Cabinet

15 December 2022

2023/24 Budget and 2023-28 Medium Term Financial Strategy – Background Information and Options

Recommendations

Cabinet is recommended to:

(1) Develop its draft 2023/24 Budget and 2023-28 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 full Council decision on the budget on 7 February 2023.

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 the Council's activities and 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 its meeting of 14 July 2022, Cabinet considered a report entitled "A Financial Framework for the 2023/24 MTFS Refresh". The report outlined the emerging financial position within which the 2023/24 budget and 2023-28 MTFS would be developed and approved the approach and framework within which the necessary work would be undertaken.

1.3. his report is the next step in the process of setting the 2023/24 budget and the framework for the 2023-28 MTFS. It makes available the latest financial information that will underpin the 2023/24 budget and MTFS and the views of Corporate Board on that information in an approach that will enable the Council to respond effectively to current circumstances while maintaining a longer-term focus on the Council's financial sustainability. The report sets out the process that will lead to the agreement of the budget and the setting of the 2023/24 Council Tax in February 2023.

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 budget 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 summary revenue budget position and any remaining flexibility (sections 8);
- the proposed capital strategy and resultant capital programme (section 9);
- the residual financial risks and uncertainties (section 10); and
- the requirements on the organisation to deliver a balanced budget in 2023/24 (section 11).

1.5. The report will then go on to consider the timetable and next steps between now and when the final decision on the 2023/24 budget is made on 7 February 2023.

2. Context

2.1. The context for the 2023/24 MTFS refresh is no longer dominated by Covid but by fundamental financial uncertainties arising from the current, significant inflationary pressures (labour, supplies and services) arising from a number of factors, not least the war in Ukraine and shortages of labour. A prolonged recession is expected with consequent impacts on both the cost of services the Council delivers and rising demand for services as households and communities struggle with the impacts of inflation and the rising cost of living.

2.2. The Comprehensive Spending Review, announced in October 2021, set out the Government's approach to reducing the level of additional borrowing at the same time as meeting ongoing need to invest in recovery to achieve the growth required to repay the deficit arising from the cost of supporting the

Country through the Pandemic. Since that time economic instability has further increased as a result of the on-going war in Ukraine, EU Exit, the global wide impacts of Covid on the flows of goods and services and political turbulence at a national level. Added to this there are significant uncertainties around Government policy in terms of the delayed Fair Funding review for local government, funding reforms for both business rates and Council Tax, the future of the major reforms to the funding of adult social care, the Government's Net Zero strategy and planning reform, as well as the roll out and resourcing of the Government's proposals around levelling up.

2.3. The uncertainty about the delayed adult social care reforms, and associated funding, is especially material; initial work on the reforms suggested a potentially material and unaffordable financial risk to the Council arising from the Fair Cost of Care exercise and changes to the care cap and means test, reflecting the findings of numerous national studies.

2.4. At a national level there is a negative economic and fiscal outlook. The Office of Budget Responsibility (OBR) judges that the UK economy is in recession and predicts the size of the UK economy will shrink by 1.4% in 2023; that inflation will be 7.4% next year; and that unemployment will rise from 3.6% to 4.9% in 2024. At the same time the recent Autumn Statement has signalled further, significant real reductions in public expenditure from 2025/26 onwards.

2.5. This means at a local level our economic situation remains hugely challenging with the continuing inflationary risk, shortages in the labour market and the demand for services rising more quickly than our resources. Non-pay inflation is currently c12%, the pay award for this year was 6% (against a 4% provision in the budget) and the MTFS approved in February 2022 was based on a 3% increase in resources. The direct and indirect impacts of these factors on the County Council, as well as our partners, remain unknown and highly volatile.

2.6. 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 and therefore continuing the more commercial approach to time-limited investment to help deliver financial benefits and release resources that can be reinvested for the benefit of those who live in, work in and visit Warwickshire remains important.

2.7. The Autumn Statement 2022 (AS22) 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 will increase from 2% a year to 3% a year;

- the option to levy an additional adult social care precept increased to 2% a year over the medium term from the current 1% for 2023/24 and 2024/25 only;
- the introduction of the Adult Social Care Cap, originally due for October 2023, will be delayed for 2 years; however, the funding remains for the next two years (see next bullet);
- a £2.5bn funding increase for the social care sector in 2023/24 and £4.2bn in 2024/25, which includes:
    - £0.3bn in 2023/24 increasing to £0.5bn in 2024/25, which will be distributed through the Better Care Fund to help get people out of hospital faster into care settings;
    - £1.3bn in 2023/24 increasing to £1.9bn in 2024/25, which will be distributed to local authorities for adults and children's social care (this is the repurposed reform grant funding);
    - £0.4bn in 2023/24 and £0.68bn in 2024/25, which will be distributed through a grant ringfenced for adult social care to support local authorities to continue to move paying a more sustainable rate for care;
    - an estimated £0.7bn in 2023/24 increasing to £1.3bn in 2024/25 from the additional adult social care precept;
    - reduced funding of £0.2bn which offsets the grant provided to offset the National Insurance Increase that has now been cancelled.
- the schools' budget will receive £2.3bn of additional funding in each of 2023/24 and 2024/25;
- there will be an additional £1.0bn funding to enable further extension to the Household Support Fund for the full 2023/24 financial year, worth an estimated £8m for Warwickshire
- all other departments will have their spending review settlements maintained in full to 2024/25, with no cash cuts, but will only see a 1% increase for the three years from 2025/26; and
- capital spending will be maintained over the medium term at current levels in cash terms.

2.8. Table 1 below sets out our base revenue resource forecasts through to 2027/28. By 2027/28 the Council is estimated to have £602.232m revenue resource available to support the budget, based on a starting assumption of Council Tax increases remaining at the level assumed in the MTFS approved in February 2022 (that is a 2% annual increase in Council Tax and taking the 1% adult social care levy in 2023/24 and 2024/25). This approach has been adopted because it recognises that setting the Council Tax is a political decision.

2.9. The Council does have the option of taking a further 1% core Council Tax in each of the five years of the MTFS (3%) plus a further 1% on the adult social care levy in 2023/24 and 2024/25, increasing to 2% for the last three years of the MTFS. Taking the maximum 5% Council Tax increases each year would increase the resources available by a further £56.204m over the period of the MTFS. Taking a 1% lower Council Tax than the core assumption each year would reduce the available resources by £20.861m. 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.

2.10. 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 a 1% additional adult social care levy in 2023/24 and 2024/25;
- the Better Care Fund, the Improved Better Care Fund, Public Health Grant and other longstanding government grants continue to be received at their current, levels over the medium term;
- the Council's share of the additional £1.5bn additional grant announced in SR21 is reduced by the top-slice of funding originally given to compensate authorities for the increase in National Insurance and an allowance for the impact of future formula changes; and
- the Council's share of the increased social care funding is estimated using the same formula as used to allocate the additional social care funding this year.

Table 1: Revenue Resource Forecasts 2023-28	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Council Tax (2% annual increase plus adult social care levy of 1% in 2023/24 and 2024/25)	358.573	375.791	390.950	406.731	423.161
Business rates	78.373	79.941	81.540	83.171	84.833
Better Care Fund, iBCF and other social care grants	43.366	43.366	43.366	43.366	43.366
Public Health Grant	24.083	24.083	24.083	24.083	24.083
Share of £1.5bn additional government grant	8.108	6.908	6.908	6.908	6.908
Other Government Grants	8.432	7.233	7.233	7.233	7.233
New social care grant (AS22)	2.976	2.976	2.976	2.976	2.976
Repurposed Social Care Reform Grant (AS22)	9.672	9.672	9.672	9.672	9.672
Total Base Resource Level	**533.583**	**549.970**	**566.728**	**584.140**	**602.232**

2.11. These resource forecasts represent an increase in resources of £14.291m in 2023/24, reducing to £13.143m by 2027/28, from those in the July report. The decrease across the MTFS period is the result of lower assumptions about taxbase growth flowing from the expected downturn in the housing market over the next two years. The taxbase assumption in July was for a 2% increase in the taxbase across each year of the MTFS. Based on the latest data from the Valuation Office Agency on housing numbers published in November, this assumption has been revised downwards to 1.45% for 2023/24 and 1.75% in 2024/25 before reverting back to a 2% annual increase.

2.12. 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 2023/24 Local Government Finance Settlement (due on 21 December) and the final taxbase figures will be provided by the District/Borough Councils by the end of January 2023.

2.13. The level of volatility and uncertainty when developing budget proposals is significantly higher than it has been in recent years. In particular, the Local Government Finance Settlement is not expected until December 21, which will set out how some of the funding announced in the Autumn Statement is to be distributed between Councils and provide more information to support officers' recommended assumptions. Inflationary pressures remain high and volatile. Consequently, there is an on-going risk that some assumptions or estimates may need to change between now and the Council's budget meeting in February 2023.

2.14. The scenario used for the model of resource forecasting used for the MTFS is for a one-year gradual recovery from the recession through to the end of 2024. However, the high 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:

- Best Case – minimal recession, maintaining current levels of activity and the allocation of the additional Government funding on formulae that benefit the County Council; and
- Worst Case – medium term recession with only a gradual recovery by the end of the MTFS period with the allocation of the additional Government funding on formulae that do not benefit the County Council and future reductions in grants 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 2023/24, 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 financially resilient authority, with a robust approach to the Council's financial sustainability. 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, in particular a return to a growing local economy, resulting in buoyant local taxbases;
- strong cashflow and 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 have managed the impact of high levels of inflation in 2022/23 allowing us to continue to 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 2023/24 budget and 2023-28 MTFS refresh. The guiding principle remains to balance the MTFS without oversteering, maintaining flexibility to invest/transform and deal with future pressures.

3.4. Corporate Board's approach in preparing this report has been to present Members with options for delivering a sustainable MTFS within the levels of future Council Tax in agreed in February 2022. Reflecting this, Corporate Board's strategic approach to the budget has been to:

- present options, based on sound assumptions, which enable Members to agree a financial plan that shows how income can equal expenditure over the short and medium term, providing for a balanced budget and avoiding unidentified savings;
- remain robust, ambitious and prudent, given current and persistent economic uncertainties, ensuring the Authority can maintain sufficient reserves to manage financial risk/shocks;
- 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;
- deliver on the key strategic principles approved by Cabinet in July 2022:

    - provide for the step change in costs, recognising the inflationary uplift is not a temporary phenomenon, with prices only expected to revert to increasing by 2% over the medium term;
    - 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;
    - set a very high bar for new permanent allocations, which has meant that some of the ‘choice’ options that would have come forward from services for Members’ consideration in previous years are not being brought forward at this time, including:
        - reflecting clear signals about national priorities, not providing offset funding for Government decisions to remove grant funding;
        - not funding potential legislative changes;
- operate with a clear expectation that existing levels of planned budget reductions will be delivered; 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 in such a volatile and uncertain external environment.

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 67% 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 the Council remaining financially resilient and sustainable. AS22 confirmed the Government/OBR anticipates over 95% of all local authorities raising the maximum core Council Tax of 3% plus an additional 2% adult social care levy for each of the next five years. With inflation forecast to be 7.4% next year and in line with the MTFS approved in February 2022, the starting point for the options in this report is a 3% Council Tax increase in 2023/24 and 2024/25 (2% core plus 1% adult social care levy) and 2% thereafter.

3.6. Taking some or all of the increased flexibility in levying Council Tax would place the Authority in the strongest possible financial position, ensure sustainable services over the medium term, avoid any difficult decisions about budget reductions and increase investment in the priorities and areas of focus set out in the Council Plan. Balancing this is the adverse impact on taxpayers of Tax increases, particularly whilst inflation is very high and many households are struggling with the acute cost of living pressures, the Government’s assumption that local authorities will take the maximum Council Tax and then reflecting authorities differing ability to generate income from Council Tax in the allocation of Government grants and the risk of the continued emergence of further uncertainties and inflationary pressures. Therefore, in considering their Council Tax strategy, Members should note that not taking the maximum Council Tax increase is a more risky strategy, given that any permitted increase not taken cannot be caught-up in future years, while deciding how much of the extra flexibility to utilise is a decision that can be reviewed each year as part of the MTFS refresh, depending on the financial position of the Authority at that time.

3.7. Table 2 below shows the additional income that would be generated or lost by varying the level of Council Tax. Appendix A includes a table of the impact of each 0.5% variation in the Council Tax for Members to use as a ready reckoner when considering the level of Council Tax.

Table 2: Resource Impact of Changing the Increase in the Council Tax					
	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Council Tax (2% annual increase plus adult social care levy of 1% in 2023/24 and 2024/25)	358.573	375.791	390.950	406.731	423.161
Potential additional resources from taking the maximum 5% annual increase	+6.893	+14.608	+27.082	+40.925	+56.204
Potential additional resources from an extra 1% annual increase	+3.436	+7.214	+11.425	+15.949	+20.861
Potential loss of resources from a reduction of 1% in the annual increase	-3.479	-7.267	-11.316	-15.650	-20.280
Potential loss of resources from a 0% annual increase	-10.437	-21.561	-29.637	-38.194	-47.251

4. Proposed Revenue Funding Allocations

4.1. In developing these proposals Corporate Board has been guided by the following priorities for the 2023/24 budget to:

- ensure the budget proposals deliver the long-term financial sustainability of services;
- provide the funding needed to meet the step change in the cost of services as a result of the current high levels of inflation;
- 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 2022 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 and with the continuing international economic instability and national political uncertainty there has been increased inflationary pressure across all sectors. The forecasts for inflation, as set out in AS22, are for an average of 9.1% this year, 7.4% next year before settling back to nearer the long-term trend of around 2% by the end of the 2024 calendar year. Forecasts in the early years of the 5-year cycle at this level are significantly above the 2% assumed in the MTFS. It is the view of Corporate Board that it is not possible for all Services to generate sufficient additional efficiencies to absorb the increased inflationary cost across the two financial years, while many areas also seeing increased demand. Positive action by Services has managed the impact of inflation in 2022/23. Nevertheless, for some Services to remain sustainable there is a need to provide funding for excess inflationary costs from both 2022/23 and 2023/24. All other Services will be asked to manage the inflationary impact across the service within the 2% general provision. There is a material risk about the Council's ability to continue to absorb cost increases that are higher than resources year-on-year and could lead to additional budget pressures in future years. This risk will be managed in 2023/24 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. It is important to recognise that some costs will increase above the standard inflation 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 five service areas where contractual commitments above this level are known to exist. These are:

- street lighting energy;
- highways maintenance contract;
- waste contracts;
- home to school transport for both SEND and mainstream pupils; and

- provider costs in adult social care which are also particularly impacted by the 9.7% increase in the National Living Wage from April 2023.

Combined with the provision for a 2% general inflationary impact the total provision for price inflation in 2023/24 in the MTFS is £14.759m, bringing the total indicative inflation provision for price inflation over the period of the MTFS to £49.090m.

4.6. In addition to price inflation the MTFS also needs to include a sustainable provision for pay inflation. The effect of inflation and labour shortages on average earnings and on wages and salaries has been significant. There is a growing demand that public sector pay should be maintained in real terms, with a risk of the delivery of services being impacted by industrial disputes, and also that if pay does not maintain broad parity with the private sector and other public sector bodies who do not have statutory duties to balance their books their ability to offer more generous salaries will further impact on turnover and recruitment difficulties. The flat rate pay award of £1,925 per full time employee, with the firefighters pay award yet to be settled requires an additional £0.709m to be set aside to be able to fully resource this cost on an on-going basis. Given the pressures on recruitment and retention, the level of pay settlements being agreed for other public sector bodies as well as the advice from West Midlands Employers, it is the view of Corporate Board that a provision for pay inflation of 4% in 2023/24 and 2024/25 should be made, before reverting back to the general 2% annual uplift 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 £7.344m in 2023/24 and a total indicative provision over the MTFS period of £27.993m.

Other Permanent Revenue Budget Adjustments

4.7. 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.

4.8. The five areas where additional budget allocations are required are:
- right-sizing budgets to correct for current structural overspends, primarily in relation to supported accommodation for children leaving care, support for children with disabilities and home to school transport;
- allocations to meet the continued growth in demand for services as a result of both demographic change and housing growth, with the main areas of demand growth:

  - the adult population requiring care as well as increases in the complexity of need;
  - placements and support for 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;
- allocations to meet the conditions of the additional ring-fenced social care grants announced in AS22 and the impact of the National Living Wage on provider costs;
- investment in the staffing capacity in Children and Families on an invest-to-save basis to reduce the demand for more expensive placements in the future;
- allocations to increase capacity in services following service reviews including SEND assessment and review, transport delivery and the attendance service;
- additional activity required as a result of legislative/statutory and other externally driven changes including 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.

4.9. As well as those areas where additional allocations are required there are a number of investments brought forward for consideration, totalling £0.328m, most of which are the full year effect of allocations approved in February 2022 but where there is a choice for Members as to whether to support them.

4.10. In addition to the specific allocations Corporate Board are also strongly recommending an allocation is set aside as a provision of £1.000m in 2023/24 and then £7.000m for the remaining four years of the MTFS for future currently unknown and unquantified spending need, such as further increases in the National Living Wage and extra pay and price inflation. In 2023/24 the level of permanent pressures (including inflationary pressures but excluding additional ring-fenced Government grants) requiring funding is £16.527m above the provision in the MTFS approved in February 2022. Maintaining such a provision will mitigate the need to identify further options for balancing the budget as new spending requirements are identified over the period of the MTFS and provide further resilience in a highly uncertain context. Without this provision the Council's general risk reserve may need to increase which further ties up resources and reduces flexibility. Any of these provisions not required can be released in future years.

4.11. The additional permanent spending allocations identified total £30.484m for 2023/24 and a further £63.239m for indicative allocations over the remainder of the MTFS period, bringing the total permanent allocations proposed to £93.723m. **Appendix B** provides brief details of the proposed permanent budget allocations recommended for approval. All allocations beyond 2023/24 are indicative at this stage and will be subject to review as part of the rolling MTFS.

Time-Limited Revenue Allocations

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

4.13. Corporate Board have identified six areas where additional time-limited allocations are required to meet known spending pressures to ensure Services' financial positions at the end of the MTFS period are sustainable.

4.14. The six areas where additional time-limited allocations are required are:

- an allocation to meet the impact of inflation on wholesale utility costs on the assumption costs will fall back to the underlying trend over the medium term;
- the up-front investment needed to deliver budget reductions included in the MTFS;
- the provision of temporary capacity to fund the on-going impact of Covid-19 on demand for services including waste disposal costs and business support;
- investment required to meet the action plans resulting from the recent Fire and Rescue inspection and other external/independent reviews;
- the resource to fund temporary structural overspends in services whilst capital investment to reduce costs to a sustainable level is delivered; 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, funding winter pressures in adult social care and the maintenance of the core IT infrastructure of the Authority.

4.15. Corporate Board also recommend maintaining funding for the key investments of the SEND Change and Inclusion Plan and Digital Roadmap and that these time-limited transformation programmes are funded by a £5.000m allocation from the Available for Use Reserve.

4.16. Corporate Board are recommending that the time limited allocations of £12.175m in 2023/24 plus the £5.000m increase in the transformation funds and a further £9.263m over the remainder of the MTFS period are funded, a total of £26.438m.

4.17. As well as those areas where additional allocations are required there are a number of investments brought forward for consideration, totalling £0.964m, 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 AS22 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 of this funding the County Council will receive.

4.20. However, given the tightness of the Authority's overall financial position, Corporate Board is 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 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 £572.533m to be financed in 2023/24, increasing to £673.577m by 2027/28. A breakdown of this is shown in Table 3 below. The increased spending need shown here is greater than the increase in resources over the MTFS period shown in Table 1.

Table 3: Summary of 2023-28 Spending Need		
	Allocation	Cumulative Indicative Allocations in Future Years

	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Base Budget	502.771	502.771	502.771	502.771	502.771
Inflation	22.103	38.132	50.584	63.796	77.083
Additional Permanent Spending Need	30.484	43.981	62.651	79.152	93.723
Additional Time-Limited Spending Need	12.175	8.330	0.933	-	-
Allocation to Transformation Funds	5.000	-	-	-	-
Total Spending Need	**572.533**	**593.214**	**616.939**	**645.719**	**673.577**

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 2023 and any decisions made will need to be included as part of the budget resolution to be agreed by Council in February 2023.

5.2. The Chancellor's Autumn Statement 2022 increased the schools' budget by £2.3bn for 2023/24. However, until the details of the DSG Settlement are announced we will not know how much of this additional funding is allocated to the various elements of the DSG – schools, early years, high needs and central costs. Therefore, for this report no changes to the figures included in the MTFS report in July 2022. Any updated figures that impact on the MTFS will be included in the January 2023 MTFS Update report to Cabinet.

5.3. In the absence of more up-to-date figures the underlying strategic position has not changed. There continues to be a structural deficit in the High Needs DSG, and it is essential the work of the Special Educational Needs (SEND) and Inclusion Change Programme continues to bring about the required change to delivering statutory duties within allocated resources. The impact of the SEND forecast deficit on the overall financial sustainability of the Council's finances is integral to the Council's budget proposals.

5.4. It remains the professional advice of the Strategic Director for Resources, supported by Corporate Board, that to ensure the Authority remains financially sustainable funding should be set aside to make good the deficit and that this position remains unchanged even if the Government extends the current statutory override beyond March 2024. The figures presented in this report meet this requirement, subject to the impact of the DSG funding announcement and the updated forecast deficit reported at Quarter 3.

6. Options for Balancing the Budget

6.1. As we progressed through the Pandemic it became clear that the negative financial impact of Covid-19 would extend into 2022/23 and beyond. The impact would be felt in terms of the demand for services and, more critically, growing inflationary risk. The national and international economic and political instability has meant that inflationary risk is now much more significant. The result has been the need to identify significant levels of additional savings proposals that could balance the budget on top of those already included in the February 2022 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 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 £73.275m have been identified as being deliverable over the next five years. The cumulative impact of these on an annual basis are summarised in Table 4 below, with further detail shown in **Appendix D.**

Table 4: Summary of Proposals for Balancing the Books 2023-28						
	2023/24 £m	Extra in 2024/25 £m	Extra in 2025/26 £m	Extra in 2026/27 £m	Extra in 2027/28 £m	Share of Total Saving
Better procurement	2.510	2.752	1.810	2.090	-	13%
Demand management	5.614	6.312	6.138	4.916	3.959	37%
Income generation	3.109	3.945	1.586	1.144	0.874	14%
Further rightsizing of budgets	2.910	0.241	0.655	1.473	0.396	8%
Service delivery redesign	1.883	3.020	5.076	5.595	1.518	23%
Service reductions	0.345	1.359	2.045	-	-	5%
In-year Savings Options	**16.371**	**17.629**	**17.310**	**15.218**	**6.747**	**100%**
Cumulative Savings Options	**16.371**	**34.000**	**51.310**	**66.528**	**73.275**	

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 2023 in the 2023/24 Budget and MTFS Update report.

6.5. Almost 40% of the budget reductions are to be delivered through demand management. The maintenance of timely delivery, an on-going focus on the transformation of services, investment in digital/automation opportunities and the impact of community powered Warwickshire initiatives are essential if the required financial benefits of more effective demand management are 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. The Council has delivered £114.5m of savings since 2014 and has to find up to another £73.3m by the end of 2027/28 in a context of high inflation and demand pressures, which means there are few straightforward options left. 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 2023 budget and throughout 2023/24 with the aim of providing, where possible, 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 £212.697m at the end of 2022/23. As part of the MTFS agreed in February 2022 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 whilst recognising that there is a need to control the amount of scarce resources held in reserves to ensure we are using taxpayers' money to deliver services to residents and communities. 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 that £8.835m of specific project/volatility reserves can be closed and the resources released to the Available for Use Reserve and therefore available to Members to support the delivery of the MTFS and to invest in the delivery of the Council Plan. This brings the total amount in the Available for Use Reserve forecast to be available to support the MTFS to £44.085m.

7.4. Releasing reserves at this level is not without financial risk over the short and medium term. In particular, it assumes that only £0.553m of this reserve is needed to fund any overspend in 2022/23. If, as we prepare the Quarter 3 forecasts, the level of forecast overspend increases the level of the Available for Use Reserve may decrease. Also, using all of the reserve to support the 2023/24 budget means there will be no flexibility in future years to use reserves to support the delivery of the MTFS.

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 and to fund any time-limited allocations. 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.

7.6. There are no proposals to change the Reserves Strategy for 2023/24. An update of the strategy to reflect the reserves position forecast as at the end of Quarter 3 will be included as part of the 2023/24 Budget and MTFS Update report to Cabinet in January 2023.

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 2023/24 budget is balanced and 2023-28 MTFS is sustainable and robust.

8.2. Table 5 shows that, with a 3% Council Tax increase in 2023/24 and 2024/25, and 2% thereafter, and the use of at least £32.756m of reserves, the Authority is estimated to have a balanced budget for 2023/24 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 remaining level of headroom available to Members is £1.930m.

8.3. If Members wish to increase investment in any service on a permanent basis or reject any of the budget reductions they do not want to see implemented then there are a number of flexibilities available:

- to remove some of the “Choice” spending proposals shown in Appendix B;
- to increase the budget reductions shown in Appendix D and/or identify new opportunities for budget reductions; or
- take advantage of the additional flexibility offered in the Autumn Statement to increase the Council Tax up to a maximum of 5% per annum; or
- to use any non-ringfenced additional funding announced, above the estimates used in this report, from the Local Government Finance Settlement and the taxbase information from the Districts/Boroughs.

8.4. 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.

Table 5: Summary Revenue Budget Position 2023-28

	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Spending to be Financed *(Table 3)*	572.533	593.214	616.939	645.719	673.577
Less:					
• Reserves used of fund one-off spending	(12.175)	(8.330)	(0.933)	-	-
• Reserves redirected to increase Transformation Funds	(5.000)	-	-	-	-
• Options for Balancing the Books *(Table 4)*	(16.371)	(34.000)	(51.310)	(66.528)	(73.275)
Total Spend to be Resourced	**538.987**	**550.884**	**564.696**	**579.191**	**600.302**
On-going resources available *(Table 1)*	(533.583)	(549.970)	(566.728)	(584.140)	(602.232)
(Surplus)/Shortfall	**5.404**	**0.914**	**(2.032)**	**(4.949)**	**(1.930)**

8.5. The headroom of £1.930m provides a degree of flexibility in the allocations/budget reductions Members ultimately decide to take forward. However, any use of this flexibility in the first two years will increase the level of reserves needed to balance the MTFS.

8.6. To arrive at the headroom of £1.930m impact of the budget options set out in this report requires the use of £32.756m reserves. This is within the £44.085m of reserves identified as being available to support the MTFS. The reserves figures, and the consequent impact on the resources available for will be updated in the January 2023 report when the Quarter 3 budget monitoring forecast is available.

8.7. The high degree of uncertainty about both the level of resources that would be available to the Authority and the level of additional spending needed to manage the cost of services at a time of high inflation has been highlighted throughout the report. It is likely that the extent of any variations between the position set out in this report and the final information (in the January 2023 report) will be greater than would normally be expected this year. Members are asked to note this heightened uncertainty and the level of flexibility to respond to emerging issues that this requires when considering the development of their budget resolutions. One of the most material of these uncertainties is the level of Government grant the Authority will receive for adult social care relative to the additional spending need to maintain the market. The assumption in the report is the additional spending need can be met from the additional Government grant but, if this proves not to be the case, then the pressure to take some of the additional flexibility around the adult social care levy may increase.

9. Capital Strategy

9.1. 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.

9.2. 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.

9.3. Work is still on-going to finalise these draft documents to reflect the latest CIPFA policy requirements and Warwickshire Recovery and Investment Fund (WRIF) and Warwickshire Property and Development Group (WPDG). The updated business plans for WRIF and WPDG are due to be reported to Cabinet in January 2023 for approval. An update of the capital strategy will be brought to Cabinet in January 2023 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.

10. The Need for a Balanced Budget

10.1. 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.

10.2. 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.

10.3. 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.

10.4. 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.

10.5. 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. Equality Impact Assessments for the savings options will be made available to Members ahead of full Council in February alongside the January 2023/24 Budget and MTFS Update report.

10.6. Using the information contained in this report, Cabinet is asked to develop their 2023/24 Budget resolutions for recommendation to Council on 7 February 2023.

11. Timescales and Next Steps

11.1. 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.

11.2. Draft strategies will form part of January's Cabinet agenda, alongside the 2023/24 Budget Update report, and will come to Council for approval alongside the budget. The January Cabinet report will also reflect:

- the latest position on the spending need to maintain the adult social care market and how this relates to the level of grant funding allocated to Warwickshire in the 2023/24 Local Government Finance Settlement; and
- the transfer of the home to school transport service from Education Services to Environment Services.

11.3. The timetable for agreeing the 2023/24 budget and 2023-28 MTFS is set out in Table 6.

Table 6: Timetable for Agreeing the 2023/24 Budget and 2023-28 MTFS	
15 December 2022	Report to Cabinet from Corporate Board on the budget options
21 December 2022	Provisional 2023/24 Local Government Finance Settlement
27 January 2023	Report to Cabinet outlining the final information to be used in setting the budget
By 30 January 2023	Cabinet release Conservative Group 2023/24 budget resolution(s)
31 January 2023	Statutory deadline for receipt of Council Tax and business rates information from the districts/boroughs
Week beginning 30 January 2023	Opposition Groups release any amendments/alternatives to the Conservative proposals
3 February 2023	Comparison of budget resolutions released
7 February 2023	Council agrees the 2023/24 budget and Council Tax

12. Financial Implications

12.1. 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 2023/24 budget and Council Tax at their meeting on 7 February 2023.

13. Environmental Implications

13.1. 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.

14. Background Papers

14.1. None

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