

Report Title:	<b>Medium Term Financial Strategy 2021/22 – 2025/26</b>
Contains Confidential or Exempt Information?	No - Part I
Member reporting:	Councillor Hilton, Lead Member for Finance and Ascot
Meeting and Date:	Extraordinary Full Council - 14 October 2020
Responsible Officer(s):	Adele Taylor, Director of Resources & Section 151 Officer
Wards affected:	All

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## REPORT SUMMARY

1. This report sets out the Council's proposed medium-term financial strategy (MTFS) for 2021/22 - 2025/26 based on information as we currently know it
2. The Council is facing a significant financial challenge. Like many councils, it is experiencing growth in demand for a number of services, with Children's Services and Adult social care being some of the most significant impacted by demographic demands.
3. The Council approved a robust budget in February 2020, which would have stabilised the Council's financial position. However, the Covid-19 pandemic has led to increased costs and large reductions in income in the current financial year. Uncertainty around the duration of these impacts and whether the Government will provide additional funding to mitigate the ongoing impact as part of the upcoming Comprehensive Spending Review, means that there is more potential volatility in the forecasts over the medium term than in previous years.
4. The position for the Royal Borough is more acute than many other councils, due to its historically very low level of reserves. These are barely adequate to cover its current risks and are insufficient to cover future projected funding shortfalls in 2021/22 and beyond without significant sustainable savings being identified. Uncertainty around future central government funding adds to the scale of this risk.
5. The Council therefore needs to urgently consider the actions it needs to take to ensure the affordability of its services and ensure it reviews its financial sustainability over the medium term.

## 1. DETAILS OF RECOMMENDATION(S)

**RECOMMENDATION:** That full Council notes the report and approves:

- i) **The Medium Term Financial Strategy set out in Appendix A.**

## 2. REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

- 2.1 This report sets out the financial plans for the Royal Borough of Windsor and Maidenhead
- 2.2 A range of assumptions around the recommended MTFS are set out in paragraph 5.2 and in the notes to Appendix A.
- 2.3 The current situation is extremely volatile and the total savings requirement is likely to change, especially when the Government announces funding for future years as part of the Local Government Financial Settlement following the Comprehensive Spending Review (CSR). The exact timing of the CSR and subsequent settlement remain unknown at the time of writing this report, although it is predicted to be around November to December 2020.

## 3. KEY IMPLICATIONS

**Table 2: Key Implications**

<b>Outcome</b>	<b>Unmet</b>	<b>Met</b>	<b>Exceeded</b>	<b>Significantly Exceeded</b>	<b>Date of delivery</b>
Services delivered within approved budget	Budget overspend >£250,000	Budget variance +/- £250,000	Budget underspend >£250,000 <£1,500,000	Budget underspend >£1,500,000	31 March 2021

## 4. FINANCIAL DETAILS / VALUE FOR MONEY

### 4.1 Introduction

- 4.1.1 Just like many other councils, the Royal Borough of Windsor and Maidenhead faces considerable financial challenges as a result of the Covid-19 pandemic.
- 4.1.2 Unlike many other councils, low levels of reserves and the lowest council tax in the country outside of London, coupled with increasing levels of borrowing have made the RBWM financial position more challenging when balancing increasing demographic pressures with other service demands. It should be noted however, that the impact of the Covid-19 pandemic has been very different across local authorities and many have experienced a more serious erosion of their reserves than we have, to date.
- 4.1.3 This document explains the financial context for RBWM and provides an assessment of the scale of the financial challenge that it is likely to face over the next five years and discusses the basis of assumptions that we are making.

### 4.2 Corporate Priorities

- 4.2.1. The Council's priorities must be at the heart of any financial strategy. In many ways they inform one another. RBWM has an agreed interim strategy in light

of the impact of the pandemic on the authority. The interim strategy was agreed by Cabinet on 30<sup>th</sup> July 2020. A refresh of the overall corporate strategy will be undertaken.

4.2.2. Finance is both the enabler that allows the Council to deliver these key priorities and the constraint that the Council needs to work within as it makes tough decisions between those priorities.

4.2.3 The current agreed interim key priorities for Windsor and Maidenhead are:-

#### Covid-19

- Immediate response
- Long term recovery
- New service requirements

#### Interim Focus Objectives

- Service stand up (business continuity)
- Revised service operating plans
- Transformation plan
- Climate strategy
- Governance
- People plan – values, leadership, Black Lives Matter

#### MTFS

- Impact of Covid-19 directly
- Economic downturn
- Government policy

### 4.3 **Financial Climate**

4.3.1. Over recent years all local authorities have faced significant spending reductions as part of government efforts to reduce the national budget deficit, at a time when pressure on core service delivery has increased, particularly in Children's Services and Adult Social Care.

4.3.2. This has placed considerable pressure on discretionary services, including Early Help services for children and families, culture, leisure and library services.

4.3.3. The Covid-19 pandemic has increased costs in many areas but has also severely reduced councils' income.

4.3.4. All councils have adopted different approaches to address their budget gap during that time. This has included outsourcing key services and entering into service delivery partnerships with other councils, as well as looking at other forms of sustainable income through regeneration activities and a greater focus on commercial activity.

#### 4.4 RBWM Financial Context

4.4.1 RBWM is on the face of it better placed than some councils to meet the financial challenges that it faces.

- Relatively low levels of deprivation mean that it does not have the same level of pressure on Adult Care and Children's Services that some councils have experienced.
- Significant capital assets have enabled it to continue to fund its capital program at a time when government support for capital schemes has diminished.
- Lower reliance on Government Grant also meant that the impact of spending reductions was less than in some other councils, noting the corollary of the increased importance of Council Tax, compared to others.
- A focus on developing other income streams using both the Council's asset base and regeneration activities which, unlike many councils, have not left the authority overexposed to fluctuations in market conditions

4.4.2 RBWM has still had to make significant savings and has already delivered around £60m savings from 2010. It has also been able to protect "discretionary" local services to a greater extent than other councils through some of the actions that it took including sharing services with other councils and changing delivery models.

4.4.3 In more recent years RBWM has also embarked on significant investment in regenerating the borough which will in the medium to long term provide significant financial benefits overall.

4.4.4 For all councils there is a fine line between financial security and a financial position that can give rise to concern. The tipping point will be different from council to council.

4.4.5 RBWM has a number of significant risks that need to be considered as part of its medium term financial plans and any potential mitigations identified, where possible.

- **Council Reserves are under considerable pressure** – without Covid-19 the Council was beginning to build back its reserves, but in the current situation they are insufficient to absorb the financial pressure projected for 2021/22 and beyond, unless significant savings are made on an ongoing and sustainable basis.
- **The Pension fund deficit** means that a growing share of council funding is required to cover pension deficits in the future, before any money is spent on council services.
- **Substantial levels of borrowing** mean that an increasing share of the Council's budget is required to service debt before money can be spent on day to day services.
- **Maintaining a low level of council tax**, means that the Council has missed out on additional revenue from raising council tax in prior years. It also means that any future increases will generate less as they start from a lower base.

- **Growing pressures around Children and Adult Services** have been widening the budget gap further
- **The Covid-19 pandemic has increased costs and reduced income.** Additional Government funding has mitigated most of this in 2020/21, but there is no guarantee that this support will be repeated in subsequent years should the pandemic continue. Even if the pandemic were cured some of the income loss would persist as the world of work, in particular, has changed.
- **Many potential consequences of the pandemic are not yet apparent.** As Government support such as the furlough scheme ends, the full economic and health effects of the pandemic may be revealed. This may lead to impacts on the Council's budget such as increased council tax support, more homelessness and lower business rates income.

#### 4.5 Financial Risks

4.5.1 Planning for the future can never be an exact science. There are many factors that the Council cannot control completely, which can have a significant impact on the viability of future plans:

- (a) **Inflationary Pressures** can have a significant impact on costs, particularly pay levels. Contracts may help to protect RBWM from the impact of inflation, although there is an even greater risk when the contract is renewed.
- (b) **Interest Rates** have a particularly high impact on RBWM due to the overall level of borrowing for the Council. This impact is exacerbated by the high and increasing level of short-term borrowing, which means that rate rises have an immediate impact on council finances.

*A 1% increase in interest rates would increase costs by £1m in 2021/22, rising to £1.3m in 2025/26.*

- (c) **Government Grant (RSG)** – the previous formula review resulted in a potentially substantial loss in grant for RBWM. The Government introduced protection arrangements which limited the amount councils would lose. The current methodology for distributing grants, Fair Funding has been delayed for another year with a planned implementation in 2022/23. This could mean the loss of protection over the MTFP period.

*RBWM currently receives some £2.2m in protection from “negative RSG”.*

- (d) **Business Rates** delivered a significant benefit to RBWM when the local economy expanded. The Government is likely to delay its reset of Business Rates to 2022/23.

*RBWM is projected to receive £15m in 2021/22 from business rate income towards the cost of council services.*

- (e) **Changes to Education Funding and the Redistribution of Higher Needs funding** may reduce allocations to RBWM.

4.5.2 To some extent financial risks can be balanced by some factors that can potentially improve the financial position of the Council.

(a) **Overall Government support** – the spending review may result in an increase in overall government support for Local Government. If the Government increases the level of overall grant this may have little impact for RBWM as it may simply mean that it does not need as much protection as it currently receives. RBWM is more likely to benefit from targeted support.

(b) **Council Tax** – greater flexibility in setting council tax levels, either on the overall level of council tax or the social care levy would benefit RBWM to a greater extent than many other councils. Our Council Tax is lower than many other councils and is a higher proportion of the funding that supports our expenditure.

4.5.3 All the above risks can impact on the medium-term financial projections and can make it difficult to plan with certainty.

#### 4.6 Future National Funding Picture

4.6.1 There is considerable uncertainty around future funding for local councils. The spending review had already been delayed until 2020, and it is still not certain that it will lead to a multi-year settlement from 2021/22.

4.6.2 There is no certainty that the spending review will lead to additional funds for local government. The sector has not fared well in previous rounds and will have to compete against other areas of the public sector. The review will inevitably be strongly influenced by the consequences of the Covid-19 pandemic. The current expectation is that the outcomes of the CSR will be announced sometime in November 2020 with the formal finance settlement to follow sometime in December 2020. These dates are provisional.

4.6.3 It is too early to judge how this will impact on councils with:

- Potential changes in grant distribution and business rates retention
- Additional grant for new spending pressures
- Further flexibility in council tax levels.

4.6.4 This clearly creates the risk of more fundamental changes and a reduction in support to councils. This depends on whether the Government decides to allocate additional funding to councils overall or enables them to raise more in council tax to bridge funding gaps.

4.6.5 The 2021/22 settlement may be a 1 year settlement. Current assumptions included in the MTFS in Appendix A are:

- Council tax referendum limit remaining at 2% for the life of the MTFP with an additional social care precept of 2% in 2021/22 only.
- Expected changes to funding streams including Fairer Funding, Business Rate Retention and Better Care Funding delayed until 2022/23

- Protection for councils including RBWM, who would otherwise have to repay revenue support grant.
- New Homes Bonus Funding remaining as forecast: £284k in 2021/22, £220k in 2022/23 and zero from then on.

4.6.6 In short, there is a considerable level of uncertainty around financial plans for 2021/22 and beyond, that will continue to be revised as more information becomes available.

#### 4.7 **Corporate Capacity to Deliver**

4.7.1 As the Council has been dealing with significant financial pressures in the past there has been a reduction in the corporate capacity, a hollowing out, of the officer core. The Council needs additional capacity to deliver change in a way that will make us sustainable in the medium term.

4.7.2 There is a significant risk that without this capacity to deliver, the Council will make short term decisions that have unintended financial consequences and can provide a false economy through not being able to deliver savings appropriately. The team may also lack expertise leading to an increased risk of legal or regulatory challenge.

4.7.3 We are reviewing areas where we believe there are specific capacity gaps and have identified some immediate priorities in relation to equalities and the Monitoring Officer which have been resolved in 2020/21.

4.7.4 There are a number of other areas to focus on. Allowance has been made in the MTFP to properly resource areas as follows:

- Strategy/Policy Development
- Monitoring Officer (changing circumstance)
- Insight, Engagement and Consultation
- Transformation
- Data Analytics
- Project Management
- Procurement

## 5. Medium Term Financial Plan

### 5.1 Base position

The table below shows the base projected savings required during the period of the MTFS

2021/22	2022/23	2023/24	2024/25	2025/26
£8.397m	£0.371m	£3.263m	£1.920m	£4.246m

### 5.2 Key assumptions included above are that:

- (i) Council tax levels increase in line with national limits 4% (2% + 2% Adult Social Care precept) and 2% thereafter. The Government has not yet issued the Technical Consultation which will provide this information.
- (ii) Interest rates of 0.6% per annum, as advised by our Treasury Management advisers in light of the current economic situation.
- (iii) £2.2m of grant protection continues for 2021/22 from negative RSG.
- (iv) Adult Social Care Grant continues at current levels.
- (v) Inflation is in line with current government projections.
- (vi) Projected savings are fully delivered.
- (vii) The council does not make any further substantial capital investments which are not funded from future receipts, section 106, CIL or LEP money.

### 5.3 Sensitivity Analysis

5.3.1 Projecting the future financial challenge is not an exact science and many factors are beyond the control of the Council. The overall scale of the financial challenge is heavily influenced by Government decisions around funding levels and council tax limits. In particular, whether the Government will provide further Covid funding should the pandemic continue throughout 2021/22. The MTFS as shown in Appendix A includes £2.758m of unavoidable Covid Costs. This results from lost income that we are already aware of.

5.3.2 It is impossible to predict how long the current pandemic will last and any further associated costs likely to be incurred by the Council.

5.3.3 As part of the budget process, officers will be asked to offset any additional pressures they identify by compensating savings.

5.3.4 While many of the factors will be beyond the control of the council, it does have control over some key factors that will influence the financial projection and scale of the financial gap that it faces. These include decisions on:-

- (i) Council Tax levels – council tax contributes to some 72% of net council expenditure. If the Council does not decide to increase council tax up to the maximum level then this has a significant impact on the scale of the financial gap that it faces.

- (ii) Capital investment – if the Council chooses to invest significantly in capital projects, which are not fully funded or do not deliver savings, then this will have a big impact on the financial gap. The impact will be even greater if interest rates rise.
- (iii) Service Costs – none of the above scenarios provide for significant changes in the level of service provision. Clearly if the Council wishes to increase services then this will significantly increase the size of the budget gap.

#### **5.4 A deteriorating financial outlook.**

5.4.1 At this stage the Council can only plan on the basis of its current knowledge. It is still useful for the Council to know the financial boundaries that it may be working within. The key messages from the baseline projections for 2021/22 are:

- (i) The Council may need to deliver total ongoing savings of £18m over the 5 year period 2021/26, unless government funding in the form of grant or council tax flexibility improves.
- (ii) The Council has insufficient reserves to sustain a budget deficit, and will therefore have to generate substantial cost reductions or increased income. At the same time it needs to ensure that it maintains adequate levels of reserves to mitigate any financial shocks.
- (iii) As already detailed there is considerable uncertainty around funding going forwards. The Council will need to continue revising its predictions as funding levels become more certain.
- (iv) The improvements that the Council has made around financial governance remain key to us robustly managing and challenging our use of resources.

## **6 Principles for Delivering a Sustainable Budget**

- 6.1 There is little doubt that RBWM continues to face considerable financial pressures. The only uncertainty is around the scale of the financial pressures.
- 6.2 All councils are having to make some tough choices around the way they manage their finances in order to remain financially viable.
- 6.3 This section sets out some key principles that the Council needs to continue to follow in the short and medium term to manage the financial uncertainty that it faces.

### **Principle 1 – an adequate level of reserves**

- 6.4 RBWM faces considerable financial risks that can have a potentially significant and immediate impact on its finances.
- 6.5 Reserves are currently at or close to the minimum levels required to protect the Council from these financial risks as well as potential service risks that it may also face. The Month 4 Budget Monitoring Report to Cabinet indicated that the Council was below the required minimum level of reserves, but that did not take into account the Sales, Fees and Charges claims that will be submitted to the Government. The current assumption is that RBWM will be above the minimum level of reserves at the start of the 2021/22 financial year.
- 6.6 The Council should aim to ensure that it has a specific reserve that is sufficient to cover future budget gaps in the short-term to give it the time to deliver the savings it needs to deliver to close the gap, without having to make changes that potentially can have a damaging impact on service delivery. However, savings proposals that are presented when setting the budget should be supported by robust evidence, analysis and realistic timelines to mitigate any risks of non-delivery.

### **Principle 2 – raise council tax in line with Government limits**

- 6.7 Council tax contributes to a large share of the Council's budget. The Council already faces the potential need to make further reductions to services and scale back investment. This position will only be made more challenging if it does not increase council tax in line with the assumptions in the MTFS.
- 6.8 The Council should therefore remain committed to increasing council tax in line with the limits set by central government.
- 6.9 The Medium Term financial forecast demonstrates the need to take advantage of any flexibility that the Government offers to increase council tax, if the Council is to remain financially viable.

### **Principle 3 – Optimise Income Generation**

- 6.10 The Council should continue to look at opportunities to generate sustainable income including from its property portfolio and through further regeneration opportunities.
- 6.11 The Council should aim to ensure that its fees and charges are set at levels that are appropriate and proportionate to the costs of the service they are delivering and the market within which they operate. The expectation should be that these will keep pace with inflation, should be appropriately benchmarked with other similar authorities and services, and should be reviewed on an annual basis to ensure that they at least cover the cost of services when appropriate.

### **Principle 4 – Enhanced scrutiny of capital investment**

- 6.12 Funding capital investment represents a significant pressure on the revenue budget. It is essential that the Council understands fully the revenue impact of capital investment and the extent to which the investment: -
- (i) meets the Council's policy objectives
  - (ii) is self-funding
  - (iii) delivers a realistic pay back in the case of invest to save schemes
  - (iv) Appropriate external funding routes need to be considered
  - (v) All capital investment should be supported by appropriately detailed business cases with clear measures of return on investments at both a financial and community level
- 6.13 Over time the Council should continue to ensure that it funds more of its ongoing maintenance and equipment replacement from its revenue budget.

### **Principle 5 – the Council maintains tight financial control of in year budgets and the delivery of savings programmes.**

- 6.14 The Council has recognised the need to keep tight control of its spending to ensure that the scale of the financial challenge does not worsen even further. During 2020/21 improved budget monitoring reports to committee meetings have been introduced and this allows challenge of any new spending pressures at an early stage. The CIPFA report recommendations are being implemented and a cultural shift within the organisation has begun.
- 6.15 The Council needs to deliver substantial savings to balance its budget again so there needs to be a continued focus on monitoring and delivering savings in 2021/22.

### **Principle 6 – the Council should keep the level of short term borrowing under review**

- 6.16 In recent years borrowing has increased substantially to enable the Council to invest in the regeneration of the borough and core services.

- 6.17 Potentially a lot of this investment can be funded through asset sales, although this can take time. Accordingly the Council has a relatively high level of short term borrowing, which exposes it to the risk of interest rate increases.
- 6.18 The Council is keeping short term borrowing under review and when appropriate will consider the potential to fix rates in the medium to long term to manage the risk and potential financial impact of interest rate increases. The Council continues to consult specialist advice to keep this under review.

**Principle 7 – Lobby for relaxation of capping to give RBWM the Freedom to Recover and additional grant funding**

- 6.19 The Council should maintain pressure on Central Government to deliver a fairer funding model for RBWM that provides:
- (i) Additional grant to support the service pressures that it faces for Children and Adults
  - (ii) Greater flexibility to increase council tax.

## **7 Closing the Budget Gap**

- 7.1 The immediate challenge is to close the budget gap for 2021/22 to enable the council to set a balanced budget for 2021/22.
- 7.2 There is considerable uncertainty around the size and scale of future budget gaps and a lot of this will depend on Government funding decisions.
- 7.3 While there is always room to be more efficient, RBWM is already a low spending council which constrains it from reducing costs.
- 7.4 On this basis it would be unwise to assume that the projected budget gap could be closed through greater efficiency alone. There is a fine dividing line between further efficiency and a reduction in service.
- 7.5 Immediate cost reduction measures are likely to include a significant proportion of service reductions or cessations.
- 7.6 Future savings plans will need to focus on more transformative savings measures and the Council has recently agreed a transformation strategy.

## **8 Summary and Conclusion**

- 8.1 This strategy sets out a way forward for the Council to make its finances as sustainable as possible in the medium to long term.
- 8.2 Achieving sustainable finances is not going to be an easy task for the reasons outlined in this report and some tough choices will need to be taken to achieve long term stability.

- 8.3 In the current financial climate, there are no quick fixes and all councils face considerable financial uncertainty that is beyond their control.
- 8.4 All councils need to have a clear understanding of how that uncertainty can impact on their financial plans and ensure that they protect themselves as far as possible against that uncertainty.
- 8.5 This strategy sets out how best RBWM can manage these risks and start to make its finances as sustainable as they can be in the medium to long term.
- 8.6 The success of this strategy will depend in part on decisions beyond the control of the council particularly Government decisions around future funding and council tax levels

**9. LEGAL IMPLICATIONS**

- 9.1 None at this stage of the budget process.

**10. RISK MANAGEMENT**

- 10.1 Failure to identify sufficient savings as part of the budget process would risk the Council being unable to maintain minimum levels of reserves.

**11. POTENTIAL IMPACTS**

- 11.1 **Equalities.** A full EQIA will be undertaken on the budget submitted to Council in February 2021.
- 11.2 **Climate change/sustainability.** The potential impact of budget recommendations will be considered once details of budget submissions are published.
- 11.3 **Data Protection/GDPR.** Not applicable.

**12. CONSULTATION**

- 12.1 The draft budget approved by Cabinet in December 2020 will be fully consulted on before final proposals are made to Cabinet and Council in February 2021. All Scrutiny committees will consider the areas relevant to their remits.

**13 APPENDICES**

- 13.1 The table below details the Appendices to this report

Appendix	
A	Base Medium Term Financial Projections

## 14 BACKGROUND DOCUMENTS

14.1 None

## 15 CONSULTATION (MANDATORY)

<b>Name of consultee</b>	<b>Post held</b>	<b>Date sent</b>	<b>Date returned</b>
Cllr Hilton	Lead Member for Finance	2/10/20	5/10/20
Cllr Johnson	Leader of the Council	2/10/20	6/10/20
Duncan Sharkey	Managing Director	2/10/20	5/10/20
Russell O'Keefe	Executive Director of Place	2/10/20	
Mary Severin	Monitoring Officer	2/10/20	6/10/20
Elaine Browne	Head of Law	2/10/20	
Nikki Craig	Head of HR, Corporate Projects & ICT	2/10/20	6/10/20
Adele Taylor	Director of Resources, S151 Officer	2/10/20	5/10/20
Louisa Dean	Communications	2/10/20	
Kevin McDaniel	Director of Children's Services	2/10/20	5/10/20
Hilary Hall	Director of Adults, Commissioning & Health	2/10/20	5/10/20
Karen Shepherd	Head of Governance	2/10/20	5/10/20

## 16 REPORT HISTORY

<b>Decision type:</b> Council decision	<b>Urgency item?</b> No	<b>To Follow item?</b> Not applicable
Report Author: Andrew Vallance, Head of Finance		



	NOTES
1	2020/21 figure from Service base budget from Annex A of the February 2020 budget report
2	Potential costs of a pay award of up to 2% for all RBWM staff including AFC and Optalis
3	General expenditure inflation of 1.6% as per July 2020 RPI
4	Fees and charges inflation has been calculated using the July 2020 RPI rate of 1.6%
5	Corporate capacity - ongoing new budget of £850,000 to address areas identified in section 4.7 of the report
6	Demographic growth budget for demand led services
7	There is now a core contingency budget of £1,745,000 (approximately 2% of the base budget)
8	Income related Covid pressures will continue into 2021/22.
9	Ongoing impacts of pressures identified as part of the 2020/21 budget setting process
10	Medium term savings previously identified and shown in the February 2020 budget report
11	Previously shown as one figure 'Borrowing costs' now split out for transparency
12	Previously shown as one figure 'Borrowing costs' now split out for transparency
13	Assumes annual prepayment of pension deficit payments
14	Assumes grant funding continues through the period of this plan
15	Phasing out of the New Homes Bonus as indicated in 2020/21 local government finance settlement
16	Deficit likely to be charged over 3 years as part of government response to Covid pressures