

Wards Affected:

All Wards

ITEM 14**CABINET****11 OCTOBER 2016****FINANCIAL SUSTAINABILITY PLAN (2017/18 TO 2020/21)**

Responsible Cabinet Member: Councillor Middleton, Cabinet Member for Resources and Innovation

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EXECUTIVE SUMMARY:

The Council is facing an era of unprecedented financial challenge due to continued cuts in Government funding and substantial increases in demand for many of our critical services. This Financial Sustainability Plan sets out the size of the financial challenge ahead and the Council's approach to tackling this unprecedented challenge in an effort to achieve a sustainable financial future.

To access a four-year Revenue Support Grant allocation, it is a requirement that this Council alongside all others submits a sustainability plan to the Department of Communities and Local Government. A further requirement, as part of this process, is that we advise the Department of the range of projects where we will seek to use capital receipts more flexibly (in line with changes in legislation) to support so-called transformation in the delivery of a range of our services.

The context for this Sustainability Plan is:

- Since 2011/12, this Council has cut costs substantially, and increased our income where possible, to offset an unprecedented financial challenge of £111m. This has been achieved through cutting costs, delivering savings through smarter and more efficient service delivery, procurement & commissioning, and where necessary through reluctantly reducing services to our residents.
- Since 2010, Central Government funding models have made no allowance for our growing population or additional demands for our critical services.
- Our continuing population increase, amounting to 7% over the last six years with continued growth forecast at a similar rate in future years.
- Substantial increased demand for our services; most starkly in a forecast increase in the cost of caring for younger adults with learning disabilities, totalling £3m each year by 2020/21; a 2% growth in the population of our younger people resulting in additional costs of £2.5m each year by 2020/21; and increased demand for temporary accommodation for people who are entitled to statutory support at a time of decreasing availability of Council housing, resulting in unprecedented additional costs of £3.0m in 2017/18.

Overall, this means the Council must address a financial gap of £56m from 2017/18 to 2020/21; including a gap of £19.4m in 2017/18.

While the Council has been successful in cutting costs and delivering savings through smarter and more efficient service delivery, procurement and commissioning to minimise the impact on Council services, it is not possible to manage this scale of financial challenge without making significant and difficult decisions about our services.

1. RECOMMENDATION(S)

- 1.1 That the financial forecast set out in Table A, in relation to both resources and expenditure, be noted.
- 1.2 That the financial strategy and work underway be noted. (as set out in section 21 of the **Annex**)
- 1.3 That the Reserves Policy be approved. (Appendix of the Financial Sustainability Plan (**Annex**)).
- 1.4 That the Financial Principles be endorsed as a sound basis for the future financial management of the Council. (as set out in paragraphs 3.1 and 16.1 of **Annex**)

2. INTRODUCTION

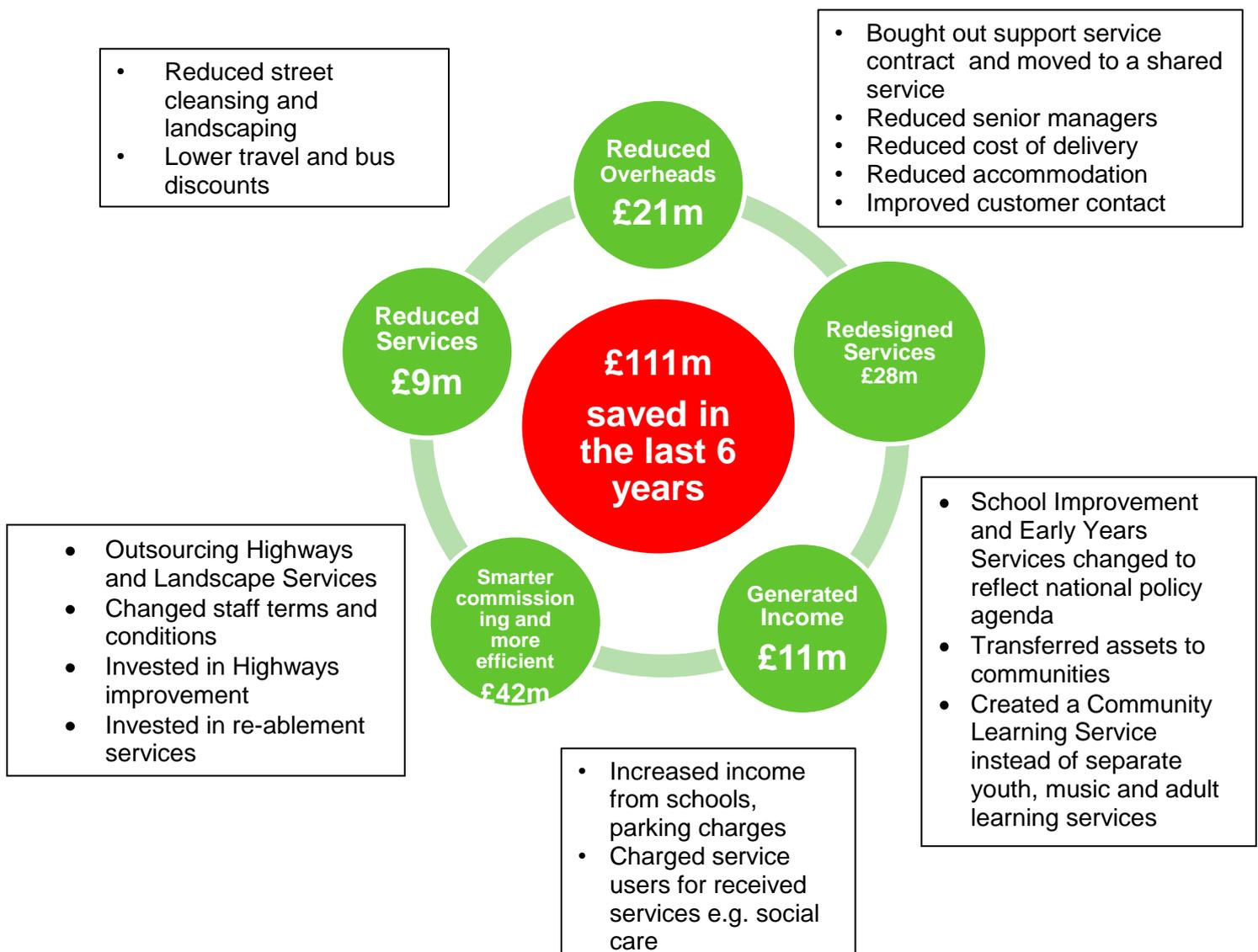
- 2.1 The purpose of this report is to:
 - Update the Council's financial forecasts to inform the discussions on the 2017/18 Budget and the context for Budget Scrutiny.
 - To outline to the Department for Communities and Local Government the plans and work under way to reach a financially sustainable position over the medium term following continued Government funding reductions and increases in demand. Therefore giving the Council certainty over a four year Revenue Support Grant funding settlement (2016/17 to 2019/20).
 - To highlight the plans for the flexible use of capital receipts in light of changes in legislation and to notify the Department for Communities and Local Government of these plans, as required.
 - To outline the future operating model for the Council, that will underpin project and programmes in the future to support the delivery of financial sustainability.
- 2.2 This Financial Sustainability Plan (FSP) will be updated alongside the draft Budget which will be published for consultation in December.
- 2.3 The Council has a clear ambition as set out in the Council Plan and has made a commitment to continue to grow and enhance Milton Keynes through the MK Futures programme. These commitments are alongside the continued financial challenges for the Council.
- 2.4 The most significant financial issues for the Council are:
 - The changes to national Government funding mechanisms and the lack of funding for population growth;
 - Continued reductions in national Government funding;
 - The volatility of Business Rate income and the relatively small proportion retained locally which does not offset demand increases;
 - The increased risk due to the uncertainty of Council income, as a result of the introduction of Business Rate Retention scheme.
 - Significant financial pressures due to changing demographics, which creates a rising demand for Council services, the major areas are for temporary accommodation; adult and children's social care.

- Potential reduction in New Homes Bonus, where the outcome of the consultation has yet to be announced.

2.5 These financial challenges are in the context of already having tackled an unprecedented financial challenge of £111m to address Government funding

reductions and local increases in demand for services over the past 6 years. These savings largely been made through improving efficiency; reducing overheads and cutting costs; however, there has inevitably been a level of service reduction in some areas. The picture below shows some examples of the savings delivered to date, which include some innovative service solutions, renegotiation of contracts, redesign of services and a more commercial approach.

Delivery of £111m of Savings between 2011/12 and 2016/17



3. SUMMARY OF FORECAST FINANCIAL POSITION

3.1 The combination of substantial increases in demand for services and continued Government funding reductions is creating an ongoing need to generate cost

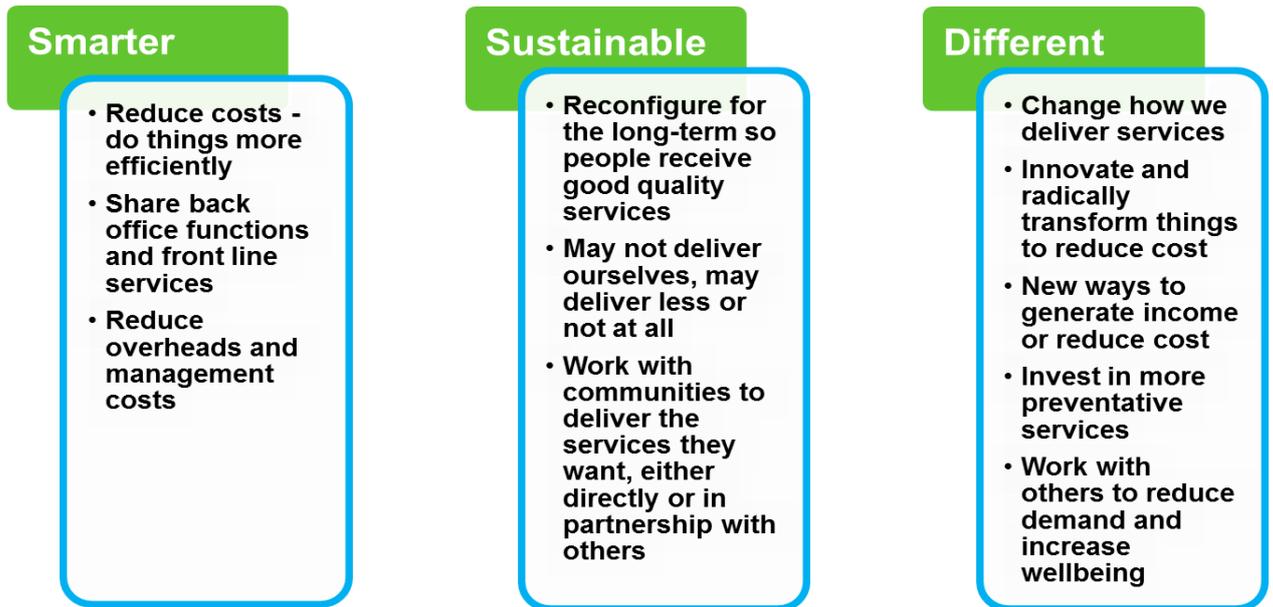
reductions or increase income. In total the Council needs to address £56m of financial pressures over the next four years. Some of these pressures (£33m) will result in funding being reinvested into statutory demand led services; the remainder will offset cuts to national Government funding.

- 3.2 Table A, shows the financial pressures that must be addressed over the next four years. So far, the Council has identified specific proposals, which could address up to £29m of these financial pressures but there is still work to do to close the gap. The Financial Strategy and the ongoing schemes, which should address this position, are shown in detail in section 21.5 of the **Annex**.

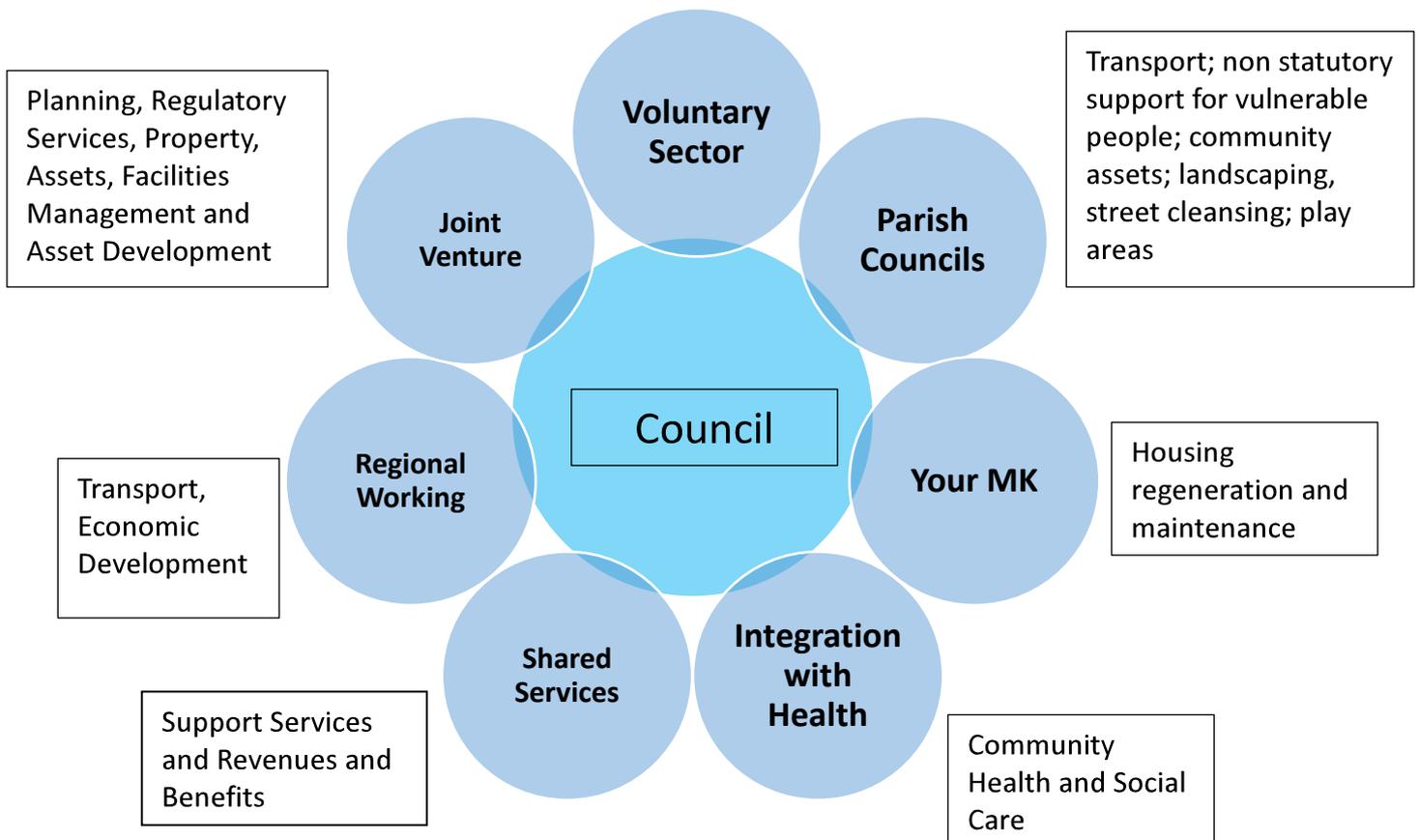
Table A: Medium Term Financial Forecast

	2016/17	2017/18	2018/19	2019/20	2020/21	Total 2017/18 to 2020/21
	£m	£m	£m	£m	£m	£m
Technical Adjustment	1.653	(0.038)	0.092	0.098	0.404	0.556
Inflation	2.823	1.333	2.243	2.230	2.262	8.068
Corporate Pressures	3.390	1.078	0.600	0.600	0.800	3.078
Other ongoing pressures	11.318	10.020	7.970	7.914	7.759	33.663
One-off pressures	10.009	8.726	6.447	5.750	0.000	20.923
Funding Reduction	7.803	13.556	5.930	5.974	5.502	30.962
Total Pressures	36.997	34.675	23.282	22.566	16.726	97.249
Additional Income (Council Tax)	(6.293)	(5.602)	(5.469)	(5.753)	(3.740)	(20.563)
Less one-off funding	(10.009)	(8.726)	(6.447)	(5.750)	0.000	(20.923)
Savings Requirement	20.695	20.347	11.366	11.063	12.986	55.762
Savings - Smarter	(10.083)	(8.499)	(3.148)	(0.480)	(0.366)	(12.493)
Savings - Sustainable	(5.053)	(4.525)	(0.061)	(1.800)	(2.000)	(8.386)
Savings - Different	(6.434)	(6.449)	(1.335)	(0.027)	(0.028)	(7.839)
Total current gap	(0.875)	0.875	6.822	8.757	10.592	26.170
Cumulative gap	(0.875)	0.000	6.822	15.579	26.170	

3.3 The financial strategy to address this ongoing financial challenge is as follows:



3.4 To achieve financial sustainability, the Council will need to change its operating model to deliver fewer services directly and deliver some services in different ways. Some of these changes will also consider how to increase income. The diagram below shows the different delivery models which either have been implemented or are being developed.



3.5 In 2015 the Council committed to being a Co-operative Council. While it is clear the Council cannot continue running a wide range of services as it has done in the past, changes will be made by working with key partners such as town and parish

councils and voluntary sector organisations to redesign service delivery and find alternative solutions.

3.6 In addition to changing the way the Council operates there are a number of key projects and programmes which will contribute to the delivery of financial sustainability, these are outlined in paragraphs 21.16 to 21.34 of the FSP:

- SMART property
- Waste strategy
- Smart City – Transport Programme
- Commissioning and Procurement
- Future Working Programme
- Customer Services
- Economic Investment
- Investment schemes
- Workforce development

3.7 The use of capital funding is also essential to achieving financial sustainability. While the Council must continue to deliver statutory requirements, there is greater opportunity to use capital receipts to support schemes, which will deliver ongoing revenue savings and in line with changes to legislation, capital receipts created from 2016/17 can be used to support Council transformation programmes (with the prior knowledge of the Department for Communities and Local Government).

3.8 The details of the capital programme are still being confirmed. There are likely to be increases in demands for funding relating to Highways junctions, following the Multi-Modal transport modelling and the position in relation to school place funding continues to remain uncertain. However, the generation of capital receipts from the rationalisation of property and land and in future the agreement to facilitate development on the Western Expansion Area will create some opportunities to support the revenue position.

3.9 Table B shows the current summary of the capital position over the MTFS period and the resources allocated in the Capital Programme.

Table B: Forecast Summary of Capital Resources and Expenditure

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 Onward £m
Capital Expenditure	107.448	94.007	85.992	49.872	76.468
Capital Resources	112.832	97.684	79.219	51.395	73.963
Net Position (surplus) / deficit	(5.384)	(3.677)	6.773	(1.523)	2.505
Cumulative Position (surplus) / deficit	(5.384)	(9.061)	(2.288)	(3.811)	(1.306)

3.10 This shows that the investment needs identified to date are affordable, although the long-term programme still reflects the fact additional funding will be required to deliver some of the key infrastructure to sustain growth.

4. RELATED DECISIONS

4.1 Related decisions include:

4.2 Previous decisions in this context relate to:

- Medium Term Financial Strategy for 2016/17 to 2019/20 approved by Cabinet in February 2016.

4.3 Future decisions in this context relate to:

- 2017/18 Budget to be set by full Council in February 2017.

5. ANNEXES

5.1 The follow documents are appended to this report:

Financial Sustainability Plan	Annex
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6. IMPLICATIONS

6.1 Policy

The Financial Sustainability Plan reflects the Council Plan and sets financial principles. Policy decisions required to deliver the Financial Strategy need to be made in an appropriate manner.

6.2 Resources and Risk

Yes	Capital	Yes	Revenue	Yes	Accommodation
Yes	IT	Yes	Medium Term Plan	Yes	Asset Management

The **Annex** to this report sets out the resource implications and provides a summary of the Council's financial risks.

6.3 Carbon and Energy Management

6.4 Legal

The Financial Sustainability Plan sets the financial context and does not set the Budget; as such there are no legal consequences for this report. The Budget will be set by Council in February.

6.5 Other Implications

No	Equalities / Diversity	Yes	Sustainability	No	Human Rights
No	E-Government	Yes	Stakeholders	No	Crime and Disorder
No	Carbon and Energy Policy				

This report itself does not have equality and diversity implications; however the individual budget proposals which will be proposed as part of the annual budget process will potentially have an impact. As part of the final Budget, equality impact assessments will be considered.