

## REPORT FOR DECISION



<b>DECISION OF:</b>	<b>The Cabinet</b>
<b>DATE:</b>	<b>29 July 2020</b>
<b>SUBJECT:</b>	<b>Developing the medium term financial strategy and setting the 2021/22 budget</b>
<b>REPORT FROM:</b>	<b>Leader of the Council and Cabinet Member for Finance and Growth</b>
<b>CONTACT OFFICER:</b>	<b>Mike Woodhead, Joint Chief Finance Officer</b>
<b>TYPE OF DECISION:</b>	<b>Council</b>
<b>FREEDOM OF INFORMATION/STATUS:</b>	This paper is within the public domain
<b>SUMMARY:</b>	This report outlines the forecast financial position of the council at the end of 2019/20 based on the information known at the end of the third quarter. The reports sets out the position for both revenue and capital and provides an analysis of the variances, both under and overspending.
<b>OPTIONS &amp; RECOMMENDED OPTION</b>	<p>Cabinet is asked to:</p> <ul style="list-style-type: none"> <li>• Note the overall financial context surrounding Local Government finances and the degree of uncertainty that exists for future planning;</li> <li>• Note the impact of COVID-19 on the current financial year and the medium term financial strategy;</li> <li>• Note the potential financial gaps arising from the 3 scenarios and that, for planning purposes, the mid-range scenario is being used;</li> <li>• Note that the Medium Term Financial Strategy (MTFS) is to be updated and presented to Cabinet in the Autumn;</li> <li>• Agree the principles for managing the 2020/21 financial position;</li> </ul>

	<ul style="list-style-type: none"> <li>• Agree the principles and approach for developing options for the managing the financial gap within the as set out in the report;</li> <li>• Note that further reports will be presented to Cabinet over the coming months.</li> </ul>
<b>IMPLICATIONS:</b>	
<b>Corporate Aims/Policy Framework:</b>	The proposals accord with the Policy Framework
<b>Statement by Section 151 Officer:</b>	There are no direct financial implications arising from the report however implementation of the proposals will ensure the Council has plans in place to manage the financial challenges ahead and remain sustainable and resilient.
<b>Equality/Diversity implications:</b>	No
<b>Considered by Monitoring Officer:</b>	Yes
<b>Are there any legal implications?</b>	No
<b>Wards Affected:</b>	All
<b>Scrutiny Interest:</b>	Overview and Scrutiny Committee

## 1 INTRODUCTION

- 1.1 Developing and updating the medium term financial strategy is a key feature of the financial planning cycle and a key component of the financial management and control framework. Updating the strategy provides an opportunity to reflect and update on resource forecasts and funding announcements as well as changes in demand and other costs.
- 1.2 This year, the context in which financial planning is to be undertaken, is perhaps the most complex and difficult of recent times. Not only are there significant uncertainties around Government policy and funding through the Comprehensive Spending Review, Local Government Finance Settlement, The Fairer Funding review, the Business Rates Retention review and potentially other major reforms with Green Papers on Social Care and White papers on Devolution and possible planning reform but there are also significant economic uncertainties. The economic reality is fast changing and challenging and the extent to how long this will last is cannot predicted with any greater certainty but will undoubtedly bring additional pressures in demand for services provided by the Council and our partners.

- 1.3 The significant financial impact of COVID-19 cannot be underestimated and this is likely to be felt over the medium and longer term just as much as the shorter term. Government funding to support Councils is uncertain going forward and the need to plan now for the future is ever more important.
- 1.4 In developing its approach the Council must not only consider the financial elements but also the recovery process and the model and plans for the future. This report sets out an approach that aligns the financial and the corporate planning processes and provides framework for engagement with the Cabinet and Executive Team to identify and deliver a robust corporate and financial strategy that has delivery and financial sustainability at the core.

## **2 FINANCIAL CONTEXT**

- 2.1 The Council's 2020/21 budget was set to remove ongoing reliance on short term and one-off reserves funding, 'rebalanced' budgets to where the funding was needed, removed historic savings targets that were unachievable and replaced with savings options that had been robustly challenged and were achievable. At the same time the Council's reserves were starting to be replenished and funding to support wider transformation of the Council was available. The 2020/21 financial year, whilst challenging, was considered to be deliverable
- 2.2 Since then, further work has been undertaken to review the council's provisions and reserves and to align all available resources to strategic risks and also to consolidate the Council's resources to ensure that the maximum benefit can be gained to support corporate priorities and to mitigate the fiscal and financial risks and challenges that exist.
- 2.3 When the 2020/21 budget was set, further savings of c£23m over the next 4 financial years was anticipated and some key themes had started to emerge to identify savings for the future. Clearly the position has changed somewhat and it is necessary to refresh the strategy to:
- Determine the likely levels of resources available over the medium term;
  - Determine the level of spending priority commitments arising from the COVID-19 recovery plan and the Council's ambitions over the medium term;
  - Develop and consider options to deliver budget reductions that can be evaluated alongside spending priorities.
- 2.4 In taking forward this approach there will be a need for a range of activities, information, and intelligence gathering that will inform reports over the coming months that will shape the final approach and decisions. Ultimately there is a need for a transparent approach with clear understanding of the drivers and enablers and a delivery plan and approach that will ensure the Council is confident it has a sustainable and resilient financial plan for the future.

### **3 IMPACT OF COVID-19**

- 3.1 COVID-19 has had a significant impact on the Council in terms of additional costs and even more significantly on the loss of income. Based on forecasts at the end of June 2020, the Council is facing an in-year gap of c£7.5m and further information is set out in the Quarter 1 monitoring report to Cabinet.
- 3.2 The impact of COVID-19 is however not restricted to the current financial year, the most notable factor being the way in which the collection fund is impacted. Current accounting rules mean that reduction in the amount of business rates and council tax income will not impact in the current financial year but in the following year. Nationally there has been a significant reduction in collection rates for business rates and council tax and if this trend crystallises, the biggest financial gap will emerge in 2021/22 and in future years.
- 3.3 Some flexibilities on how this impact can be smoothed over a longer period of time are currently being considered by the Government. In addition to this, work is underway with the Greater Manchester Authorities that will model different scenarios and consider what other options exist within the business rates retention scheme to alleviate some of the financial commitments within the business rates pool.
- 3.4 To deal with the in-year gap, it is proposed that the following accounting principles be adopted:
- The Council will continue to spend where need exists on the COVID-19 response and all decisions will be taken under existing governance arrangements and will focus on value for money;
  - The Council will seek to maintain services as far as possible and, in doing so, minimise the loss of income;
  - The Council will seek to maximise the delivery of its savings plan;
  - The Council will
    - Use the government grant funding in the first instance to fund additional COVID-19 related costs and loss of income;
    - Consider opportunities for stepping down or deferring the return of some services where resources can be deployed to emerging priorities;
    - Consider the use of reserves as a means of funding any residual financial gap subject to the approval and governance arrangements set out in the Council's reserves strategy.
- 3.5 If approved, this approach will place the accountability with services for managing the impact of COVID-19 whilst enabling strategic decisions on both the direction of travel on and how costs should be funded later in the financial year when the overall position may be more stable.

## 4 MEDIUM TERM FINANCIAL STRATEGY REFRESH

4.1 The key component parts of the medium term financial strategy refresh are set out below and need to be considered as part of the refresh of the Council's strategy:

- Updated resource forecast
- Refresh of Savings Plan
- Update and refresh of demand assumptions
- Investment requirements to support recovery and delivery model
- Opportunities for efficiencies and savings options
- Challenge and Scrutiny

### **Updated Resource Forecast**

4.2 The current model for resource forecasting remains solid however the range of assumptions included in the model are the volatile and uncertain factors. Based on this number of scenarios have been calculated. These assume 3 different scenarios: optimistic, pessimistic and mid-range. Regardless of the scenario planning, there is significant inherent risk in any modelling particularly with the current economic uncertainties and anticipated changes in accounting rules for the collection fund. Therefore the position will change.

- **Optimistic** – This assumes a minimal recession and a return to previous levels by April 2021.
- **Mid-Range** – This assumes a short lived recession lasting up to one year with a one-year gradual recovery;
- **Pessimistic** – Medium term recession lasting the whole of the 5 year MTFS period with some minimal recovery from year 3 onwards.

4.3 Based on the different scenarios, the Council's financial gap would be as follows:

	<b>Optimistic</b>	<b>Mid-Range</b>	<b>Pessimistic</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Savings required in 2021/22	7.5	7.5	7.5
Existing Savings requirements over the 5 year MTFS period	22.6	22.6	22.6
Additional savings required over 5 year MTFS period	19.1	47.2	66.3
<b>Total Savings Required Over 5 Year MTFS period</b>	<b>49.2</b>	<b>77.3</b>	<b>96.4</b>

4.4 Resource forecasting will also be affected by council tax growth assumptions and assumptions around council tax – for the purposes of the MTFS, it has been assumed that a 2% increase in council tax will be applied in each year although it is recognised that this is subject to political decision making. No

assumptions around an additional social care levy have been made. For planning purposes, the mid-range scenario is being used.

### ***Refresh of Savings Plans***

- 4.5 A refresh of existing savings plans is required, particularly in light of COVID-19. Current financial monitoring is showing that some in-year savings plans are at risk and this will have an impact in future years if other mitigating savings options cannot be identified. In managing the in-year position managers will be tasked with identifying alternative options to offset any non-delivery of agreed savings targets and plans that have already been built into the financial strategy.

### ***Update and Refresh of Demand Assumptions***

- 4.6 Demand pressures have already been built into the medium term financial strategy and assumptions around pay inflation, the national living wage and contractual inflation have been reflected. These assumptions will need to be tested and updated in light of known changes.

### ***Investment Requirements to Support Recovery and Delivery Model***

- 4.7 Recovery plans and the longer term Bury 2030 strategy are currently being developed. To support and enable successful delivery, it is essential that the financial strategy recognises and reflects changes in resource requirements to support the delivery.

### ***Opportunities for Efficiencies and Savings Options***

- 4.8 Regardless of which of the scenarios emerges as the reality, there is an inevitable need for savings options to be identified. It is proposed that a structured approach be adopted to support the identification of options for consideration by Cabinet. The proposed approach is:
- Managers should be urged to reduce requests for additional funding and should be seeking to manage downwards the costs in their 2020/21 budgets. In doing so, this will protect the Council's reserves and defer the need for additional savings options in the current financial year;
  - Consideration for investment will be prioritised towards those activities and schemes that will generate savings in the current and future years;
  - a policy-led approach to identifying savings, by applying a set of consistent principles to our prioritisation and thinking, including use of resources. The current principles that are proposed from Cabinet feedback to date are:
    - Eco-leadership as a priority and opportunity for cost savings
    - Digital-first
    - Health and care reform

- Economic recovery
  - Neighbourhood delivery as a basis for better targeting of public service resource and harnessing community capacity
- Services to be tasked with identifying savings from key themes that have previously been identified :including the work of the Health and Care Sustainability Recovery Board:
    - Planned Care
    - Urgent Care
    - Mental Health
    - Social Care
    - Neighbourhood Integration
    - Population Health
    - Strategic Finance

### ***Challenge and Scrutiny***

- 4.9 A challenge and scrutiny process will be built into the MTFS development and will include:
- Enhanced scrutiny and assessment of spending/savings proposals for consideration. This will be carried out by the Executive Team acting in the capacity of a Budget Scrutiny Panel;
  - Independent evidence will be used to challenge the extent of savings including cost comparisons, commerciality and the financial viability of services and benchmarking information

## **5 NEXT STEPS**

- 5.1 Subject to the approval of Cabinet, opportunity will be taken over the Summer to refresh the assumptions in the medium term financial strategy and develop a set of options for consideration by Cabinet in the Autumn. The approach will also involve consultation with the CCG and the Strategic Commissioning Board given their role with the pooled fund arrangements and this will be factored in to the timetable. The approach is needed in order to align financial planning to corporate planning processes and to ensure the Council is able to achieve a balanced budget for future years. Financial sustainability and resilience is fundamental.
- 5.2 An outline timetable is set out below.

<b>Budget Setting Timetable</b>		
Agree Principles for Managing COVID -19 Impact	July 29	Cabinet
Agree Approach for Updating MTFS	July 29	Cabinet
Updated MTFS Reported and in-year budget update	September	Cabinet
Consideration of Savings Options	October	Cabinet
Quarter 2 Monitoring Position	November	Cabinet
Final Proposals for Consideration	January	Cabinet
Budget Finalised and set	February	Council

- 5.3 A key programme of change and delivery will emerge from the approach outlined and it is essential that capacity is available to fully support the process. Project management support will be secured in order to ensure the plans are properly defined, are on track and that escalations are made when necessary.

## **6 FINANCIAL IMPLICATIONS**

- 6.1 The financial implications are set out in the report. There are no direct financial impacts arising from the report however the proposed approach will help manage and control the Council's financial position.

## **7 LEGAL IMPLICATIONS**

- 7.1 There are no direct legal implications arising from the report.

## **8 ASSOCIATED RISKS**

- 8.1 The risk of not adopting the approach is that the Council does not have a sound financial plan and this could affect overall financial sustainability and resilience of the council.