Cabinet

10 December 2020

2021/22 Budget and 2021-26 Medium Term Financial Strategy – Background Information and Proposals from Corporate Board

Please note the content of this report was prepared before the Chancellor of the Exchequer announced the outcome of the 2020 Spending Review on 25 November 2020. As Members will be aware, the Chancellor's statement included additional council tax flexibilities for local authorities and a range of additional one-off grants to support activity in response to the covid-19 pandemic and to share the financial impact of the pandemic to date on local authorities finances more generally.

Rather than delay the release of the key information and advice that will underpin the 2021/22 Budget and 2021-26 MTFS until the full implications are understood and to allow Members the maximum amount of time to develop their budget proposals the report continues to set out the position prior to 25 November 2020.

An addendum to this report has been prepared which sets out, for Members, the estimated financial impact of the proposals in the Chancellor's statement on the information presented in this report. The financial impact of the Chancellor's statement, when confirmed through the Local Government Finance Settlement, will be consolidated into the Budget and MTFS Update report due to be considered by Cabinet in January.

Recommendations

Cabinet is recommended to:

(1) Develop their draft 2021/22 Budget and 2021-26 Medium Term Financial Strategy proposals, taking into account the information presented in this report and the views of Corporate Board on that information;

(2) Authorise Corporate Board to begin any preparatory work necessary to deliver the budget proposals, prior to the final decision on the budget on 8 February 2021; and

(3) Ask Corporate Board to continue work to identify further invest-to-save opportunities that improve the efficiency and effectiveness of the Authority, minimise the service reductions needed and release some of the reserves being used to balance the Medium Term Financial Strategy to deliver the ambitions of the Council Plan.

1. Introduction and Background

1.1. The Council's financial strategy requires the annual budget to be set in conjunction with a 5-year Medium Term Financial Strategy (MTFS), aligned to the Authority's 5-year Council Plan. This rolling approach to resourcing services allows longer term issues and objectives to be catered for financially at the same time as balancing funding with the immediate budget pressures and delivery requirements.

1.2. At the meeting on 9 July 2020, Cabinet considered a report entitled "A Financial Framework for the 2021/22 MTFS and Managing the Covid-19 Financial Impact". The report outlined the updated resource forecasts and the key issues that need to be considered in the 2021/22 MTFS refresh.

1.3. This report is the next step in the process of setting the 2021/22 budget and the framework for the 2021-26 MTFS. It makes available, for Elected Members, the latest financial information that will underpin the 2021/22 budget and MTFS and the views of Corporate Board on that information in an approach that will enable the Council to respond effectively to changing circumstances while maintaining a longer-term focus on the Council's financial sustainability. The report, in effect, sets out the process that will lead to the agreement of the budget and the setting of the 2021/22 council tax in February 2021.

1.4. The information presented in this report is structured over the following areas:

- The financial context within which the budget and MTFS will be agreed (section 2);
- The strategy recommended by Corporate Board (section 3);
- The proposed permanent revenue funding allocations (section 4);
- The sustainability of spend funded from the Dedicated Schools Grant for providing support for pupils with special educational needs and disabilities and the consequent impact on the MTFS (section 5);

- The resultant proposals for balancing the revenue budget and MTFS (section 6);
- The level of the authority's reserves and the scope for the effective use of those reserves to support the delivery of the MTFS (section 7);
- The summary revenue budget position and any remaining flexibility (sections 8);
- The proposed capital strategy and resultant capital programme (section 10);
- The residual financial risks and uncertainties (section 11); and
- The requirements on the organisation to deliver a balanced budget in 2021/22 (section 12).

1.5. The report will then go on to consider the timetable and next steps between now and when the final decision on the 2021/22 budget is made on 8 February 2021.

2. Context

2.1. This is an unusual and unprecedented time. The County Council is in the process of setting a budget in the midst of a global pandemic which will have long term and societal impacts. The Government has pumped billions of pounds into the economy to support the response phase of the pandemic and to protect jobs and services. In the medium-term the levels of additional borrowing and the budget deficit will need to be managed down at the same time as meeting ongoing needs to invest in recovery to achieve the growth required to repay the deficit. The Government's national strategy to address this challenge is not yet known, nor what it will mean for local government funding more generally. With the NHS, defence and school budgets expected to be protected, non-protected areas, including local government, could face significant pressures on their resources if the approach mirrors the austerity policies of the previous decade.

2.2. The international and national outlooks are further complicated by the opportunities and risks of the on-going European exit preparations and the negotiations around future trade deals. These present potential further economic challenges.

2.3. As well as another single year Spending Round and Local Government Finance Settlement, there are significant uncertainties around Government policy in terms of the Fairer Funding review and Business Rates Retention, which will only be taken forward post-pandemic, as well as potentially major reforms with Green Papers on Social Care and White Papers on Devolution and Recovery and possible Planning reform. The economic situation is hugely challenging and, at least partly as a direct result, we will continue to be faced with demand for services rising much more quickly than our resources. The direct and indirect impacts on the County Council as well as our partners are both unknown and highly volatile at this stage. Added to the mix, we have the financial impact of Covid-19 and delivering on the Authority's ambition to invest in recovery.

2.4. In this context, the County Council needs to achieve a balance of ambition, prudence and robustness in setting this MTFS. There are clear differences between ensuring that there is a robust base budget and having sufficient reserves. Reserves can only be spent once, save where the Authority decides to use an investment approach to reserves by recycling savings so they can be reinvested again for the benefit of those who live in, work in and visit Warwickshire. A more commercial approach to such investments will help deliver financial improvements and release resources to deliver the Authority's core priorities.

2.5. Table 1 below sets out our base revenue resource forecasts through to 2025/26. By 2025/26 the Council is estimated to have £518.044m revenue resource available to support the budget, including a starting assumption of a 2% annual increase in council tax. This approach has been adopted because of the financial position in which the Authority finds itself post Covid-19, but in doing so recognises that setting the council tax is a political decision. The report comes back to the issue of council tax increases when considering Corporate Board's recommended budget strategy in Section 3 and when considering the options for balancing the budget in Section 6.

2.6. The assumptions underpinning the figures in Table 1 and detailed in **Appendix A** are therefore:

- A 2% annual increase in the main element of the council tax;
- No extension to the ability to raise a further 2% social care levy[1];
- The introduction of the fair funding review and business rates retention at a later but unknown date will have a neutral impact on the resources available to the Authority outside of receiving an annual 2% inflationary uplift;
- The Better Care Fund, the Improved Better Care Fund and other longstanding government grants continue to be received at their current levels over the medium term;
- DSG high needs deficit stabilizes at £8m a year with no additional Government funding or nationally led solution provided; and

[1] Please note the Chancellor's statement provided additional flexibility to levy an additional social care levy. Details of the potential impact are in the addendum to this report.

- No additional government funding for the impact of Covid-19 in 2021/22[2] or to support local authority services in advance of any funding commitments made as part of the 2021 Comprehensive Spending Review.

Table 1: Revenue Resource Forecasts 2021-26					
	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Council tax (2% annual increase)	319.875	329.526	342.835	356.664	371.051
Business rates	67.695	69.049	70.431	71.839	73.275
Better Care Fund, iBCF and other social care grants	39.162	39.162	39.162	39.162	39.162
Deficit on council tax collection	(2.667)	(5.667)	(2.666)	-	-
Public Health Grant	23.254	23.719	24.193	24.677	25.171
Other Government Grants	9.385	9.385	9.385	9.385	9.385
Total Base Resource Level	**456.704**	**465.174**	**483.340**	**501.727**	**518.044**

2.7. These resource forecasts vary from those that underpinned the figures in the July report as a result of the Government issuing new statutory regulations requiring that the funding the deficit on council tax collection in 2020/21 is spread over three years rather than requiring the whole deficit to be made good in 2021/22[3]. This impacts on phasing of the forecast deficit over the next three years rather than the overall level of resources available to the Authority.

2.8. There are no further changes to the figures summarised in the table anticipated at this stage, although they will be subject to confirmation as part of the provisional 2021/22 Local Government Finance Settlement (due in mid/late-December) and the final taxbase figures will be provided by the Districts/Boroughs by the end of January 2021. One area that will be confirmed in the provisional Local Government Finance Settlement is in relation to the maximum level of council tax that can be raised before a referendum is needed. A change of 1% in the council tax increase in any one year would increase/reduce the level of resources by £3.1m.

2.9. The scenario used for the model of resource forecasting used for the MTFS is for a short-lived recession lasting up to one year with a one-year gradual recovery, which will not recover until the end of 2022, with long term scarring meaning that in 2025 the economy will be approximately 3% worse off than expected pre-Covid. However, the level of uncertainty we are now facing means we need to recognise that plans may need to be adapted for a range of

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[2] This assumption no longer applies following the 2020 Spending Review. Details of the additional funding announced in the Chancellor's statement and the implications for the proposals outlined in this report are detailed in the addendum.
[3] The Chancellor's statement announced additional one-off grant for local authorities to offset 75% of the loss due to covid-19. The allocations to individual authorities will be announced as part of the local government finance settlement. Further details are in the addendum.

potential resource scenarios. Appendix A therefore also includes the resource implications of two alternative scenarios are broadly based on:

- Best Case – minimal recession, return to previously levels of activity by April 2021; and
- Worst Case – medium term recession lasting whole of MTFS period with some minimal recovery from year three onwards.

3. Corporate Board's Proposed Budget Strategy

3.1. It is within this context that the budget for 2021/22, as the first year of a 5-year rolling MTFS that will align the resources of the Authority to the objectives and ambitions set out in the Council Plan and Recovery Plan.

3.2. Warwickshire is a robust sustainable and financially resilient authority. Our strong financial position is driven by:

- A balanced budget with no unidentified savings targets;
- Healthy reserves to manage financial risk/shocks and invest in the future;
- A previously growing local economy resulting in buoyant local taxbases;
- No cashflow problems with high levels or liquidity;
- Relatively low levels of borrowing compared to our asset base giving a strong balance sheet; and
- A strategy in place to deliver a financially sustainable Warwickshire over the longer term.

3.3. This has placed the Authority in a strong position to respond to the uncertainty and financial commitments created by Covid-19 and meet ambitions to invest to support recovery for the benefit of residents and communities. Difficult decisions and choices will need to be made as part of agreeing the 2021/22 budget and 2021-26 MTFS refresh. However, Corporate Board are strongly of the view that decisions taken to address the short-term challenges we face should not undermine our financial sustainability over the medium term or leave financial 'gaps' to be closed in future years. The guiding principle is to balance the MTFS without oversteering, maintaining flexibility to invest/transform and deal with future pressures.

3.4. Reflecting this approach, Corporate Board's recommended budget strategy is to:

- Remain robust, ambitious and prudent in setting the MTFS, given the current economic uncertainties that will persist;
- Maintain the capacity to invest by retaining the capital and revenue investment funds, continuing to push outcome-focussed commercial activity in specific and limited areas (Warwickshire Property and

Development Company (WPDC), the Warwickshire Recovery and Investment Fund (WRIF), renewables), and investing in climate change mitigation;

- Sustainably tackle the major financial/demand challenges we face, particularly special educational needs and disabilities (SEND), support for children and families, including children with disability, and home to school transport;
- Ensure there is sufficient capacity to invest in ways to be more efficient and effective in maximising outcomes from local and national taxpayers' money, by driving savings/headcount reduction through digital, data and automation and setting financial return and pay-back periods for invest-to-save proposals;
- Ensure Warwickshire's communities and individuals are supported to be safe, healthy and independent;
- Ensure Warwickshire's economy is vibrant, supported by the right jobs, training, skills and infrastructure;
- Continue our efforts to bring inward investment and private and public sector businesses into the County for the benefit of employment and prosperity of our residents and the future of their children;
- Be flexible to the changing economic and political environment to both seize opportunities and deal with pressures, ensuring there is reasonable flexibility in future years to handle most plausible scenarios, whilst recognising it is impossible to guarantee this.

3.5. There remains a significant degree of uncertainty about the level of resources estimated for next year, but more importantly over the medium term. Given this context, it is the view of Corporate Board that the Authority should take the maximum 2% core council tax increase allowed by Government to place the authority in the strongest possible financial position and to ensure sustainable services over the medium term[4]. Absorbing the impact of not taking the increase in council tax permitted would not be prudent and presents too high a risk given the level of uncertainty.

3.6. Table 2 below shows the additional income that would be generated or lost by reducing the council tax.

[4] The financial impact of, and commentary on, the additional council tax flexibilities announced in the Chancellor's statement are detailed in the addendum.

Table 2: Resource Impact of Increasing the Council Tax	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Council tax (2% annual increase)	319.875	329.526	342.835	356.664	371.051
Potential additional resources from a 3% annual increase	+3.147	+6.510	+10.195	+14.219	+18.588
Potential loss of resources from a 1% annual increase	-3.128	-6.414	-9.980	-13.765	-17.799
Potential loss of resources from a 0% annual increase	-6.256	-12.771	-19.745	-27.112	-34.908

4. Proposed Revenue Funding Allocations

4.1. In developing these proposals Corporate Board have been clear that their priorities for 2021/22 should be to:

- Ensure their budget proposals deliver the long-term financial sustainability of services;
- Continue to drive forward the implementation of the Council's change agenda to ensure our core services, infrastructure and resources can be used flexibly and effectively to meet future challenges and deliver for residents, businesses and communities; and
- Deliver investment in projects and programmes that will support the ambitions and objectives set out in the Council Plan and Recovery Plan.

Inflationary Costs

4.2. As part of the MTFS is it proposed to continue to provide for an annual general inflationary uplift to ensure budgets remain sustainable in real terms. It is proposed that the Authority continues to provide for a 2% increase in pay, prices and contract costs partly offset by assuming an equivalent increase in all fees and charges. A 2% provision for inflation is in-line with the medium-term target rate set by the Government for the Bank of England.

4.3. A 2% inflationary uplift for 2021/22 will cost £8.421m. In addition, there is an additional inflation cost of £2.197m for services with contractual commitments above this level. Indicatively, over the period of the 2021-26 MTFS there is estimated to be further inflationary costs of £44.484m, bringing the total inflation provision over the period of the MTFS to £55.102m.

4.4. Price inflation is currently running below 2% and the Chancellor's statement included a partial public sector pay freeze in 2021/22[5]. Each 1% reduction in

[5] See addendum for further details on the impact of the announcement about a partial public sector pay freeze on local government.

the provision for pay inflation would reduce costs by about £1.6m, but the minimum £250 uplift for those earning under £24,000 will reduce this figure. Services have included, within their savings proposals, options for contract management savings, reductions in third party spend and the delivery of small-scale efficiencies to absorb the impact of inflation on their budgets. Therefore, in making this inflation provision it is acknowledged that the allocation to Services for inflation is an approximate cost, recognising that some costs will increase above the standard rate and some below and that once the overall allocation has been agreed a Service should retain the opportunity to allocate the funding provided to reflect where inflation will impact at a local level.

Other Permanent Revenue Budget Adjustments

4.5. Corporate Board have identified five areas where they are proposing additional budget allocations to meet known spending pressures to ensure services' financial position at the end of the MTFS period is sustainable.

4.6. The five areas where additional budget allocations are required are:

- Right-sizing budgets to correct for current structural overspends, primarily in relation to children's social care placements, supported accommodation for children leaving care and support for children with disabilities;
- Allocations to meet the continued growth in demand for services as a result of both demographic change and housing growth. The main areas of demand growth are:
  - The adult population requiring care as well as increases in the complexity of need;
  - Placements and support for children who are looked after, at risk and children with disabilities;
  - The increased cost of waste management as a result of housing growth; and
  - The provision of home to school transport, particularly in relation to children with SEND;
- Increased capacity to meet the on-going additional costs or loss of income of services in a post-covid environment such as cleaning costs, reduced trading income, reduced interest earned and the emergency duty social care team;
- Increased capacity required in services following the full implementation of the new operating model; and
- The removal of savings options agreed in previous years where Members have subsequently decided not to take them forward. These costs are in relation to parking charges and the transfer of assets for

development to Warwickshire Property and Development Company (WPDC) rather than selling the assets (see Section 10).

4.7. In addition to the specific allocations Corporate Board are also recommending an allocation is set aside as a provision of £1.000m in 2021/22 and £5.500m a year for future currently unknown and unquantified spending need including increases in the National Living Wage. Such a provision will mitigate the need to identify further options for balancing the books as new spending requirements are identified over the period of the MTFS and provide further resilience in a highly uncertain context.

4.8. The additional permanent spending allocations proposed total £19.678m for 2021/22 and a further £52.267m for indicative allocations over the remainder of the MTFS period, bringing the total permanent allocations proposed to £71.945m. **Appendix B** provides brief details of the proposed permanent budget allocations recommended for approval. All allocations beyond 2021/22 are indicative at this stage and will be subject to review as part of the rolling MTFS.

Time-Limited Revenue Allocations

4.9. Time-limited investment in key projects provides the opportunity for the Council to be ambitious in its plans whilst not risking the overall financial sustainability of the Council.

4.10. The 2020/21 Budget provided the capacity to make a step change in delivering on our ambitions through the creation of the Revenue Investment Funds. £2.653m of the £20m set aside in the Investment Funds has been allocated to date leaving £17.347m still available. In line with the proposed budget strategy, Corporate Board are <u>not</u> proposing to use this resource to balance the 2021/22 budget or the 2021-26 MTFS.

4.11. With one change, Corporate Board propose that this funding remains earmarked as originally intended to be available to support delivery of the Council's outcomes and objectives as set out in the Council Plan and the Recovery Plan. The change is to amend the evaluation criteria so that going forward a higher priority is given to schemes that deliver benefits that have a positive impact on the MTFS through either supporting the delivery of savings and/or the avoidance of future costs by reducing demand for services.

4.12. There is a risk the allocations to the Funds may have to be reduced given the funding uncertainties if we are faced with something more akin to the worst-case scenario outlined above.

4.13. Corporate Board are recommending that the time limited allocations approved in February that extend into 2021/22 are still funded. In addition, seven further time-limited allocations, totalling £1.802m in 2021/22 and £2.393m over the period of the MTFS are proposed. These are:

- £1.362m to fund covid-19 residual/back-log financial impacts including children's social care assessments, loss of income for the County Music and Legal Services, enhanced cleaning requirements/building adaptation and delays in the delivery of savings as the implementation of service redesign was paused as staff were diverted to work on Covid-response;
- £0.290m as part of a two-year allocation to provide additional capacity to take forward work on partnerships and customer excellence pending the service redesign; and
- £0.150m as part of a four year invest-to-save programme for the Finance Service to underpin the delivery of the savings plan.

4.14. **Appendix C** provides brief details of these proposed time-limited spending budget allocations.

Summary Spending Need

4.15. Bringing all these elements together indicates that the Authority has a spending need of £473.509m to be financed in 2021/22, increasing to £566.713m by 2025/26. A breakdown of this is shown in Table 3 below.

Table 3: Summary of 2021-26 Permanent Spending Need					
	Allocation	Indicative Allocations			
	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Base Budget	439.533	439.533	439.533	439.533	439.533
Inflation	10.618	21.531	32.544	43.734	55.102
Additional Permanent Spending Need	19.678	33.830	46.889	59.425	71.945
Additional Time-Limited Spending Need	3.500	1.755	0.906	0.233	0.133
Total Spending to be Financed	**473.509**	**496.649**	**519.872**	**542.925**	**566.713**

5. Sustainability of Spend Funded from the Dedicated Schools Grant

5.1. At the same time as the Local Government Finance Settlement is announced the Department for Education are expected to also announce details of the Dedicated Schools Grant (DSG) for 2021/22 to provide funding for services to schools and pupils. A full report seeking approval for the allocation of the DSG will be brought to Cabinet for consideration in January and any decisions made will need to be included as part of the budget resolution to be agreed by Council in February.

5.2. However, over recent months Members have received a number of reports outlining the extent of the estimated structural deficit in the High Needs DSG and the Special Educational Needs (SEND) and Inclusion Change Programme required to bring about required change to delivering statutory duties within allocated resources. The magnitude of the numbers means that the impact of the SEND forecast deficit on the overall financial sustainability of the Council's finances has to be considered as integral to the Council's budget proposals.

5.3. At the end of each financial year any gap between the grant funding and the level of spend creates a deficit for the individual local authority, which shows up as a negative (or overdrawn) reserve on our balance sheet. As a matter of principle and proper accounting practice the negative reserve created by the shortfall in Government funding compared to our need to spend should be avoided and decisions taken as to how to make good the position as soon as it is known. In previous years we have written off the deficit from other reserves or underspends. However, earlier this year the Government issued guidance that barred local authorities from doing this without the approval of the Secretary of State.

5.4. This does not resolve the problem. Without additional funding from Government or plans in place to bring spend back into line with the resources available the deficit would just accumulate and is simply an unsatisfied (and growing) debt, which is unsustainable. Therefore, the advice from Corporate Board is that to ensure the Authority remains financially sustainable funding should be set aside to make good the deficit.

5.5. As a result of the need to ensure we do not have an unfinanced debt the Authority, based on the latest forecasts, will need to set aside £1.364m in 2021/22, increasing to £29.949m by 2025/26. It is for this reason Corporate Board and Members will need to maintain their close scrutiny of SEND activity and spend as well as looking to extend the SEND and Inclusion Change Plan to move the service towards a balanced position.

Table 4: DSG Forecast 2021-26					
	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Forecast spend in -year (including deficit to be	82.080	88.910	93.840	98.788	102.054
Impact of SEND and Inclusion Change Plan	(2.707)	(5.171)	(7.516)	(8.938)	(10.348)
SEND DSG Spend to be financed	**79.373**	**83.739**	**86.324**	**89.850**	**91.706**
Expected DSG funding	(75.309)	(77.558)	(79.723)	(81.845)	(83.908)
0.5% contribution agreed by the Schools Forum	(1.700)				
Balance of reserve available after 2020/21	(1.000)	-	-	-	-
In-year deficit	**1.364**	**6.181**	**6.601**	**8.005**	**7.798**
Cumulative deficit to be funded	**1.364**	**7.545**	**14.146**	**22.151**	**29.949**

6. Options for Balancing the Budget

6.1. Over the summer it has become clear that the negative financial impact of Covid-19 would extend beyond the current financial year into 2021/22 and beyond. The impact would be felt in terms of the demand for services and, more critically, the impact of the slowdown in the economy on anticipated levels of taxbase growth. The result is the need to identify significant levels of additional savings proposals that could balance the budget.

6.2. The focus was on the identification and quantification of options that would allow services to residents to be broadly maintained, and where possible even improved, through better procurement, improvements in efficiency, increased income and reductions in demand. However, the level of savings needed meant that some service reductions would also be needed.

6.3. Proposals totalling £54.101m have been identified as being deliverable over the next five years. The cumulative impact of these on an annual basis are summarised in Table 5 below, with further detail shown in **Appendix D.** Appendix D also includes a RAG rating for each of the savings proposals based on Services assessment of their deliverability.

Table 5: Summary of Proposals for Balancing the Books 2021-26						
	2021/22 £m	Extra in 2022/23 £m	Extra in 2023/24 £m	Extra in 2024/25 £m	Extra in 2025/26 £m	Share of Total Saving
Better procurement	1.704	1.956	2.570	3.428	2.452	22.4%
Demand management	0.250	0.800	3.074	4.475	2.008	19.6%
Income generation	0.960	1.433	1.019	0.930	0.780	9.5%
Further rightsizing of budgets	1.709	0.979	0.164	0.077	0.090	5.6%
New model of service delivery/redesign	3.435	4.172	2.860	3.196	1.938	28.8%
Service reductions	1.415	1.406	1.458	2.189	1.174	14.1%
In-year Savings Options	**9.473**	**10.746**	**11.145**	**14.295**	**8.442**	
Cumulative Savings Options	**9.473**	**20.219**	**31.364**	**45.659**	**54.101**	

6.4. The detailed work on these proposals will continue in the run-up to February with Corporate Board focussed on the pace of delivery to ensure any capacity is released at the earliest opportunity and that there is no overlap/duplication, which is good practice to ensure the robustness of the overall proposals. Any changes identified as a result of this work will be reported to Cabinet in January in the 2021/22 Budget and MTFS Update report.

6.5. These options include a level of service reductions and it is recognised that the list includes some difficult decisions. These proposals are phased towards the end of the MTFS period. Corporate Board will continue to work to identify alternative transformation and digital/automation opportunities in the run-up to the February budget and throughout 2021/22 that would enable some of the proposed service reduction savings to be replaced. Work will also continue to identify opportunities for additional income generation as part of taking forward outcome-driven investments including those driving economic growth, regeneration and renewable energy. However, in order to present Members with options that would deliver a sustainable and balanced MTFS it is necessary to recognise the savings may be needed unless alternatives can be identified.

7. Flexibility in the Budget – Reserves

7.1. The Authority has a robust reserves position, with reserves in the latest monitoring report to Cabinet forecast to be £187.683m at the end of 2020/21. As part of the MTFS agreed in February Council agreed a new reserves strategy with the objective of ensuring we are using all our resources effectively, providing increased transparency and accountability around reserves and ensuring the framework is in place to align decision-making around the use of reserves with the Council Plan.

7.2. The primary purpose for holding reserves is to manage financial risk and promote financial sustainability and in developing the new reserves strategy this principle remained at the heart of the approach developed. However, it is recognised that there is a need to control the amount of scarce resources held in reserves and ensure this is both sufficient and reasonable. Therefore, as required by the strategy over the last few months a targeted review of reserves has been undertaken.

7.3. The outcomes from the review are that it is recommended:

- £1.574m of specific project/volatility reserves should be closed/reduced;
- Directorate risk reserves should be reduced from 5% to 3%, releasing up to £8.091m; and
- The reserves released should be set aside to support the timing differences between spending need and the delivery of savings over the MTFS period or to provide the invest-to-save resources needed to kickstart the delivery of the emerging savings proposals.

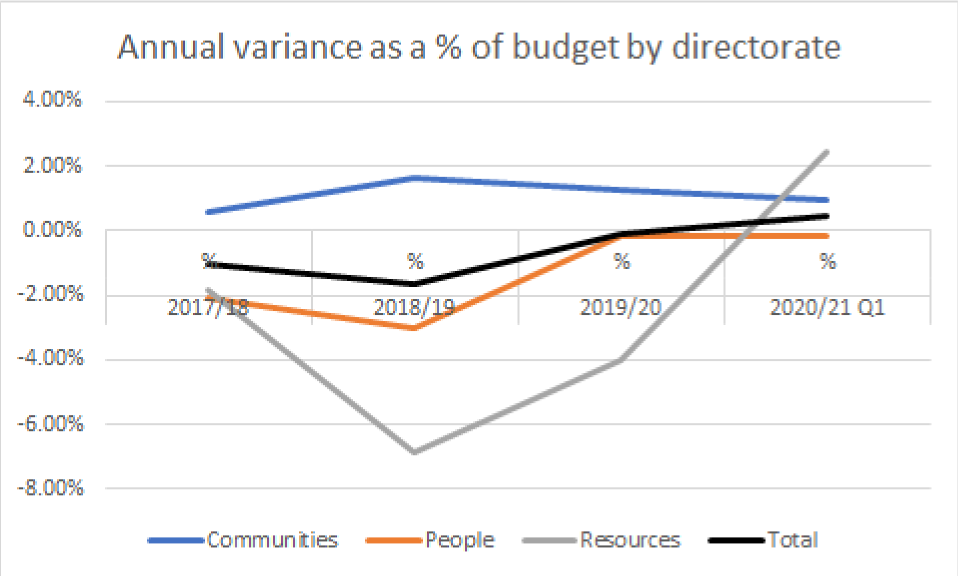
7.4. The release of £1.574m was the result of a detailed review of six specific reserves as part of a rolling programme. Table 6 below shows the amount in each reserve, the amount to be released and the reason for the decision.

Table 6: Outcomes from the Latest Review of Reserves			
Reserve	**Current Balance £m**	**Amount Released £m**	**Reason for Proposal**
Priority Families Reserve	0.606	-	The service is part-funded by Government grant, which is only confirmed on a rolling annual basis. The value in the reserve is to maintain one year of service after the grant is stopped whilst a long-term solution is considered as part of the annual MTFS refresh. Recommendation: The reserve is retained. However, if permanent funding is allocated through government grant system then the reserve should be removed.
Children's Transformation Fund	6.217	-	The reserve is to fund the transformation of Children's Services to reduce the underlying structural overspend. The programme of activity is now agreed and monitored regularly through Corporate Board and the Children's Overview and Scrutiny Committee. Recommendation: The reserve is retained, but a further review should be undertaken at the end of 2022/23 when the programme is due to have been completed.
Redundancy Fund	8.400	-	The reserve is funding set aside to meet the costs of redundancies/early retirements that arise as a result of the reduction in staff numbers as part of the MTFS or the loss of income as the result of a decision by a third party. Without this funding any costs would have to be met from within service budgets, increasing the level of savings to be delivered. Over the last 8 years, £5.3m, relating to 247 people, has been charged to the Redundancy Fund. Recommendation: The reserve is retained given that the level of financial uncertainty and the extent of the savings plan proposed as part of this MTFS refresh indicates the provision is still likely to be needed.
Youth Justice Remand Equalisation Reserve	0.523	-	The reserve is used to mitigate annual variations in the compulsory placement of children into Remand Centres where the cost of a placement can vary from £250 to £689 per day, with the choice of placement sitting with the national youth custody service. Whilst the service operates on a partnership the build-up of the reserve in relation to underspends against the County Council's £130,000 annual funding in previous years. Recommendation: The reserve is retained as a partnership reserve until the impact of the backlog in the court system as a result of Covid-19 is clearer, at which point the need for a separate reserve should be reviewed again.
Capital Fund	1.658	1.000	The Capital Fund is used to fund property disposal costs incurred in-year and to manage timing differences between disposal costs being incurred and 4% top-slice of receipts used to contribute to selling costs. Recommendation: Based on forecast use of the fund over the period of the MTFS £0.658m is retained and £1.0m is released.
Audit Fee Reserve	0.774	0.574	The external audit fee is variable (+/-30%) between years depending on the auditors perceived level of financial risk, the number of additional grant claims to be audited and investigations into any issue that emerge during the audit or are reported to the auditors. Over the next few years audit activity is expected to increase as a result of WPDC and new accounting standards and reporting requirements increasing variability. Recommendation: A £250,000 reserve is maintained, to be reviewed when the audit contract is due for renewal in 3 years.
Total	**18.178**	**1.574**	

7.5. The current MTFS set up a reserve for each Directorate to manage the short-term financial implications of unbudgeted pressures, allowing time for the pressures to be mitigated or funded through future years' MTFS while still keeping a level of financial ownership with each Strategic Director. Having operated the reserves for a year, and with the different financial climate we are now operating under, it is recommended that these risk reserves are reduced to allow more funding to be freed up to allow the phasing of service savings over the next five years.

7.6. The graph below shows the outturn overspend for each Directorate over the last 4-years and shows that a 2% value would be sufficient for each Directorate, based on historic trends alone. However, it is the view of Corporate Board that the increased uncertainty about resource levels and demand as a result of Covid-19 that exists means that a further 1% should be retained at this time.

7.7. A reduction on the Directorate risk reserve from 5% to 3% would release £8.091m to support the MTFS.



7.8. Table 7 below shows how the Authority's reserves align to the updated reserves strategy. The proposed reserves strategy itself is attached at **Appendix E** and the Authority's latest reserves flowing from the strategy are attached at **Appendix F**. The figures in the table and in Appendix F reflect the reserves position forecast as at the end of September 2020. The figures will be updated to reflect the Quarter 3 position in the budget report to Cabinet in January 2021.

Table 7: Analysis of Forecast County Council Reserves at 31 March 2021	£m
Earmarked	
Schools	7.493
External funding conditions	10.569
Total Earmarked Externally	**18.062**
Investment Funds Subject to Annual Review	
Policy Decisions	12.847
Specific Investment Projects	1.797
Total Subject to Annual Review	**14.644**
Invest-to Save Fund (previously Transformation Funds)	**37.349**
Management of Financial Risk	
General Reserves – minimum corporate risk assessment	21.223
Directorate Risk Reserves	12.137
Volatility Risk	41.117
Total Management of Risk Reserves	**74.477**
Reserves Available for Investment and to Support the MTFS	**43.151**
Total Forecast Reserves at 31 March 2021	**187.683**

7.9. The result of the proposals outlined above and the impact of spend in 2020/21 means, as shown in the table, there is £43.151m reserves available to support investment and the delivery of the MTFS. Using the available resource to support the MTFS allows the organisation time and capacity to make the 'right' savings that support the delivery of the Council Plan and do not stifle recovery. Without using the capacity in this way there will be a need to make short-term reductions in services just to deliver a balanced budget in 2021/22.

8. Summary Revenue Position

8.1. This section of the report brings all the elements of the budget and MTFS outlined above together to provide a summary position which provides clarity of the decisions needed to ensure the 2021/22 budget is balanced and 2021-26 MTFS is sustainable and robust.

8.2. Table 8 shows that, with a 2% annual increases in core council tax and the use of £40.992m of reserves, the Authority is estimated to have a balanced budget for 2021/22 and for the period of the MTFS providing all the savings proposals are approved and delivered at the level and pace set out in Appendix D.

8.3. However, this reliance on one-off funding, particularly over the early years of the MTFS means Corporate Board will continue to seek to identify further invest-to-save proposals and opportunities to bring the delivery of the savings forward. This will allow some of the reserves currently needed to balance the MTFS to be used to invest in services and delivery of the ambitions of the Council Plan and provide Members with a greater degree of choice about which savings to take forward.

Table 8: Summary Revenue Budget Position 2021-26					
	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Spending to be Financed (Table 3)	473.509	496.649	519.872	542.925	566.713
Sustainability of the DSG (Table 4)	1.364	6.181	6.601	8.005	7.798
Warwickshire Property Development Company[6]	1.537	1.084	(0.126)	(2.982)	(3.415)
Less:					
Reserves used of fund one-off spending	(9.068)	(14.677)	(10.173)	(8.238)	(0.133)
Options for Balancing the Books (Table 5)	(9.473)	(20.219)	(31.364)	(45.659)	(54.101)
Total Spend to be Resourced	**457.709**	**469.038**	**484.830**	**494.071**	**516.882**
On-going resources available (Table 1)	(456.704)	(465.174)	(483.340)	(501.727)	(518.044)
	1.005	**3.864**	**1.490**	**(7.656)**	**(1.162)**
Use of reserves to manage phasing (Table 6)	(1.005)	(3.864)	(1.490)	7.656	-
(Surplus)/Shortfall	**0**	**0**	**0**	**0**	**(1.162)**

8.4. The table shows that for a 2% annual increase in the council tax the MTFS through to 2025/26 is balanced. Without a council tax rise £6.256m additional savings would need to be identified for 2021/22 and an additional £34.908m over the five years of the MTFS. The additional savings would need to be identified and delivered in-year as the proposals set out in this report use all the reserves flexibility available at this time.

9. Capital Programme

9.1. As part of agreeing the budget and MTFS in February 2020 Council agreed a new capital strategy with the ambition to help ensure capital and revenue spending on the asset portfolio is directed efficiently and effectively.

9.2. As a suite of documents, the capital strategy set out:

[6] The figures for the Warwickshire Property and Development Company are subject to the completion of due diligence, Cabinet approval of the business case at its meeting on 28 January 2021 and Council approval of the funding facilities as part of setting the capital budget for 2021/22.

- Our strategic intent – the aspiration and direction for our capital investment, defining the outcomes we are seeking to achieve through investment (why);
- The draft programme – the activity programmes and projects funded from our capital investment (what); and
- The governance framework – the way we will manage capital spend and the capital programme (how). It is this technical appendix that ensures we meet with statutory guidance. It also sets out how we will optimise delivery by strengthening of performance, adopting commercial principles and practice and robust benefits realisation.

Review of Year 1 of the Capital Strategy

9.3. Council is required to approve the suite of capital strategy documents on an annual basis. To support this the Capital Strategy has been reviewed following its first year of implementation to identify the progress made across each of the areas of the Strategy's action plan:

- **Focusing on our core purpose and supporting the Council's priority outcomes**
  - Investment proposals are individually assessed by the Capital Investment Fund (CIF) Technical Panel which reviews the technical elements and strategic alignment of the bids. The Gateway Group then reviews and prioritises the projects according to strategic alignment and makes recommendations to Corporate Board and Members.

- **Taking a holistic view and ensuring strategic fit**
  - Revenue investment funds have been created to pump prime place shaping initiatives and feasibility work for new capital developments; and
  - CIF Technical Panels include officers from Finance, Legal, the Project Management Office, Strategic Asset Management and one independent service to ensure cross-organisational views are incorporated in bid evaluation;

- **Being risk aware**
    - The financial impact of investments on revenue budget targets, and vice versa, are monitored through a central finance team. Any savings identified through bids to the CIF are included in the subsequent refresh of the Revenue MTFS.

- **Building a commercial and business-like approach to investment**
    - Investment appraisal is based on standardised evaluation criteria and this is shared to ensure commercial thinking is incorporated in initial bid development.

- **Ensuring performance**
    - The project governance framework used for capital monitoring, involves oversight of projects, according to their outcomes, by specific Boards; and
    - Monitoring falls into standard Council monitoring and reporting processes to ensure the wider implications on the MTFS are transparent. This is achieved through budget monitoring reports and through performance reporting to Corporate Board and Cabinet.

9.4. The review has also identified, across the same areas, where work is on-going, or it is recommended actions are taken forward in 2021/22. The areas for action in 2021/22 identified are:

- **Focusing on our core purpose and supporting the Council's priority outcomes**
    - To record levels of investment against each strategic objective to further balance the programme to outcomes; and
    - To make visible the pipeline work to allow oversight of near-future decisions which will need to be made.

- **Taking a holistic view and ensuring strategic fit**
    - To incorporate a focus on Covid-19 response and the capital investment needed to support the delivery of the Recovery Plan;
    - To reflect those aspects of the Warwickshire Property and Development Company (WPDC) and the Warwickshire Recovery and Investment Fund (WRIF) proposals which will form part of the Council's capital investment decisions going forward; and
    - To develop standardised benefits reporting.

- **Being risk aware**
    - To ensure statutory compliance with the technical changes to the rules around capital expenditure and it's financing; and

- To align the capital appraisal process to the Council's emerging risk management framework to give the council-wide overview.

- **Building a commercial and business-like approach to investment**
  - To continue the culture change to a more commercial and business-like approach.

- **Ensuring performance**
  - To extend the cultural change programme to bring a focus and discipline to ensure capital is correctly assigned and spent in year to minimise slippage and unnecessary revenue cost as a result of poor performance.

Refreshed Capital Strategy

9.5. A draft of the refreshed Capital Strategy is attached at **Appendix X** and the accompanying Technical Annex is at **Appendix X**. The draft strategy builds on the progress made so far in implementing the strategy as well as incorporating changes to the operating and economic environment during 2020, including Covid-19, the Recovery Plan, the WPDC and the WRIF. The Technical Annex has also been updated to ensure considerations is given to the impacts on capital of the new accounting standard for leasing.

Approved Capital Programme

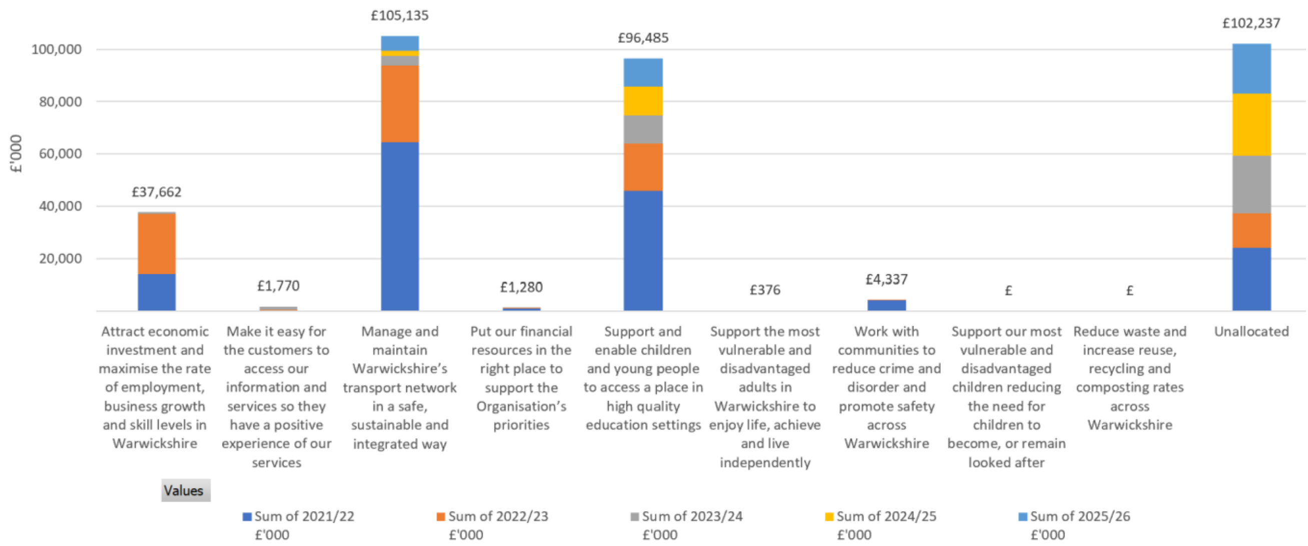
9.6. The capital programme itself is split into two elements – the maintenance programme and the development programme. There are no changes proposed to the maintenance programme for the 2021/22 MTFS Refresh, instead the cash limited allocations approved as part of the MTFS in February are continued and simply extended for a further year (2025/26).

9.7. It is proposed an additional £24.9m has been allocated to the CIF for 2025/26, continuing the annual allocation agreed last year. Together the annual maintenance and investment programmes will result in £35.6m additional borrowing each year. The cost of financing borrowing at this level is built into the 5-year Revenue Plan of the MTFS.

9.8. The chart below shows that, excluding the unallocated (CIF) funding, the Council's capital investment programme is focussed on only three key priorities:

- Manage and maintain Warwickshire's transport network in a safe, sustainable and integrated way;
- Support and enable children and young people to access a place in high quality education settings; and

- Attract investment and maximise the rate of employment and business growth and skill levels in Warwickshire.



9.9. A significant element of the Council's capital programme will always be the provision of additional school places and transport infrastructure, given the levels of population growth in Warwickshire. However, the refresh of the capital strategy provides the opportunity to reinforce the need for the pattern of allocations to be reflective of the Council's key objectives and whether a broader focus, including how capital investment can be used on an invest-to-save basis, should be incorporated. To this end Annex B of Appendix B lists the Council's capital investment priorities drawn from the list of CIF pipeline projects and the potential areas for capital investment arising from the Recovery Plan. Cabinet are asked to consider specifically whether this reflects the CIF bids reflects the priorities for investment they would wish to see coming forward for consideration.

9.10. In considering this, it is worth noting that Section 25 of the Capital Financing Regulations, which govern the content of our capital programme, requires that expenditure incurred on the acquisition, production or construction of assets by other than the local authority which would be capital expenditure if those assets were acquired, produced or constructed by the local authority must be treated as capital expenditure. As a result, our loans to WPDC for progressing the Council's policy objectives through the development of assets will form part of our capital programme going forward. Depending on the detailed operational arrangements agreed, it may also be that any purchase of equity through the WRIF will also need to be added to the capital programme, as legally the purchase of shares is defined as capital expenditure.

Warwickshire Property and Development Company

9.11. The first business plan for the WPDC will come to Cabinet for consideration in January 2021. At this stage a £3.415m on-going surplus has been included as part of balancing the revenue budget, although the final figure will depend on the decisions made when the business plan is considered by Cabinet.

The decisions to be made on the WPDC business plan will impact on the MTFS in several ways:

- The current MTFS includes £3m savings from the sale of surplus assets that are now proposed to transfer to WPDC. As a result, the expected benefits will be greater but will not be delivered on the same timescale;

- We will provide working capital loans to WPDC which will use some of our available cash balances;

- We will 'swap' some of our land and property assets for equity loans in WPDC. This will reduce the value of the assets in our balance sheet;
- We will provide development loans to WPDC to take forward the projects in the business plan. The value of the loans will need to be added to the capital programme and are likely to materially change the shape of the capital programme going forward;

- We will earn interest on the working capital, development and equity loans to WPDC. The first call on this income will be to meet any additional costs for the County Council arising from the creation of WPDC. Any surplus interest can be used to support the MTFS; and

- The profit generated from the sale of WPDC developments will be returned to the Council as dividends. These will be variable on an annual basis, depending on the level of activity. This income will be available to support the MTFS.

9.12. The draft Capital Strategy and the Capital Strategy Technical Appendix Capital Programme can be seen in **Appendices G and H** respectively. The final part of this suite of documents –the Capital Programme - will be reported to Cabinet in January 2020. All three of these documents will need to be updated for the February Council meeting to include the impact of the 2020/21 Quarter 3 monitoring position and any changes will be reported to Cabinet in January.

10. Residual Financial Risks and Uncertainties

10.1. Throughout the report the key financial risks for each section of the report have been highlighted. This section brings them together and identifies the risk and the potential financial impact. The addendum provides further detail on the extent to which the 2020 Spending Review has crystallised some of these risks. The key financial risks are:

- Taxbase increase – the report assumes a 0% increase in 2021/22, 1% in 2022/23 and 2% every year thereafter. Each 0.5% variation in any year impacts on the Authority's financial position by +/- £3.5m. The final figure for 2021/22 will be known towards the end of January 2021. Current informal feedback suggests the taxbase may fall in 2021/22 as a result of the additional numbers of households entitled to council tax support, although the extra grant funding announced as part of SR2020 may partially offset some of this risk. Given the late notification of this information, in the short-term further reserves would be required to balance the 2020/21 budget.
- Level of surplus/deficit on council tax collection in previous years – the report assumes an £8m loss from 2020/21 that will need to be made good over three years and a further £3m loss in 2021/22 to be made good in 2022/23. Again, the final figure for 2021/22 will be known towards the end of January 2021 and the extra grant funding announced as part of SR2020 may partially offset some of this risk.
- Business rates taxbase growth and appeals provisions – the report assumes a 5% reduction in the business rates taxbase in 2021/22 but thereafter the business rates taxbase is maintained. This is partly because in 2020/21 the government subsidies have funded an estimated 27% of our business rates taxbase which will limit the losses to be made good in 2021/22. In recent years the actual figures have been received in early February after the budget has been set. We therefore hold a volatility reserve to manage any variation. Even if we have the final information before Council in February 2021 the same approach to managing any variation can be used.
- Inflation (especially pay inflation) – currently 2% is included in the MTFS proposal for pay inflation. If the pay award is different to this, then each 1% this equates to +/-£1.5m on the level of savings required. Further details on the impact of the partial pay freeze are set out in the addendum. With both the impact of covid-19 on the economy and the impact of our exit from the European Union future inflation levels for both pay and prices are uncertain.
- Local government finance settlement – the settlement for 2021/22 is expected in mid/late-December, although this may be impacted by delays as a result of the current Covid restrictions. It is only at this point that any

grant figures and council tax referendum limits will be confirmed. It should also be remembered that the provisional Local Government Finance Settlement will be a further single year Settlement. There will still be no clarity about either the system or levels of local government funding beyond 2021/22 and no solution to the long-term approach for funding adult social care.

- Impact of Government policy initiatives – over the coming months the Government and in particular the Treasury will begin to develop plans to restore the country's finances following the unprecedented investment to support the economy over the last nine months. The impact of any policy or funding changes on the authority is unknown.

10.2. It is these financial risk and uncertainties not only for 2021/22 but also over the medium term that place an even greater importance on ensuring our budget and MTFS are balanced and sustainable over the medium term.

11. The Need for a Balanced Budget

11.1. In putting forward their proposals, Members are reminded that local authorities are required by law to set 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 expenditure over the short- and medium-term, acting in a way that considers both current and future local taxpayers.

11.2. If the budget is unbalanced then the Chief Finance Officer, supported by Corporate Board, would have to consider issuing a Section 114 notice. Such a notice is only given in the gravest of circumstances, as during that time spending and other financial activity is suspended, the External Auditors would investigate and publicly report on the circumstances and the Ministry for Housing, Communities and Local Government (MHCLG) may take over the running of the Authority.

11.3. Because Members decide on the council tax before the year begins and cannot 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.

11.4. To avoid setting an unbalanced budget the Local Authority has to be financially resilient. Setting a clear MTFS helps clarify expected income and expenditure. 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, the MTFS needs to be fully balanced on an ongoing basis, with no ongoing spending funded from one off resources meaning the Council Plan starts from a deficit position.

11.5. 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. Similarly, if proposals are likely to have adverse impacts on customers, public consultation should be undertaken before any final decisions are made and consideration given to the outcomes of those consultations. This may mean that some proposals are not implemented, and alternative solutions may need to be sought. Legal challenges to local authority budget setting processes have tended to turn on whether the authority has complied with these duties.

11.6. Using the information contained in this report, Cabinet are asked to develop their 2021/22 Budget resolutions for recommendation to Council on 8 February 2021.

12. Timescales and Next Steps

12.1. An effective MTFS ensures the Authority has the financial strategies, plans and financial decision-making framework in place that will deliver a financially resilient and sustainable Authority over the short, medium and long-term. The key components of the MTFS are:

- A 5-year Revenue Plan to balance annual funding and expenditure;
- A Capital Strategy and Capital Investment Programme to optimise the way in which we generate, manage and allocate the capital funds at our disposal;
- A Reserves Strategy and an associated programme of reserves reviews to make sure the money we hold is effectively managed to meet the financial risks and uncertainties; and
- Treasury Management and Investment Strategies that govern how, and to

what extent, we can use our cash reserves and balance sheet strength to invest in the Council's priorities and plans. Draft strategies are due to come to Cabinet in January 2021 for consideration before coming to Council for approval alongside the budget.

12.2. The timetable for agreeing the 2021/22 budget and 2021-26 MTFS is set out in Table 9.

Table 9: Timetable for Agreeing the 2021/22 Budget and 2021-26 MTFS	
10 December 2020	Report to Cabinet from Corporate Board on their budget proposals
Late December 2020	Provisional 2021/22 Local Government Finance Settlement
28 January 2021	Report to Cabinet outlining the final information to be used in setting the budget
29 January 2021	Cabinet release Conservative Groups 2021/22 budget resolution(s)
31 January 2021	Statutory deadline for receive council tax and business rates information from the districts/boroughs
Week beginning 1 February 2021	Opposition Group's release any amendments/alternatives to the Conservative's proposals
5 February 2021	Comparison of budget resolutions released
8 February 2021	Council agree the 2021/22 budget and council tax

13. Financial Implications

13.1. There are no direct financial implications for the Authority arising from this report. The report is part of a series of reports that will culminate in Council agreeing the 2021/22 budget and council tax at their meeting on 8 February 2021.

14. Environmental Implications

14.1. There are no immediate environmental implications for the Authority from this report. There will be environmental implications that flow from the individual allocations and proposals agreed as part of the Council's approved budget and these should be considered by Members as part of reaching their decisions.

15. Background Papers

15.1. None

	Name	Contact Information
Report Author	Virginia Rennie	vrennie@warwickshire.gov.uk
Assistant Director	Andy Felton	andrewfelton@warwickshire.gov.uk
Strategic Director	Rob Powell	robpowell@warwickshire.gov.uk
Portfolio Holder	Peter Butlin	peterbutlin@warwickshire.gov.uk

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