Report to the Cabinet
Meeting to be held on Thursday, 6 February 2020

Report of the Chief Executive and Director of Resources

Part I

Electoral Divisions affected: (All Divisions);

Money Matters 2019/20 Position - Quarter 3
(Appendices 'A', 'B', 'C', 'D' and 'E' refer)

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Executive Summary

This report provides an update to Cabinet on the county council's 2019/20 revenue and capital financial position, proposed 3 year capital delivery plan as at the end of December 2019, an updated medium term financial strategy (MTFS) covering the period 2020/21 to 2023/24, and a proposed capital strategy.

There is currently an unprecedented amount of uncertainty relating to future funding across local government. Accordingly significant assumptions are required to underpin our forecasts. While these can be made with reasonable confidence in the current year, over the medium term, with limited information, we rely heavily on advice from national bodies and discussion with peers. A number of funding scenarios were assessed in Quarter 2 and the most likely scenario selected remains appropriate and is the basis for this forecast.

The provisional local government finance settlement for 2020/21, announced on the 20 December 2019, was largely in line with the technical consultation that was published in October. It announced the continuation of the revenue support grant and significant additional funding for social care. Based on this position there is not expected to be any requirement for reserves in setting the 2020/21 revenue budget along with £4.045m being available to support the ongoing Improvement Journey work that is currently underway.

The settlement is for one year only and the figures are expected to be confirmed in late January/early February 2020 within the final settlement announcement. The 2020/21 announcement is the first and only year of the Spending Round 2019, with future years' announcements dependent on a number of factors, including: spending review 2020, the outcome of the fair funding review, the business rates retention reset, the move to 75% business rates retention and any reform of the new homes bonus scheme.

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Whilst we expect to deliver a budget in 2020/21 without recourse to reserves, forecasting based on the most likely funding scenario indicates a future funding gap of £33.312m by 2023/24. This is due primarily to increased pay costs and service demand pressures. Work continues to build on last years' service challenge work to deliver further efficiencies and close the funding gap. Further reports will follow as firm costed proposals become available.

In summary:

(i) The 2019/20 revenue forecast outturn is £788.767m, representing a projected underspend of £13.508m (1.68%) of the agreed budget.

(ii) The MTFS has been updated for our current expectations of increased demand and volume. The revised forecast position has deteriorated slightly in the light of our expectations of future funding levels, the impact of a higher than expected National Living Wage increase on the cost of our commissioned adult social care and an updated forecast on pay and pensions following the completion of the latest triennial pension scheme valuation.

(iii) At Quarter 2 the MTFS showed a deficit £28.438m to 2023/24 and our most likely scenario now indicates a financial deficit of £33.312m in 2023/24.

(iv) The council is forecast to hold a General Reserve against unforeseen issues of £23.437m representing circa 3% of net budget, which is unchanged from the previously reported position.

(v) The council is forecast to hold £147.989m of uncommitted transitional reserve at the end of the financial year. This is sufficient to meet the forecast gap beyond the end of the current MTFS period.

Recommendation

Cabinet is asked to:

(i) **Note** the current forecast underspend of £13.508m on the revenue budget in 2019/20.

(ii) **Note** the revised funding gap of £33.312m covering the period 2020/21 to 2023/24 as set out in the revised financial outlook forecast for the council.

(iii) **Approve** the budget adjustments for 2020/21, and following years' changes, included in the revised MTFS.

(iv) **Agree** to make recommendations to Full Council on 13 February 2020 a Band D Council Tax for 2020/21 reflecting a 3.99% increase including 2% to be used for adult social care as per the new flexibilities.

(v) **Note** the contents of the county council's reserves position.

(vi) **Note** the expected capital expenditure outturn of £132.623m.

(vii) **Note** the revised 2019/20 capital delivery programme of £151.433m as presented within the body of the report.

(viii) **Note** the updated 3 year capital delivery programme 2020/21 to 2022/23.

(ix) **Agree** to make recommendations to Full Council to approve the proposed capital strategy.

Background and Advice

The detailed reports present the Quarter 3 position and are appended as follows:

- Appendix A - the 2019/20 forecast revenue position.
- Appendix B - revised medium term financial strategy for the period 2020/21 to 2023/24, including reserves position.
- Appendix C - the 2019/20 re-profiled capital delivery programme and forecast outturn.
- Appendix D - 3 year capital delivery programme 2020/21 to 2022/23.
- Appendix E - Proposed Capital Strategy 2020 to 2040.

<u>2019/20 Revenue Position as at 31 December 2019 (Appendix A)</u>

A revenue underspend is currently forecast at £13.508m and represents a variance of 1.68% against the overall revenue budget of £802.275m. The forecast outturn position is subject to a number of assumptions around the anticipated profile of expenditure for the rest of the year which, as always, is difficult to predict in some demand led budget areas. The report identifies those areas where forecast pressures exist and will be subject to ongoing detailed review. There are also a number of underspending service areas and where these have been validated as reflecting a level of recurrent underspend these have been picked up as management action savings within the MTFS. The focus will remain on continuing to tightly control and drive down costs wherever possible.

As part of the monthly monitoring process savings that have been agreed to date are reviewed by finance monitoring boards. The position at the end of quarter 3 was that 94.5% of the financial value of all agreed savings were rated as on track, albeit some having to undertake work to mitigate against delays in delivery.

<u>The medium term financial strategy (MTFS) and reserves position (Appendix B)</u>

At Cabinet in January 2020 the MTFS set out a forecast funding gap of £28.438m. The updated funding gap contained within the report has increased to £33.312m by 2023/24 primarily as a result of an updated view of the impact of indexation on our funding, the impact of a higher than expected National Living Wage rate and the impact on staff costs of the output from the latest triennial pension fund valuation. There is a small surplus forecast for 2020/21 which could be used to fund the initiatives generated from the Improvement Journey work which is in progress. The

MTFS position includes additional costs relating to staff pay inflation, transport and demand assumptions, and the impact of some savings that are deemed undeliverable.

The value of the uncommitted transitional reserve is currently forecast to be £147.989m by the end of March 2020. This does not include the impact of any variation as a result of the final 2019/20 outturn position. The value of the uncommitted transitional reserve is currently forecast to be sufficient to meet the identified funding gaps beyond the end of the current MTFS, but the intention is to identify further savings and thereby securing a sustainable financial position for the council.

Capital delivery programme for 2019/20 (Appendix C)

A 2019/20 capital delivery programme of £130.289m was agreed at Full Council in February 2019. This was based on the best forecast available at that point in time with the need to review and update to reflect the impact of the final 2018/19 outturn position and associated slippage and advance delivery, additions to the programme subsequently agreed by Cabinet and an updated assessment of deliverability within the year. The review has resulted in the 2019/20 capital delivery programme increasing to £151.434m and this will be used as the basis for monitoring progress over the rest of the financial year.

Three year capital delivery programme 2020/21 to 2022/23 (Appendix D)

The capital delivery programmes sets out a requirement for capital expenditure of £133.542m in 2020/21 followed by sums of £98.501m and £52.843m in the following two years. This will be funded primarily through grants and borrowing with the remainder being paid for from other contributions.

Grant funding is forecast to be £91.796m for 2020/21 with further grants of £60.508m and £38.932 in 2021/22 and 2022/23 respectively. The expectation is that we will borrow £26.472m in 2020/21 with further borrowing of £35.455m and £12.455m over the following two years. The remainder of the funding for the programme will come from 3rd party contributions.

Capital Strategy 2020-2040 (Appendix E)

The capital strategy has been written to set the long term strategic framework within which the authority will make decisions on capital and investment. It is a requirement of the Chartered Institute of Public Finance and Accountancy (CIPFA)'s Treasury Management Code of Practice and the Prudential Code.

Consultations

Proposals will be subject to appropriate consultation where required. The timing of the consultation has been impacted by the General Election held in December 2019; any responses to the consultation will be reported to Full Council.

Implications:

Risk management

The county council's overall approach to managing financial risks continues to be to identify and acknowledge risks early and build their impact into financial plans while continuing to develop strategies which will minimise their impact. This approach operates in parallel with the identification and setting aside of sufficient resources to manage the financial impact of the change risks facing the organisation.

The financial risks and opportunities that could affect the position outlined in the report primarily cover the following areas. Many of these risks equally present opportunities:

Level of Future Resources from Central Government
Risks remain in relation to the level of resources the council receives from the government in terms of revenue support grant, social care grant, business rates and the fairer funding settlement yet to be announced. At this point in time there is insufficient detailed information regarding the changes to certain of the funding assumptions within the MTFS, as a result these have been modelled following scenario analysis on the most likely funding scenario. Future funding levels could therefore be higher or lower than currently forecast.

Demand
There is continued pressure on the council's budget, particularly around adult and children's social care, and the most up to date demand forecasts have been included. Any increase in demand above the current forecast will add additional pressure to future years and conversely reductions in demand will create underspends.

Inflation
A significant level of additional resource has been included in the MTFS, primarily on contractual price increases and particularly on social care where there are nationally recognised funding issues in the residential and domiciliary care markets. In addition, the MTFS includes estimates of the cost of increases that would enable independent sector providers to meet the additional costs of the national living wage.

National Living Wage (NLW)
For 2020/21 we have built in the in a 6.21% increase as announced in December 2019, for subsequent we have reverted to our base assumption of 3.06% annual growth. Each 1% increase in the NLW drives a pressure of approximately £2.200m to the cost of commissioned adult care services.

Delivery
The MTFS assumes that agreed savings will be delivered in the period 2020/21 to 2023/24. There are also a significant number of other factors, both internal and external, which may impact upon delivery and these will need to be clearly identified and either minimised or optimised as appropriate.

List of Background Papers

Paper	Date	Contact/Tel

None

Reason for inclusion in Part II, if appropriate

N/A