

REPORT FOR INFORMATION



DECISION OF:	Overview and Scrutiny Committee
DATE:	16 September 2020
SUBJECT:	Financial Update
REPORT FROM:	Leader of the Council and Cabinet Member for Finance and Growth
CONTACT OFFICER:	Lisa Kitto
TYPE OF DECISION:	Non Key
FREEDOM OF INFORMATION/STATUS:	This paper is within the public domain
SUMMARY:	This report outlines key financial information and significant updates affecting the Council's financial position in 2020/21 and the impact on the Council's medium term financial strategy.
OPTIONS & RECOMMENDED OPTION	<p>Overview and Scrutiny is asked to:</p> <ul style="list-style-type: none"> • Note the overall financial context surrounding Local Government finances and the degree of uncertainty that exists for future planning; • Note the impact of COVID-19 on the current financial year and the medium term financial strategy; • Note the potential financial gaps arising from the 3 scenarios and that, for planning purposes, the mid-range scenario is being used; • Note that the Medium Term Financial Strategy (MTFS) is to be updated and presented to Cabinet in the Autumn; • Note the principles agreed by Cabinet for managing the 2020/21 financial position; • Note the principles and approach for developing options for the managing the financial gap within the as set out in the report; • Note that further reports will be presented to Cabinet over the coming months as the situation

	develops and more information becomes available; • Note the planned update to the capita programme and the development of a capital strategy.
IMPLICATIONS:	
Corporate Aims/Policy Framework:	The proposals accord with the Policy Framework
Statement by Section 151 Officer:	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.
Equality/Diversity implications:	No
Considered by Monitoring Officer:	Yes
Are there any legal implications?	No
Wards Affected:	All
Scrutiny Interest:	Overview and Scrutiny Committee

1 INTRODUCTION

- 1.1 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.
- 1.2 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 has been provided in the short term but any funding longer term is uncertain and the need to plan now for the future is ever more important.

- 1.3 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. A suite of reports have recently been presented to the Council's Cabinet that sets out the approach to developing the medium term financial strategy and also setting out the in-year position. These set the framework within which the Council is currently operating in order to deal with the financial challenge ahead and to support 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 impacts on the financial strategy. 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 and the outcome of the review is still awaited. 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. This work is underway, however due to its complexities and also the volatility in collection rates that are currently being experienced, this is proving challenging. The outcome of the work will be reflected in updates to cabinet over the next few months.
- 3.4 It goes however go without saying that this is the most volatile aspect of the council's financial strategy and will change as more information is made available and as trends change, i.e. the ending of the national furlough scheme is likely to be a significant risk to collection rates though the extent of which is very difficult to predict. Collection rates are being kept under close review.
- 3.5 To deal with the in-year gap, the following accounting principles were agreed by Cabinet:
- 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 This approach places 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 are currently being 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:

	Optimistic	Mid-Range	Pessimistic
	£m	£m	£m
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
Total Savings Required Over 5 Year MTFS period	49.2	77.3	96.4

- 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. The CSR that has recently been launched will also impact on resource planning and the outcome to this will not be known until later in the year. As it stands, assumptions have been made that all existing grants will continue at current levels. 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 have been 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. Any new options to replace those that are not achievable will be reported to Cabinet as part of the monitoring processes.

Update and Refresh of Demand Assumptions

- 4.6 Some 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 are currently being tested and updated in light of known changes. In addition to this, demand changes in adults social care and for looked after children are increasing. Of significant impact in 2020/21 is that on income and the amount collected by the Council. Consideration of whether a reduction in assumed income levels will continue in future years is also being considered and, if so, this will create a further financial pressure on top of the increased costs.

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. Cabinet has agreed that:
- 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. These 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

4.9 All of this work is currently underway and will form part of an update report to Cabinet later in the Autumn.

4.10 Use of reserves will also play a key part in managing the position particularly to support the short term losses of income. Use of reserves does however need to be considered in the wider context of financial sustainability and resilience which is fundamental and a key concern going forward. It is envisaged that the agreed approach will align financial planning to corporate planning processes and to ensure the Council is able to achieve a balanced budget for future years.

Challenge and Scrutiny

4.11 The role of Overview and Scrutiny Committee will be factored into the budget development and budget setting process with an opportunity to scrutinise all budget assumptions and also options that are put forward for consideration as part of the strategy to meet the financial challenge.

5 NEXT STEPS

5.1 A significant amount of work has been undertaken over recent weeks to update the MTFS and to start looking at potential areas in which savings can be made. Discussions have been held with Council's Executive Team.

Work is also underway to understand the impact of the wider CCG finance position and the impact on the overall system wide budget. 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.

- 5.2 An outline timetable is set out below.

2021/22 Budget Setting Timetable		
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	October	Cabinet
Consideration of Savings Options	October	Cabinet
Scrutiny of Options and MTFS Update	November	O&S
Quarter 2 Monitoring Position	November	Cabinet
Final Proposals for Consideration	January	Cabinet
Scrutiny of Final Budget Proposals	January	O&S
Budget Finalised and set	February	Council

- 5.3 A key programme of change and delivery is being developed as this is critical to ensure the council has the most effective and efficient operating model for the future. It is envisaged that this will drive the delivery of efficiency savings across the Council in future years. It is however essential that capacity is available to fully support the process.

6 CAPITAL PROGRAMME

- 6.1 Delivery of the capital programme has been significantly impacted by Covid and a review of the current position is underway and will be reported later in the Autumn. A new capital strategy is also being developed that will consider the longer term ambitions of the council and ensure that the appropriate governance and framework is in place to ensure that these can be achieved.

7 FINANCIAL IMPLICATIONS

- 7.1 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 and support longer term financial sustainability and resilience.
- 7.2 The significant financial uncertainty that currently exists both in terms of the economic impact on the residents of Bury as well as the uncertainty of funding for future years means that the position will change and needs to be carefully monitored on an ongoing basis. The ability to respond flexibly to changing circumstances and information will also be critical.

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.