

Worcestershire County Council Financial Resilience Review

Sean Nolan on behalf of the
CIPFA team
June 2017

Terms of Reference

- Review Soundness of emerging MTFP Gap and savings strategy
- Requested by CFO due to his broader concerns
- Advice on support and capacity for CFO
- Advice on Financial Planning Architecture
- Supported by Diagnostic Benchmarking
- Based on experienced CFO insights, extensive discussions, short but intense process
- Confidential process

Terms of Reference – Two key questions

- **MTFP reported 'Gap' 18/19 to 20/21?**
Not currently sound
- **Your Financial Resilience?**
Not secured

“ Sound Gap?” – No

- **Overly prudent contingency assumptions**
- **(and) comparatively generous BCF treatment**
- **Amorphous/Non Transparent Pressures and Contingency Presentation**
- **Overly optimistic ‘Transformation’ savings delivery**
- **Unrealistic Children's Risks (based on emerging pressures)**
- **“ Counter-Intuitive’ Council Tax strategy**
- **Unbalanced approach to demographic/demand pressures in adults v children's**

Overly Prudent Assumptions

- Untypically high % pressures
 - 6.5% pa over the plan period 18/19 to 19/20
 - Circa 2.5 times growth in resources
- RSG/Business rates assumptions appear sound and CT reflects local policy decision
- Care Act provision unlikely to be needed.
- 2% pay increase pa each year – generous
- Council Tax surplus –under budgeted
- General contingency too high-especially 19/20 and 20/21
- Under benchmark on income but not the panacea
- Some of the above already being looked at

Overly generous BCF Treatment?

- **National Living Wage, Pay, Price and Demography and other contingency provisions associated with these are funded PLUS spring award of added BCF albeit one off and 50% of improved BCF for 19/20 onwards passed to Adults. Overly Generous?**
- **Overall – Much clearer presentation of total cash quantum for adults over medium term from the various BCF funding streams v pressures would be helpful. Some flex in the current 50% improved BCF use assumption to might be possible**
- **Director to be supported in strategy and aim to produce MTFP for adults.**

Amorphous/Non Transparent Presentation

- **Large general contingency in approved budget and 'MTFP' – unexplained in public papers**
- **Unclear resultant total cash allocations to directorates over the medium term**
- **Cost of maintaining current offer, e.g. pay inflation, jumbled up with future possible risks and new investment – all given equal weight**
- **Insufficient link between cap and rev to fund policy growth, e.g., roads, support to children risks**

Overly Optimistic 'Transformation' Savings

- **Target in 17/18 is £21.3m and £10.2m already showing as red**
- **Underlying overspend c/fwd. into 17/18 likely to impact to some degree into 18/19**
- **Lack of generally confident ownership – to target or time (But some positive examples)**
- **Additional Plan target of £15.9m to 20/21**
 - **Will not be delivered**
 - **50% delivery would be a success**
- **Ethereal and Conceptual Savings themes**

Unrealistic Children's Risk in the MTFP

- Planned savings required in 17/18 budget
 - Despite emerging OFSTED and organisational intelligence
- Must recognise real risk in MTFP
 - Much more probable than some risks already counted
- Rate of recovery always slower than expected and costs always more than expected
- At least £6m overspend in 17/18 coming through
- Possible range of real cost pressures for the MTFP?
 - £9m to £11m in 18/19 Additional on Current MTFP
 - £4m to £6m in 19/20 Ditto
 - £4m to £6m in 20/21 Ditto

'Counter-Intuitive' Council Tax Strategy

- **Conservative Government Policy** to max allowable council tax increase to deliver 'spending power' promise and adult social care funding promise.
- For WCC, roughly 2/3rd geared to council tax but roughly 2/3rds exposed to social care; which suffers above inflation pressures. So, Members holding back council increases **guarantees** to impact negatively on their 'place' ambitions.
- c£7.5m pa '**gap contribution**' still available for the plan period

Modelling 2018/19 Gap – A Scenario?

	<u>£m</u>
▪ Natural Gap per Published MTFP	£31.9
▪ LESS over prudent assumptions	(£9.1)
▪ LESS Realistic Trans Savings ?	(£6.9)
▪ Real Children's Risk circa	<u>£10.5</u>
▪ Gap Remaining	£26.4
▪ PLUS underlying overspend in 17/18	£?

**NOW EVEN MORE OF A PROBLEM
APPROACHING 9% OF THE BUDGET**

Modelling 18/19 – 20/21, A Scenario?

	<u>£m</u>
▪ Natural Gap as per published MTFP	£75.6
▪ LESS “over” prudence. Net circa	(£27.6)
▪ LESS Realistic ‘Trans. Savings” circa	(£8.9)
▪ Real Children's risk ?	£21m
▪ Gap Remaining circa	£60.1

Financial Resilience - Not yet secured

- Significant department reserve drawn down last year and likely again this year
- Not a real corporate Medium Term plan, largely still annual budget
- Lack of consistent corporate narrative and urgency
- Circa £28.6m gap for 2018/19
- **PLUS** That is effectively 6 months away
- **PLUS There is no recognisable planning architecture in place to deliver**
- **PLUS** that is obviously also true for the medium term

Planning Architecture – Some core design principles

- Co-produced and co-owned by Cabinet and SLT by portfolio and corporately
- “Reconciling Policy and Resources”
- Create medium term cash allocations for Directors and Cabinet leads for which they are held accountable including how to live within it – but as part of overall coherent council wide position

Planning Architecture (2)

- Produce single cohesive financial narrative for the council and a sense of urgency appropriate to the real challenge
- Identify genuine grounded cross cutting savings strategies to contribute. Current 'Transformation' programme needs a radical overhaul.
- Agree "nowhere to run and nowhere to hide" gap number in June cabinet and establish the new process from then on

Planning Architecture (3)

- Urgently consider short term initiatives, e.g., targeted staffing freeze, to contribute savings and to focus minds to the task.
- Make virtue of MTFP for Adults and Children's as a necessity for both but also to lift and drop into corporate MTFP. CFO to help co-produce and co-own
- Shift focus to cash not just savings, allocate out all the cash leaving specific contingency, rather than (false) expectation that risks are covered centrally

CFO Capacity

- Taking over Transformation in Jan and IT in June. Former refocused but needs major overhaul. Latter has significant senior capacity issues with larger savings strategies not delivering.
- Significant investment of time and effort needed for MTFP. Simply not possible given demands of above. More support and agreed prioritisation needed to handle above and new MTFP process.
- Need to review Finance structure in respect of a new MTFP process but also to effectively support directorates as finance business partners.

Diagnostic Benchmarking – Compared to most similar counties group of 16

- 4th lowest net spend
- Below average level of reserves and above average decline in reserves in last two years
- Above average gearing/reliance on Council Tax
- 27% below average for local income generated excluding C. Tax. (Equivalent to £4.7m pa)
- Below average spend on most main service headings; save planning and 'central' and roads maintenance

More detail benchmarking per head (of relevant client group) v 16 council average in the family group

- **Total education. 5th lowest**
- **Post 16 provision. 5th lowest**
- **Highways and transport. 7th lowest.**
- **Roads Structural maintenance. 3rd Highest.**
- **Total social care. 6th lowest.**
- **Children's. 8th. Modal average.**
- **Adults. 5th lowest.**
- **Public Health. 4th Highest.**
- **Cultural and Related. Highest**

More detail benchmarking per head (of relevant client group) v 16 council average in the family group. Continued

- **Environmental and Regularity. 3rd Highest**
- **Waste. 2nd Highest.**
- **Planning. 8th. Modal Average**
- **Central services. 3rd Highest**
- **Local income. 4th Lowest**

How can CIPFA help?

- **Facilitate narrative for a new approach**
- **Share technical options on risk provisions adopted by other CFOs in their MTFP processes**
- **Capacity support for the CFO and development support for the finance team**