Cabinet

7 December 2021

2022/23 Budget and 2022-27 Medium Term Financial Strategy – Background Information and Options

Recommendations

Cabinet is recommended to:

(1) Develop their draft 2022/23 Budget and 2022-27 Medium Term Financial Strategy proposals, taking into account the information and advice presented in this report; and

(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 2022.

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 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 8 July 2021, Cabinet considered a report entitled "A Financial Framework for the 2022/23 MTFS Refresh" alongside a report on the Council Plan and Integrated Planning 2022-26. The report outlined the emerging financial position within which the 2022/23 budget and 2022-27 MTFS would be developed and approved the approach and framework within which the necessary work would be undertaken.

1.3. This report is the next step in the process of setting the 2022/23 budget and the framework for the 2022-27 MTFS. It makes available, for Elected Members, the latest financial information that will underpin the 2022/23 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 2022/23 council tax in February 2022.

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 and time-limited 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 proposals for the realignment of the Revenue Investment Funds to the Council Plan (section 8);
- The summary revenue budget position and any remaining flexibility (sections 9);
- 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 2022/23 (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 2022/23 budget is made on 8 February 2022.

2. Context

2.1. The context in which the 2022/23 MTFS refresh is happening continues to be dominated by Covid. The Spending Review, announced in October 2021, gave us an initial indication of the Government's approach, over the medium term, to reducing the levels of additional borrowing at the same time as meeting ongoing need to invest in recovery to achieve the growth required to repay the deficit. Added to this there are significant uncertainties around Government policy in terms of the Local Government Finance Settlement and funding reforms, which is expected in December and may cover another single year rather than three years, the potentially major reforms to the funding of adult social care and White Papers on Levelling Up and planning reform as well as the roll out of the Government's proposals around levelling up and the UK Shared Prosperity Fund. Other key elements of the national policy context relevant to the MTFS include the Government's Net Zero strategy and *Build Back Better*: *Our Plan for Health and Social Care*, which sets out the Government's plans for healthcare, adult social care and additional funding via a new health and social care levy.

2.2. The economic situation remains hugely challenging with the added growing inflationary risk as a result of supply/labour shortages and the demand for services rising more quickly than our resources. The direct and indirect impacts of these factors on the County Council, as well as our partners, are unknown and continue to be highly volatile. Added to the mix, we have dealing with the on-going financial impact of Covid-19 and delivering on the Authority's ambition to invest in recovery.

2.3. 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.

2.4. The Spending Review 2021 (SR21) included a number of announcements that provide updates to the resource forecast used as the basis of the July Cabinet report. These are:

- Core council tax referendum limits to remain at 2% each year;
- A new option to levy an additional 1% adult social care precept in each of the next three years (2022/23 to 2024/25), in addition to the 2% flexibility the Authority carried forward from Spending Review 2020 (SR20);
- £1.5bn of new grant funding for local government to cover increased inflationary, pay and national insurance and demand pressures; and
- The maintenance of the Public Health Grant in real terms over the SR21 period.

2.5. Table 1 below sets out our base revenue resource forecasts through to 2026/27. By 2026/27 the Council is estimated to have £565.785m revenue resource available to support the budget, including a starting assumption of a 2% annual increase in council tax, taking the 2% adult social care levy carried forward from SR20 in 2022/23 and then taking the 1% additional adult social care levy flexibility in the following two years. This approach has been adopted because of the financial position in which the Authority finds itself post Covid-19 and is in line with the MTFS agreed in February 2021, but in doing so recognises that setting the council tax is a political decision. The Council does have the option of taking a further 1% adult social care levy in 2022/23, which would increase resources by a further £3.904m over the period of the MTFS. 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;
- Taking the remaining flexibility to raise a further 2% social care levy in 2022/23 and the additional 1% flexibility in 20023/24 and 2024/25;
- 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;
- Public Heath grant increases at 2% per annum;
- The Council receives £6.750m as our share of the additional £1.5bn additional grant announced in SR21; and
- No additional government funding for the impact of Covid-19 on tax collection in 2022/23 with the impact manageable through the application of reserves set aside and government grants received specifically for this purpose in previous years.

Table 1: Revenue Resource Forecasts 2022-27					
	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Council tax (2% annual increase plus adult social care levy of 2% 2022/23 and 1% in 2023/24 and 2024/25)	339.977	357.168	375.230	390.370	406.131
Business rates	73.635	75.108	76.609	78.142	79.705
Better Care Fund, iBCF and other social care grants	39.162	39.162	39.162	39.162	39.162
Public Health Grant	24.083	24.564	25.056	25.056	25.056
Share of £1.5bn additional government grant	6.750	6.750	6.750	6.750	6.750
Other Government Grants	9.600	8.869	8.981	8.981	8.981
Total Base Resource Level	**493.207**	**511.621**	**531.788**	**548.461**	**565.785**

2.7. These resource forecasts represent an increase in resources of £7.561m in 2022/23, increasing to £16.681m by 2026/27, from those in the July report.

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 2022/23 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 2022.

2.9. The scenario used for the model of resource forecasting used for the MTFS is for a one-year gradual recovery through to the end of 2022. However, the level of uncertainty means we need to recognise that plans may need to be adapted for a range of potential resource scenarios. Appendix A therefore also includes the resource implications of two alternative scenarios are broadly based on:

- <u>Best Case</u> – minimal recession, return to previously levels of activity by April 2021 and maintaining government investment in local authority services in real terms; and
- <u>Worst Case</u> – medium term recession lasting whole of MTFS period with reduced funding for local government as part of an overall strategy to reduce the deficit in the public finances.

3. Corporate Board's Proposed Budget Strategy

3.1. It is within this context that the budget for 2022/23, as the first year of a 5-year rolling MTFS, will align the resources of the Authority to the objectives and ambitions set out in the Council Plan.

3.2. Warwickshire remains 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; investing to return to a growing local economy, resulting in buoyant local taxbases;
- No cashflow problems with high levels of 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. Our strong position meant we were able to respond to the uncertainty and financial commitments created by Covid-19 and look forward to the future with confidence. The decisions taken to address the short-term challenges we faced have not undermined our financial sustainability over the medium term. However, difficult decisions and choices will still need to be made as part of agreeing the 2022/23 budget and 2022-27 MTFS refresh. The guiding principle continues to be 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;
- Integrate the budget and MTFS with the Council Plan through the integrated planning approach which has been adopted to ensure the direction set out in the Council Plan translates into a sustainable financial strategy;
- As far as possible maintain the capacity to invest by retaining the capital and revenue investment funds, continuing to push outcome-focussed activity in specific and limited areas, 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; and
- 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 and over the medium term. It is estimated that next year 69% of our core funding (excluding Dedicated Schools Grant) will come from council tax and therefore the decisions around the level of increase in council tax (including the adult social care levy) are central to remaining a financial resilient and sustainable authority. SR21 confirmed the Government anticipates all local authorities raising the maximum core council tax each year of 2% and the additional 1% adult social care levy for the next three years. In addition to these increases in council tax the County Council retains the capacity to levy an additional 2% adult social care levy carried over from last year, meaning we could levy a maximum council tax of 5% in 2022/23 (2% core council tax and 3% adult social care levy). With inflation forecast to be 4% next year and in line with the MTFS approved in February 2021, the starting point for the options in this report is a 4% council tax increase in 2022/23 (2% core plus 2% adult social care levy) but then taking the additional flexibility allowed in SR21 in each of the next two years.

3.6. Corporate Board is strongly of the view that council tax increases at this level would place the authority in the strongest possible financial position and to ensure sustainable services over the medium term, whilst recognising the impact on taxpayers of an above average inflation increase. 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.

3.7. The importance of the decision on the level of council tax increase was reinforced on 9 November 2021 when Michael Gove MP, the Communities Secretary told the House of Commons Housing, Communities and Local Government Committee that the Government had abandoned plans to allow councils to retain 75% of their business rates as it conflicted with the Government's levelling-up agenda and instead committed to looking at the mechanism for redistributing funding to authorities most in need. As one of the authorities with a resilient council tax and business rates taxbases, this represents an increased financial risk and suggests the Authority may need to become increasingly self-sufficient. By the end of the MTFS period it is forecast that the proportion of our core funding (excluding Dedicated Schools Grant) from council tax will have increased from 69% to 72%.

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

Table 2: Resource Impact of Changing the Increase in the Council Tax

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Council tax (4% in 2022/23, 3% in 2023/24 and 2024/25 and 2% thereafter)	339.977	357.168	375.230	390.370	406.131
Potential additional resources from taking the extra 1% adult social care levy in 2022/23	+3.262	+3.425	+3.593	+3.747	+3.904
Potential additional resources from an extra 1% annual increase	+3.262	+6.928	+10.999	+15.392	+20.145
Potential loss of resources from a reduction of 1% in the annual increase	-3.262	-6.869	-10.799	-14.945	-19.376
Potential loss of resources from a 0% annual increase	-13.066	-23.719	-35.112	-43.449	-52.272

4. Proposed Revenue Funding Allocations

4.1. In developing these proposals Corporate Board have been guided by the following priorities for the 2022/23 budget to:

- Ensure the 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.

Inflationary Costs

4.2. The MTFS approved in February 2021 provided for an annual general inflationary uplift to ensure budgets remain sustainable in real terms of a 2% increase in pay, prices and contract costs partly offset by assuming an equivalent increase in all fees and charges. This provision was in line with the medium-term target rate set by the Government for the Bank of England.

4.3. However, as the economy has reopened there has been increased inflationary pressure across all sectors. The forecasts for inflation, as set out in SR21, are for an average of 4% in 2022 before settling to around 2% (the Government's target) by 2024. Forecasts at this level are significantly above the 2% assumed in the MTFS. With the level of budget reductions already required to balance the MTFS it is the view of Corporate Board that it is not possible for Services to generate sufficient additional efficiencies to absorb the increased inflationary cost. Therefore, an additional 1% provision for non-pay inflation should be made in 2022/23 at an additional cost to the Authority of £3.203m. This is still 1% below the Chancellor's forecast for the next two years and therefore it remains a risk as to whether it will lead to additional budget pressures in future years. This risk will be managed in 2022/23 through reserves (see Section 7).

4.4. 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.

4.5. There are areas of the Authority's activity where it is known the provision for general price inflation will be insufficient. There are three service areas where contractual commitments above this level are known to exist. These are:

- Street lighting energy;
- Waste contracts; and
- Provider costs in adult social care which are also particularly impacted by the 6.6% increase in the National Living Wage from April 2022.

Combined with the provision for a 3% general inflationary impact the total provision for price inflation in 2022/23 in the MTFS is £13.307m, bringing the total indicative inflation provision for price inflation over the period of the MTFS to £46.081m.

4.6. In addition to price inflation the MTFS also needs to include a sustainable provision for pay inflation. The effect of Covid-19 on average earnings and on wages and salaries has been significant. Wages and salaries are expected to recover significantly in 2021 and 2022 with average earnings increasing by 5.0% and 3.9%. Given the Chancellor's stated expectation that public sector pay is expected to maintain broad parity with the private sector over the next three years, forecasts at this level are significantly above the 2% assumed in the MTFS in February 2021. It is the view of Corporate Board that a provision for pay inflation of 4% in 2022/23 and 3% in 2023/24, again 1% below the expectations in SR21, is required to ensure the MTFS remains robust and sustainable. However, pay levels for the Authority's workforce are dependent on the outcome of a number of different national pay negotiation arrangements and therefore Corporate Board recommend that this provision is held centrally in the first instance. This will ensure any unused provision can be redirected to support the delivery of the MTFS in future years. The impact of this increase in the provision for pay inflation is £6.667m in 2022/22 and a total indicative provision over the MTFS period of £24.160m.

4.7. The final inflationary cost on pay is the impact of the 1.25% increase in National Insurance contributions from April 2022 for the Council's direct employees. This is expected to cost the Authority an additional £1.284m per annum.

Other Permanent Revenue Budget Adjustments

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

4.9. 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, support for children with disabilities and strategic asset management;

- 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;
  - The provision of home to school transport, particularly in relation to children with SEND; and
  - The impact of the need for additional capacity in support services as a result of the growth in demand
- Increased capacity required in services following the full implementation of the new operating model;
- Additional activity required as a result of legislative/statutory and other externally driven changes including subject access requests, complaints, audit and the preparation of the statement of accounts, insurance and the coroner's service; and
- Investment to maintain the core operational infrastructure of the Authority.

4.10. As well as those areas where additional allocations are required there are a number of investments brought forward for consideration, totalling £0.897m, where there is a choice for Members as to whether to support them.

4.11. In addition to the specific allocations Corporate Board are also recommending an allocation is set aside as a provision of £1.000m in 2022/23, £9.000m for the following two years and then £7.500m for the last two years of the MTFS for future currently unknown and unquantified spending need, including increases in the National Living Wage and extra pay and price inflation. 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. Any of these provisions not required can be released in future years.

4.12. The additional permanent spending allocations identified total £23.052m for 2022/23 and a further £72.576m for indicative allocations over the remainder of the MTFS period, bringing the total permanent allocations proposed to £95.628m. **Appendix B** provides brief details of the proposed permanent budget allocations recommended for approval. All allocations beyond 2022/23 are indicative at this stage and will be subject to review as part of the rolling MTFS.

Time-Limited Revenue Allocations

4.13. 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 as well as pump priming the investment in change needed to deliver budget reductions. There are also a number of one-off costs the Council needs to fund to ensure the continued effective delivery of services.

4.14. Corporate Board have identified four areas where additional time-limited allocations are required to meet known spending pressures to ensure services' financial position at the end of the MTFS period is sustainable.

4.15. The four areas where additional time-limited allocations are required are:

- The up-front investment needed to deliver budget reductions included in the MTFS, the key investments being the SEND Change and Inclusion Plan and Digital Roadmap;
- The provision of temporary capacity to fund the on-going impact of Covid-19 on services including waste disposal costs, business support and cleaning;
- Investment required to meet the action plans resulting from the recent Fire and Rescue inspection and other external/independent reviews; and
- The need to fund a range of costs that will impact on the Authority as a result of past decisions and previously agreed approaches such as the resourcing of the DSG deficit and the maintenance of the core IT infrastructure of the Authority.

4.16. Corporate Board are recommending that the time limited allocations of £20.607m in 2022/23 and a further £20.332m over the remainder of the MTFS period are funded, a total of £40.939m.

4.17. As well as those areas where additional allocations are required there are a number of investments brought forward for consideration, totalling £1.142m, where there is a choice for Members as to whether to support them.

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

Future Government Grants

4.19. Spending announcements made as part of SR21 included a number of areas where some, or all, of the resulting activity will be delivered by and through local authorities. At this point we do not know how much, if any of this funding the County Council will receive.

4.20. However, given the tightness of the Authority's overall financial position, Corporate Board are recommending that a clear position about how any additional funding received will be managed is set out in advance.

4.21. The proposed approach is:

- There is no presumption that new grant funding will be automatically be allocated to services;
- As far as possible any grants received should fund activity we are already planning to do, that has been funded through the MTFS or through allocations from the Investment Funds; and
- If additional spending has to be incurred to deliver new activity, the priority is to direct resources at activities that drive progress in the Delivery Plans or deliver future MTFS savings.

Summary Spending Need

4.22. Bringing all these elements together indicates that the Authority has a spending need of £529.443m to be financed in 2022/23, increasing to £631.296m by 2025/26. A breakdown of this is shown in Table 3 below.

Table 3: Summary of 2022-27 Spending Need					
	Allocation	Cumulative Indicative Allocations in Future Years			
	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Base Budget	464.103	464.103	464.103	464.103	464.103
Inflation	21.258	34.819	46.820	59.021	71.525
Additional Permanent Spending Need	22.308	40.067	56.445	78.981	94.731
Additional Time-Limited Spending Need	20.607	10.754	9.578	-	-
Total Spending to be Financed	**528.276**	**549.743**	**576.946**	**602.105**	**630.359**
Choice Permanent Spending Allocations	0.744	0.897	0.897	0.897	0.897
Choice Time-Limited Spending Allocations	0.423	0.293	0.223	0.163	0.040
Total Spending Need	**529.443**	**550.933**	**578.066**	**603.165**	**631.296**

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 2022/23 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 2022 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 the last two years 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. The Government has introduced a statutory override, in place until the end of 2022/23, which means currently local authorities are not required to resource the deficit.

5.4. It is the professional advice of the Strategic Director for Resources, supported by Corporate Board, that the Authority does not follow this approach for two reasons:

- The statutory override only lasts until the end of 2022/23, after which authorities will need to resource, in full, any deficit accumulated up to that point, which is forecast to be £22.160m by the end of 2022/23; and
- As a matter of principle and proper accounting practice to accumulate an unsatisfied (and growing) debt is unsustainable without guarantees of additional funding from Government or plans in place to fully bring spend back into line with the resources.

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 £7.972m in 2022/23, increasing to £32.397m by 2026/27. These figures are included in the spending allocations needed over the MTFS period shown in Table 3. A further update of this table and the implications for the MTFS more generally, reflecting the latest information on the expected level of funding and the final decisions around the allocation of the DSG across wider schools and pupil-related services, will be included in the Budget Update report to Cabinet in January 2022.

Table 4: DSG Forecast 2022-27					
	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Estimated spend in-year	87.050	92.275	96.944	101.054	104.818
Impact of SEND and Inclusion Change Plan	(1.510)	(3.200)	(5.158)	(6.865)	(8.040)
SEND DSG Spend to be financed	**85.540**	**89.075**	**91.786**	**94.189**	**98.778**
Expected DSG funding	(77.568)	(84.220)	(85.794)	(87.400)	(91.989)
In-year deficit	**7.972**	**4.855**	**5.992**	**6.789**	**6.789**
Cumulative deficit to be funded		**12.827**	**18.819**	**25.608**	**32.397**

5.6. The £32.397m additional deficit over the 2022-27 MTFS period is in addition to the £14.188m deficit expected to have accrued by the end of 2021/22. Whilst this represents the biggest single allocation in the MTFS it should be recognised that the SEND Change and Inclusion Plan and additional national funding in recognition of the magnitude of the structural deficit in SEND across local government means, on a comparable basis, the additional allocations are £2.977m less than included indicatively in the MTFS approved in February 2021. 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 and to continue to make the Government aware of the need for additional funding.

6. Options for Balancing the Budget

6.1. As we have progressed through the last 18 months of the Pandemic it has become clear that the negative financial impact of Covid-19 would extend beyond the current financial year, into 2022/23 and beyond. The impact would be felt in terms of the demand for services and, more critically, the impact growing inflationary risk. The result is the need to identify significant levels of additional savings proposals that could balance the budget on top of those already included in the February 2021 MTFS.

6.2. The focus remains 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 £66.794m 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.**

Table 5: Summary of Proposals for Balancing the Books 2022-27						
	2022/23 £m	Extra in 2023/24 £m	Extra in 2024/25 £m	Extra in 2025/26 £m	Extra in 2026/27 £m	Share of Total Saving
Better procurement	1.239	1.567	1.526	0.396	-	7%
Demand management	2.890	7.917	8.334	6.975	5.533	47%
Income generation	1.519	1.905	3.614	1.046	0.589	13%
Further rightsizing of budgets	1.339	0.175	0.097	0.095	0.379	3%
Service delivery redesign	3.262	3.641	4.168	5.230	0.740	26%
Service reductions	0.115	0.368	1.408	0.727	-	4%
In-year Savings Options	**10.364**	**15.573**	**19.147**	**14.469**	**7.241**	
Cumulative Savings Options	**10.364**	**25.937**	**45.084**	**59.553**	**66.794**	

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 2022/23 Budget and MTFS Update report.

6.5. Almost half of the budget reductions are to be delivered through demand management. The maintenance of pace, the on-going focus on the transformation of services as well as the investment in digital/automation opportunities and the impact of community powered Warwickshire initiatives are essential if the required momentum shift in demand is to be achieved. This will need to be the focus of Members and Corporate Board's attention moving forward. The utilisation of performance information, to monitor trends and identify any areas of concern at the earliest opportunity, will be critical.

6.6. These options include a level of service reductions and it is recognised that the list includes some difficult decisions. Corporate Board will continue to work to identify further transformation and digital/automation opportunities, to identify opportunities for additional income generation as part of taking forward outcome-driven investments, including those driving economic growth, in the run-up to the February budget and throughout 2022/23 that will provide additional options and flexibility should circumstances change. 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 £225.615m at the end of 2021/22. As part of the MTFS agreed in February 2021 Council reconfirmed its 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. 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:

- £9.890m of specific project/volatility reserves can be closed; and
- The Resources Directorate risk reserve should be reduced from 3% to 2%, to reflect that many of the Directorate's services are less demand-driven, than the other two Directorates, although the level of resource this could release will be determined at the end of the financial year.

7.4. Releasing reserves at this level is not without financial risk over the medium term. In particular, £5.435m is due to the release of the interest rate volatility reserve. This reserve is held to manage the impact of changes in interest rates on our cost of borrowing, recognising that the impact of any change could be material in-year. However, the level of cash balances currently held mean we will not need to borrow externally until 2025/26 to fund the capital programme at its current level and therefore the reserve would remain untouched on the balance sheet until this time. When we do need to borrow as an Authority towards the end of the MTFS there is a risk that the cost will be higher than currently estimated and with no reserve to smooth the impact this will be a first call on the provision for indicative pressures.

7.5. The proposals in this report are that 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 future savings proposals (see Section 8).

This will minimise the extent to which the MTFS will diminish the Revenue Investment Funds.

7.6. Table 6 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 November 2021. The figures will be updated to reflect the Quarter 3 position in the budget report to Cabinet in January 2022.

Table 6: Analysis of Forecast County Council Reserves at 31 March 2022	£m
Earmarked	
Schools	22.194
External funding conditions	8.732
Total Earmarked Externally	**30.926**
Investment Funds Subject to Annual Review	
Policy Decisions	12.241
Specific Investment Projects	12.935
Total Subject to Annual Review	**25.176**
Revenue Investment Funds	**31.988**
Management of Financial Risk	
General Reserves – minimum corporate risk assessment	25.253
Directorate Risk Reserves	11.410
Volatility Risk	55.645
Total Management of Risk Reserves	**92.308**
Reserves Available for Investment and to Support the MTFS	**45.217**
Total Forecast Reserves at 31 March 2022	**225.615**

7.7. The result of the proposals outlined above and the impact of spend in 2021/22 means, as shown in the table, there is £45.217m 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 2022/23.

8. Revenue Investment Funds

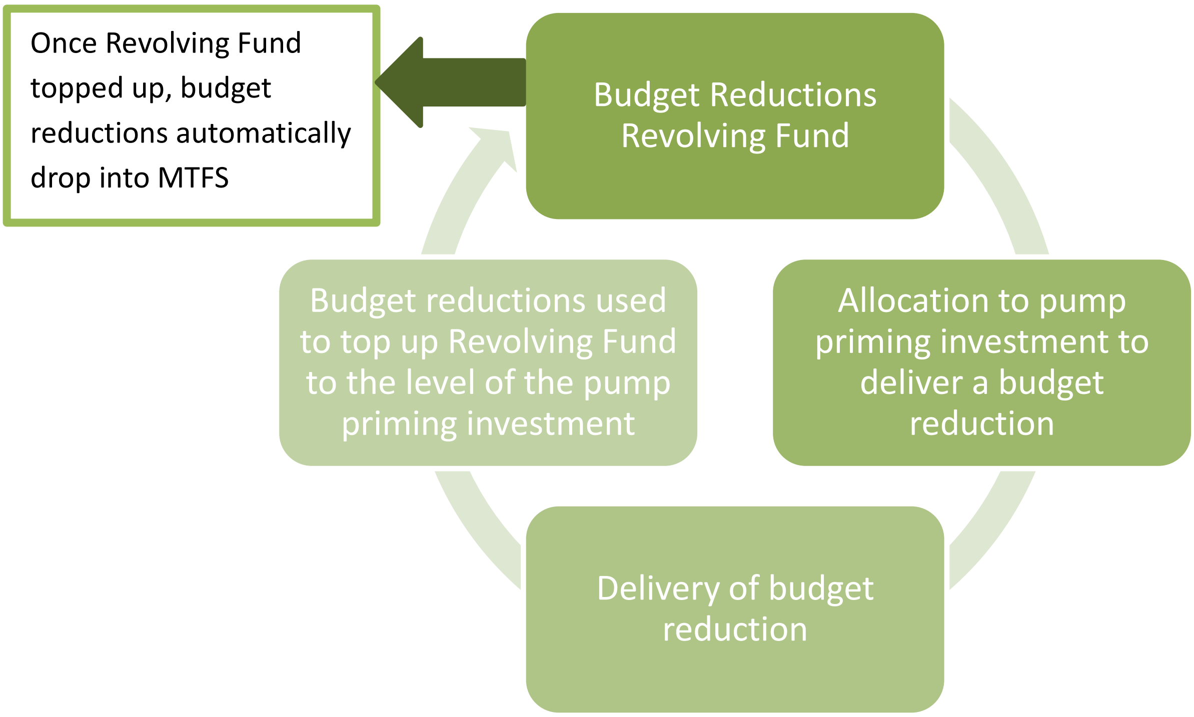
8.1. As shown in Table 6 the Revenue Investment Funds at the 31 March 2022 are forecast to be £31.988m. However, included within this are a number of projects that have already been approved where spend, of £16.206m, will be incurred over the medium term. As a result, there is £15.782m of the Revenue Investment Funds currently unallocated to projects and potentially available for allocation to support the delivery of the Council's ambitions over the next five years.

8.2. Having reviewed the operation of the Revenue Investment Funds in light of the new approach to integrated planning Corporate Board are recommending three changes to the operation of the Revenue Investment Funds:

- A move to commissioned business cases for use of the Revenue Investment Funds. The business cases would be commissioned based on the development of an investment pipeline flowing from the Delivery Plans to be approved by Cabinet once the Council Plan is agreed in February 2022;
- The creation of a revolving fund specifically to support the delivery of future budget reductions; and
- The creation of an IT System Replacement Fund to ensure the investment in the maintenance, upgrading and future replacement of our core IT systems can be planned and managed through a phased approach.

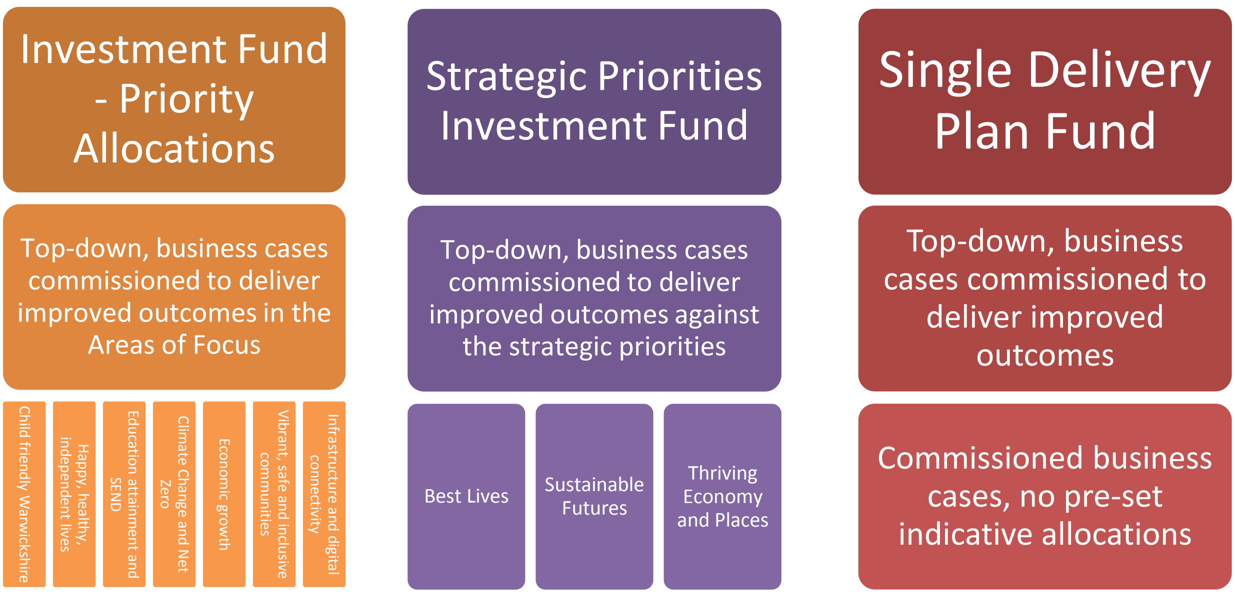
8.3. The permanent revenue allocations in Appendix B include £0.500m that will create the Systems Replacement Fund. Based on current planned work this funding will be sufficient in 2022/23 and no additional top-slice from the Revenue Investment Funds will be needed. However, this will be kept under review and any changes brought forward as part of the MTFS refresh for 2023/24.

8.4. The Revolving Fund for the delivery of future budget reductions will need an initial injection of funding, after which it should be self-sustaining. The objective of the fund is the creation of a pipeline of future MTFS savings/budget reductions. The approach proposed is shown in the diagram below. Corporate Board's proposal is that initial funding of £5m is set aside, recognising that the delivery of budget reductions to replenish the initial outlay may take several years and a number of projects will be underway at any one time.



8.5. Outside of these two specific proposals, the structure of the Investment Fund/s will partly be determined by the decisions made on balancing the MTFS and the level of reserves used to achieve that. The diagram below shows the three options available:

- A single investment fund;
- A single fund with a series of indicative allocations based around the strategic priorities; or
- A single fund with a series of indicative allocations based around the areas of focus in the draft Council Plan.



8.6. The desire to ensure the use of the Investment Funds is more aligned to the priorities for the Authority and the move towards commissioned business cases would lend itself to indicative allocations based around the strategic priorities or areas of focus. It would also ensure resources remain available for areas of activity where commissioned business cases will take longer to come forward for approval.

8.7. The level of resources likely to be available for the Investment Funds is considered in Section 9, as it is dependent on decisions made about “choice” spending allocations, whether to take forward all of the options for budget reductions and decisions around the level of council tax.

9. Summary Revenue Position

9.1. 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 2022/23 budget is balanced and 2022-27 MTFS is sustainable and robust.

9.2. Table 7 shows that, with a 4% council tax increase in 2022/23, 3% for the next two years and 2% thereafter, taking advantage of the additional adult social care levy flexibility in two of the three years and the use of at least £46.468m of reserves, the Authority is estimated to have a balanced budget for 2022/23 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. The level of headroom available to Members is £2.220m, if none of the choice allocations are taken forward.

9.3. By taking advantage of the flexibility offered by taking the adult social care levy the Authority is committing to increase the resources available to deliver adult social care by at least the amount raised from the levy. The options set out in this report for 2022/23 and the subsequent two years deliver on this commitment.

9.4. The 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. The drive to bring savings forward also emphasises the importance of the creation of the Revolving Fund to ensure there is a pipeline of future savings under development.

Table 7: Summary Revenue Budget Position 2022-27					
	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Spending to be Financed (non-choice) (Table 3)	528.276	549.743	576.946	602.105	630.359
Less:					
Reserves used of fund one-off spending	(20.607)	(10.754)	(9.578)	-	-
Options for Balancing the Books (Table 5)	(10.364)	(25.937)	(45.084)	(59.553)	(66.794)
Total Spend to be Resourced	**497.305**	**513.052**	**522.284**	**542.552**	**563.565**
On-going resources available (Table 1)	(493.207)	(511.621)	(531.788)	(548.461)	(565.785)
(Surplus)/Shortfall assuming only unavoidable spending and all savings taken forward	**4.098**	**1.431**	**(9.504)**	**(5.909)**	**(2.220)**
Choice spending allocations	1.167	1.190	1.120	1.060	0.937
Reserves used of fund one-off spending	(0.423)	(0.293)	(0.223)	(0.163)	(0.040)
(Surplus)/Shortfall after taking forward all choice spending allocations	**4.842**	**2.328**	**(8.607)**	**(5.012)**	**(1.323)**

9.5. The headroom of £2.220m provides a degree of flexibility in the allocations/budget reductions they take forward. However, any use of this flexibility in the first two years will increase the level of reserves needed to balance the MTFS.

9.6. To arrive at the headroom of £2.220m impact of the budget options set out in this report requires the use of £46.468m reserves. This is above the £45.217m of reserves identified as being available to support the MTFS. Therefore, £1.251m of the uncommitted resources in the Investment Funds will need to be used to balance the MTFS. This would reduce the Investment Funds to £14.351m, of which £5.000m is recommended to be set aside to create the Revolving Fund to deliver future budget reductions; leaving £9.531m available to support investment in the Council’s priorities and ambitions over the next five years, before Members take decisions to use any of the headroom.

9.7. The reserves figures, and the consequent impact on the resources available for the Investment Funds will be updated in the January report when the Quarter 3 budget monitoring is available.

10. Capital Strategy

10.1. Each year Council is required to approve a capital strategy as part of its budget proposals. Much of the content is specified, however the strategy is an important document in setting out the Council's ambition to ensure capital and revenue spending on the asset portfolio is directed efficiently and effectively.

10.2. As a suite of documents, the capital strategy sets out:

- 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.

10.3. A draft of the refreshed Capital Strategy (our strategic intent) is attached at **Appendix G**. It has been updated to reflect the ambitions and priorities of the State of Warwickshire report, the Council Plan strategic priorities and the Areas of Focus. It has also been updated to reflect CIPFA policy requirements, the management of risk, and the WRIF and WPDG.

10.4. An update of the strategy will be brought to Cabinet in January 2022 along with the accompanying Technical Annex and draft capital programme once these have been updated for Quarter 3 monitoring the refreshed WRIF and WPDG business plans and the consideration of the draft Council Plan, elsewhere on today's agenda.

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 Department for Levelling Up, Housing and Communities (DLUHC) 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 2022/23 Budget resolutions for recommendation to Council on 8 February 2022.

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 will form part of January's Cabinet agenda, alongside the 2022/23 Budget Update report, and will come to Council for approval alongside the budget.

12.2. The timetable for agreeing the 2022/23 budget and 2022-27 MTFS is set out in Table 8.

Table 8: Timetable for Agreeing the 2022/23 Budget and 2022-27 MTFS	
7 December 2021	Report to Cabinet from Corporate Board on the budget options
Mid December 2021	Provisional 2022/23 Local Government Finance Settlement
25 January 2022	Report to Cabinet outlining the final information to be used in setting the budget
By 28 January 2022	Cabinet release Conservative Groups 2022/23 budget resolution(s)
31 January 2022	Statutory deadline for receipt of council tax and business rates information from the districts/boroughs
Week beginning 31 January 2022	Opposition Group's release any amendments/alternatives to the Conservative's proposals
4 February 2022	Comparison of budget resolutions released
8 February 2022	Council agree the 2022/23 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 2022/23 budget and council tax at their meeting on 8 February 2022.

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

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