

Medium Term Financial Strategy 2019/20

PFSC
5th October 2018

Overview

- Eight years of Austerity – NAO review
- Government's timetable
- Fairer Funding and Resources
- Business Rates
- Our Gap
- Approach to closing the gap

Eight years of Austerity

49.1%

real-terms reduction in government funding for local authorities, 2010-11 to 2017-18

28.6%

real-terms reduction in local authorities' spending power (government funding plus council tax), 2010-11 to 2017-18

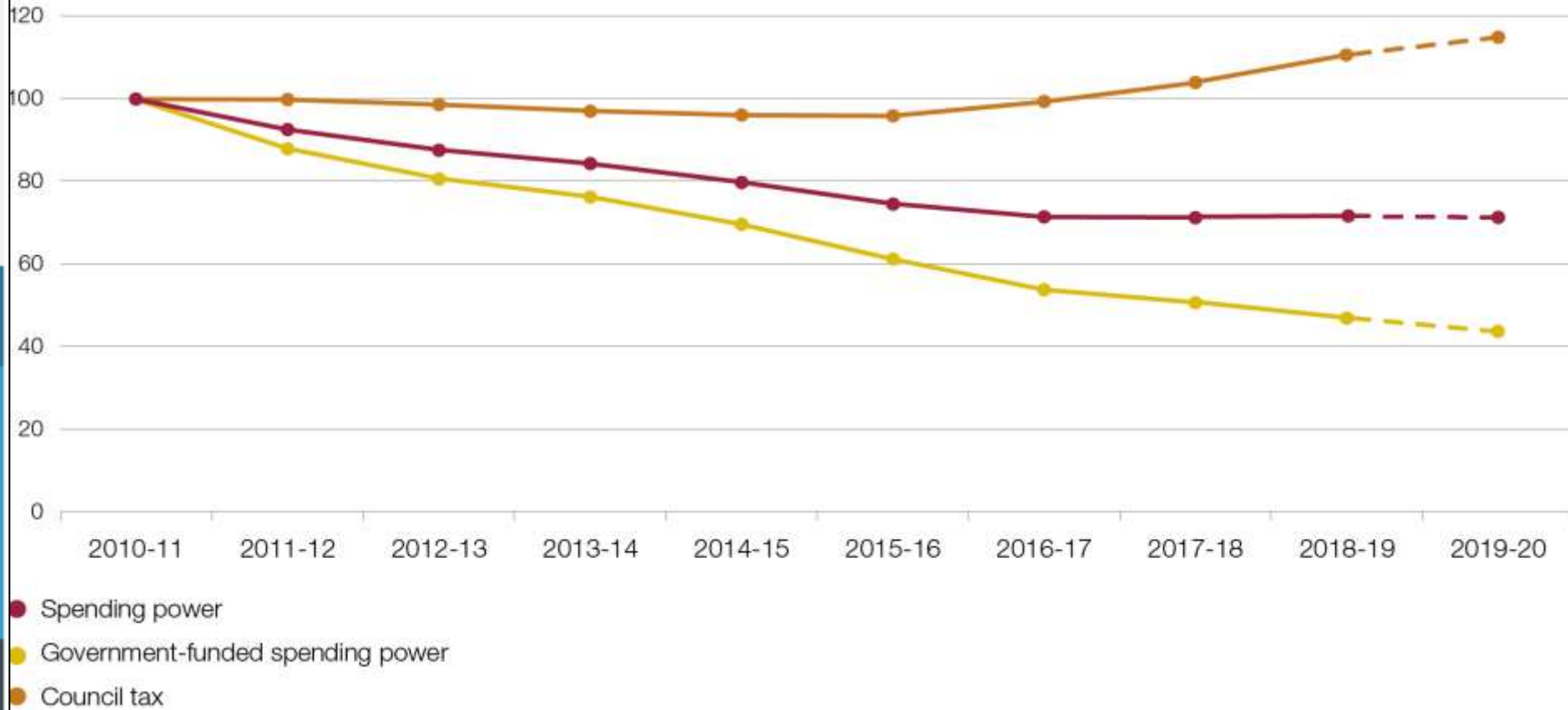
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number of authorities since 2010-11 where a section 114 notice has been issued that indicates they are at risk of spending more than the resources they have available

Estimated change in spending power of local authorities in England, 2010-11 to 2019-20

Previous reductions in spending power have largely levelled off but this is a combination of ongoing reductions in government funding and anticipated increases in council tax

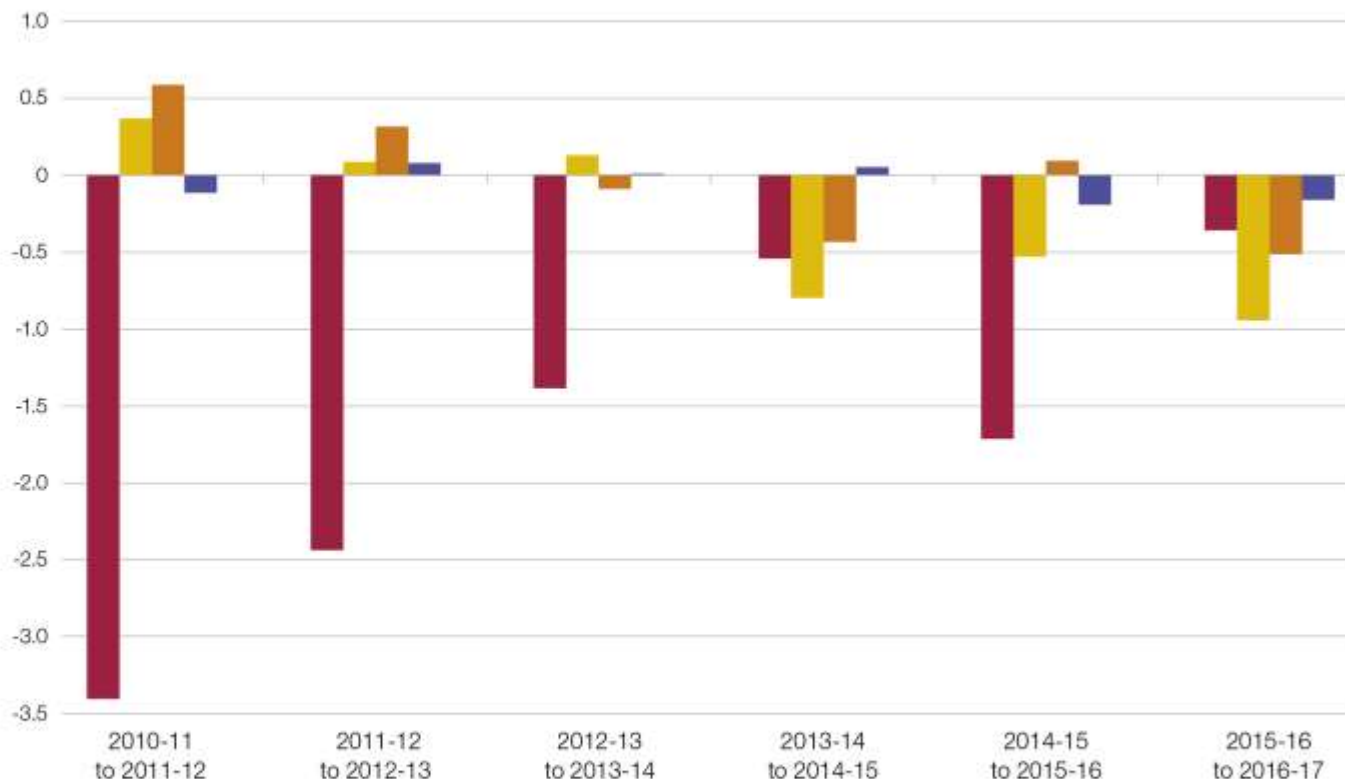
Spending power (real terms in 2016-17 prices) (indexed: 2010-11=100)



Methods used to address year-on-year income reductions: all local authorities in England

Local authorities have moved from an approach of addressing income reductions predominantly through reductions in service spend to a mixed approach including savings on other spending, the use of reserves and generation of alternative income

Year-on-year change (£bn) (real terms in 2016-17 prices)



■ Change in service spend (£bn)

■ Change in appropriations to/from reserves (£bn)

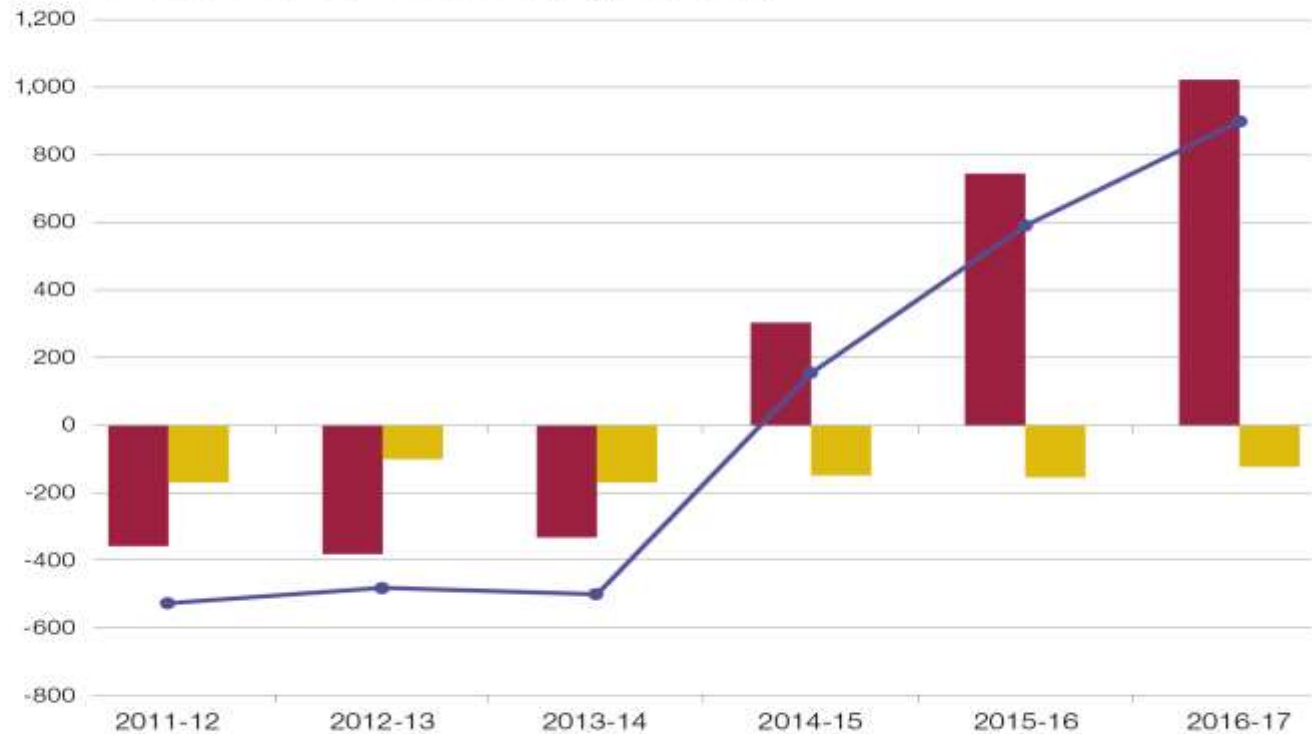
■ Change in other spending (£bn)

■ Change in alternative income (£bn)

In-year variance between service budgets and outturn spend, by local authority tier in England

Single-tier and county councils as a whole have experienced service overspends since 2014-15

Net variance between budget and outturn (£m) (cash terms)

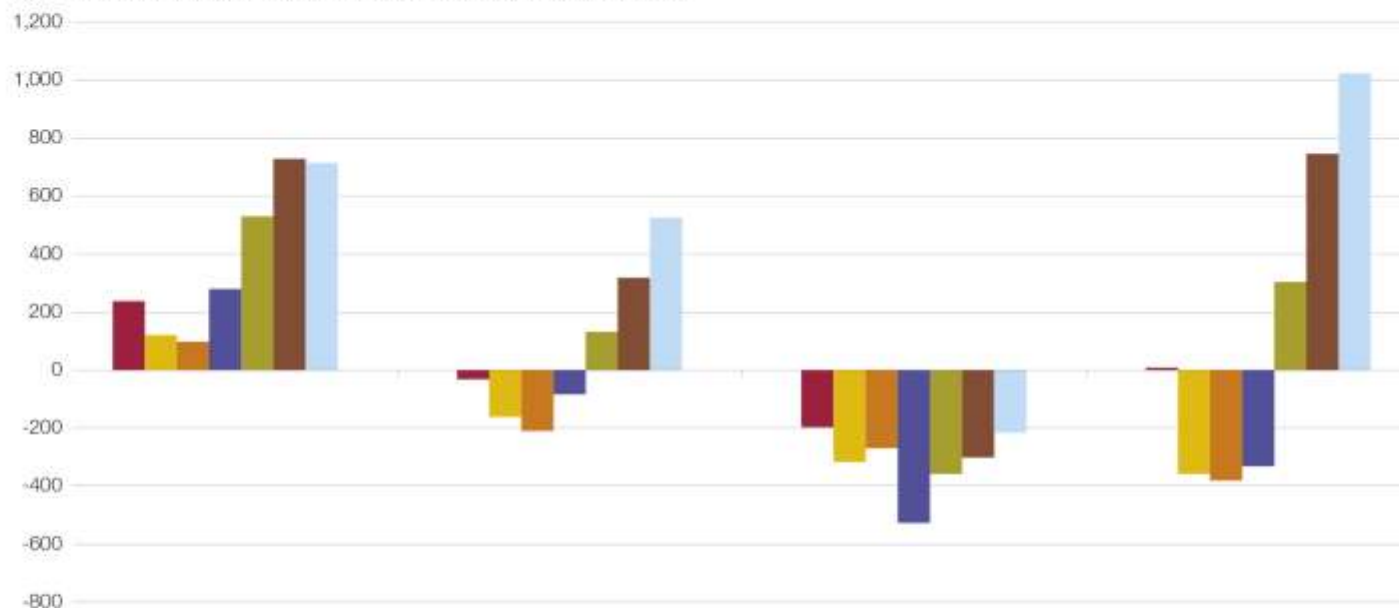


■ Single-tier and county councils (£m)
■ District councils (£m)
● All local authorities (£m)

In-year variance between budget and outturn spend by service: single-tier and county councils in England

Overspends on social care have been the drivers of overall service overspends in single-tier and county councils

Net variance between budget and outturn spend (£m) (cash terms)

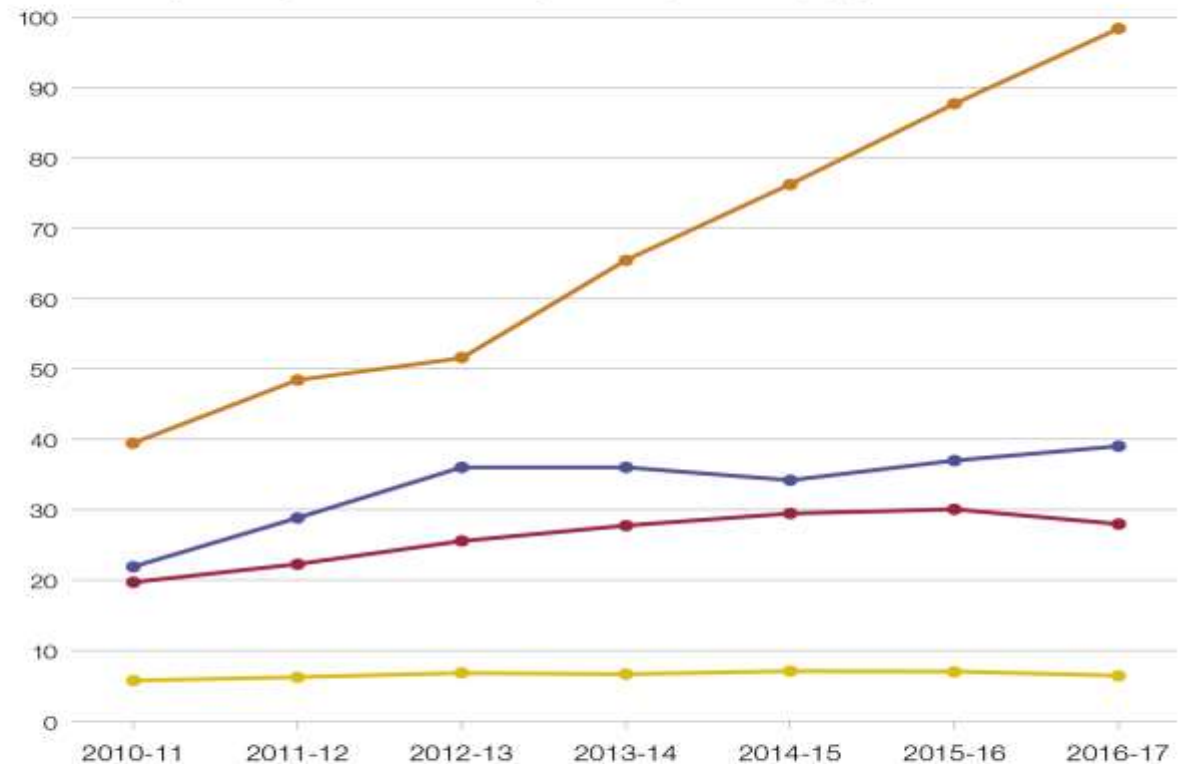


	Children's social care (£m)	Adult social care (£m)	Other (£m)	All services (£m)
2010-11	237	-32	-197	8
2011-12	121	-161	-317	-358
2012-13	98	-210	-269	-381
2013-14	280	-84	-527	-332
2014-15	530	132	-358	304
2015-16	729	318	-301	745
2016-17	714	526	-216	1,023

Trends in levels of reserves by authority type in England, 2010-11 to 2016-17

Reserves have grown relative to net revenue expenditure since 2010-11, but have now started to fall for single-tier and county councils

Reserves as percentage of net revenue expenditure (cash terms) (%)



- Single-tier and counties (earmarked) (%)
- Single-tier and counties (other) (%)
- Districts (earmarked) (%)
- Districts (other) (%)

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Single-tier and counties (earmarked) (%)	19.7	22.3	25.6	27.8	29.5	30.1	28.0
Single-tier and counties (other) (%)	5.7	6.3	6.9	6.7	7.1	7.0	6.5
Districts (earmarked) (%)	39.5	48.5	51.6	65.5	76.3	87.8	98.5
Districts (other) (%)	22.0	28.9	36.1	36.1	34.2	37.0	39.1

Financial Resilience.... 2018 Headlines:



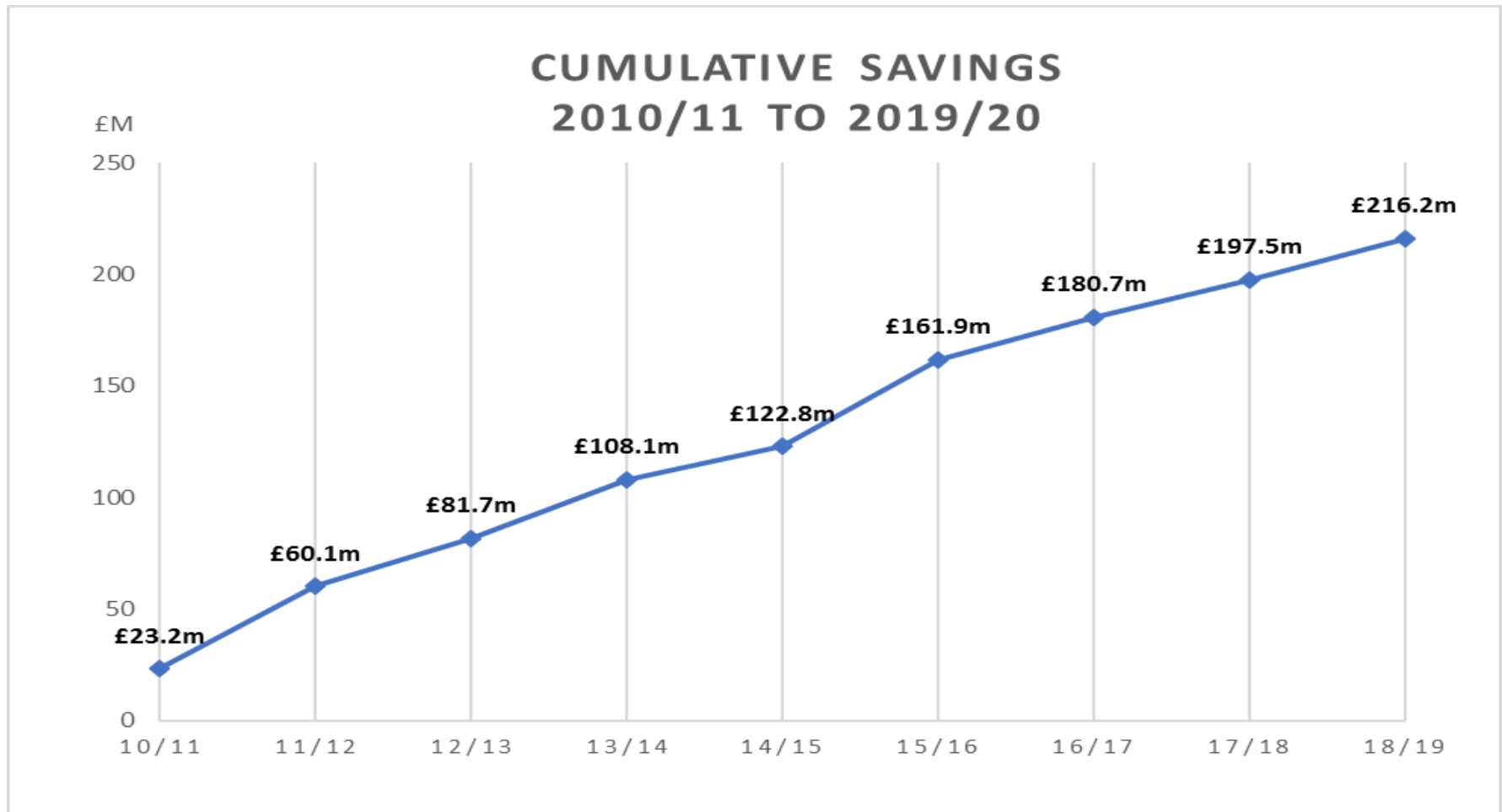
Financial Resilience measures proposed by CIPFA in response to Northamptonshire

Earmarked/General Reserves

(Excluding Schools/PH Reserves)
as a % of Net Budgeted Expenditure



WSCC savings since start of austerity



MTFS - £93m Net Budget Gap after council tax

	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
Net expenditure	580.4	590.7	582.4	583.4	
Available funding	529.5	551.5	553.7	557.1	
Gross budget gap: before council tax	50.9	39.2	28.7	26.3	145.1
Less:					
Additional council tax	-22.0	-9.7	-10.3	-10.7	-52.7
Revised gap	28.9	29.5	18.4	15.6	92.3
Latest estimated savings	-20.6	-13.5	-5.3	0	-39.4
Remaining gap	8.3	16.0	13.1	15.6	52.9

2019/20: assumed 2% Adults Social care Levy and 2.99% core rise – additional council tax of £22m

Government Timetable

Autumn Budget	29th October
Draft Finance Settlement	Before Christmas (but should be per fixed settlement)
Final Settlement Announcement	End of January
Funding and Resource Review	Late Spring
Business Rates Review	Late Spring
Draft Settlement for 1 April 2020 and beyond	December 2019

Spending Review

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5th October 2018

Spending Review

Spending Review 2015

- lasts until 31 March 2020

Fixed Settlement

- Last year 2019/20
- Currently negative RSG of £2.6m, but Government consultation may remove

Fair Funding Review

Available Resources

Years

Current Spending Review - Fixed Settlement

Funding Item	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Revenue Support Grant	53.1	27.7	12.1	-2.6
Business Rate Top Up	40.7	42.6	44.1	45.0
Baseline Funding (10% Local Allocation Share)	31.8	31.4	32.2	32.9
Sub Total: Settlement Funding Assessment	125.6	101.7	88.4	75.3
Transition Grant	6.2	6.3	Ends	n/a
TOTAL	131.8	108.0	88.4	75.3
Year-on-year change		-23.8	-19.6	-13.1

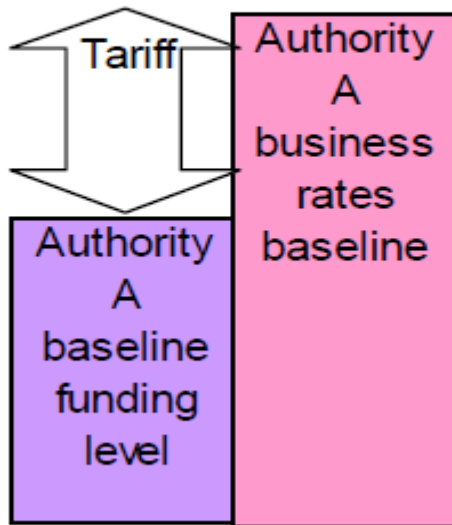
Current Spending Review - Business Rates

- 50:50 share between central and local government
- Local government share is split between two tiers
- System of tariffs (districts) and top ups (counties)
- System of levies and safety nets
- Pools – to avoid the levies but gives up the safety net

Business Rate System. The Basics

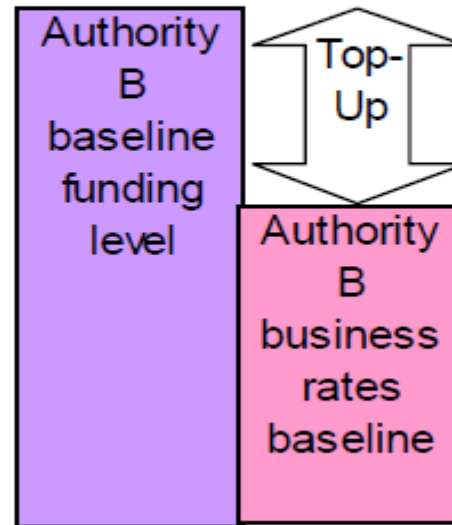
40% To Districts

Authority A:
A Tariff Authority



10% To CC

Authority B:
A Top-Up Authority



50% To Govt

NB: All Tariffs = All Top ups

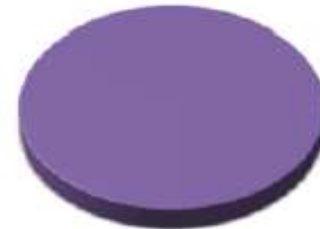
Pilot Bid for 75% Business rate retention

- April 2021 Government wants to introduce 75% business rate retention (up from 50%)
- Pilots available for 2019/20: West Sussex and Districts Boroughs have made an application
 - Total gain estimated at £19m. Proposed to enhance County wide digital infrastructure
 - Likely to hear around December if successful
- Higher share of business rates likely to be allocated to Counties under 75% scheme
 - Benefit of extra funds if business rates grow in real terms
 - Risks of reduction if don't grow, and business rates very volatile (e.g. appeals)
 - Need higher level of reserves to protect against more variable income

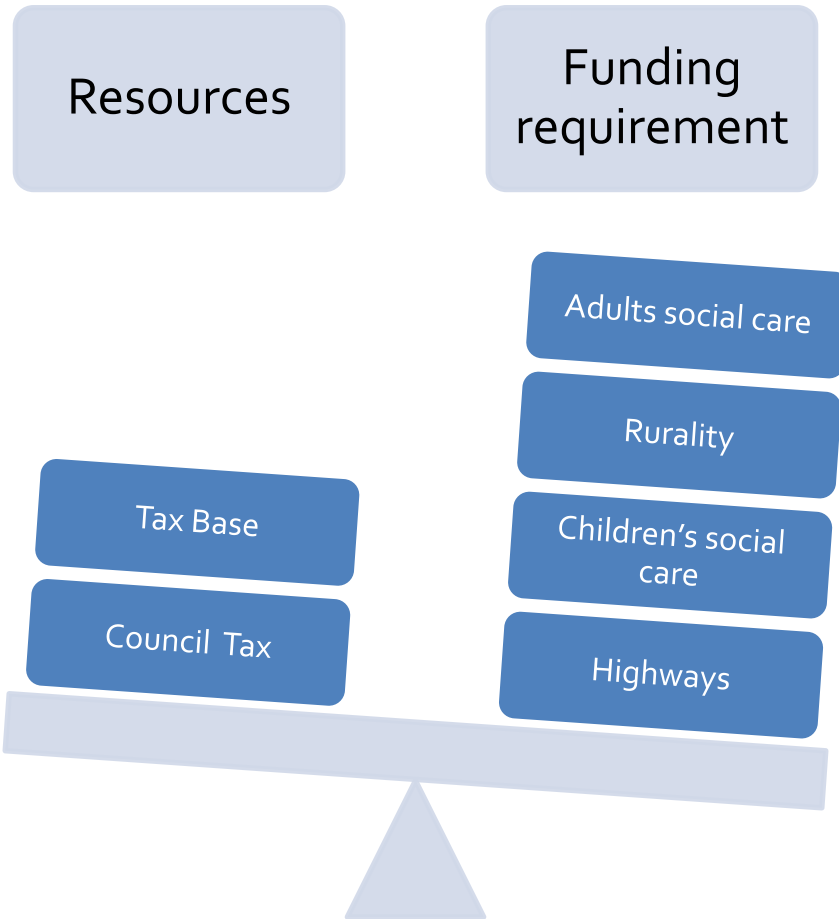
Future Spending Review

Before 2020...

- **Spending Review 2019**
 - Overall size of the cake
- **Fair Funding Review**
 - How the cake is distributed
- **75% Business Rates Retention**
 - Whether it can grow and how long for?
- **ASC green paper**
 - Funding of largest area of spend



Spending Review



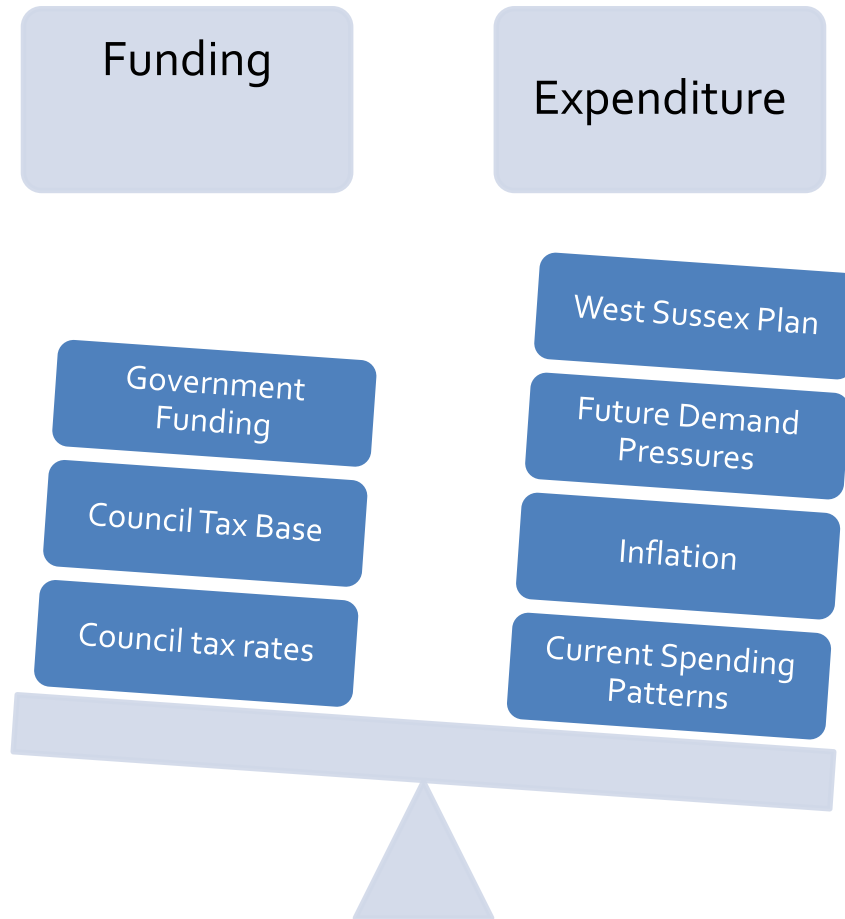
Uncertainty - examples

- Will Adult Social Care council tax levy continue after 2019/20?
- Will the New Homes Bonus continue?
- What will be the impact from the Fair Funding Review?
- How will 75% Business Rates work?
- Will Autumn Budget provide any information, including on position of future public finance?

The Gap

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Calculating the Gap



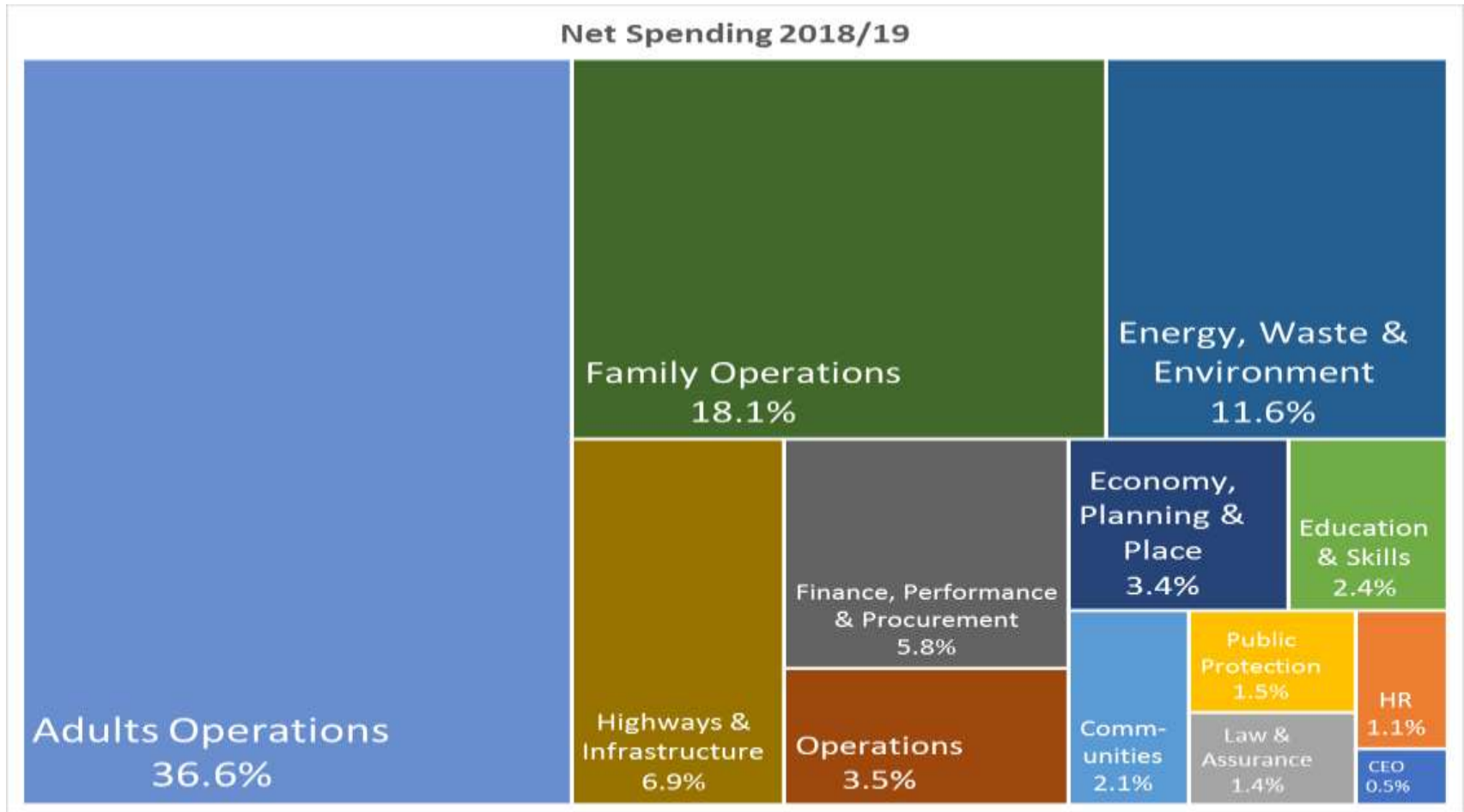
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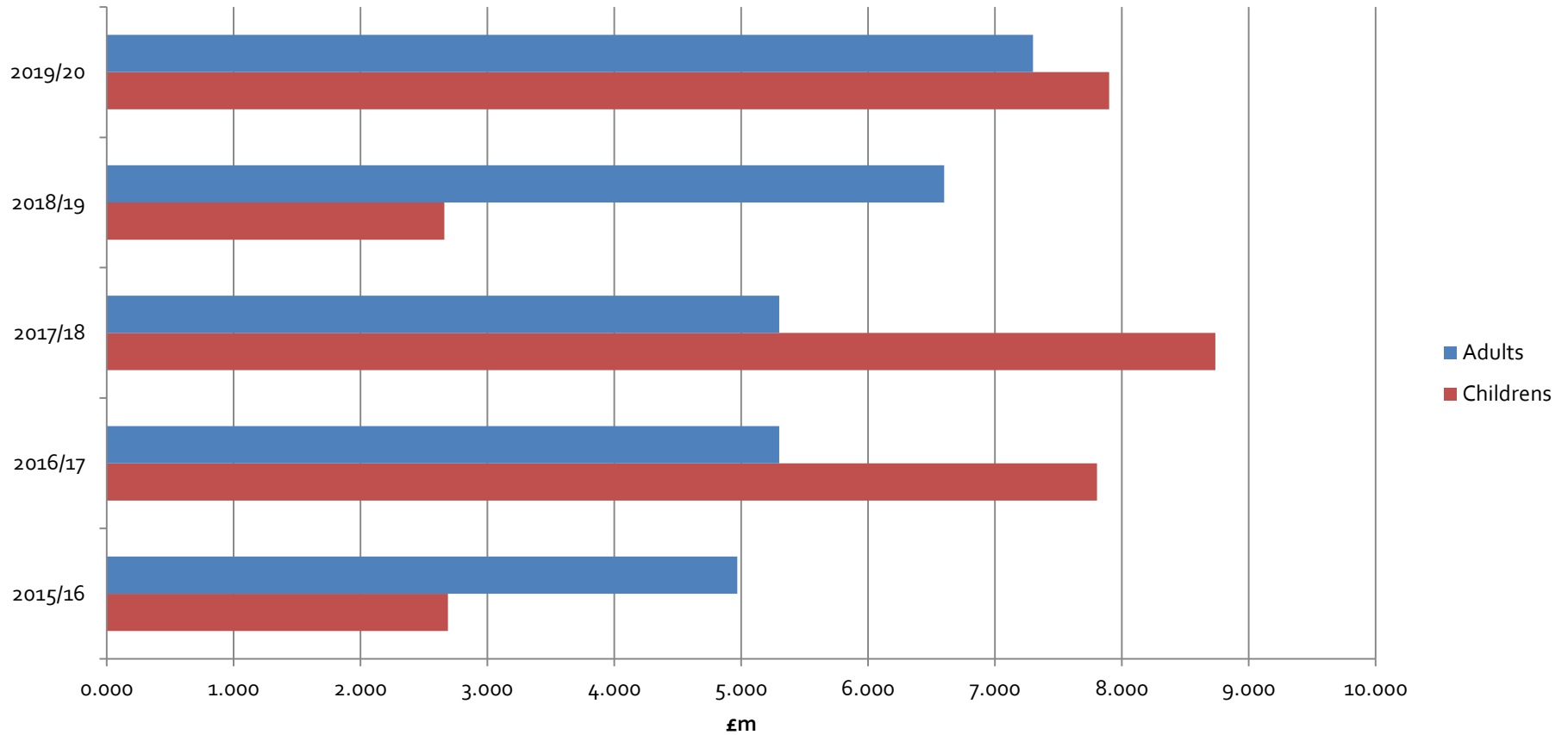
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Our Spending Profile...

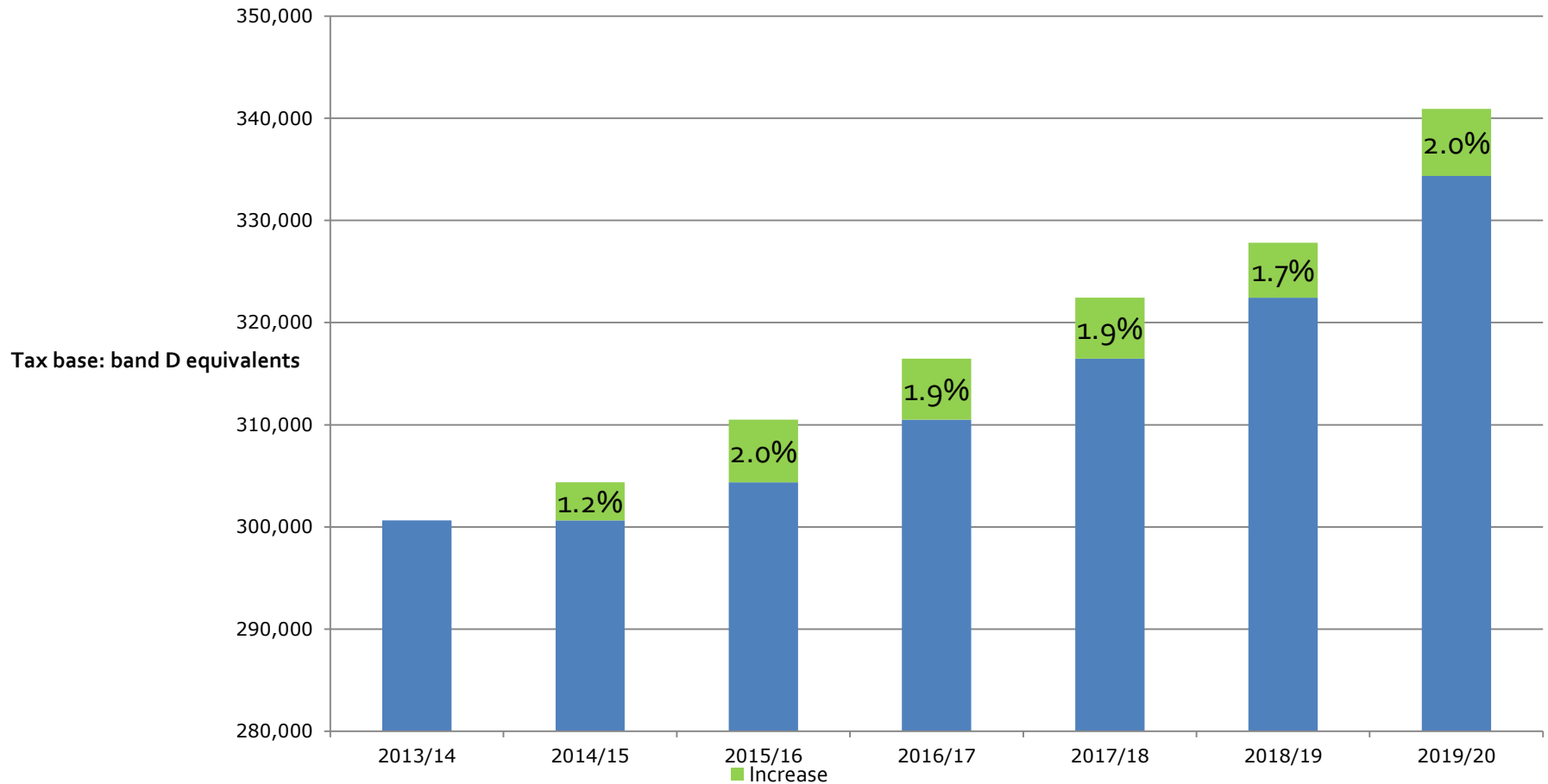
Net Spending 2018/19



WSCC - Increased demands on Adults and Children Services



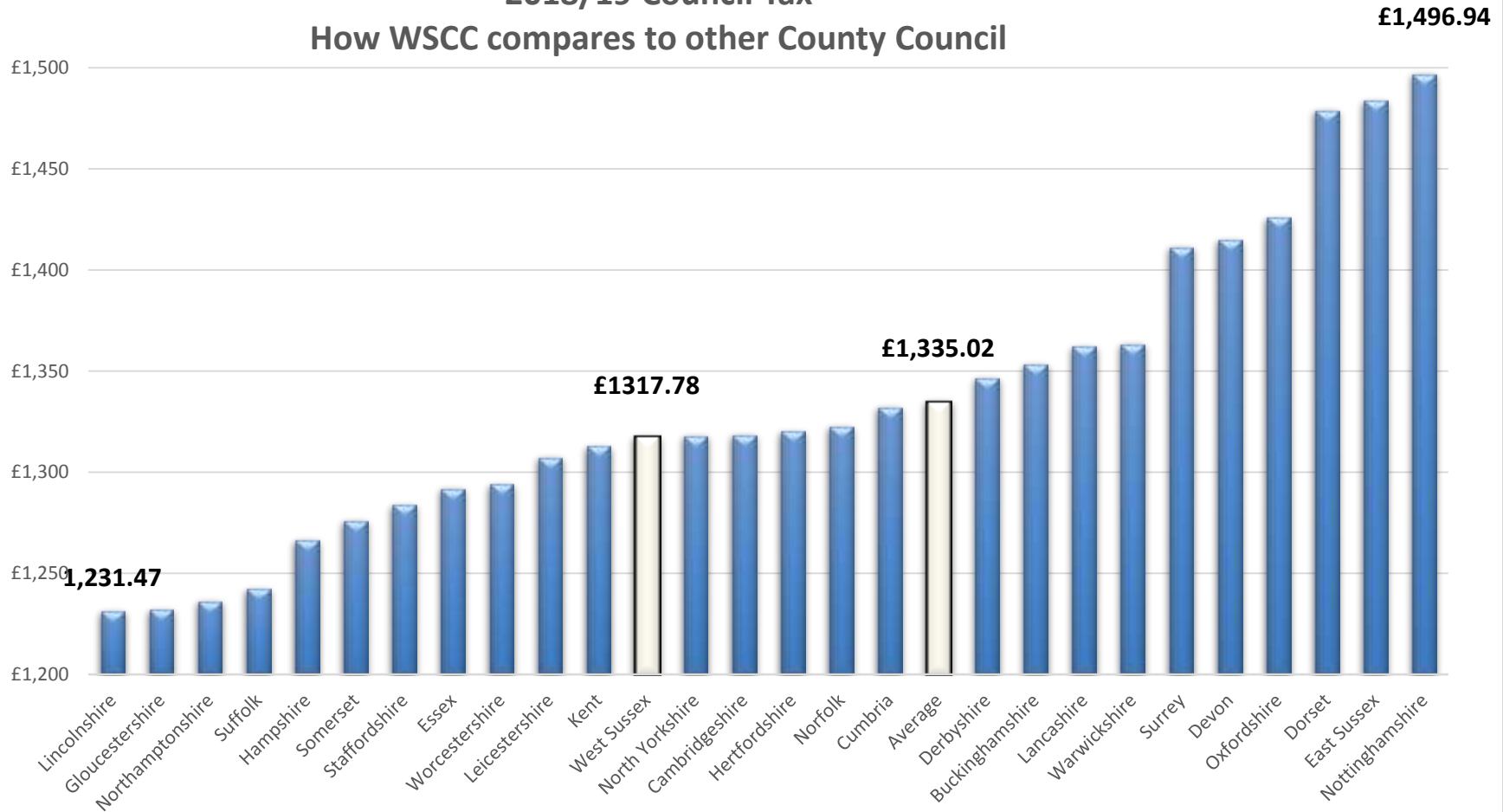
Positives...Strong tax base growth



Council Tax comparison

Band D

2018/19 Council Tax
How WSCC compares to other County Council



Capital

- Current programme agreed to cover five years until 2022/23
- Need to agree extension for 1 new year
- Also amendments to existing programme
- To be agreed at February CC. Will be kept to within current borrowing limit for funding

Next Steps: Savings Decision and Budget Timetable Summary

Date	Meeting	Tasks
5 October	PFSC	Review of Medium Term Financial Strategy
31 October	Children and Young People Select Committee	Preview savings prior to decisions
14 November	Environment, Communities and Fire Select	Preview savings prior to decisions
15 November	Health and Adults Select Committee	Preview savings prior to decisions
22 November	Performance and Finance Select	Budget gap and update on savings
9 January	Member Day	Presentation on Draft Budget
17 January	PFSC	Draft budget papers
29 January	Formal Cabinet	Agree budget to recommend to County Council
15 February	County Council	Agree budget, amended capital programme and council tax

Summary

- Total gap over 4 years before council tax rise = £145m
- Gap after council tax rise (2.99% + 2% ASC) = £93m*
- 2019/20 Gap, after assuming draft savings plans = £8.3m*
 - But major savings tbc, after consultation
- Incremental efficiencies gains have sustained budget, but ever more difficult choices lie ahead
 - Working with Districts and Boroughs to co-operate on savings & minimise impacts
- Significant uncertainty: all announcements monitored for implications

* *Gap would increase to £98m/£13m if additional 1% flexibility not available*