

## Cabinet

13 September 2018

### **2019/20 Service and Financial Planning Arrangements and the Development of the Strategic Plan 2020-25**

#### **Recommendations**

Cabinet is recommended to:

- 1) Approve the process and timetable for the refresh of the 2019/20 service and financial planning
- 2) Support the inclusion in the 2019/20 budget resolution of the process and timetable for approving the 2020-25 Strategic Plan

#### **1. Purpose of Report**

- 1.1. In February 2017, Council agreed the One Organisation Plan (OOP) covering the period 2017-20. Part of OOP 2020 set out how the organisation intended to raise and use the available financial resources to deliver on the key outcomes as well as documenting a detailed 3 year savings plan.
- 1.2. Given the environment within which the authority operates, it is inevitable that the original assumptions on which OOP 2020 was based will vary over time. Some adjustments were included as part of the 2018/19 refresh and this report seeks Cabinet's agreement to the proposed approach for a further financial refresh for the last year of the current OOP (2019/20).
- 1.3. This process cannot happen in isolation. As well as refreshing the last year of OOP 2020, 2019/20 is also an interim year as we embed a new way of thinking and behaving in planning for and resourcing the activities and services of the Council. A new Planning Framework will need to be developed to deliver the allocation of resources in support of our priorities in alignment with the new operating model. The report, therefore, also considers the level of commitment needed to deliver the new Planning Framework and the necessary decisions required for its implementation as part of setting the

2019/20 budget, to ensure we are able to demonstrate our financial resilience and sustainability going forward.

## **2. Development of the Objectives for 2019/20**

- 2.1. In February 2017, Council agreed the OOP Plan covering the period 2017-20. The plan articulates the Council's core purpose and the key strategic outcomes for its customers and the residents of Warwickshire that we are seeking to achieve by 2020.
- 2.2. Whilst the OOP 2020 outcomes will remain unchanged for 2019/20, we are proposing to develop a suite of objectives that will provide greater strategic focus for the successful delivery of the outcomes as well as identifying key business activity at a service level.
- 2.3. The objectives will be drawn from our policy drivers (political - local and nationally, statutory, demand, finance etc.) and will be underpinned by robust evidence in support of them. Work has already begun to develop a proposed set of objectives and these will be presented to Cabinet in December as part of the overall service and financial planning proposals from Corporate Board.

## **3. Elements of the 2019/20 Financial Refresh**

- 3.1. The financial refresh for the last year of OOP 2020 will consist of:
  - An update of the 2019/20 financial position for both revenue and capital
  - The known policy drivers impacting on the organisation
  - Statements from each Business Unit about how they intend to manage the deliverability of their services within the OOP 2020 resource envelope.

Further details are set out in Sections 4 to 8.

## **4. 2019/20 Financial Position - Revenue**

- 4.1. The tables below set out our latest revenue resource forecasts for 2019/20. The principle of the adult social care 'bubble' has been retained assuming all increases in the demand/cost of adult social care services are managed within the level of additional income from the 2% levy on council tax and government grants, including the Improved Better Care Fund.

- 4.2. The figures show that, assuming all planned savings are delivered and the

level of resources expected does not change, the authority will have an additional £3.8 million to fund increases in the demand for adult social care next year on top of £5.9 million for inflationary pressures. For all other services the amount of available resource to meet additional spending need is £7.2 million on top of £6.6 million for inflationary pressures.

- 4.3. The most volatile aspect of the resource forecasts is the council tax taxbase. The figures above assume a 1% increase in the taxbase. This is a prudent figure compared to the last two years where the figure has been closer to a 2% increase, although an annual increase of just over 1% remains the long term trend. A 2% increase in the taxbase for 2019/20 would increase the resources available by £0.2 million for adult social care and £2.6 million for all other services.
- 4.4. On 24 July 2018 the Government announced that it was “minded to” set the basic precept threshold for 2019/20 at 3%. The adult social care precept threshold remains at 2%. The figures in Table 1b are based on taking up the additional capacity available from a 3% increase in the basic precept. If Council decides to increase the council tax by 2% plus the planned 2% for adult social care this would reduce the resources available to support spending by £2.7 million. A recommendation on the level of council increase, in light of the financial pressures facing the authority, will be proposed by Corporate Board as part of their overall 2019/20 budget proposals to Members in December.
- 4.5. In addition to the available resources identified in the tables below, the authority has capacity in the region of £9.3 million within corporate reserves to support one-off projects or changes to phasing of the savings plan through to 2024/25. This is in addition to the resources already set aside in transformation funds to support the delivery of the new operating model and the digital-by-design programme.

<b>Table 1a: Overall Predicted Council Revenue Position – Adult Social Care</b>			
		<b>2018/19 £m</b>	<b>2019/20 £m</b>
<b>Resources</b>	Grants (inc. Improved Better Care Fund)	(25.208)	(26.947)
	Council tax – 2% adult social care levy	(15.099)	(20.792)
	Council tax – fixed main element	(102.373)	(102.373)
	<b>Total resources</b>	<b>(142.680)</b>	<b>(150.112)</b>
<b>Spending</b>	Base Budget	133.764	142.680
	Inflation	6.174	5.859
	Identified spending pressures/investment	5.304	-
	Approved savings plan	(2.562)	(2.240)
	<b>Total net spending</b>	<b>142.680</b>	<b>146.299</b>
	<b>Remaining resources</b>	<b>0.000</b>	<b>3.813</b>

<b>Table 1b: Overall Predicted Council Revenue Position – All Services excluding Adult Social Care</b>			
		<b>2018/19 £m</b>	<b>2019/20 £m</b>
<b>Resources</b>	Revenue Support Grant	(9.690)	-
	Other Grants	(27.127)	(26.632)
	Collection Fund surplus	(2.124)	-
	Reserves	(14.038)	(1.315)
	Business Rates	(65.285)	(66.806)
	Council tax	(157.829)	(168.752)
	<b>Total resources</b>	<b>(276.093)</b>	<b>(263.505)</b>
<b>Spending</b>	Base Budget	255.423	261.256
	Use of service reserves	5.680	-
	Inflation	5.984	6.631
	Identified spending pressures/investment	15.333	1.851
	Approved savings plan	(6.327)	(13.404)
	<b>Total net spending</b>	<b>276.093</b>	<b>256.334</b>
	<b>Remaining resources</b>	<b>0.000</b>	<b>7.171</b>

## **5. Known Policy Drivers Impacting on the Organisation**

- 5.1. A number of key, externally-driven policy and demand changes have been identified already as impacting on the 2019/20 budget considerations. In addition to these issues there may be further impacts that emerge as the policy objectives of the national government become clearer.
- 5.2. The areas of potential, externally-driven service pressure we are currently aware of include:
- The continued growth in demand in relation to children's social care and special educational needs
  - The impact of housing growth on demand, particularly in relation to waste management and the provision of infrastructure/schools
  - Changes to Dedicated Schools Grant funding for services provided by the authority
  - The financial impact of academisation and the consequences for traded services, especially if the level of financial pressure on schools remains
- 5.3. In addition there are a range of wider economic and political changes that may begin to impact on both our resources and spending need going forward include:
- The policy on the National Living Wage
  - The extension/removal of the public sector pay cap
  - The impact of Brexit on the wider economy including any impacts on economic activity, inflation, interest rates and unemployment
  - Structural changes in local government
  - Government policy changes, particularly the long term funding of adult social care, the integration of adult social care and health and the future role of local authorities in relation to education/schools
- 5.4. As well as these externally driven pressures there are also internally driven pressures in relation to the delivery of the final year of the OOP 2020 savings plans. In particular the Fire and Rescue Service does not currently have a proposed set of savings that would enable them to deliver a balanced budget for 2019/20.

## **6. 2019/20 Financial Refresh – Revenue, excluding Adult Social Care**

- 6.1. Given the known financial pressures in children's services, education and learning and waste there will be very little capacity for resources for growth without the identification and approval of additional savings. The process for

2019/20 has been designed to provide clarity about the extent to which services can manage the need for additional resources from within their current financial envelope.

- 6.2. Each Business Unit will produce a narrative statement showing how they would manage the delivery of their services within the OOP 2020 resource envelope. This will include:
- The deliverability of the agreed savings plans, with the following working assumptions:
    - The total level of savings to be delivered by the end of 2019/20 should, wherever possible, remain unchanged.
    - Changes should only be proposed where a specific savings proposal is not expected to deliver the savings planned. In these circumstances an alternative of increasing the level of saving from another project or introducing a new saving proposal to manage any shortfall should be brought forward for consideration.
    - There should be no rephasing of savings beyond 2019/20.
  - Areas where there is a need for additional resource analysed between cost pressures above the 2% real terms increase, demand pressures and any other areas of spending need.
  - Proposals for managing the need for additional resources.
- 6.3. It should be noted that the narrative statements will be prepared on the current organisational structure. By the time the budget is agreed in February 2019 both the current funding and any changes will be realigned to match the new clustering of services, that will reorganise our activities around achieving our outcomes.

## **7. 2019/20 Financial Refresh – Adult Social Care**

- 7.1. With the principle of the adult social care “bubble” in place for determining a draft adult social care budget that meets the external requirements (e.g. use of the BCF to support integration with health and the ring-fencing of the additional 2% council tax levy for additional spend on adult social care) the approach to the refresh is slightly different from other services. The amount of money available is known (an estimated additional £9.7 million for 2019/20) and the final plans need the agreement of health partners before elements of the funding are released.
- 7.2. Therefore the focus of the refresh and narrative statement will be making the most effective use of the available resource to meet the demand/cost pressures facing the service but also to deliver the transformational change needed to make sure the service is sustainable into the future and that the

spending plans warrant the continuation of the policy of levying the additional 2% levy.

- 7.3. The adoption of a more consistent approach to that being required of other services will make the transition to planning in an environment where there will be no need to retain the “bubble” beyond 2019/20 in the absence of the additional council tax levy, smoother.

## **8. 2019/20 Financial Refresh – Capital**

- 8.1. The 2017/18 budget saw the introduction of an integrated Capital Strategy for the period of OOP 2020. This strategy put in place a long term maintenance programme for the authority, with all other capital resources being allocated to the Capital Investment Fund (CIF). The evaluation criteria and process for all bids for capital resources seeking support was approved by Members in March 2017. This ensures a focus for the allocation of capital resources on the delivery of OOP 2020.
- 8.2. As part of the 2017/18 budget Members also approved the use of any growth in the tax base above that needed to finance the MTFP would be used to fund the financing costs of extra borrowing. Over the last two years this equated to additional borrowing (and available capital resource) of £51 million.
- 8.3. The resource forecasts for 2019/20 outlined above assume 2,000 additional households in Warwickshire (band D equivalents). Every additional 250 increase in household numbers above this could increase the funding available in the CIF by just under £4 million as a result of generating an additional £0.3 million revenue funding.
- 8.4. The review of the capital strategy, programme and priorities for 2019/20 will include:
- Clarification of corporate priorities and the need to be clear on the education requirements going forward.
  - A review of the CIF evaluation criteria to ensure they are consistent with the emerging objectives, the new planning framework and the new operating model and
  - Consideration of the extent to which the CIF process can be adopted for all additions to the capital programme where there is a degree of choice as to how the capital funding is used.
  - Whether the current policy of using growth in the taxbase above expectations to increase the level of CIF funding available should continue and in particular the longer term implications for levels of debt repayment.

## **9. Development of the new Strategic Plan 2020-25**

- 9.1. The Strategic Plan 2020-25 will bring together service and financial planning arrangements as part of the authority's new operating model. This is being developed so that commissioning strategies, key business measures and performance management requirements are all aligned and consistent with the available resources of the authority.
- 9.2. This alignment is important because local authorities are required by law to have a balanced budget and, whilst what is meant by 'balanced' is not defined, it is required to be robust and sustainable and based on sound assumptions which shows how income will equal spend over the short- and medium-term.
- 9.3. Since 2011, we have adopted a stepped approach to the development of our medium term financial plans and have a track record of delivering savings. As no agreed plans for how the authority will deliver a balanced budget over the medium term are in place, as part of agreeing the 2019/20 budget there is also the need to set out a clear approach to developing the next medium term financial plan and demonstrating a commitment to undertake the work and take the decisions required.
- 9.4. Agreement of the approach for developing the 2020-25 Strategic Plan including the setting of a new medium term financial plan, will allow us to demonstrate that the finances of the authority are allocated in accordance with the priorities of the organisation and that they remain robust and our service delivery is sustainable. The proposals for the medium term financial plan will need to be worked up in the first half of 2019 and identify further savings of £40 million to £58 million over the five years 2020/21 to 2024/25, with a mid-point of around £49 million.
- 9.5. This is slightly lower than the level of savings required from the last two OOP plans as a result of our reduced reliance on government grants as part of our core funding. (Reductions in grant funding from central government have been the main method through which central government has driven the austerity agenda through local government).
- 9.6. In preparing these forecasts a number of assumptions have been made. These are summarised on the table below.

Element	Assumptions for 2020/21 onwards	Sensitivity
Council Tax Taxbase	+1% per annum	Each 0.5% variation equates to +/- £1.5 million
Council Tax	+2% per annum	Each 0.5% variation equates to +/- £1.5 million
Adult Social Care Levy	Disappears	Retention of the 2% levy would increase the resources available by £4.5 million
Business Rates	+2% per annum All locally generated growth since business rates retention was introduced is lost and the impact of the fair funding review is neutral	The business rates growth we have baselined equates to £1.4 million a year and each 1% variation in business rates equates to +/- £0.9 million
BCF and iBCF	Continues at the current level less the £3.1 million top-up iBCF allocated to 2019/20	This assumes an on-going level of BCF/iBCF funding of £23 million
Inflation	Capped at 2% per annum	+/- 1% inflation equates to +/- £4.2 million
Revenue spending allocations	+£10 million per annum	This is slightly lower than actual allocations over recent years but is the figure used as the basis of planning for the last two OOP plans
Capital Financing Costs	+£2 million per annum This equates to a capital programme, funded from borrowing, of £35 million to £40 million a year	This is broadly equivalent to the provision made following the introduction of the Capital Investment Fund

9.7. Work is underway defining a proposed approach to developing the Framework for the period 2020-25. The strategy for the allocation of resources that supports this will include:

- Clarity of objectives
- A single process for determining savings and allocations to support growth
- A single process for the allocation of capital resources
- Appraisal processes based on pre-agreed sets of criteria
- The identification of key business activity and key business measures for ensuring benefits/savings are realised
- A process for building in the results of the transformation reviews as they start to generate both cashable savings and deliver on cost avoidance.

9.8. Some savings flowing from the current transformation work are expected to begin to materialise during 2019/20. At this stage it would not be prudent to

build them into the 2019/20 budget. Rather consideration will be given to how transformation savings that materialise in 2019/20 are used to provide additional time-limited resources to support the implementation of the Strategic Plan 2020-25 before becoming the first call on the savings target for 2020/21.

## 10. Timetable and Next Steps

- 10.1. Member engagement and involvement in the development of OOP 2020 was high. This degree of communication and engagement process with all parties and within the political groups both for the 2019/20 refresh and for the development of the new Integrated Strategic Plan 2020-25 will continue.
- 10.2. The key dates between now and when the budget is agreed in February are set out below.

Date	Meeting	Content
13 September 2018	Cabinet	Agree process for 2019/20 review and refresh of OOP 2020
11 December 2018	Cabinet	Consider report from Corporate Board on their budget proposals and objectives and release draft 2019/20 budget proposals for consultation with other political groups
December 2018 and January 2019	Political Groups	Consider budget options
22 January 2019	Cabinet	Note the updated resource information on which final budget proposals should be based and release their final 2019/20 budget resolutions
31 January 2019	Labour, Liberal Democrats, Green Party and Independents	Release 2019/20 budget resolutions/amendments
4 February 2019	-	Comparison sheets of budget proposals released
7 February 2019	Council	Agree 2019/20 Budget, Council Tax and Objectives

## 11. Background Information

None.

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