-22

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:

2016/17 Budgetary Control and Final Accounts Working Papers in the Corporate Services Department.
2017/18 Budget Monitoring working papers
MTFS working papers

16. REPORT AUTHOR

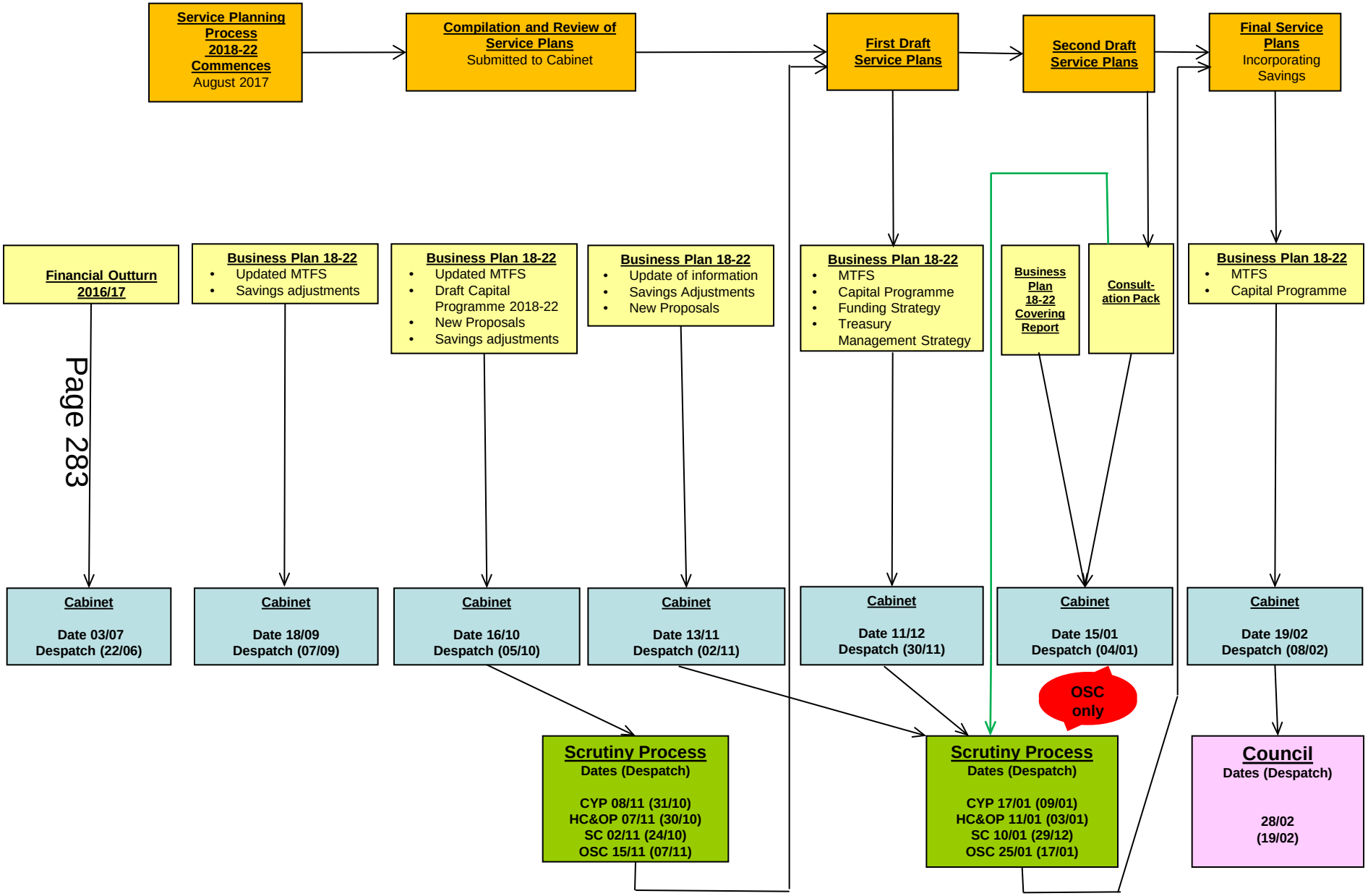
- Name: Roger Kershaw
- Tel: 020 8545 3458
email: **roger.kershaw@merton.gov.uk**

APPENDIX 1

DRAFT MTFS 2018-22:				
	2018/19 £000	**2019/20 £000**	**2020/21 £000**	**2021/22 £000**
Departmental Base Budget 2017/18	**151,131**	**151,131**	**151,131**	**151,131**
Inflation (Pay, Prices)	3,816	7,632	10,669	13,706
Autoenrolment/Nat. ins changes	315	315	315	315
FYE – Previous Years Savings	(7,018)	(8,737)	(8,737)	(8,737)
FYE – Previous Years Growth	974	(1,532)	(1,032)	(1,032)
Change in Net Appropriations to/(from) Reserves	(1,257)	(993)	(851)	(984)
Taxi card/Concessionary Fares	450	900	1,350	1,800
Other	1,360	1,436	3,323	3,604
Re-Priced Departmental Budget	**149,770**	**150,151**	**156,167**	**159,802**
Treasury/Capital financing	8,058	12,066	13,371	12,491
Pensions	3,469	3,552	3,635	3,718
Other Corporate items	(18,528)	(18,866)	(18,652)	(18,661)
Levies	614	614	614	614
Sub-total: Corporate provisions	**(6,387)**	**(2,634)**	**(1,032)**	**(1,838)**
Sub-total: Repriced Departmental Budget + Corporate Provisions	**143,384**	**147,518**	**155,135**	**157,964**
Savings/Income Proposals 2018/19	0	0	0	0
Sub-total	**143,384**	**147,518**	**155,135**	**157,964**
Appropriation to/from departmental reserves	173	(92)	(234)	(100)
Appropriation to/from Balancing the Budget Reserve	(2,150)	(3,300)	0	0
BUDGET REQUIREMENT	**141,406**	**144,126**	**154,901**	**157,864**
Funded by:				
Revenue Support Grant	(10,071)	(5,076)	0	0
Business Rates (inc. Section 31 grant)	(36,304)	(37,176)	(37,725)	(38,285)
Adult Social Care Improved BCF - Budget 2017	(2,115)	(1,054)	0	0
PFI Grant	(4,797)	(4,797)	(4,797)	(4,797)
New Homes Bonus	(3,110)	(2,984)	(2,000)	(1,500)
Council Tax inc. WPCC	(85,382)	(87,420)	(89,477)	(91,552)
Collection Fund – (Surplus)/Deficit	372	0	0	0
TOTAL FUNDING	**(141,406)**	**(138,507)**	**(133,999)**	**(136,134)**
GAP including Use of Reserves (Cumulative)	**0**	**5,619**	**20,903**	**21,731**

APPENDIX 2

BUSINESS PLANNING TIMETABLE - BUSINESS PLAN 2018-22



This page is intentionally left blank