

MEDIUM TERM FINANCIAL STRATEGY

To: **General Purposes Committee**

Meeting Date: **20th September 2018**

From: **Chief Finance Officer**

Electoral division(s): **All**

Forward Plan ref: **Not applicable** *Key decision:* **No**

Purpose: **This report sets out the Council's draft Medium Term Financial Strategy for the next five years. The strategy is updated annually at the commencement of the business planning process but is refined during the process as the financial climate and the Council's approach to its finances gain greater clarity. The final Strategy is adopted at the Council meeting in February that agrees the Business Plan and the revenue and capital budgets. Its core purpose is to provide a financial framework within which individual service proposals can develop before Council approves the budget and the Business Plan in February.**

Recommendation: **It is recommended that General Purposes Committee:**

note the Draft Medium Term Financial Strategy for 2019-24.

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1. BACKGROUND

- 1.1 For a number of years the Council has adopted an integrated approach to service planning and budget setting. It does this through the business planning process that culminates annually with the Council agreeing the Business Plan in February.
- 1.2 The Business Plan covers a five year timeline and integrates policy objectives, resource allocations, and performance targets. The General Purposes Committee has a responsibility in owning and overseeing this process (as well as being the Service Committee on behalf of Corporate and LGSS Managed Services).
- 1.3 As Cambridgeshire is one of the fastest growing counties, we are under particular pressure due to the increase in the number of people accessing our services. In addition to growth in the general population, the needs of those requiring care packages are becoming more complex and therefore costly. This increase in demand, along with continuing reductions in grants and inflation, means we will have significantly less money available in the coming years than we need to deliver the same services in the same ways that we have in the past. This is on the back of substantial efficiency, service cuts and increased charging that has already been implemented as part of the austerity measures.
- 1.4 To face this challenge, the Council is continuing the transformation programme, which commenced in 2016, with proposals being developed across service areas. This programme is re-shaping the Council in to one that is leaner, more efficient, more cross cutting, and focused on outcomes.
- 1.5 The Council was offered the opportunity to agree a fixed four year settlement as part of the Comprehensive Spending Review, but, along with a small number of other Local Authorities, rejected the offer (in October 2016) due to the unsustainability of the minimum level of funding in the latter years of the offer, in particular negative Revenue Support Grant (RSG) in 2019-20. During September 2018, the Council is responding to a national consultation on the approach to negative RSG next year, following the consensus at the July General Purpose Committee that the current proposal was unacceptable for Cambridgeshire residents and council tax payers.
- 1.6 The 2015 Spending Review confirmed that the reduction in public spending would be phased over a longer period than was originally planned, and the deadline for UK public finances to be in a surplus position was pushed back beyond the 2020 scope of the review. The £217.9m savings that the Council identified between 2012-13 and 2017-18 were achieved through transformation but also by making efficiencies, reducing services and raising charges. The opportunity to make further efficiencies is minimal.
- 1.7 The Council's scope to make wholesale service cuts is constrained by the statutory responsibility it has to deliver some services. The key areas where budgets are becoming unsustainable are care packages, which cover a wide

range of users from older people through to learning disabilities, special educational needs (SEN) and looked after children. We do not have the option to simply stop providing services in these areas and must meet statutory requirements. The users of these services are vulnerable people and we cannot relinquish our statutory responsibilities for their care.

- 1.8 The Council's ability to make on-going service reductions in the way that it has in the past is very restricted. The only real answer therefore is to manage demand, particularly in those areas of high spend. This means a combination of preventing the need for Council support in the first place or reducing the level of support provided.
- 1.9 The Council has changed the way it approaches these challenges, developing transformational and innovative proposals. The Council still has to make some stark and unpalatable choices but we are continually pushing the boundaries to ensure that, as far as possible, the service outcomes that residents receive remain unaffected.
- 1.10 A key component of the Business Plan is the Medium Term Financial Strategy (MTFS) which sets the financial framework that services should adopt in the construction of their budget proposals at the start of the business planning process. The MTFS and the Business Plan are the responsibility of Full Council and cannot be delegated. GPC recommends budget proposals to Council which Council must agree, or not, as part of the budget setting decision making process. The draft 2019-24 MTFS can be found in **Appendix A**. The financial estimates underpinning the draft MTFS, including inflation, demand, pressures and funding forecasts, are provisional and will be refined during this year's business planning process prior to consideration by Council in February. Within the appended MTFS, the highlighted sections, in particular, are due for a full update, later in the Autumn, when departments have refreshed underpinning estimates.

2. PURPOSE AND KEY DEVELOPMENTS

- 2.1 One of the major functions of the MTFS is to set out the Council's projected resources for the next five financial years. It also establishes a framework for the construction of the detailed budget proposals. It does not set out these detailed budgets and the individual savings proposals as these are contained elsewhere in the Business Plan. These proposals will be considered by service committees throughout the Autumn and Winter before being finally approved by Council in February.
- 2.2 The MTFS does however establish a guide and a context to support services in this work and agrees a number of corporate methodologies for this process.
- 2.3 The transformation programme is a cross-cutting approach first developed to support the 2017-22 business planning process. It is designed to ensure we maximise the opportunities across the Council and with partners to deliver services in a different way.

- 2.4 In order to maximise the effectiveness of our limited budgets the Council is continuing its focus on pro-actively managing demand – implementing strategies of early intervention to help service users in a timely manner to prevent them developing more severe needs in the future.
- 2.5 The Business Plan recommended to Council in February will still contain budget allocations for individual services, but these will be arrived at in a much more cross-cutting, holistic, way that will flex budgets determined using the traditional incremental approach to accommodate the outcome-based proposals generated through the transformation programme.
- 2.6 At this point in the business planning process budget allocations should be regarded as provisional as there will be a number of factors that affect the final allocations. Such changes will arise from flexing to reflect the proposals brought forward through the transformation programme, as well as changes that could arise from the next Spending Review, changes to legislation, or unforeseen service pressures.
- 2.7 The transformation programme, whilst providing a more realistic opportunity for producing a balanced budget in the medium term, cannot be seen as a panacea to the challenges. The Council will still have to make very difficult decisions over service levels, income generation and asset utilisation. These decisions will affect real people in real communities and the Council needs to review its overall structure in order to achieve radical ways of delivering services.

3. SAVING/INCOME TARGETS

- 3.1 Saving/Income targets are agreed as part of the Business Plan, on a five year rolling basis updated to take account of changes to funding and expenditure, including projections on demand, inflation, and service pressures.
- 3.2 It is important for the Business Plan to reflect a realistic assessment of likely changes in cost due to inflation, demand and other service pressures as this ensures that the Council considers how it will realistically balance its budget by setting out a clear plan to achieve this through saving and income proposals.
- 3.3 The following table sets out the current saving/income requirement for the organisation as a whole, summarising the factors giving rise to the savings. Note that the overall saving/income requirement and other figures outlined below will be refined during the course of the business planning process as pressures are identified, assumptions around inflation and demand refreshed, and funding levels published by government.

Reason for Savings	2019-20 £000	2020-21 £000	2021-22 £000	2022-23 £000	2023-24 £000	Total £000
Loss (+) / Gain (-) of funding	-3,636	-10,071	-12,625	-13,949	-13,862	-54,143
Inflation	6,667	6,454	6,694	6,616	6,578	33,009
Demand	8,893	9,191	9,362	10,744	10,987	49,177
Pressures and investments	7,437	1,583	4,948	3,438	-	17,406
Capital	3,028	4,292	528	1,295	-	9,143
Reserves	10,355	1,028	-3,505	-322	-546	7,010
Other	2,932	-36	-34	-	-	2,862
Total	35,676	12,441	5,368	7,822	3,157	64,464

- 3.4 The inclusion of service pressures, and other budgetary changes, within the financial model affects the overall level of saving/income which is required.
- 3.5 These saving/income targets are treated as an overall requirement for the Council, rather than being allocated to services, and the Transformation Programme continues to bring through projects from across all services to meet this challenge.
- 3.6 The published 2019-24 Business Plan contains a significant proportion of unidentified savings/incomes. As part of this year's business planning process Services have reviewed existing 2018-23 Business Plan proposals to allow quantification of the scale of the savings/incomes yet to be identified.
- 3.7 The following table sets out the current saving/income requirement for the Council and indicates the level of saving/income yet to be identified. Identified savings and incomes exclude all proposals generated through the transformation programme in 2018-19.

	2019-20 £000	2020-21 £000	2021-22 £000	2022-23 £000	2023-24 £000	Total £000
Identified savings	15,026	226	1,512	-255	7	16,516
Unidentified savings	20,650	12,215	3,856	8,077	3,150	47,948
Total	35,676	12,441	5,368	7,822	3,157	64,464

- 3.8 The most pressing focus for this year's business planning process is, naturally, to ensure that the Council has a balanced budget for the forthcoming year. However, the transformation programme approach has a strong focus on redesigning the Council's delivery of services, operating with a real term reduction in resource. Consequently, this business planning process will seek to address unidentified savings across the full five years of the Business Plan

by setting out an achievable phased transition to that future Council, although it is expected that the detail of proposals will be most fully developed for 2019-20.

4. ALIGNMENT WITH CORPORATE PRIORITIES

4.1 Developing the local economy for the benefit of all

This report sets out the provisional revenue cash limits and a proposed capital programme for all service areas. Whilst not a direct result of this report there could be impacts associated with the local economy from the detailed proposals that will arise from the aforementioned allocations.

4.2 Helping people live healthy and independent lives

This report sets out the provisional revenue cash limits and a proposed capital programme for all service areas. Whilst not a direct result of this report there could be impacts associated with the people living healthy and independent lives from the detailed proposals that will arise from the aforementioned allocations.

4.3 Supporting and protecting vulnerable people

This report sets out the provisional revenue resource and a proposed capital programme for all service areas. Whilst not a direct result of this report there could be impacts associated with supporting and protecting vulnerable people from the detailed proposals that will arise from the aforementioned allocations.

5. SIGNIFICANT IMPLICATIONS

5.1 Resource Implications

This report sets out the provisional revenue resource and a proposed capital programme for all service areas. The final resource allocation will be approved by Council as part of the Business Plan in February 2019.

5.2 Procurement/Contractual/Council Contract Procedure Rules Implications

There are no significant implications within this category.

5.3 Statutory, Risk and Legal Implications

This report sets out provisional revenue resource and a proposed capital programme for all service areas. Whilst not a direct result of this report there will be risks associated with implementation of the detailed savings proposals that will come forward as part of the Business Plan.

5.4 Equality and Diversity Implications

This report sets out provisional revenue resource and a proposed capital programme for all service areas. Whilst not a direct result of this report there could be equality and diversity implications arising from the detailed proposals and these will be identified in the individual equality and impact assessments of associated with each proposal.

5.5 Engagement and Consultation Implications

There will be a public consultation and engagement process that will support the final Business Plan proposals and these will support the development of the Business Plan to be considered by the Council in February.

5.6 Localism and Local Member Involvement

There are no issues directly arising from this report.

5.7 Public Health Implications

There are no issues directly arising from this report.

Source Documents	Location
Draft Medium Term Financial Strategy 2019-24	Octagon First Floor Shire Hall Cambridge
Council Business Plan 2018-23	