

Report for:	BUCKINGHAMSHIRE SHADOW EXECUTIVE
Meeting Date:	23rd July 2019

Title of Report:	Consolidated Financial Position
Responsible Officer or Relevant Member:	Richard Ambrose (interim S151 officer)
Officer Contact:	Richard Ambrose, interim S151 Officer 01296 383120 rambrose@buckscc.gov.uk
Recommendations:	That this report is considered and noted.
Corporate Implications:	This report is by its nature about financial implications and decisions
Options: (If any)	
Reason: (Executive only)	So that the Shadow Executive is aware of the consolidated financial position, the current budget assumptions and the budget process.

Purpose of Report

1. The purpose of this report is to update the Shadow Executive on the progress in amalgamating the revenue budget and capital programmes for Buckinghamshire Council for the financial years 2020/21 to 2022/23. This update will include:-
 - The principles behind the financial planning process
 - Governance of the Medium Term Financial Strategy and the role of members and officers in developing and delivering it
 - The timeline for delivery of the Medium Term Financial Strategy
 - The amalgamated Revenue budgets (Appendix 1)
 - The amalgamated Capital programme (Appendix 2)
 - The key risks relating to existing expenditure plans and future funding.
 - Potential actions to address emerging pressures / risks



Content of Report

Context

2. Buckinghamshire Council will be created from 5 existing councils, which all have balanced and politically agreed Medium Term Financial Strategies for the period 2020/21 to 2022/23. The starting point for financial planning is the amalgamation of these existing MTFS's, updated for latest estimates and known changes within the local and national context.
3. There is a legal responsibility upon Buckinghamshire Council to agree a robust budget before the 10th March 2020.

The proposed Financial Strategy

4. The bullet points below represent the proposed principles of the Financial Strategy of the new Buckinghamshire Council:-
 - A robust and balanced budget is prepared for both revenue budgets and the capital programme and approved by statutory deadlines;
 - The financial plan should be set for 3 years and should fully align with the statutory responsibilities and emerging strategic priorities / delivery plans of the new authority;
 - The key developments and savings set out in the Unitary Business Case will be included within the proposed budget, in addition to the existing plans for budget reductions across all 5 councils;
 - The financial plan developed from the process should deliver financial sustainability:
 - through support for invest to save / transformational investments that are aligned to strategic priorities, using one-off funding identified for this purpose
 - through ensuring that reserves are only used for one-off purposes and do not support ongoing expenditure
 - that as policies and fees & charges are harmonised they protect current levels of income
 - that borrowing be supported for capital schemes that can demonstrate a positive financial business case, balanced against risks, and are aligned to Council priorities
 - That revenue and capital planning is fully integrated to ensure that all financial impacts, including capital financing costs, are fully considered;
 - That there is clear Member and Officer accountability and processes in place for the development of budget proposals and the ongoing management of their delivery;
 - That sufficient contingencies / reserves are maintained to fund future liabilities and current and future financial risks, in line with recommended best practice;
 - That key financial risks are clearly articulated, understood and owned by both Members and Officers.
5. The proposed financial strategy will be delivered through:-
 - An agreed MTFP process, which includes:
 - Regular review, check and challenge at both an Officer and Member level
 - Broad budget consultation with residents, the third sector and representatives of the Buckinghamshire business community
 - Scrutiny of a draft budget by the Overview and Scrutiny Committee

- A review and agreement of key funding and expenditure assumptions, including Council Tax assumptions;
- Identifying Members aligned to Programme Boards, who will work with officers on the development and management of their budgets;
- Clearly defined tasks for Programme Boards in developing proposals; supported by an understanding of existing budgets and savings, Unitary business case savings and investments, transformational opportunities and income from fees and charges;
- Review and challenge mechanisms to ensure that all proposals (existing and new) are robust and to track and report on their delivery post vesting day;
- An agreed policy for the use of reserve balances, including only being used for one-off expenditure / investment;
- A thorough review of current mechanisms to manage financial risks and uncertainty, including contingency budgets, reserves and other budgetary practices, in order to ensure financial risks are appropriately managed;
- Post vesting day there will be robust budget monitoring, reporting, risk management and escalation processes to ensure that the agreed plans are delivered as intended, appropriately managed and that those accountable deliver on their responsibilities.

Revenue budget modelling

6. Appendix 1 sets out the 2019/20 amalgamated budget by Programme Board. For 2020/21 and beyond there is minimal change to the total funding assumptions from the previously agreed plans. However, there are a number of pressures identified (including some unidentified savings and some likely additional costs relating to the localism agenda) which are largely offset by the inclusion of the re-profiled £18.2m Unitary Business Case savings.
7. The modelling currently shows a breakeven position across the next three years; however this is subject to a number of significant risks (highlighted below) and before the costs of transformation have been fully built into the budget.
8. Programme Boards have been tasked with reviewing existing savings plans to ensure that they are still deliverable and, if necessary, identify alternative savings for proper consideration by Members. The unitary savings have been re-profiled over more than 3 years and, therefore, a substantial part of the anticipated savings will fall outside of the Medium Term planning period. This reflects a realistic review of the challenging delivery timescales for the new Council, it provides for a discovery phase for the new CMT, Members and senior managers in 2021, and allows greater assurance over delivery of savings.
9. No provisions have been made yet for transformational investment / invest to save initiatives that are likely to be required post vesting day. Programme Boards have been asked to produce business cases for any such proposals and it is likely that these will be supported where there is a good business case and where they align to council priorities. It is proposed that funding to support any upfront investment required would come from either reserves or other unallocated funding (i.e. New Homes Bonus).
10. The totals for each of the main funding sources, and the percentage of funding they provide, are shown below:



	2020/21		2021/22		2022/23	
	£000's	%age	£000's	%age	£000's	%age
Council Tax	339,839	84.6%	351,281	84.9%	363,108	85.0%
Business Rates	60,091	15.0%	61,232	14.8%	62,457	14.6%
Negative RSG	-13,360	-3.3%	-13,360	-3.2%	-13,360	-3.1%
New Homes Bonus	9,479	2.4%	9,159	2.2%	9,251	2.2%
Other unringfenced grants	5,609	1.4%	5,622	1.4%	5,636	1.3%
TOTAL	401,658		413,934		427,092	

11. Of these, all except Council Tax are set by Central Government or are based on Central Government policy, and local decisions do not directly influence their level.

Capital programme

12. Existing capital programmes have been amalgamated (see Appendix 2) and cover the period of previously agreed plans from 2020/21 to 2022/23. Detailed work is being undertaken by the Programme Boards to review the projects within it, especially to ensure they are still strategically appropriate, and whether a more holistic approach based on wider geographies would be more advantageous. This may give rise to re-prioritisation or re-profiling of projects through the course of the process.
13. The funding assumptions underpinning the existing programmes (e.g. borrowing, capital receipts, S106 contributions, Community Infrastructure Levy, capital grants and revenue contributions) are being reviewed at a corporate level. The review process is fully integrated with revenue. Current combined external borrowing across the 5 councils is £331.6m. Interest payable on this borrowing amounts to £9.656m.
14. At present there are a number of differing approaches to growth and Local plans, including the Community Infrastructure Levy, which will need to be aligned over time, and which may impact on the content of the capital programme in the future

The MTFs process

15. A process has been implemented to ensure that the Medium Term Financial Strategy has appropriate Member and officer accountability through its development, and that there is ample opportunity for both political and officer challenge of all proposals made.
16. The high level timetable is set out below:

When	Activity	Function
May / June 2019	Consolidation of existing plans	Consolidation of existing MTFP including identifying issues to delivery of savings plans.
May / June	Process agreed and published Strategic plan and high level business plans	Agree the political and officer building blocks Develop and issue a detailed timetable. Review existing approaches and plans. Draft suggested approach for Strategic Plan and high level business plans to CIG. Update funding model for latest estimates.

	Corporate modelling	Update growth and inflation assumptions for key service budgets. Identification of any likely funding gap.
July / August	Members assigned to Programme Boards and Officers identify threats and opportunities	Agree Council Tax equalisation approach. Review of robustness of current consolidated MTFP proposals. Member information sessions. Consideration of unexpected service pressures which may need to be mitigated. Identification of potential opportunities to deliver savings. Initial equality impact assessments (EIAs) submitted alongside budget proposal.
Sept / Oct	Initial proposals reviewed / challenged	Leadership scrutiny of proposals and pressures to ensure alignment to the Strategic Plan / political acceptability.
Oct / Nov	Consultations Community Governance Review	Draft Service budgets available and budget upload tested. Agree Council Tax base. Undertake general consultation with residents and stakeholders. Review the implications of the Community Government Review for the budget proposals.
December	Local Government Settlement	Defines the external funding envelope. Update draft budget as required.
First week of January	Draft Budget set	Revenue budget and capital programme agreed at Shadow Exec for further consultation / scrutiny. Full EIAs to be submitted.
Week 2 or 3 January	Budget Scrutiny Committee	Check and challenge of the draft budget proposals business plans and EIAs.
27th February	Final Budget set	Strategic Plan, high level business plans, revenue budget and capital programme agreed at Shadow Exec and Shadow Authority.

The role of Members and Programme Boards

17. Programme Boards and the associated Members assigned to these are responsible for review of existing financial plans, for the identification of threats and opportunities and the development of business cases for any proposed changes across both the Revenue budget and the Capital programme. It is expected that the Members provide political leadership within the work undertaken by the Programme Boards and that they consider the alignment of proposals to the emerging Strategic Plan as part of this role. Later in the process the Budget Scrutiny process will provide an opportunity for Members to review these proposals in detail, prior to a decision by the Shadow Authority.
18. Programme Boards have been provided with their consolidated budget and capital programmes, and the previously agreed and Unitary Business Case savings for their areas. In addition the Programme Boards have been provided with comprehensive guidance of their tasks within the process.

Risks and Uncertainties

19. There is significant uncertainty in Local Government funding. The following events could have significant impacts on the position modelled above:-

National risk factors:

- The impact of BREXIT
- The impact of wider political upheaval (including the Conservative leadership contest)
- The forthcoming Spending Review and whether this is for 1 year or 3 years
- The Fair Funding Review (due to be implemented in 2020/21)
- 75% Business Rates Retention (due to be implemented in 20/21)
- The Business Rate Baseline reset (due to be implemented in 20/21)
- Changes to New Homes Bonus funding
- The Social Care Green Paper and potential impacts on future year budgets

Local risk factors:

- Ongoing increases in both Adults and Children's Social Care demand and complexity
- Ongoing increases in Client Transport demand (Social Care and Home to School Transport)
- Other demand pressures such as homelessness
- The impact of economic factors on Investment property income
- Existing savings plans that are not deliverable in 2019/20
- Delivery of savings from the Unitary business case
- Delivery of previously agreed savings plans (20/21 to 22/23)

20. The s151's across the five councils have been discussing emerging pressures and will do this in detail at the end of each quarter. As well as concerns about the deliverability of some of the existing savings plans there are a number of other concerns. These include:-
 - Fees & Charges – when harmonising fees & charges the principle is that the overall current income levels will be protected. There may be some resistance to this due to the fact that there will be 'winners and losers'

- Terms & Conditions – it is assumed that the introduction of the new Buckinghamshire Council Terms & Conditions will be cost neutral but again this will mean there will be ‘winners and losers’
- Income Streams – there are income targets included within existing savings plans (e.g. commercial acquisitions) as well as other current pressures such as recycling income levels, letting income from tenants and other existing fees & charges
- Interims / Agency staff – due to difficulties with recruitment in certain areas and the potential for there to be high turnover the cost of interims could put pressure on establishment budgets. This could also impact the new Council in terms of skills / continuity etc.
- Capacity Issues – there is a danger that the focus is taken off ‘business as usual’ during the transition and that financial management arrangements suffer as a result
- ICT Costs – in the short term there could be increased costs due to the requirement to increase the number of licences as multiple systems are used
- Pensions – a recent ruling (McCloud) relating to transitional protections previously applied to certain older members close to normal retirement age (age discrimination) could impact on the Local Government Pension Scheme. The impact will depend on the compensation awarded, members’ future salary increases, length of service, retirement age, and whether (and when) members withdraw from active service. Actuaries and external auditors are currently reviewing the judgement and the likely impact on the fund.

21. Quantification of these risks will be considered further by the s151’s as part of their review of the financial position of all 5 councils at the end of July. It should also be noted that some of our key partners are experiencing significant financial pressures (e.g. health). This may have an impact on the existing councils due to the increased joint working that is taking place between partners (e.g. integrated care system).

22. A number of actions are already in place as mitigation to some of these risks. The S151 officers from all 5 councils meet regularly to share emerging pressures and issues, there is a spending protocol which ensures that any new commitments that could have future financial implications for the new Council are fully considered before they are approved and the Programme Boards are reviewing existing plans for deliverability. It is important that clarity of focus on the financial position across the five authorities is maintained and that financial issues are identified early and actions taken to mitigate these issues.

23. A possible consideration is whether to further strengthen the recently approved ‘Spending Protocol’. This concentrates on new commitments that have not been specifically approved as part of setting the 2019/20 budgets. Shadow Executive Members may wish to consider whether 2019/20 contractually uncommitted spend above a certain level should also be picked up within the Spending Protocol, even when a budget has already been approved.

Next Steps

24. Programme Boards and their associated Members will have completed their review of the budgets they have been allocated and the savings proposals they are tasked with delivering by the end of July. Following this an update will be taken to CIG and the Shadow Executive highlighting any issues arising.

25. Work will continue to review revenue and capital funding assumptions to ensure any issues arising can be escalated, as appropriate.

26. Further updates will be brought forward as decisions are required and when the outcome of the Local Government Provisional Finance Settlement is known and understood.

Background Papers	Appendix 1 – Amalgamated Revenue budget Appendix 2 – Amalgamated Capital programme
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