

MEDIUM TERM FINANCIAL STRATEGY

To: General Purposes Committee

Meeting Date: 22nd October 2019

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 considers the Draft Medium Term Financial Strategy for 2020-25.

<i>Officer contact:</i>		<i>Member contacts:</i>	
Name:	Chris Malyon	Name:	Councillors Count & Hickford
Post:	Chief Finance Officer	Post:	Chair/Vice-Chair
Email:	Chris.Malyon@cambridgeshire.gov.uk	Email:	Steve.count@cambridgeshire.gov.uk Roger.hickford@cambridgeshire.gov.uk
Tel:	01223 699796	Tel:	01223 706398

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 The Council has seen a £47m reduction in funding from Central Government from £195m in 2013-14 to £148m in 2019-20, a real terms reduction of over 40%. Within this time period, Cambridgeshire has been one of the fastest growing counties which has placed increasing pressure on the Council due to rising demand for services. In addition to growth in the general population, the needs of those requiring care packages have become more complex and therefore costly. This increase in demand, along with continuing reductions in grants and inflation, has resulted in the Council needing to make savings of £226m since 2013-14.
- 1.4 To face this challenge, the Council is continuing the transformation programme, which commenced in 2016 and has, including current plans, invested £19m in improving service efficiency. This programme is re-shaping the Council in to one that is leaner, more cost effective, more cross cutting, and focused on outcomes.
- 1.5 In the 2018 Autumn Budget, following a period of sustained pressure from Local Authorities and Councillors, Government announced that negative Revenue Support Grant (RSG) would be fully funded in 2019-20. In the 2019 Spending Round, Government confirmed that negative RSG will continue to be funded in 2020-21, making this the first year since 2012-13 in which the Council has not seen its core funding reduced.
- 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. This recent trend of loosening fiscal constraints appears set to continue given the additional spending pledges announced by Government in the 2019 Spending Review, however this may yet be impacted by continued uncertainty surrounding the terms of the UK's exit from the European Union.
- 1.7 The Council's scope to make wholesale service reductions is constrained by the statutory responsibility it has to deliver some services. The key areas where budgets face rising demand pressures are Adults and Older People's care packages, Children with special educational needs (SEN) and looked after children (LAC). 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 responsibilities for their care.

- 1.8 As sustained resource pressures on Local Authorities have continued, the number of potential service reduction options available to the Council has become increasingly limited. The Council has therefore pursued a range of alternative approaches centred around improving demand management and contract efficiency, particularly in those areas of highest spend. This means a combination of preventing the need for Council support in the first place and ensuring that the support provided delivers maximum value for money. The Council is continually pushing the boundaries to ensure that, as far as possible, the service outcomes that residents receive remain unaffected.
- 1.9 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 2020-25 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.

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 sets out the financial picture facing the Council and the Council's strategy for managing its resources effectively in response to the economic climate. The strategy does not set out detailed budgets and 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 provides a guide and a context to support services in developing their budgets and agrees a number of corporate methodologies for this process.
- 2.3 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.
- 2.4 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 difficult

decisions over service levels, income generation and asset utilisation. These decisions will affect people and communities and the Council needs to review its overall structure in order to achieve radical ways of delivering services.

- 2.5 The 2020-25 MTFS has been developed during a period of considerably uncertainty surrounding the UK's public finances. Key funding reforms impacting the assessment of Local Authorities' resource requirements and allocation of business rates income have been delayed until 2021-22. Furthermore, levels of public spending may be impacted by the Government's policy response to the UK's exit from the European Union. The financial impact of Government policies currently in development will be taken into account within the Business Plan as the implications become clearer. The current draft MTFS has assumed a neutral position over the medium term which would see the Council's funding continue at current levels.

3. SAVING/INCOME TARGETS

- 3.1 Saving/Income targets are agreed as part of the Business Plan on a five year rolling basis and are updated to take account of changes to funding and expenditure, including projections on demand, inflation, and service pressures.
- 3.2 It is important that the Business Plan provides a realistic assessment of likely changes in costs as this ensures that the Council considers how it will realistically balance its budget, 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	2020-21 £000	2021-22 £000	2022-23 £000	2023-24 £000	2024-25 £000	Total £000
Loss (+) / Gain (-) of funding	-12,423	-18,363	-13,831	-14,118	-14,670	-73,405
Inflation	8,800	9,190	7,827	7,578	7,775	41,170
Demand	10,970	11,477	12,990	13,487	13,210	62,134
Pressures and investments	7,675	5,565	4,648	4,100	3,042	25,030
Capital	5,898	4,192	1,392	2,048	241	13,771
Reserves	-5,100	2,861	-571	-398	-548	-3,756
Other	8,666	-106	-	-	-	8,560
Total	24,486	14,816	12,455	12,697	9,050	73,504

- 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 draft 2020-25 Business Plan contains a significant proportion of unidentified savings/incomes. As part of this year's business planning process Services have reviewed existing 2019-24 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 2019-20.

	2020-21 £000	2021-22 £000	2022-23 £000	2023-24 £000	2024-25 £000	Total £000
Identified savings	11,921	4,381	2,797	159	-691	18,567
Unidentified savings	12,565	10,435	9,658	12,538	9,741	54,937
Total	24,486	14,816	12,455	12,697	9,050	73,504

- 3.8 As a result of the statutory obligations placed upon Local Authorities, the most pressing focus for the business planning process is 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 terms reduction in resource. Consequently, this business planning process will seek to address unidentified savings across the full five years of the Business Plan by exploring a range of approaches to securing the longer term sustainability of Council services, although it is expected that the detail of proposals will be most fully developed for 2020-21.

4. ALIGNMENT WITH CORPORATE PRIORITIES

4.1 A good quality of life for everyone

The Services discussed in this report play a significant role in enabling the Council to achieve this priority.

4.2 Thriving places for people to live

The Services discussed in this report play a significant role in enabling the Council to achieve this priority.

4.3 The best start for Cambridgeshire's children

The Services discussed in this report play a significant role in enabling the Council to achieve this priority.

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 2020.

5.2 Procurement/Contractual/Council Contract Procedure Rules Implications

There are no issues directly arising from this report

5.3 Statutory, Risk and Legal Implications

There are no issues directly arising from this report

5.4 Equality and Diversity Implications

There are no issues directly arising from this report

5.5 Engagement and Consultation Implications

There are no issues directly arising from this report.

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.

Implications	Officer Clearance
Have the resource implications been cleared by Finance?	Yes Name of Financial Officer: Tom Kelly
Have the procurement/contractual/ Council Contract Procedure Rules implications been cleared by Finance?	N/A
Has the impact on Statutory, Legal and Risk implications been cleared by LGSS Law?	N/A
Are there any Equality and Diversity implications?	N/A
Have any engagement and communication implications been cleared by Communications?	N/A
Are there any Localism and Local Member involvement issues?	N/A
Have any Public Health implications been cleared by Public Health	N/A

Source Documents	Location
Draft Medium Term Financial Strategy 2020-25	https://www.cambridgeshire.gov.uk/council/finance-and-budget/business-plans
Council Business Plan 2019-24	c/o Senior Finance Business Partners 1st Floor Octagon Shire Hall Cambridge