Item 3

Cabinet

25 January 2018

2018/19 Refresh of the Medium Term Financial Plan 2020 – Updated Information

Recommendations

Cabinet is recommended to:

1) Note the latest resource and spending information and the impact on the emerging budget proposals.

2) Note the Head of Finance's risk assessment on the level of general reserves, as detailed in Appendix A.

3) Agree, in light of the information provided, their 2018/19 budget resolutions for recommendation to Council on 6 February 2018.

4) Authorise the Head of Finance to incorporate the outstanding resource information into the budget resolutions to be considered by Council on 6 February 2018.

5) Recommend Council, in the event of final central government funding allocations and levels of business rates being above or below the provisional settlement level, approve that the variation be managed by an adjustment to the Medium Term Contingency.

1. Introduction and Background

1.1. At the Cabinet meeting, on 7 December 2017 a report outlining all the information underpinning the development of the 2018/19 budget and 2017-20 Medium Term Financial Plan (MTFP) refresh alongside Corporate Board's suggestions as to what should/could be funded within a balanced budget was considered.

1.2. The proposals focussed on ensuring the fundamentals of the OOP budget strategy remain unchanged so that by the end of 2019/20 the budget will be balanced and sustainable into the future. This meant there was no financial capacity to fund any on-going new or different initiatives without identifying what will be stopped or cut to provide the necessary funding The key features were:

- An annual 1.99% increase in the basic level of council tax plus levying an additional 2% precept each year with the funding allocated to adult social care;
- A 2% provision for pay and price inflation across all years;
- On-going allocations of £2.500 million and further time-limited allocations of £9.237 million to meet growing demand pressures and pump prime investment that will deliver service transformation and support the future delivery of savings.
- A savings plan of £21.591 million to be delivered by 2020 plus a further £10.048 million for adult social care;
- Continuing with a capital strategy for the organisation with a focus on reinvesting the benefit of growth in the taxbase in the infrastructure of the county to place it in a strong position as we become increasingly self-sufficient,

1.3. These proposals were based on the best information available at the time on both the level of resources available and known/emerging spending pressures. In a number of areas final information was either not known, or has changed over the intervening period. These areas are:

- The Local Government Finance Settlement.
- Growing demand-led pressures and difficulty in delivery of the savings plan that have emerged as part of the quarterly budget monitoring and are reported elsewhere on today's agenda.
- The level of business rates expected to be generated locally in 2017/18.
- The council tax taxbase for 2017/18.
- The surplus/deficit on council tax and business rates collection from previous years.
- Reserves and the impact of the Head of Finance's reserves risk assessment.

1.4. This report updates members on the latest information for each of these areas, and in doing so it also provides Cabinet with the opportunity to issue their final 2018/19 revenue and capital budget resolutions. Where final information is not available in time for the publication of this report, an updated version will be tabled at Cabinet on 25 January 2018.

2. Impact of the Local Government Finance Settlement

2.1. The provisional Local Government Finance Settlement was announced on 19 December 2017. There were two elements of the announcement that had a direct impact on the financial position reported to Members earlier in the month:

- An additional £0.595 million as a result of changes to the calculation of the New Homes Bonus
- The opportunity to increase the core Council Tax requirement by an additional 1%, on top of the existing 1.99% limit, without a local referendum for 2018/19 and 2019/20.

2.2. As part of the on-going reform of the system of local government finance a consultation on fairer funding for local government (the reassessment of relative need to spend between authorities) was also released. A report seeking approval for our response to this consultation, which will be important in determining the level of resources available to the authority beyond the timeframe of the One Organisation Plan 2020, will be brought to Cabinet in February.

2.3. New Homes Bonus

Previously plans had been announced nationally to change the calculation of authorities New Homes Bonus that would have led to a reduction in the level of resources. This change had been factored into the OOP 2020 Medium Term Financial Plan. As part of the Settlement it was announced that following conversations with the sector no new changes will be made to the way New Homes Bonus works. As a result our provisional New Homes Bonus allocation for 2018/19 is £2.648 million. This is £0.595 million higher than the forecast issued by the Government in last year's Settlement and the figure assumed in the 2018/19 budget forecasts and also reflects the impact of additional housing growth.

2.4. Additional 1% Council Tax

The ability to increase the core council tax without needing a referendum in 2018/19 announced in the provisional Settlement was unexpected. This opportunity, if taken, would increase the level of on-going resources available to support the 2018/19 budget by £2.575 million.

It is the recommendation from Corporate Board that the additional 1% council tax flexibility is taken. This is for a number of reasons:

- It enables a number of key financial issues to be addressed that will place the Authority in a much stronger position for 2020 and beyond (see Section 5).

- It will help avoid the risk that we will have too many issues to deal with in 2019/20 if we do not take the opportunity to tackle as many as possible in 2018/19.
- The funding will be in our base budget permanently, providing additional resource for the future which would otherwise be lost.
- The Government's own financial assessment assumes that all local authorities increase tax by the maximum permissible.

The provisional Settlement also referenced the ability to raise the council tax by an additional 1% in 2019/20. However, this will only be confirmed as part of the 2019/20 provisional Settlement as it is linked to the rate of inflation at the time.

2.5. Together these elements of the provisional local government finance settlement **increase the resources available to support services by £3.170 million**.

3. Local Taxation

3.1. Council Tax

As part of our OOP2020 forecasts we assumed a prudent annual increase in the taxbase of 0.75% beyond 2017/18. The districts/boroughs have now confirmed their council tax base for 2018/19 and these are showing a year-on-year increase of 2.36%. This will **generate an additional £4.092 million,** assuming the option of the additional 1% council tax increase is taken. The breakdown of the 2018/19 taxbase across the districts/boroughs is shown in Table 2.

Table 1: A Comparison of the 2017/18 and 2018/19 Council Tax Taxbase				
	2017/18 Taxbase Band Properties	2018/19 Taxbase Band D Properties	Variation Band D Properties	Variation %
North Warwickshire	20,307.71	20,555.86	248.15	+1.22%
Nuneaton and Bedworth	36,345.50	37,187.30	841.80	+2.32%
Rugby	35,400.80	36,271.17	870.37	+2.46%
Stratford-on-Avon	52,463.16	54,477.21	2,014.05	+3.84%
Warwick	52,709.68	53,388.87	679.19	+1.29%
Total	197,226.85	201,880.41	4,653.56	+2.36%

The taxbase is not only affected by local growth in the number of households and changes in the levels of discounts and exemptions, including the effect of the new discount for low income households that replaced council tax benefit from April 2013. This is the second year where the increase in the taxbase has been greater than the long term trend. However, as there is a risk that the taxbase could decrease if there is an economic downturn the assumption of a 0.75% increase in the taxbase in 2019/20 has not been changed at this time. This will be reassessed as part of the 2019/20 refresh.

3.2. Business Rates

The partial localisation of business rates is still relatively new and the annual changes to the schemes of discounts and allowances continue to make it difficult to make any realistic assumption about the likely level of income. April 2017 also saw the implementation of the first revaluation of business rates since 2010 and the implementation of a revised national appeals process. Collectively these changes have increased what is already a volatile funding source.

The statutory deadline for each district/borough in Warwickshire providing details of our share of expected business rates in 2018/19 is 31 January 2018. At this time no figures have been received it is therefore recommended that the current estimates, as included in the Medium Term Financial Plan are used for budget setting, with any variation is managed through the use of or a contribution to the provision set aside in reserves for this purpose. The final position will be reported to Cabinet in March as part of the Service Estimates report.

3.3. Surplus/Deficit on Collection

As part of setting the council tax we also have to take into account any surplus/deficit on collection of council tax from previous years. The breakdown of the surplus/deficit across the districts is shown in Table 2 and provides an **additional £2.123 million one-off** funding available to support the budget in 2018/19.

Table 2: 2018/19 Surplus/(Deficit) on Council Tax Collection	
	£m
North Warwickshire	0.687
Nuneaton and Bedworth	0.559
Rugby	0.570
Stratford-on-Avon	0.307
Warwick	0.000
Total	2.123

4. Reserves

4.1. When looking at short-term funding to support the 2018/19 budget and 2017-20 Medium Term Financial Plan we need to consider the known calls on reserves:

- The Quarter 3 forecast outturn position is reporting a £4.380 million overspend across five Business Units. The respective Business Unit/Group will need to set aside sufficient service reserves to make good the financial position at the year-end. This will limit their flexibility in delivering the One Organisation Plan 2020 or to manage any unanticipated financial shocks over the three year period.
- The continuing overspend on Dedicated Schools Grant for high needs, forecast to be £1.394 million in 2017/18 will need a recovery plan to put the budget into a sustainable long term position. Whilst this will be offset by underspends across the other elements of schools funding in 2017/18, this flexibility will not be available in future years; and
- The planned use of the Medium Term Contingency to phase the delivery of savings across the three years of the 2017-20 Plan.

There are two main sources of one-off funding available for use – corporate reserves and service reserves. The remainder of this section considers the availability of each of these separately.

4.2. Corporate Reserves

The current position on each of the main corporate reserves is set out in Table 3 below.

Table 3: Corporate Reserves			
	General Reserves £m	Medium Term Contingency £m	Redundancy Fund £m
Forecast Balance as at 31 March 2018	25.963	14.040	12.291
Minimum Requirement *(to be retained)*	(18.500)	(5.000)	-
Medium term contingency for late grant/taxbase changes and DSG/Schools funding	(4.000)		-
Proposed use in December 2017 Cabinet report		(8.827)	
Uncommitted Balance	3.463	0.213	12.291

<u>General Reserves</u>

Legislation requires that the Head of Finance makes an annual statement on the adequacy of general reserves and provisions. The Head of Finance has now completed the risk assessment for 2018/19. This confirms that the minimum level of general reserves it is prudent to retain remains at £18.5 million. A copy of the risk assessment is attached at **Appendix A**.

The latest forecast of unencumbered general reserves is £3.463 million above the £18.5 million specified by the Head of Finance. This funding is potentially available to support the budget on a one-off basis. However, to use all of the funding will limit the Council's ability to manage any financial pressures that emerge over the remaining years of the OOP.

Medium Term Contingency

The Medium Term Contingency was originally set up as part of the 2014-18 Plan to provide flexibility. It was specifically designed to manage timing differences between when spending is incurred and the savings needed to fund that spend delivered and to provide funding to cover any overspends or under-delivery of savings where this could not be managed from service reserves. £5 million is the Head of Finance's assessment of the minimum capacity needed. Proposals for using all of the capacity available in the Medium Term Contingency formed part of Corporate Board's budget report to Cabinet in December.

Redundancy Fund

The Redundancy Fund provides corporate funding for redundancy costs. Without the availability of the corporate provision services will need to identify additional savings to cover any redundancy costs. Therefore there is no scope to reduce this reserve.

4.3. Service Reserves

At the end of the financial year un-earmarked service reserves are forecast to be £56.802 million. Un-earmarked service reserves are defined as those Business Unit/Group reserves that are not held either as a result of external funding conditions or as the result of a specific full Council resolution.

These savings have been set aside by Services to support transformation and as a contingency against delays in the delivery of their savings plans. Whilst technically this funding is available to support the budget, the ability to carry forward reasonable underspends supports effective financial management across the authority and reinforces the responsibility for financial accountability.

Business Units are planning to use £5.680 million of service reserves in 2018/19 to support projects to be delivered at Business Unit/Group level to support transformation and the replacement of key business IT systems. A significant amount will also be needed to make good the overspends being reported as part of the Quarter 3 OOP Progress report elsewhere on today's agenda.

It is proposed that none of this funding is used to directly support the budget but that the role of Strategic Directors, in ensuring any funding held covers service-based risks and meets any up-front investment needed to deliver the savings in accordance with the organisation's priorities are in place for the resource to be retained.

5. Additional Spending Need

5.1. Since the background information in the report to Cabinet was prepared a number of additional spending pressures have begun to surface:

- The latest monitoring forecast report (elsewhere on today's agenda) highlights an overspend in Children's Services (of around £2 million). This is consistent with a national pattern and is a trend that is expected to continue. Although not explicit, it is thought to be one of the reasons why the Government have raised the maximum council tax increase by 1%.

- Difficulties associated with a small number of savings proposals have also begun to emerge. In particular, the policy changes associated with the home to school transport savings are unlikely to deliver existing savings targets.

- Both the Fire Service and Property Services are currently the subject of fundamental reviews and the outputs from those reviews will need to be dealt with as part of any 2019/20 budget considerations. Some one-off resource is proposed to assist in this.

- There are also planned reviews of the Dedicated Schools Grant where there are clear pressures on the elements which fund the County Council's responsibilities and future county-wide solutions for managing the increasing costs of waste management that will need to be taken forward.

5.2. It is therefore proposed that some of the additional capacity identified in Sections 3 and 4 is used to resolve some of these financial issues thereby placing the authority in a much stronger position for delivering OOP 2020.

5.3. Additional Permanent Budget Allocations

Corporate Board recommends that the following permanent budget allocations are made:

- **Children's social care - £2,000,000**
  There is a forecast £2 million overspend in 2017/18. This is mainly due to higher numbers of Looked After Children, limited options to tackle the foster care / placement mix and generally increasing demands on the service. Therefore, this problem is largely "structural", rather than one-off and requires additional funding (acknowledging that the service still has ambitious savings to meet by 2020).

- **Local Government Pay Award - £280,000**
  This is the minimum amount required to fund the additional costs of the employers offer in respect of the local government pay award for 2018/19 above the 2% provision included in OOP 2020.

  The employers pay offer is a two year offer and the additional estimated cost of the impact of the pay award and the National Living Wage could be as much as £683,000 higher than the current inflation provision in the Medium Term Financial Plan and therefore the inflation provision in 2019/20 needs to be increased by this amount.

- **Home to School Transport - £1,400,000**
  More detailed modelling suggests that the full savings target will not be delivered particularly in relation to the pressures of increasing numbers of children with special needs and the associated transport costs. (The total target by 2020 is £1.648 million). This provides the opportunity to reduce a difficult and unpopular savings target whilst reaffirming the requirement that the service continues to take forward the transformation agenda to manage the level of demand.

- **Dedicated Schools Grant funding of Family Support Workers - £834,000**
  The DSG continues to overspend on high needs, with no reserves to make good the position. The move to the National Funding Formula reduces the capacity to resolve this by adjusting school funding allocations elsewhere. This figure represents the funding currently used for Family Support Workers, that is at risk given the general overspend on high needs.

5.4. Supporting these allocations, assuming all the additional funding opportunities are taken, would leave £2.065 million of on-going resource available to support the budget. Current policy would mean that any of this resource not used to support Groups' priorities is allocated to fund additional capital investment through allocations from the Capital Investment Fund. The £2.065 million would equate to an extra £25 million capital spend. Section 7 outlines that based on current capital spending priorities a minimum of £1.296 million needs to be used for additional capital financing costs which, if supported, would leave **up to £0.769 million available to support Members' priorities**.

5.5. Additional One-Off Allocations

In addition to the additional permanent allocations outlined above Corporate Board also recommend a number of additional one-off allocations are made:

- **Property Rationalisation - transitional capacity - £500,000**
  There is a shortfall of £500,000 in the delivery of savings from property rationalisation with a need to rephase within the OOP 2020 timeframe. This shortfall will be met by Resources Group reserves in 2017/18 but some additional resource is needed to rephrase the savings plan in 2018/19.

- **Provision for Fire Transitional Capacity - £1,000,000**
  The December report to Cabinet on the budget outlined proposals for a review of the Fire Service, to be completed by Spring 2018, to develop proposals for the delivery of the Fire and Rescue savings target. During 2018/19 capacity will be needed to shape any proposals ready for 2019/20 implementation, to continue work to identify areas of potential collaboration and to drive through improvement in preparation for and vin response to the forthcoming inspection. It is proposed that £1.000 million is set aside on a one-off basis as a ring-fenced element of the Transformation Fund to provide the necessary capacity to take the Fire and Rescue Service transformation agenda forward.

- **Capital Receipts and Strategic Sites Planning - £1,000,000**
  A full review of both the risks to delivery of all the major capital receipts and the additional work needed to bring the remaining sites to market is being undertaken. Current estimates are of a shortfall of up to £1 million to take the sites forward for disposal that need to be addressed. Without this additional resource Property Services will be unable to deliver on their challenging savings targets.

- **Europa Way capital receipt - £1,400,000**
  The financing of the 2017/18 capital programme was predicated on £17.5 million of the capital receipt from Europa Way being received in 2017/18. This is now not expected to happen. As a result additional temporary borrowing will need to be incurred if there is insufficient slippage in those elements of the capital programme financed from borrowing to offset this. The monitoring information on the Quarter 3 capital programme indicates there is sufficient capacity to manage the financial impact of this in 2017/18 but that the additional temporary borrowing and therefore the £1.4 million revenue resource to finance this will be required in 2018/19.

5.6. These allocations in 2018/19 use £3.900 million of additional one-off resource. If supported, this would leave **up to £1.686 million for Members to allocate on a one-off basis to support their priorities**.

6. Adult Social Care

6.1. There were no changes to the funding arrangements for adult social care announced as part of the provisional Local Government Finance Settlement from the information included in the December Cabinet report.

6.2. However, the growth in the council tax base outlined in paragraph 3.1 will result in an increase in funding for adult social care from the 2% council tax levy of £0.238 million. The service proposes to retain this additional funding as a contingency until there is greater clarity about whether any additional spending pressures may emerge in 2018/19.

7. Capital Strategy and Programme

7.1. We have over many years invested in assets that have a lasting value, for example land, roads, buildings and large items of equipment and vehicles. Each year we need to spend more money to ensure our assets are still suitable for use in the provision of services and to invest in new assets to meet our changing needs and requirements.

7.2. As part of approving OOP 2020 Council approved a capital strategy that set out how we aim to use capital resources to achieve our vision “To make Warwickshire the best it can be” and deliver our corporate priorities through to 2020. It outlines the structure of our capital programme, describes how we determine the content of and finance our capital programme and provides an overview of how our capital programme is managed.

7.3. The strategy outlines the commitment to an integrated approach in how our capital programme is developed and prioritised, with an organisation-wide approach to determining our capital investment priorities, rather than this being determined in relative isolation by individual services. This is delivered through the Capital Investment Fund (CIF) and aims to ensure our scarce resources are used in the most effective way. There are no proposals to change the capital strategy as part of the 2018/19 budget refresh. However, new Government guidelines and best practice advice we are required to follow means we now have to include some additional information around the links to service-based asset management strategies and the Treasury Management

Strategy as well as information about the impact of the capital strategy on the revenue budget and our long term debt levels.

7.4. A revised Capital Strategy incorporating these changes is attached at **Appendix B**. The changes from the strategy approved as part of OOP 2020 are shaded in the document. This revised capital strategy will need to be approved as part of the capital budget resolution at Council in February.

7.5. There is currently £43.2 million in the Capital Investment Fund (CIF) available for allocation over the next three years. The CIF is made up from funding from two sources:

- The £20 million a year additional borrowing less approximately £11 million a year that is used to fund the rolling annual maintenance programme i.e. about £9 million. This is already built in to the above figures.
- Additional borrowing funded from housing growth above the level of growth needed to balance the revenue budget.

7.6. The second bullet point is a variable factor that is dependent on both the growth in the taxbase and the level of funding needed to balance the revenue budget. The proposals outlined in this report would result in an increase in the resources in the Capital Investment Fund of £25 million, using the balance of the additional on-going resources of £2.065 million.

7.7. Alongside the process for evaluating new CIF bids a record of all bids to the CIF in development or being considered is maintained. There is unlikely ever to be sufficient funding to deliver all of these proposals, especially as potential new schemes are regularly identified. As a result, based on Member's priorities, Corporate Board have identified 6 priority schemes and for which sufficient funding should be retained in the CIF to allow them to proceed as soon as the business cases are ready and have been evaluated. These schemes are:

- Rugby Parkway
- Transforming Nuneaton
- A46 Stoneleigh roundabout
- Europa Way
- Hinckley Road
- Road safety junction improvements

7.8. To deliver these schemes and retain capacity to respond to new opportunities or service needs requires some additional resource to be added to the CIF. Corporate Board recommend that a minimum of £16.2 million is added to the

CIF and that an additional permanent revenue budget allocation of £1.296 million is made to provide the financing for this additional spend.

8. Outstanding Issues for 2018/19

8.1. The proposals outlined above balance the 2018/19 budget. However, there remains one outstanding issue that will be managed through reserves in 2018/19 - the business rates taxbase for 2018/19. This is expected to be known in early February. Any difference will be managed through reserves for 2018/19 and picked up as part of the preparation for the 2019/20 budget. Any areas of concern will be specifically reported to Members as part of the Service Estimates report to Cabinet in March 2018.

9. 2018/19 Budget Resolutions

9.1. In putting forward their proposals Members are reminded that local authorities are required by law to have a balanced budget. An intention to set a deficit budget is not permitted. However what is meant by ‘balanced’ is not defined in law. A prudent definition of a sustainable balanced budget is a financial plan based on sound assumptions which shows how income will equal spend over the short- and medium-term, acting in a way that considers both current and future local taxpayers.

9.2. To avoid an unbalanced budget the Local Authority has to be financially resilient. Setting a clear medium-term financial plan helps clarify expected income and expenditure. Accurate awareness of the funding available in the forthcoming years means the Council stands a better chance of balancing the budget. Reserves are a useful option for balancing the budget in the short-term. However, reserves should not be used to pay for day-to-day expenditure and it is important that they are replaced when the short-term need has passed. Therefore, in both setting and refreshing the Medium Term Financial Plan, as part of the One Organisation Plan 2020, the financial plan needs to be fully balanced over the course of the next two years. This means by 2019/20 the budget needs to be balanced on an ongoing basis, with no ongoing spending funded from one-off resources.

9.3. Because Members decide on the council tax before the year begins and can't increase it during the year, there is a need to consider risks and uncertainties that might force them to spend more on their services than they planned. Allowance is made for these risks by: making prudent allowance in the estimates for services; and ensuring that there are adequate reserves to draw on if the service estimates turn out to be insufficient.

9.4. It is important that the Authority complies with its obligations under the Equalities Act 2010 - the public sector equality duty (PSED) - to promote equality and to reduce discrimination in relation to any of the nine ‘protected characteristics’ (age; disability; gender reassignment; pregnancy and maternity; marriage and civil partnership; race; religion or belief; sex; and sexual orientation). The Council must have ‘due regard’ to the PSED when taking any decisions on service changes whilst recognising that local authorities have a legal duty to set a balanced budget and that council resources are being reduced by central government. Legal challenges to local authority budget setting processes have tended to turn on whether the authority has complied with this duty.

9.5. Using the information contained in this report, Cabinet are asked to approve their 2018/19 Budget resolutions for recommendation to Council on 6 February 2018. Cabinet are also asked to authorise the Head of Finance to update the budget resolutions to Council to reflect the final resource information.

9.6. It is open to Members to recommend alternative spending proposals or strategies; however given the legal requirement to set a balanced budget should additional expenditure be proposed or savings plans reduced compensatory savings proposals must also be identified.

10. Background Papers

10.1. None

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Elected Members have not been consulted in the preparation of this report.

Risks Influencing the Level of General Reserves

Risk Area	Level of Risk	Provision in 2018/19
The potential for **"Bellwin" type emergencies.** Assuming such costs would attract grants under the Bellwin scheme, this provision would support circa £10 million of spend - sufficient for a major emergency.	Medium	£2.5 million
The possibility of **overspending on the "Other Services" budget** due to the bank base rate staying low over the medium term and delays in the delivery of capital receipts	Medium	£1.0 million
The likelihood of members making **additional, in-year budget allocations** to Services or providing funding for Services where there are difficulties in delivering savings, or arranging for Services to phase the repayment of any overspends over a period of more than one year.	High	£2.0 million
The likelihood of an **unanticipated budget pressures** arising within the year, for example the repayment of grant or pressure on the authority's VAT partial exemption status or increases in demand that cannot be accommodated within Business Unit reserves.	Medium	£1.5 million
The possibility of significant **increases in inflation and/or taxation**, after the budget has been set.	Medium	£1.5 million
The possibility of any further costs arising from **legal judgements which would fall on the County Council** within one year.	High	£2.0 million
Provision for further in-year cuts in government funding. The assumption is that any in-year cuts in government funding will be met, in full, by services. The provision reflects the risk that in all cases existing commitments mean this may not be possible.	High	£1.0 million
The possibility of being **unable to agree inter-authority/organisational plans**. Funding is increasingly dependent on the agreement of multi-organisation plans and receiving our 'share' of pooled resources. The need to reach such agreements in advance of funding being released places such funding at increased levels of risk.	Medium	£1.5 million
The possibility of planned **changes to the national benefits system** impacting adversely on the demand for local authority services and/or impacting on the eligibility for council tax and other welfare support.	Medium	£0.5 million
Employment related risks. A possibility that there are further legal judgements related to employment terms and conditions.	Low	£0.5 million

Risk Area	Level of Risk	Provision in 2017/18
Introduction of Academies. The risk that services to schools will not be scaled back quickly enough and/or academies will no longer choose to use the Council's traded services, there will be a loss of economies of scale and estimates of pupil numbers transferring will have been underestimated. Also there is a risk of residual liabilities remaining with the Council when a maintained school converts to academy status.	High	£1.0 million
Schools and Early Years Funding. The risk to the stability of the schools/education services from the implementation of the Government's National Funding Formula for Schools, the Early Years National Funding Formula, the Central Block and funding for High Needs Pupils where the authority needs to support schools through this process to maintain the sufficiency of provision.	High	£1.0 million
Market and/or Social Enterprise Failure. The risk that services provided by the market and/or social enterprises may stop if the provider fails, requiring the local authority to secure alternative provision at short notice.	High	£1.5 million
General contingency. This could be supplemented in any one year by a sizeable proportion of earmarked reserves, providing these were replenished as part of the budget process.	Low	£1.0 million
Total		£18.5 million

Note:
The risk assessment excludes the technical impact of any changes in accounting treatment.

Appendix B

Integrated Capital Strategy 2017-2020

[The numbers in this strategy will be updated as part of the 2018/19 capital budget resolution when Members' plans are confirmed]

Introduction

We have over many years invested in assets that have a lasting value, for example land, roads, buildings and large items of equipment and vehicles. Each year we need to spend more money to ensure our assets are still suitable for use in the provision of services and to invest in new assets to meet our changing needs and requirements.

This Capital Strategy sets out how we aim to use capital resources to achieve our vision "To make Warwickshire the best it can be" and deliver our corporate priorities through to 2020.

It outlines the structure of our capital programme, describes how we determine the content of and finance our capital programme and provides an overview of how our capital programme is managed.

Shaded text in this document indicates changes made in Government guidelines and best practice advice issued in January 2018. They supply more information to the reader but are not substantive changes to the Strategy itself.

Our Capital Programme

Our capital programme cannot be viewed in isolation. It influences and is influenced by many strategies and plans and forms part of an integrated plan for the organisation that has the delivery of the One Organisational Plan as its key driver. Some of the other plans that link directly to the Capital Strategy are the Strategic Economic Plan, the School Sufficiency Strategy, corporate and service asset management plans and the Treasury Management Strategy.

Our commitment to an integrated approach impacts in how our capital programme is developed and prioritised, with an organisation-wide approach to determining our capital investment priorities, rather than this being determined in relative isolation by individual services. This aims to ensure our scarce resources are used in the most effective way.

Spending is included within the capital programme where we expect it to result in future economic (asset value) or service (asset performance or life) benefits. This covers both purchase of new long-term assets and improvements to existing ones, and is consistent with the approach required in the CIPFA Code of Practice in Local Authority Accounting. Some of our spending allocations are to either purchase or improve an asset belonging to another organisation or individual; in these circumstances, we include the expenditure in the capital programme for budget setting and monitoring processes, but follow the Code of Practice's requirements for accounting treatment to ensure it does not increase the net worth shown on our Balance Sheet. We operate a general de minimis of £6,000 on a project-by-project basis (£3,000 where the spend relates to primary schools or nurseries); expenditure below this level is treated as revenue and not part of the capital programme. Further details of our capitalisation policies can be found in the Accounting Policies section of our Statement of Accounts, published on our website.

There are two broad strands to our capital programme:

- A maintenance programme that ensures our assets continue to be fit for purpose and able to support the delivery of services, and
- An investment programme that creates and develops new assets.

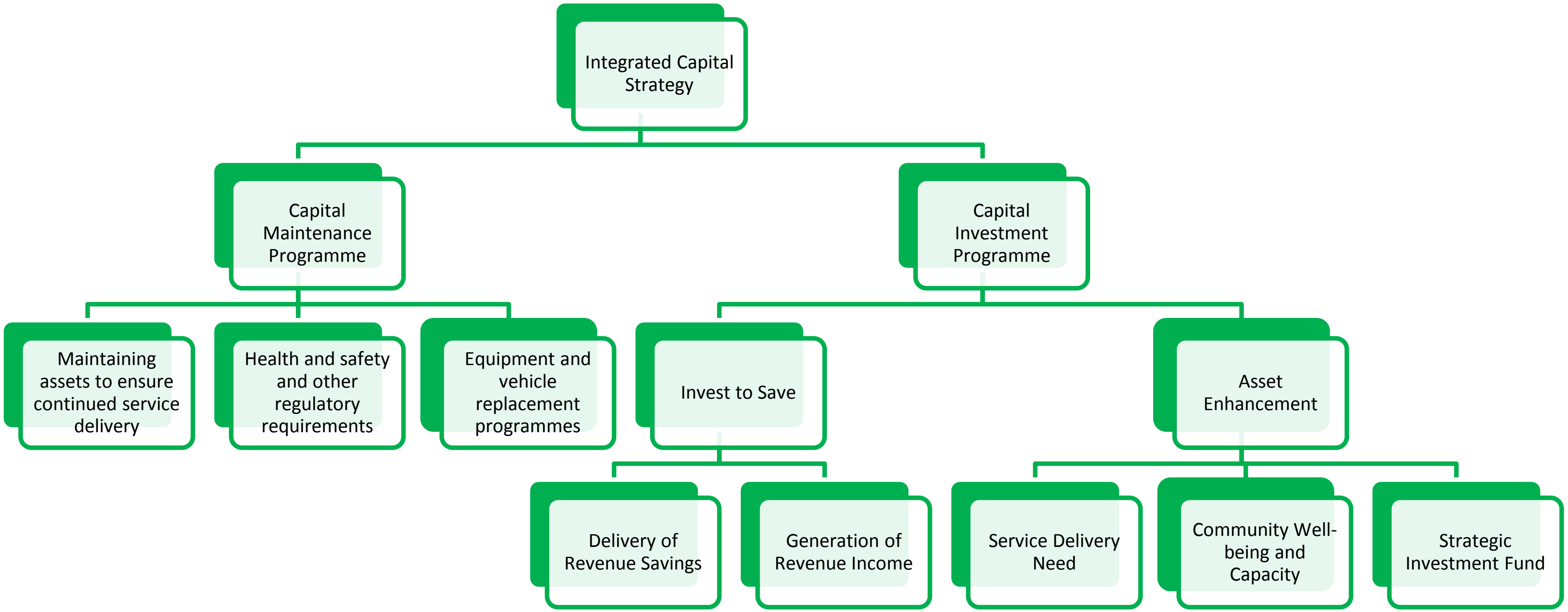
Each programme has a number of strands that ensure a clear focus on the purpose of capital spending and the prioritisation of proposals.

These approaches are underpinned by a number of specific service asset management strategies, including:

- The Asset Management Framework and Property Strategy 2013 – 2018
- The Highways Asset Management Strategy and the Highways Asset Management Policy
- The ICT Devices Strategy
- The Education and Learning Sufficiency Strategy 2016 – 2021

Links to these strategies can be found in **Annex A**. If any of these strategies are revised during the year as part of our on-going service transformation and redesign programme, any consequent changes to this strategy will be considered at the same time.

The diagram below shows the overall structure of our capital programme.



Maintenance Programme

Each year the capital programme includes a number of schemes that relate to the routine maintenance of our asset infrastructure. It represents the level of spending which we have no choice but to incur over the medium term. Each element of the maintenance programme has a fixed annual allocation. This approach allows managers to plan their maintenance programme over the medium term in a structured way that reduces bureaucracy, subject to the agreement of a consistent and transparent methodology for the prioritisation of maintenance spending.

Allocations included in the maintenance programme meet one of the following three criteria:

- Structural maintenance cost of maintaining our assets to ensure services can continue to be delivered
- Statutory health and safety and other regulatory requirements
- Annual cost of equipment and/or vehicle replacement programmes

Our annual maintenance programme is £11.616 million a year (including a £3.616 million allocation from the Government Grant received for schools) plus the grant received from Government for highways maintenance plus revenue funding used for the replacement of vehicles, where this is more cost effective than leasing the vehicle. The split of this annual maintenance allocation between services is shown below.

Annex B summarises the prioritisation methodology that will be used through to 2020 for each of the elements of the rolling maintenance programme.

Maintaining assets to ensure continued service delivery

- Household Waste Recycling Centres £80,000
- Highways maintenance and street lighting £ variable
- Non schools building maintenance £2,122,000
- Schools building maintenance £7,047,000
- Country Parks, Gypsy and Traveller services £220,000
- Rural services £496,000

Health and safety and other regulatory requirements

- Casualty reduction £ variable
- Adaptations to support child placements £75,000
- Non schools asbestos and safe water £325,000
- Schools asbestos and safe water £731,000

Equipment and vehicle replacement programmes

- Information technology infrastructure £400,000
- Equipment for fire engines £120,000
- Replacement of vehicles £variable

Investment Programme

Any capital spending not included in the maintenance programme automatically forms part of our capital investment programme. Investment schemes are, by their nature, not routine and are only considered if they move the organisation towards the delivery of the corporate outcomes. Allocations in the capital investment programme support the delivery of one of the following outcomes:

- Warwickshire's communities and individuals are supported to be safe, healthy and independent
- Warwickshire's economy is vibrant and supported by the right jobs, training and skills and infrastructure
- The County Council makes best use of the available resources

The capital investment programme contributes to the delivery of these outcomes through invest-to-save projects and projects that enhance and grow the assets of the authority. The structure of the capital investment programme is shown below.

To make Warwickshire the best it can be	Capital Investment Programme				
	Invest to Save		Asset Enhancement		
	Delivery of Revenue Savings	Generation of Revenue Income	Service Delivery Need	Community Wellbeing and Capacity	Strategic Investment Fund
Warwickshire's communities and individuals are supported to be safe, healthy and independent					
Warwickshire's economy is vibrant and supported by the right jobs, training and skills and infrastructure					
The County Council makes the best use of available resources					

We operate a clear and transparent corporate approach to the prioritisation of all capital spending. To ensure widespread support for the investment programme all proposals are subject to an officer scrutiny process prior to being considered by Corporate Board and ultimately by Members. The overarching governance structure is designed to ensure the most effective use of the available resource and organisational capacity required to see capital schemes through to implementation. We operate a two-speed approach for the approval of schemes that enhance assets as a result of additional service delivery need.

We use a fast track approach for schemes costing less than £2 million that are wholly funded from external resources provided for a specific purpose and where there is no, or minimal, discretion over how the funding is used e.g. developer and third party funding. Fast track schemes will be required to provide a brief summary of the infrastructure investment required and how it supports the delivery of the core priorities and outcomes before going to the Leader and/or any such person/body which he/she designates for approval. For vehicles, plant and equipment this approval is delegated to the Head of Finance. Any scheme costing above £2 million requires the approval of full Council.

For all other capital investment schemes, including where we are bidding for external funding, we use a structured evaluation process that assesses:

- What we are trying to achieve for the Warwickshire residents, businesses and visitors by investing in particular assets
- The contribution of the new assets to the delivery of the corporate outcomes
- The financial costs and benefits over the short, medium and long term, and
- The risks inherent in the delivery of the scheme itself and the expected benefits, with a focus on better up-front planning and timetabling.

The results of this evaluation process are reported to Corporate Board quarterly who consider whether to recommend the scheme to Members for approval. If the total cost of the scheme is less than £2 million this approval is by the Leader, Cabinet or a Portfolio Holder to whom powers have been delegated. Schemes over £2 million require the approval of full Council. A summary of the evaluation criteria and their relative weighting is attached at **Annex C.**

Our Capital Resources

When assessing the level of planned capital investment to undertake we make a judgement about the level of capital resources that are likely to be available over the period of the programme. Our main capital resources are service specific grants and third party contributions, capital receipts and borrowing.

Our funding strategy for the delivery of the overall capital programme is:

- £20 million new borrowing funded as part of the revenue budget proposals for OOP2020.
- All capital receipts (excluding those from the disposal of schools) are used to repay debt. Exceptions to this policy are only considered when as part of an invest-to-save project such that investing the capital receipt will result in bigger reductions in debt outstanding or greater revenue savings than would have been achieved by simply repaying debt.
- The base level of investment in the school stock is fixed at the level of government capital grant for schools plus receipts generated from the sale of school assets and developer contributions, less a £3.616 million annual contribution to the cost of school maintenance.
- The base level of investment in the maintenance of Warwickshire's highways and street lighting and casualty reduction is fixed at the level of government grant for this purpose.
- The other £8 million of maintenance allocations are funded from the £20 million borrowing and are cash limited.
- The balance of the £20 million borrowing (£12 million a year) is allocated to the Capital Investment Programme. This is supplemented by the level of borrowing that becomes affordable as a result of growth in the council tax taxbase above 0.75% each year that is not needed to balance the revenue budget.

Capital Receipts

Through our approach to asset management planning (see **Annex A**), we undertake continuous monitoring and review of the Council's property portfolio seeking to ensure we make best use of the capital value tied up in those assets. When making decisions on the disposal of assets and hence the generation of capital receipts a number of factors are taken into consideration:

- Whether assets are surplus to requirements in the short, medium and long term
- Whether assets are achieving their financial or service delivery performance targets
- The level of any potential financial return
- Any legal obligations
- The impact on corporate policies and the promotion of key strategic policies

All capital receipts, with the exception of school receipts which are reinvested, are used to repay debt, with a consequent reduction in the Council's borrowing costs. Whilst financially there is no difference in the revenue cost to the authority as to whether capital receipts (providing they are used to repay debt) or borrowing are used to fund the capital programme, capital receipts are inherently volatile and the timing of when the money is received is uncertain and unrelated to the timing of any need to incur capital spend. Our approach to the use of capital receipts enables capital spend to be incurred when it is needed rather than being dependent on when a capital receipt comes in.

Borrowing

We are required, by statute, to base our approach to borrowing money to finance capital investment on a set of guiding principles (the Prudential Framework). The framework includes the principles of affordability, prudent funding, efficiency, forward planning, outcomes, sustainability and investment return.

Incurring an additional £20 million borrowing each year is affordable within the OOP2020 financial envelope and is deemed to be the minimum level of borrowing needed over the medium term. The revenue cost of this borrowing and any additional borrowing agreed as part of the 2018/19 budget is felt in two ways; firstly in real interest charges incurred on our loans and secondly in the Minimum Revenue Provision, a notional charge to the revenue budget which spreads the cost of acquiring assets across the years in which the benefits of that expenditure are felt. We estimate that the total revenue cost as a result of past and planned new borrowing from these two charges will be £x.xxx million in 2018/19, £x.xxx million in 2019/20 and £x.xxx million in 2020/21. Provision for these costs is included as part of our 2018/19 budget and medium term financial plan. Further details of anticipated borrowing levels, forecast repayment schedules and the framework within which we make decisions about debt and investments can be found within the Treasury Management Strategy 2018/19 (see **Annex A**). Our modelling of future debt levels, detailed within the Treasury Management Strategy, leave the Council with significant headroom against its Operational Boundary and Affordable Limit, two of the key Indicators within the Prudential Framework. Our approach of determining borrowing affordability from the position of ongoing revenue resource availability ensures that we will not commit the Council to future costs it cannot afford. *[The numbers in this strategy will be updated as part of the 2018/19 capital budget resolution when Members' plans are confirmed].*

We recognise that significant drivers of additional capital spend exist both in terms of providing additional school places, growing our business rates taxbase and providing the additional infrastructure needed as a result of housing growth. We therefore use the additional revenue resources from growth in the taxbase above the level assumed in the OOP2020 financial plan to operate a Capital Investment Fund. Through this approach we are able to support an expanded capital programme and drive economic growth and activity across the county.

The creation of a Capital Investment Fund requires revenue funding to be set aside to meet the cost of borrowing prior to knowing how the capital resources generated will be used. This approach has the benefit of retaining the ability to bring projects forward for inclusion in the capital programme as opportunities arise, not just once a year through the budget setting process. It also provides confidence that developing positive and innovative schemes to support the delivery of the Council's core outcomes are affordable. We are committed to reviewing the level of the Capital Investment Fund on an annual basis to ensure it remains affordable. Any in-year underspend in the Capital Investment Fund will be used to supplement of investment in IT projects and the digital agenda and to commission specific projects designed to deliver a step change in delivering the OOP2020 Outcomes.

Management of the Capital Programme

The key risks to the delivery of our capital programme are overspending against the approved budget for a scheme, project/programme slippage where the project is not delivered in accordance within the planned timescales thereby delaying achievement of the expected benefits, and delays in or non-receipt of external contributions towards the cost of the scheme.

We use the following mechanisms to ensure our capital spending and the delivery of this strategy is effectively managed:

- Officers monitor physical progress regularly, usually monthly, and there is a system of exception reporting to senior managers where problems emerge.
- Financial progress is reported quarterly to Corporate Board and Cabinet, highlighting any key issues for Members to consider, including seeking Cabinet approval to any variations to schemes both in terms of the total cost and the phasing of spend across years and the consequent impact on the overall financing of the programme.
- Projects part or wholly funded by external contributions are separately monitored to ensure compliance with any funding conditions applicable.
- Post-contract appraisal is carried out to provide feedback on the success, or otherwise, of the design solution, procurement process and customer satisfaction levels to provide the opportunity for positive learning over time.

Links to Related Documents

Asset Management Strategies

- The Asset Management Framework and Property Strategy 2013 – 2018
- The Highways Asset Management Strategy and the Highways Asset Management Policy
- The ICT Devices Strategy
- The Education and Learning Sufficiency Strategy 2016 – 2021

Treasury Management and Investment Strategies

- The Treasury Management Strategy 2018/19

Prioritisation of the Annual Maintenance Programme

Household Waste Recycling Centres (HWRC) and Transfer Stations

Prioritisation Methodology

Maintenance will be prioritised as follows:

a) Health and Safety – for the staff employed to run the site, members of the public using the site and also the District and Borough Councils who use the Transfer stations to facilitate their kerbside collections. Other statutory requirements would also fall under this umbrella.
b) Efficiency, cost effectiveness, increasing the service offer to the public (new recycling streams etc.)
c) Effect of maintenance on reputation value of the Council – a clean, tidy site with smart, neat operating staff will encourage higher rates of recycling.

Balance of Planned Maintenance and Emergency Work

The annual plan includes a contingency for emergencies. Regular meetings are held to monitor the plan against actual activity and any move from the plan would be based on the prioritisation criteria above.

Highways Maintenance

Prioritisation Methodology

An asset management approach is used to manage the highway network in order to ensure that the best possible use can be made of the available resources. Central to this is the collection and use of robust network condition data year-on-year, which allows us to model its deteriorating or improving condition. The results allow us to target suitable treatments at the most appropriate locations, maintaining and, where possible, improving the whole network condition. Capital allocations for street lighting are used for the replacement of columns that fail structural testing, installations that need replacing due to untraced third party damage and improvements that fall outside the scope of specific capital allocations made in recent years for a Central Management System and the introduction of LED technology. The allocations for bridge maintenance are used to undertake the minor capital works that are deemed essential. This approach should ensure our bridge stock remains in a safe condition.

External validation of our approach to managing the highway assets is now possible through Department of Transport's 'Incentive Fund' programme, established to promote efficient and effective maintenance practices nationally. Warwickshire is currently assessed as 'Level 2' and working towards achieving the highest 'Level 3' incentive funding.

Planned Versus Emergency Maintenance

All routine, reactive and emergency works required to the highway network are revenue funded, allowing capital to be used for planned programmes of work designed to maintain and improve the asset condition. Bridge maintenance emergency works are funded from capital and tend to be in the form of vehicular damage, flash flooding or vandalism. At the start of the year a contingency sum from the capital allocation will be reserved to cover emergencies based on experience in previous years. This will be released for planned maintenance at the end of the year if a proportion is unused.

Schools and Non-Schools Building Maintenance

Prioritisation Methodology

Condition survey work is carried out across the property stock and classifies building and engineering maintenance items into 4 categories: D (Bad), C (Poor), B (Satisfactory) and A (Good). The categories are then given priorities highlighting recommended timescales for the work to take place: 1 – Urgent Work, 2 – Work required within 2 years, 3 - Work required within 3 to 5 years, 4 – Work outside the 5 year planning period. The priority listing is then further interrogated and validated by using a surveyor intervention check and a property future review with the Facilities Support Managers. The budget available for the particular area of work is then allocated to the priority list and this determines that approximate number of projects that can be carried out.

Balance of Planned Maintenance and Emergency Work

Emergency work that arises means the planned maintenance programme developed from the above methodology is revised in some areas throughout the year.

Country Parks and Greenways, Forestry Services and Gypsy and traveller sites

Prioritisation Methodology

Maintenance will be prioritised as follows:

a) Health and Safety – in particular the duty of care under Occupiers' Liability. This also reduces claims against the Council.
b) Maintaining the visitor welcome, and in particular parking infrastructure (to maintain income) and replacement play equipment, fishery development, and visitor enhancements (to increase income).
c) Schemes that lever out match funding

Balance of Planned Maintenance and Emergency Work

Emergency work that arises is funded from revenue where there is capacity to deliver this. However, if the cost cannot be accommodated within a tightly controlled revenue budget the planned maintenance programme developed from the above methodology is revised.

Rural Services

Prioritisation Methodology

All properties are on a rolling five year rotation for condition surveys, asbestos inspections are carried out every 2 years and water hygiene inspections every four years and all properties have Energy Performance Certificate ratings. Work will be prioritised by identifying high category items from the latest surveys/inspections. The level of risk / consequences to the tenant's business (and hence the Council's rental income) is also taken into account as part of the prioritisation process.

- Priority items, identified from condition surveys as D1s (urgent) will be dealt with immediately. Prioritisation is then given to D2s (bad - items identified as needing to be addressed within 2 years) followed by C2s (poor - to be addressed within 2 years) and C3s (poor - to be addressed within 3-5 years).
- Items that have been recommended to be removed due to potential health risks on asbestos reports are programmed as the service becomes aware of them to reduce the Council's liability.
- Properties that do not meet Minimum Energy Efficiency Standards are prioritised based on when they are due to be re-let where they do not score the minimum rating of 'E'. All properties are required to meet minimum standards by 1 April 2023.

Balance of Planned Maintenance and Emergency Work

The first call for emergency maintenance is a revenue maintenance budget of £145,000. Having a capital maintenance budget to address planned maintenance has resulted in not having to put planned maintenance on hold when emergencies arise that cannot be accommodated within the revenue budget.

Assistance towards suitable placements for Children Looked After (CLA) and those who leave care through adoption and special guardianship

Prioritisation Methodology

Applications are invited from foster carers and prospective adopters and special guardians who are approved or judged to be able to provide the necessary care to the child. The social worker needs to be satisfied and be able to demonstrate that a real need for financial support exists and will either result in long term opportunities for additional placements or is required to ensure stability and permanence of a current placement for a child looked after. There is an application process, endorsed by the relevant operations manager, which is considered by a panel including a finance representative. The decision to award the grant is made at Service Manager level within the Business Unit.

Balance of Planned Maintenance and Emergency Work

All planned Grants will be approved though the panel as described above who meet on a quarterly basis. In emergencies, the panel can convene to assess individual cases, to meet the timescales required.

Schools and Non-schools asbestos and safe water

Prioritisation Methodology

Asbestos

The prioritisation of asbestos remedial work is set out in the HSE Guidance 'The Surveyors Guide – HSG 264'. This document provides a prioritised scoring matrix for each occurrence of asbestos and allocates a condition rating of D (Bad), C (Poor), B (Satisfactory) or A (Good). Each property is resurveyed a minimum of once every 2 years. The asbestos is scored based on the type, condition and quantity; this is called the Material Assessment. The Material Assessment is then further weighted by applying a score to elements such as location, type of location and potential number of people exposed; this is called the Prioritisation Assessment. Following completion of both of these assessments, a score is allocated to each occurrence of asbestos – the higher the score, the higher the risk and therefore the higher the prioritisation.

Water Hygiene

All properties are surveyed every two or four years, dependant on property risk type. The Water Hygiene risk assessments are reported with all remedial works banded into categories indicating, High, Medium or Low risk. This data is then input into a weighting system which allocates a weighting per item, along with a weighting for type of property, occupation density etc. The result of the methodology ranks the properties into order of the highest risk difference score that could be obtained by carrying out the remedial works and all works are carried out in this priority order.

However, emergency work can arise; resulting in a situation where the plan identified in the Asbestos Prioritised Remedial Work Plan and the Water Hygiene Risk Register developed from the above methodologies is revised in some areas throughout the year.

Balance of Planned Maintenance and Emergency Work

Emergencies throughout the year will be dealt with in two ways;

- The budget allocation for works is reduced at year start to leave a small central contingency fund in the budget. This is reallocated at an appropriate time during the year.
- The projects carried out are staggered throughout the year. If an emergency arises, the necessary funds are diverted from a planned scheme and allocated to the emergency. This will result in a planned project potentially being eliminated from the list in year.

ICT Network Infrastructure

Prioritisation Methodology

Investment is prioritised based on the need for additional facilities/capacity and the life expectancy of equipment, in terms of how long it can be used for until an unacceptable failure rate is likely to occur. The level of failure rate accepted will depend on factors such as criticality of the service and resilience and support arrangements in place.

Balance of Planned Maintenance and Emergency Work

The rolling programme of investing in the maintenance of the IT infrastructure will significantly reduce the need for emergency purchases due to the regular monitoring of the equipment. However, in the event that an emergency procurement needs to be made we would adjust the planned programme, looking to extend the life of less critical equipment.

Equipment for Fire Engines

Prioritisation Methodology

Spending is prioritised through an approved fleet replacement programme produced by consultation with manufacturer's recommendations and the Council's fleet management team.

Balance of Planned Maintenance and Emergency Work

The Fire and Rescue Service has stores which hold at least enough equipment to immediately restock a spare fire engine in the event that a front line vehicle should be lost along with its entire inventory. This is our emergency reserve which is maintained as part of the rolling capital replacement programme.

Summary of Capital Investment Programme Scheme Evaluation Criteria

Invest-to-save	Service Delivery Need	Community Well-being and Capacity	Economic Growth
15% - alignment with the organisation's strategic objectives	15% - alignment with the organisation's strategic objectives	15% - alignment with the organisation's strategic objectives	15% - alignment with the organisation's strategic objectives
45% - achieveability/evidence base and evaluation of options	45% - evidence of need for investment and evaluation of options	45% - community involvement, partnership working and innivative service delivery	45% - economic benefit and the value of the project in delivering growth
30% - financial viability and cost-benefit analysis	30% - financial viability and cost-benefit analysis	30% - financial viability and cost-benefit analysis	30% - financial viability and cost benefit analysis
10% - political, social and environmental impact	10% - political, social and environmental impact	10% - political, social and environmental impact	10% - political, social and environmental impact

These high-level criteria are supplemented by more detailed evaluation criteria designed for each strand of the investment programme to ensure a consistent and transparent approach. Once the strategy has been approved these more detailed criteria will be brought forward to Cabinet for approval.