

COUNCIL
14 FEBRUARY 2019**REPORT OF CABINET – MATTERS WHICH REQUIRE A
DECISION BY COUNCIL**

2019/20 Budget and Medium Term Financial Plan Update 2019-22**Recommendation**

- 1. The Leader and Cabinet recommend that:**
 - (a) the budget requirement for 2019/20 be approved at £330.390 million as set out at Appendix 1b having regard to the proposed Transformation and Reforms programme set out in Appendix 1c;**
 - (b) the Council Tax Band D equivalent for 2019/20 be set at £1,260.75 which includes £90.83 relating to the ring-fenced Adult Social Care precept, and the Council Tax Requirement be set at £264.428 million, which will increase the Council Tax Precept by 3.99% in relation to two parts:**
 - **2.99% to provide financial support for the delivery of outcomes in line with the Corporate Plan '*Shaping Worcestershire's Future*' and the priorities identified by the public and business community**
 - **1% Adult Social Care Precept ring-fenced for Adult Social Care services in order to contribute to existing cost pressures due to increases in demand-led Social Care;**
 - (c) the Capital Strategy 2019-22 and Capital Programme of £397.510 million be approved as set out at Appendix 1D and 1E respectively;**
 - (d) the earmarked reserves schedule as set out at Appendix 2 be approved;**
 - (e) the Treasury Management Strategy and Prudential Indicators set out at Appendix 5 be approved; and**
 - (f) the Council's Pay Policy Statement set out in Appendix 6 be approved.**

[NB Report and Appendices referred to are those presented to 31 January 2019 Cabinet]

- 2. All Councillors will have had access to the full report and Appendices considered by the Cabinet on 31 January 2019 via email/internal link and in their Group rooms and the Members' Lounge, and are referred to the website or those hard copies for the full detail. A very limited number of hard copies will be available at the meeting.**

Cabinet Report – 31 January 2019

3. The Cabinet considered the report of the Cabinet Member with Responsibility for Finance which in summary included details of:

- the main updates to the budget proposals since the Cabinet meeting on 13 December 2018
- the current financial position of the Council for 2018/19. The forecast position at Period 8 suggested a £3 million overspend. Management action continues to be taken and the aim is to have a balanced budget by 31 March 2019. As a result there could be a further need to draw on reserves to support the recurrent revenue budget up to this sum. Capital schemes are broadly on target to be within the re-programmed spend profile at year end and the schools' budget is reported to be balanced at 31 March 2019, however the Dedicated Schools Grant (DSG) faces significant in-year pressures
- funding of the Council's Corporate Plan priorities. The current Medium Term Financial Plan (MTFP) takes account of the Corporate Plan and reflects the current Government funding announcements. The financial plan confirms the commitment to continue to resource the Council's priorities of: Open for Business; Health and Wellbeing; Children and Families and the Environment
- the Council's updated MTFP. The assumption at present for 2019-22 is that there will be a total of around £60 million of savings, reforms and income generation that will need to be found (£23 million in 2019/20).

Funding Gap Forecast 2019-22

	2019/20	2020/21	2021/22	Total
Medium Term Financial Plan	£000	£000	£000	£000
Funding	330,390	339,259	351,938	1,021,587
Projected Budget Requirement	353,354	356,199	373,210	1,082,763
Funding Gap (Before Reforms)	22,964	16,940	21,272	61,176

Local taxation accounts for 80% of all funding income in 2019/20, 19% will come from the Council's share of the Business Rates and the remaining 1% from collection fund surpluses. The MTFP forecast is that the Council will experience a positive cash flow for the next few years (see above table). However, the scale of cost pressures facing the Council is more than the projected increase in income. The focus of the spending challenges faced in 2019/20 are coming from a continued rise in demand for adult and children's social care, underlying pressures from non-recurring savings, contract and other inflation and pay and

National Living Wage inflation. This results in a gross funding requirement in 2019/20 to meet all these challenges of £35.6 million. It is anticipated that the growth and pressures on spend will continue at a similar level however a number of reform programmes are being designed to address pressures and as such the planned investment for future years is £44.5 million. Transformation and change programmes in Adult Social Care and Children's Services are focused on addressing the projected budget gap in addition to the progression of a Commercial Strategy focused on improving procurement practices to secure efficiencies and the reshaping and redesign of services in partnership and through digital technology to generate further efficiencies. The MTFP is aligned to corporate programmes to deliver savings. A robust MTFP is therefore in place to allocate resources to set and deliver balanced budgets for the remaining three years of the Corporate Plan, starting with 2019/20 that supports the delivery of the Council's priorities

- the level of funding available for 2019/20. The Council's Settlement Funding Allocation was announced as part of the Provisional Local Government Finance Settlement during December 2018. The final settlement has now been received and is in line with expectations. The Council and its six District Council partners could expect to benefit from their successful application to be a 75% Business Rates Retention Pilot. This is for 2019/20 only and could amount to around £4.9 million to be used for reducing and preventing social care costs. The funds will be retained separately from the base budget to be allocated by an Executive Body made up of members of the Pilot. The proposals for the Council Tax are an increase to 2.99% together with a 1% Adult Social Care Precept. The Council's level of Council Tax remains low when compared to comparative councils. After adjusting for movements in grant, the proposed levels of Council Tax and the new Adult Social Care Precept, the net impact is that the Council projects it will have £330.4 million of funds available which represents a net increase from 2018/19 of £6.2 million (1.9%). The level of demand however significantly exceeds this amount and therefore savings are also required
- the level of investment required for delivering the Corporate Plan in 2019/20. Changes to assumptions on both income and spend have occurred since the MTFP was reported to Council in February 2018 including the gross level of pressures which has changed from the forecast financial plan of £22.5 million to £35.6 million. The first call on the increase in Council Tax and Adult Social Care Precept is to directly fund these pressures. After accounting for the £9.4 million reduction in Government Grant, offset by the additional income raised: £15.6 million raised by Council Tax; £4.5 million of one-off Social Care Grant and £2 million from other grants, and 75% Business Rates Gain cost avoidance/transfer from Earmarked Reserves of £2.2 million, the £35.6 million pressure is reduced to a net savings to find of £20.7 million. Funding has to be re-allocated to address this. Areas where investment is required include Adult Social Care, Children's Safeguarding, Worcestershire Children First, Special Educational Needs and Disabilities, Placement budget, highways, household waste disposal and pay and related costs
- the Capital Strategy and Capital Programme. The Capital Programme for 2019/20 proposes a total value of £131 million of works. The Programme is largely built up from Government and other grants received or due to be received. This amount is forecast to be £66 million in 2019/20. Additional sums in the form

of capital receipts from sales of assets and borrowing are able to be added to the Programme. Capital receipts assume a total of £10.8 million in 2019/20 together with a borrowing assumption of £48 million which is felt affordable within the current provision for financing. One of the major drivers of borrowing increases is to invest in the economy and infrastructure. The Council has identified £26 million for Open for Business and Regeneration to include proposals to cut congestion, provide rail station upgrades and extra parking facilities, invest in next generation economic 'game changer' site(s), walking and cycling bridges and town centre improvements and the provision of a Local Members' Highways Fund. It is anticipated that the Capital Programme can be funded within the current budget for the Council's cost of borrowing

- schools' funding (DSG). The total provisional Schools' Funding Settlement for 2019/20 is £411.505 million. Cabinet in December 2017 approved the Local Schools Funding Formula for Worcestershire mainstream schools for 2018/19 and 2019/20 to move as close to the National Funding Formula (NFF) parameters as was affordable. The DfE NFF includes provision in each year for a Minimum Funding Guarantee (MFG) of +0.5% per pupil; a cap of +3.0% per pupil to support the cost of the MFG by limiting the gains for those schools who would receive larger increases in funding through the formulaic changes due to the NFF parameters; and national Minimum Funding Levels for the primary, middle and secondary sectors that increase between 2018-19 and 2019-20
- the level of savings, reforms and income required. The Council's proposed budget for 2019/20 includes the need for £20.7 million of savings proposals after allowing for £2.2 million of social care costs being challenged through the 75% Business Rates pilot gain and any under provision then being met from Earmarked Reserves. Following the engagement and consultation process it is proposed that a small number of savings will be replaced by use of the £1 million Strategic Initiatives budget held in Corporate Items. This includes removal of the Highways £0.5 million saving, partial removal of £0.155 million of the Archives proposal, full removal of the Communities income saving target of £0.1 million, a reduction in the Libraries three year target saving of £1 million by £0.2 million overall and an allocation of £0.145 million in 2019/20 for a Community Solutions Fund. The savings proposals have been classified to align to the Corporate Plan and MTFP
- the resultant Council Tax precept calculation. The Cabinet has recommended that the Council Tax Band D equivalent for 2019/20 be set at £1,260.75 which includes £90.83 relating to the ring-fenced Adult Social Care precept, and the Council Tax Requirement be set at £264.428 million, which will increase the Council Tax Precept by 3.99% in relation to two parts:
 - 2.99% to provide financial support for the delivery of outcomes in line with the Corporate Plan '*Shaping Worcestershire's Future*' and the priorities identified by the public and business community
 - 1% Adult Social Care Precept ring-fenced for Adult Social Care services in order to contribute to existing cost pressures due to increases in demand-led Social Care

- an assessment of reserves. The Council's General Fund estimated reserve at 31 March 2019 based on the forecast outturn is circa £12.2 million. This means the General Fund Reserve is in line with the revised recommended level. Future use of these funds is a matter of last recourse given the levels
- engagement on the proposals. The proposals have been subject to review and scrutiny by a range of stakeholders. They have also been presented to individual scrutiny panels who received additional finance briefings in preparation for the scrutiny of the budget. The key messages from that scrutiny have been reported through the Overview and Scrutiny Performance Board
- the Treasury Management Strategy for 2019/20 including Prudential Indicators. The Treasury Management Strategy has been updated to include how the current forecast for interest rates will affect borrowing and lending transactions
- a Pay Policy Statement for 2019/20 which clarifies the strategic stance on pay in order to provide direction for members and officers making detailed decisions on pay and provide Worcestershire residents with a clear statement of the principles underpinning decisions on the use of public funds
- consideration of other factors including the Equality Duty, risk, privacy and public health assessments, professional legal, financial, HR advice, and the Council's statutory duties when setting the budget and precept.

Mr S E Geraghty
Chairman

Note – members are reminded that all votes on the budget and any amendments will be recorded in accordance with legislation

Supporting Information – Available with the report to Cabinet 31 January 2019 at <http://worcestershire.moderngov.co.uk/ieListDocuments.aspx?CId=131&MId=2639&Ver=4>

Appendix 1A	Financial Plan Update 2019-22
Appendix 1B	Service Budget summary before recharges
Appendix 1C	Summary of savings, reforms and income proposals
Appendix 1D	Capital Strategy
Appendix 1E	Capital Programme
Appendix 2	Earmarked Reserves Reconciliation
Appendix 3	General Fund Reserve's assessment
Appendix 4	Comments from Overview and Scrutiny Performance Board and other groups
Appendix 5	Treasury Management Strategy and Prudential Indicators
Appendix 6	Pay Policy Statement
Appendix 7	Equalities Duty Assessment

Appendix 8 Public Health Ring Fenced Grant spending plans 2019/20

Appendix 9 Glossary of terms

Contact Points

County Council Contact Points

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Specific Contact Points for this report

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Background Papers

In the opinion of the proper officer (in this case the Head of Legal and Democratic Services) the following are the background papers relating to the subject matter of this report:

Agenda and background papers for the meeting of the Cabinet held on 31 January 2019.