

# **Cabinet**

**17 October 2019**

## **Development of the Medium Term Financial Strategy**

### **Recommendations**

Cabinet are recommended to:

1. Note the emerging financial position within which the 2020/21 budget and 2020-25 Medium Term Financial Strategy will be developed.
2. Approve the timetable for agreeing the 2020/21 budget.

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

- 1.1. At the meeting on 12 September 2019, Cabinet considered a report titled the “Development of the Council Plan 2025 and the Medium Term Financial Strategy”. The report outlined that the Council is developing a medium-term financial strategy (MTFS) covering a rolling five-year period, which will underpin the delivery of the Council’s outcomes and objectives as set out in the Council Plan 2025 on which we are now engaging the public.
- 1.2. The report recognised that the Council is operating in an environment of uncertainty over funding and that, as a result, it is important that the Council has a clear financial strategy to ensure decisions are taken in the context of the longer-term demand and financial context. This approach will enable the Council to respond effectively to changing circumstances while maintaining a longer-term focus on the Council’s financial sustainability.
- 1.3. The Chancellor’s Spending Round announcement on 4 September provided some clarity on funding up to 2020/21 only. This report provides Cabinet with further details on the resource position of the Authority taking account of the announcement. It then goes on to outline the key issues which will need to be considered as part of development the MTFS, setting out the key points and proposed timetable of key dates between now and the budget setting Council meeting in early February 2020.

## 2. 2020-25 Revenue Resources

2.1. The table below sets out our latest revenue resource forecasts through to 2024/25. It shows that by 2024/25 the Council is estimated to have £493.0 million revenue resource available to support the budget. In making these estimates key assumptions have been made for the purposes of developing a sustainable MTFS through to 2025:

- An annual 2% increase in the main element of the council tax.
- The introduction of the fair funding review and business rates retention from April 2021 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 main element of the Improved Better Care Fund and other longstanding government grants continue to be received at their current levels.
- The additional one-off grants announced by the Chancellor as part of the 2019 Spending Review are only temporary and no replacement funding for these one-off grants beyond 2020/21 is included in advance of any funding commitments made as part of the 2020 Comprehensive Spending Review.

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Council tax (2% annual increase)	308.9	321.4	334.4	347.9	361.9
Business rates (includes Public Health Grant from 2021/22)	71.2	95.9	97.8	99.7	101.8
Better Care Fund	12.7	12.7	12.7	12.7	12.7
Improved Better Care Fund	12.5	9.3	9.3	9.3	9.3
Social Care Grants (including Winter Pressures)	14.0	-	-	-	-
Public Health Grant	22.8	-	-	-	-
New Homes Bonus	3.1	3.1	3.1	3.1	3.1
Other Government Grants	4.2	4.2	4.2	4.2	4.2
Use of reserves (as agreed in 2019/20 budget)	2.5	0.8	0.2	-	-
<b>Total Resources</b>	<b>451.9</b>	<b>447.5</b>	<b>461.7</b>	<b>476.9</b>	<b>493.0</b>

2.2. Whilst the table above outlines the estimated level of resources available to the Authority for 2020/21 and over the period of the 2020-25 MTFS, there remains a significant degree of uncertainty, given that SR2019 is a one-year settlement only, along with the wider political and economic context. **Appendix A** provides further detail on the announcements made in the Spending Review 2019 and how they impact on: the level of resources available in both 2020/21 and future years, as well as where the conditions

attached to the funding will mean the resource cannot be used to support the budget more generally.

- 2.3. In addition to the funding outlined above, one of the options available to the Authority as a result of SR2019 is to extend the adult social care levy for another year. A further 2% adult social care levy would provide for an estimated additional £6.1 million resource on an on-going basis. In light of the continuing uncertainty around future funding and the positive impact on the medium-term resource base of the authority there are benefits in taking the levy for a further year. There will be more detailed consideration of the impact of the levy in the next report on the budget and MTFs to Cabinet in December. The Government is assuming local authorities raise the 2% adult social care levy as well as the 2% increase in the main element of council tax as part of their overall funding package for local government services.

### 3. 2020-25 Revenue Spending

- 3.1. In developing the MTFs it is essential that as well as estimating the future resource position of the Authority, a realistic assessment of future spending need is also made. Work is underway to take account of any known drivers which are impacting on services and forecast spend for future years, which need to be reflected in the strategy. At the same time, we are undertaking a review of historical budgets and spending patterns and making adjustments. Our priority is to 'right-size' budgets both up and down to ensure they are as realistic as possible.
- 3.2. The estimated level of spending need facing the Authority that has been identified to date is set out in the table below.

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Base budget rolled forward from 2019/20	417.8	417.8	417.8	417.8	417.8
Inflation (2% for pay and prices)	8.3	16.9	25.8	34.9	44.4
Demand growth	5.7	10.9	16.6	22.9	29.2
Cost increases in excess of inflationary 2% uplift	6.5	9.3	12.2	15.1	17.9
Additional one-off spending to meet SR2019 grant conditions	5.4	-	-	-	-
Provision for further spending need that will emerge over the medium term	1.5	4.0	6.5	9.0	11.5
Right-sizing budgets downwards	(2.2)	(2.2)	(2.2)	(2.2)	(2.2)

<b>Total Spending Need</b>	<b>443.0</b>	<b>456.7</b>	<b>476.7</b>	<b>497.5</b>	<b>518.6</b>
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- 3.3. Further scrutiny of the spending need by Corporate Board is currently underway and therefore the numbers above may be subject to change. There also remain significant uncertainties, for example around pay awards, the National Living Wage, the triennial revaluation of the Warwickshire Pension Fund as well as the impact of increased employers' costs in relation to the fire-fighters, teachers and health service pensions. As a result, a breakdown of the demand and cost pressures is not included in this report. A full list will be provided as part the next report on the 2020/21 budget and MTFs to Cabinet in December when it is hoped some of the uncertainties will be clearer.
- 3.4. Nevertheless, as highlighted in the report to Cabinet in September, the key areas of spending need include:
- Structural overspends and continued growth in demand in relation to children's social care and special educational needs.
  - Demographic growth in the adult population requiring care as well as the increased complexity of need.
  - The increasing cost of care provision and placements across all care services.
  - A structural deficit and continued increases in demand for home to school transport.
  - The impact of housing growth on demand across a range of services including waste management and the provision of infrastructure/schools, and
  - Increased demand and pressure on services and schools funded through Dedicated Schools Grant.
- 3.5. Further impacts may emerge as the policy objectives of national government become clearer and work has begun to quantify these externally driven policy and demand changes which will impact in 2020/21 and future years. There will also be the need to ensure there is funding to deliver the Council's key policies and strategies including the Capital Strategy for the financing and operating costs of any investment and the emerging Commercial Strategy that is elsewhere on today's agenda.

## **4. Action Required to Balance the Budget**

- 4.1. Comparing the resource forecasts and known current spending needs from the tables above provides an indication of the extent of budget reductions which will be needed over the next five years to ensure the budget is sustainable. Based on the information in the above tables, budget reductions

of £25.6 million will be needed over the five years of the proposed MTFS, although this is extremely sensitive to future decisions on council tax and a significant number of one-off funding streams. The phasing over the five years is shown in the table below.

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Total Resources	(451.9)	(447.5)	(461.7)	(476.9)	(493.0)
Less					
Total Spending Need	443.0	456.7	476.7	497.5	518.6
<b>Residual Gap</b>	<b>(8.9)</b>	<b>9.2</b>	<b>15.0</b>	<b>20.6</b>	<b>25.6</b>

- 4.2. The table shows that for 2020/21 the additional one-off funding provided as part of SR2019 means the Authority will have resource available to invest in service transformation and new approaches to demand management in the short term. Such investment will provide significant opportunity to impact positively on how the budget reductions needed in future years can be delivered and to pump-prime the delivery of the 2020-25 Council Plan.
- 4.3. The strategic approach is one of discerning investment in:
- Demand management: investment to better manage long term demand, transform service provision, mitigate climate change and lay the groundwork for future investment;
  - Invest to save: investment or revenue spending which will lead to cost savings, efficiencies, income generation and better outcomes; and
  - Transformation: investment in the Council's infrastructure.
- 4.4. Maintaining momentum and focus on delivering the benefits of transformation is unchanged as a result of the spending review, as well as the programme of service redesign to better manage demand. Across the Authority, options for other ways to deliver financial benefits or reduce the Council's need to spend are also being developed. Collectively the options will provide for delivery of a balanced, sustainable MTFS to be considered relative to local policy choices. As with the spending pressures these are currently going through a scrutiny process, by Corporate Board, and will be included in the December Cabinet report.

## 5. Sensitivity Analysis

- 5.1. Whilst the tables above provide the outline financial position facing the Authority, the text throughout has highlighted the range and extent of financial

uncertainty. The individual uncertainties and their potential cumulative effect are a very significant risk to the Council's future financial sustainability.

- 5.2. The table below sets out some of the parameters for this uncertainty, so Members are aware of the potential for material variations to the figures set out in the report.

Element of the MTFS	Change	Impact on the 'Gap' £'000
Fair funding review and business rates retention	+/- 5% in the level of assessed need to spend funded from business rates	+/- 3,150
Adult Social Care Levy	+2% levy for 2020/21, included in the base thereafter	-6,054
Council Tax	-1% each year to the core council tax	+17,042
Council Tax taxbase	+/- 1% variation to the annual 2% growth assumed in the base	+/- 17,737
Pay inflation	+/- 1% variation to the 2% assumed in the estimated spending need	+/- 2,212
Price inflation	+/- 1% variation to the 2% assumed in the estimated spending need (if not offset by increases in charges)	+/- 5,872
Capital financing	Each £10m investment	+800

- 5.3. The potential financial risk associated with these variations is material to the MTFS. It is therefore important, particularly in respect of the downside risks, to maintain sufficient reserves to manage variations on an annual basis and allow time to make the right decisions in rolling forward the MTFS on an annual basis. For example, no council tax increase would require additional savings of £6 to £7 million in any one year or £34 million over the five years of the MTFS.

## 6. The Need for a Balanced Budget

- 6.1. In putting forward their proposals Members are reminded that local authorities are required by law to have a balanced budget. 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 i.e. the 5 years of the rolling MTFS. For the purposes of the proposals being developed by Corporate Board the medium term has been taken as the period of the 2020-25 Council Plan.

- 6.2. To avoid 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 but they can only be used once. Consequently, Corporate Board is developing proposals on the basis that 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. This will ensure the MTFS for 2020-25 will be fully balanced on an ongoing basis.
- 6.3. A Reserves Strategy is also being developed as part of the MTFS to provide a clearer framework. This will also be coming to Cabinet in December.

## **7. 2020-25 Capital Programme**

- 7.1. A wider review of our approach to future decisions on capital investment need and the management of the programme is also being developed alongside the 2020-25 Council Plan and MTFS. The work, which will come to Council as part of the budget resolution, covers three core elements:
- Capital Strategy (the 'why');
  - Capital Programme/Pipeline (the 'what'); and
  - Capital Framework (the 'how').
- 7.2. The approach seeks to build on existing strengths; address the requirements of the Prudential code; and reflect the tenets of our new operating model. The intention of the strategy is to shift to a 20-30 year line of sight. This is challenging but will create a more strategic focus to our approach to capital and investment. It also presents an opportunity to align, inform and enable emerging thinking on long term place-shaping, a key role of the County Council.
- 7.3. The pipeline focuses on the content of the capital programme and the schemes which make it up – these will typically be between 1-3 years.
- 7.4. The framework will outline compliance with the 2017 Prudential code and set out the governance and resourcing arrangements needed to deliver and administer the pipeline/programme. Members have previously raised concerns about the level of underspend and slippage, and reviewing our approaches has identified a number of opportunities to improve the Council's ability to deliver against its current capital programme. Corporate Board is considering how these can be taken into account in any emerging proposals.

7.5. In positioning our strategy in this way, we are seeking to maximise the benefits of sound strategic investment and robust delivery. In developing the capital strategy there is a need to consider other wider strategies which together will be complementary to the overall approach. These specifically are the Place and Commercial strategies. Given the various stages of development for these strategies, it is likely that the development of the Capital Strategy may be in two stages – the first to meet the requirements for the budget setting process for 2020/21 and a second iteration for 2021/22 which will reflect the other strategies. The report to Cabinet in December on the 2020/21 budget and MTFS will include proposals around the first phase of development.

## 8. Timescales and Next Steps

8.1. The Local Government Finance Settlement is expected to be announced in early to mid-December 2019. The impact of this announcement will be reported to Members at Cabinet in January, at the latest. Council will then make the final decision on the 2020/21 budget and the 2020-25 MTFS at their meeting on 6 February 2020.

8.2. The proposed timetable is shown below.

<b>Approach to Agreeing the 2020/21 Budget and MTFS</b>	
<b>Date</b>	<b>Report</b>
Early to mid-December	Announcement of the provisional Local Government Finance Settlement
12 December	Report to Cabinet from Corporate Board on their budget proposals
17 December	Cabinet release their initial response to the proposals from Corporate Board
December and January	Political Groups develop their response to the proposals based on the information provided in the December Cabinet report and the Cabinet's response
30 January	Report to Cabinet outlining final information to be used in setting the budget. Cabinet release the Conservative Group's 2020/21 budget resolution(s)
3 February	Opposition Groups release any amendments to the Conservative Group's proposals
6 February	Council sets 2020/21 budget and council tax, 2020-25 MTFS and the Capital Strategy

## 9. Financial Implications



- 9.1. The Council Plan and MTFS will set the financial direction for the medium term. The precise impacts of the Spending Review 2019, the broad outline of which has been set out in the report, are under consideration and will inform Corporate Board's proposals and the draft MTFS due for presentation to Cabinet in December.

## 10. Environmental Implications

- 10.1. The Council Plan engagement will specifically address climate change and environmental issues to inform the final plan and MTFS.

## 11. Background Papers

- 11.1. None

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

## Appendix A

### Spending Round 2019 Announcements - Impact on MTFS in 2020/21

Announcement	Impact on Resources £'000	Impact on Spend £'000	Commentary
Uncertainty about the parliamentary timetable	-	-	The LG settlement is due to be published between mid-November and mid-December. Providing this timetable holds the budget and MTFS planning process can continue as set out. If Brexit or a potential general election and Parliament entering a period of purdah occurs there may be a need for flexibility and adjustment to timetables.
Single Year CSR	-	-	No impact other than the need to make assumptions about funding from 2021/22 rather than 2020/21. Statutory requirements (including for S151 officer) to consider sustainability and robustness over the medium term means a move to a one-year budget will not meet this requirement. Therefore, recommend continuing with MTFS to cover the 5 -year period of the Council Plan.
Revenue Support Grant protected in real terms with no negative RSG	-	-	WCC receives no RSG and so the protection element has no impact on the MTFS. We had already assumed that the new system of local government funding would remove the concept of negative RSG.
Winter pressures funding - to continue for a further year, may be merged with iBCF	(2,235)	2,235	Included in resource forecasts, but only as one-off funding. The merger with iBCF may reduce flexibility about how this funding can be used. Funding will need to be matched by additional spend to meet grant conditions. Adult social care has deferred projects pending confirmation that this funding would continue. The list of projects can be revived and would create no hangover into future years if

			funding did not continue beyond 2020/21.
Social Care Support Grant - to continue for a further year	(3,817)	-	Included in resource forecasts, but only as one-off funding. This funding can be used to offset Children's Services spending pressures for 2020/21 deferring the need for when savings are needed but will not reduce the level of savings required over the medium term if funding does not continue.
Improved Better Care Fund - additional element for 2019/20 to continue for another year	(3,149)	3,149	Included in resource forecasts, but only as one-off funding. The funding means matching investment will need to be built back into spending plans on a one-off basis to meet the grant conditions.
New Homes Bonus - current allocations baselined	(306)	-	The £0.306m additional funding received in 2019/20 will continue and the resource forecasts assume the funding will be baselined at this higher level of a permanent basis.
Public Health Grant - real terms increase and remaining as ring-fenced grant until implementation of BRRS	(447)		Inflationary increase to give a real-term freeze assumed in resource forecasts. No additional income above this level has been assumed until there is clarity about what "above real terms" means. No additional spend needed as the inflationary increase matches the inflation provision that is already built into spending plans. If "above real terms" does provide additional funding then this would be additional ring-fenced funding for the service that could be used to increase spend or reduce any savings target, so neutral overall. 2% equals £0.447m.
Rural Services Delivery Grant - to continue for a further year	-	-	WCC does not receive any RSDG therefore this announcement has no impact on the MTFS
Troubled Families - programme to be extended for a further year	?	-	Emerging MTFS spending need already includes an allocation to maintain current levels of investment on a permanent basis.

			<p>The continuation of the government funding will delay the time at which the Council needs to commit additional on-going resources to maintain the service. At this point the amount of additional grant is not known and is therefore not included in the figures.</p>
<p>Education High Needs - an additional £700m</p>	-	-	<p>Allocation methodology not known, but WCC could get £5+ million. This is part of the £14bn increase in schools funding over the next three years. WCC could therefore get the funding allocated for 1 or 3 years. This will not impact on MTFS directly, but any funding received will reduce the call on reserves to write-off any high needs deficits each year (currently estimated to be circa £9m a year).</p>
<p>£1bn additional funding for social care</p>	(7,914)		<p>Actual funding received will depend on the allocation methodology. This is a substantial increase in funding but is only included in the resource forecasts on a one-off basis. Whilst it can be used to offset spending pressures or inflationary allocations in 2020/21 it does not reduce the level of savings to be found over period of MTFS.</p>
<p>2% adult social care levy</p>	(6,054)		<p>Permanent increase in funding that increases by a further £1.035m by 2024/25. The impact of the additional 2% levy is not included in the resource forecasts outlined in the report. If taken, the levy can be used to support any service. The first £6.054m is ring-fenced to adult social care. Taking the additional levy could be used to increase spending in ASC, extend the positive impact of the rightsizing to future years, fund ASC inflation releasing funding for other services or a mixture of the three. The key issue will be whether spending plans agreed comply with the guidelines and</p>

			reporting requirements to demonstrate it has genuinely increased spend in ASC.
Business rates retention and fair funding delayed to 2021/22	(2,070)	-	The £2.070m is the additional business rates income being received in 2019/20. It had been assumed that as part of the move to a new system there would be a reset and some of the local growth in business rates generated under the current system would be lost. An extra year of the current system means the authority will be moving into the new system from a higher base.
Fire pension	(985)	-	Spend side already built into the base therefore this is additional income for the authority, assumed to be on a permanent basis.
<b>Total</b>	<b>(26,977)</b>	<b>5,384</b>	
<b>Net Change</b>		<b>(21,593)</b>	