

FINANCIAL PLANNING 2019/20 and beyond

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1. Area Affected

1.1 County Borough Wide.

2. Purpose of Report

2.1 The purpose of the report is to outline an approach for 2019/20 that dovetails with our overall medium term planning approach.

3. Key Messages

3.1 The key messages are:

- A continuing difficult financial climate;
- Services have put forward mitigations for the 1 and 2% requirement;
- The WG budget and provisional settlement will be announced in early October and it is the choices that the WG make that will determine the funding levels for and ultimately resilience of local government;
- An approach has been developed for the 2019/20 budget that will dovetail with our overall medium term planning approach.

4. Background

4.1 The July Cabinet considered a report outlining our broad approach to meeting the medium term financial challenges that the Council is facing over the four years to 2022/23.

4.2 As a recap the July report and approach can be summarised as:

- The financial challenge of £25 million to be met using a multi-year approach;
- A recognition that meeting the challenges would require a different approach for each of the broad elements of schools, demand and grant cessation, whilst accepting that there would necessarily be an overlap especially regarding any transformational / operational changes;
- There remained a place for percentage reductions applying to every service.

The need for fundamental and sustained transformation and change was accepted if the Authority was not simply to survive but thrive in the current financial climate. Our T22 programme would form the key essential focus for that work.

4.3 Schools were a specific focus of the July report. Cabinet, as a matter of policy, agreed that:

- Schools would not be asked to fund any percentage reduction against their overall 2018/19 budget;
- An allowance would be made for any growth in pupil numbers.

Since the July report the teachers' pay award has been announced and an increase in teachers pensions employer contributions. Both of these have been decided at a UK government level and so there is an expectation that funding will follow those decisions; the narrative at the moment is encouraging but the exact level of funding at an individual authority level has not been communicated nor its impact upon other funding. So we need to remain cautious at the moment.

4.4 In terms of more detail the report further recognised that to address the challenges a combination of reductions that actually take resource out of the system equivalent to the pressure, a review of the underlying pressures, and an increase in income into our base budget would be required.

In looking to carry out this work a product called CFO Insights would be used to assist in challenging spending levels across our services.

Specifically the activities that would be undertaken to support this requirement would be:

- All services asked to identify options for a percentage reduction;
- Base challenge efficiency ie a focus on ensuring that services are provided in the most business efficient way;
- Base challenge policy – challenging spending and service levels across our full budget and in a programmed way over the four years.

Inevitably in tackling and removing such a significant cost pressure would involve the reduction and in some cases cessation of services and unfortunately lead to reductions in staff.

4.5 The July report summarized all of the above into a medium term financial plan (excluding schools) as follows:

	2019/20	2020/21	2021/22	2022/23	Total
	£000's	£000's	£000's	£000's	£000's
Shortfall (excl schools)	4,454	4,318	2,597	4,330	15,699
Hypothecated funding	(173)	(940)	(114)	(1,745)	(2,972)
Outcomes / changes arising from Early Intervention & Prevention	(481)	(278)	(283)	(285)	(1,327)
Council tax inclusive of base	600	600	600	600	2,400
Service 1%/2% reductions	1,200	1,200	1,200	1,200	4,800
Base challenge efficiency (assets, income, procurement, digital)	1,000	650	200	250	2,100
Base challenge policy (i.e. reducing/ceasing services)	1,000	650	200	250	2,100
Total	4,454	4,318	2,597	4,330	15,699

4.6 The key messages from the July report were:

- A significant financial challenge to be addressed over the next four years of at least £25 million, if the current approach to funding local services continues;
- Service area saving proposals and the transformational / operational changes will enable the production of a balanced 2019/20 budget;
- Intervention and prevention work can be targeted to alleviate or re-channel demand;
- As in previous years significant progress needs to be made in the run up to Christmas.

4.7 In essence that strategy will hold firm and will be our guide as we look to manage our way through what remain difficult times and making progress with our T22 programme will be essential. However, it is important that the elements around transformation and change, the base challenge areas in the above table, are carried out with the appropriate level of due diligence and thought and with more than an eye on the type of Council we wish to be in the future. It is necessarily going to involve difficult choices and it is important they are the right ones and reflect the political priorities of the Council and our values. This needs an appropriate balance with a requirement for pace and urgency. Considerable work has commenced and several detailed work strands are emerging and the pace will accelerate.

This report though will focus more specifically on the upcoming budget round, 2019/20, in anticipation of the Welsh Government (WG) budget and provisional settlement announcement for local government. It will also try to formulate, based upon the little information we currently have, a way forward for 2019/20 which hopefully will provide the necessary space for the T22 transformation and change work to proceed.

5. **National Picture**

5.1 As indicated earlier the WG draft budget will be published on the 2nd October, after this report is written, and the provisional settlement will be announced on the day of Cabinet. Verbal updates will be given as part of the Cabinet consideration on this report in respect of the WG budget and (hopefully) the settlement if it has been announced by the time of the meeting. There has also been the relatively recent announcement that the UK budget will be on the 29th October 2018. This is earlier than most people expected and certainly earlier than recent experience. There is a view that this is probably to 'clear the decks' for Brexit and we should not expect anything by way of positives in terms of funding. There has already been the announcement at a UK level of increased resources for health which will have a significant 'Barnett' consequential for Wales.

It is important to recognize the efforts of the WG to try to lay their draft budget as early as possible and once again to not wait for the UK budget. Local authorities in Wales receive their provisional settlement considerably earlier than England which does assist in budget preparation.

The forward indication, announced as part of the 2018/19 round, in respect of local government funding is a further cash reduction of 1% and this is the base we are working from and what has been included in all our forecasts.

- 5.2 At the time of writing this report the feeling is that the settlement may be slightly better than the forward forecast, but will fall some way short of what is needed to protect local services and indeed may still represent a cash reduction on a like for like basis.

Signs are that Local Government will once again be given a 'one-year' settlement, which is very disappointing and makes planning, particularly in light of the Wellbeing of Future Generations Act, more challenging.

Health are expected to, once again, be the big gainer in terms of likely increased resource despite the accepted role that social care plays in the preventative agenda. It still does not feel as if funding is allocated on a 'health system' basis - rather Welsh Government funding decisions continue to be based around funding the health service.

- 5.3 Whilst it remains important to acknowledge that local government has been, in comparison to England, funded to a better level we are still not adequately funded. The situation in England appears, as a distant observer, to be extremely challenging with a number of authorities in extreme difficulty. These are mostly those with social care responsibilities. We do not want local government in Wales to be in that position so being better funded than England is not a benchmark to be celebrated.

The 'barnett consequentials' mean that WG will have increased resources and therefore choices. It will be those choices that determine how well local government is funded in 2019/20.

The final settlement and budget will not be until December and it will be important that local government uses the period between the provisional and final to press its case for funding and highlight the detrimental impact on services if funding levels continue as they have been.

- 5.4 We are now at the time of year when Councils start really considering plans for the forthcoming year and gradually information will start to emerge into the public domain. At least one Council has gone public very recently and indicated the types of choices they are looking at based upon the forecast funding levels. These included the combination of reduced service levels and increases in Council Tax. These will be familiar to all local authorities in Wales.

Legislatively local authorities have to set balanced budgets so talk of authorities falling over financially is not appropriate; the impact will be on the choices that have to be made and the level of service provision that can be provided. In England authorities are starting to move to statutory minimums and in some extreme cases not even being able to achieve that; we do not want to be in that position in Wales.

6. An approach for 2019/20

- 6.1 As indicated earlier in the report our overall strategy for surviving and indeed

thriving in these difficult times has been articulated earlier and was the basis of the July report. However we need to give some space for the transformation and change elements to really take shape and also the actual financial funding envelope for 2019/20 to emerge. There is a real possibility of significant difference between the provisional and final settlements this year.

It is important though, that we need to make quicker progress on moving towards a balanced budget for 2019/20 and the following paragraphs suggest an approach. The detailed estimates will be available in mid-October and the following approach will allow us to make progress in the run up to Christmas.

6.2 Any approach has to have one eye on the current financial year and the pressures that the monitoring is highlighting and in summary these are:

- The demand in Childrens services;
- The 'whole authority' mitigations;
- The pressure in Torfaen Training.

We cannot ignore these and we must mitigate them during the year as far as possible.

6.3 In terms of an approach:

- Use the provisional settlement as the basis;
- Consider any scope around Council Tax and in particular the Council Tax Base;
- Use the 1 and 2% reductions received from services, once worked through and validated, as a the first mitigations that will be applied;
- Assume that the forecast adults demand within the MTFP can be addressed through the early intervention and prevention approach;
- For pressures that are identified through the estimate build that are not within the MTFP our starting point will be for individual services to look to 'manage them' or identify further mitigations to address. In doing so displacing demand or work to other parts of the Council will not be appropriate;
- Address the in-year challenges.

The above approach is unlikely to fully address 2019/20 but will move us close. In terms of the in-year challenges:

- Childrens services – considerable work and analysis is already in train and the Chief Officer and Assistant Chief Executive are working closely together to identify and consider what further measures can be introduced;
- Whole Authority Mitigations – broadly these cover four main areas – procurement; grants to voluntary organisations; base budget challenge and 'doing things once'. The latter will form part of the T22 work but the others should all be achievable in a base budget sense by the 1st April 2019;
- Torfaen Training – work is well advanced in terms of developing the options to address.

The above naturally contains risk and will need to be approached with discipline and rigour.

6.4 The above approach specifically excludes the T22 transformation and change work from the approach to balancing 2019/20. However, it is imperative that it continues at a pace and with discipline but in a way that the right choices are made without, hopefully, the constraint of balancing 2019/20. This must not be a reason though to lose focus or ambition, indeed it is hoped that it will have the opposite effect.

The above budget approach in 6.3 contains no real increased investment in priority areas, other than the protection for schools; it is largely keeping things going as they are now with some reductions and changes through the 1 and 2%'s. Clearly Cabinet and the Council will want to see investment but that has to be on the basis now of 'save to invest'. That is we need to be clear what any transformation or change is going yield and its certainty of achievement before we can commit to investment. We can no longer do it the other way around because that will add to much financial risk for the authority to manage.

6.5 Most change will cost, whether that is incremental change or transformatory change. The only source of funding we have is our accumulated reserves. These are reducing and forecast to reduce further in 2018/19. Moving forward we must be more forensic in our approach to spending from reserves, the rationale and the value for money derived. Also, the distinction between service and corporate reserves needs to move from the absolute to more of a nuanced one but still within the overall spirit that has served us well and encouraged services to manage issues over more than one year.

7. Timeline and Wellbeing Assessment

7.1 Activities for the remainder of 2018 will include:

- Detailed 2019/20 estimates and service plans – September to October;
- Initial updated MTFP produced for discussion – October;
- Welsh Government settlements – provisional in October and final in December (subject to confirmation by WG);
- Consideration of the financial and service plans by the Cross Cutting Resources and Corporate Business Overview and Scrutiny Committee – November / December;
- Initial outline budget and MTFP – December;
- Cabinet agreement of the 2019/20 Council Tax base – November/December;
- Cabinet and Member Seminar consideration – October to December.

7.2 No well-being assessment has been carried out on this report as it is outlining a series of activities and work steams. The outcome of these and the resultant specific proposals will be subject to individual well-being assessments at a service area / programme level.

8. Recommendation(s)

8.1 It is recommended that Cabinet note the report and endorse the approach outlined in paragraph 6 above.

Appendices	None
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Background Papers	Council 27 th February 2018: Budget 2018/19 and Medium Term Financial Plan; Cabinet 10 th July 2018: Financial and Service Planning 2019/20 to 2022/23.
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For a copy of the background papers or for further information about this report, please telephone: *Nigel Aurelius, Assistant Chief Executive 01495 742624*