

# Budget Strategy Report 2020/21 - Question and Answers

## What is this about?

- This is a brief overview of the Council's 2020/21 Budget Strategy Report, which you can view in full online.
- It's split into two sections – the first outlines the strategy for setting the 2020/21 Revenue Budget, the second outlines the approach to rolling forward the Capital Programme for 2020/21 – 2024/25.

## The Revenue Budget

### What are things looking like?

- Challenging, with some significant uncertainties.

### What are the uncertainties?

There are many, but here is a flavour:-

- **General Grant Funding** - the general grant we receive from Welsh Government (WG) accounts for 71% of how we fund our budget. We have no formal indication of what this will be next year. Individual Councils do not usually receive funding figures (Local Government Settlement) until October and these are not finalised until December. Circumstances in the current year mean that these already challenging time-scales are somewhat uncertain (see CSR).
- **BREXIT** - we don't yet know the terms of the UK's departure from the European Union and how these will affect the economy.
- **Comprehensive Spending Review (CSR)** – a CSR was expected this year to set the tone for post-Brexit Spending. As the date for the UK's departure from the EU has been extended to 31 October 2019, and there has been a Conservative Leadership Election in order to determine the new Prime Minister, it is now unlikely that the CSR will take place this autumn, as previously anticipated. However, it's still unclear whether it will be delayed a few months (which could mean a delayed Local Government Settlement), *or*, if it is now unlikely to take place at all prior to the 2020/21 Budget.
- **Specific Grant Streams** - specific grants are usually used to fund particular policy initiatives. However, in recent years, support for a number of core operational pressures has been directed through specific grants. These include Social Services' pressures, Teachers' pay pressures and Teachers' Pensions pressures. This adds to the overall position on funding uncertainty, as there is a risk that these grants could reduce or fall out.

### What are the challenges?

Again, there are many but here is an overview:-

- **Cost Pressures and Funding Reductions** - the Council is still facing significant cost pressures over the next few years. These pressures are partly inflation related, e.g. pay awards and external providers increasing their prices. They are also demand related, for example, increasing pupil numbers and the well-publicised pressures on social services that are being experienced UK wide. We believe that funding may continue to reduce but

don't yet know by how much. The combination of funding reductions and financial pressures creates a "budget gap." In other words, our expected need to spend exceeds the level of funding we believe we will have, and so we need to bring the two back into balance.

- **The extended period of financial challenge** - every year, balancing the books becomes harder because so much of the budget has already been reduced - £136 million savings have been identified over the past five years with another £19 million in the current year.
- **The shape of our budget** - two areas of the budget that are under demand pressure, Schools and Social Services, now account for 66% of the Council's budget. This makes the squeeze on other areas even harder.
- **Capital Financing** – a further 8% of the budget is accounted for by capital financing. The challenges associated with funding the Capital Programme and the implications this has for the revenue budget are described in the Capital Q&A below.

### How much is the Budget Gap?

- The budget gap is estimated £101 million over the next four years, of which £25 million relates to 2020/21.

2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
25.0	27.9	24.7	23.4	<b>101.0</b>

### So how will the Council bridge this gap?

- The Council's plan to address the gap is set out in its Budget Strategy.
- The Budget Strategy aims to balance the Council's priorities as set out in the Corporate Plan and Capital Ambition document, with risk and the Council's long-term financial resilience. This is the strategy as outlined in the Budget Strategy Report:-

To be kept  
under  
review

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Council Tax at +4.5%	6.5	6.8	7.1	7.4	<b>27.8</b>
Savings	18.5	21.1	17.6	16.0	<b>73.2</b>
<b>Total</b>	<b>25.0</b>	<b>27.9</b>	<b>24.7</b>	<b>23.4</b>	<b>101.0</b>

### Savings

- Savings form the largest component of the strategy at £73 million over the four-year period – this will be a big challenge in view of the significant levels of savings already found.
- For 2020/21, £10.3 million will be targeted from efficiency and income proposals and £8.2 million from more transformational change.
- All areas will be required to contribute efficiency proposals but targets will be higher for back office functions, and lower for others, such as schools. (Although schools are being asked to contribute an efficiency saving, the strategy would still provide them with additional cash of £4.6 million in 2020/21).

- Where possible, efficiency proposals will be implemented in the current year to improve the chances of securing full years savings in 2020/21.
- Although the immediate focus must be on delivering savings for 2020/21, directorates will also be considering in broader terms how to address savings requirements for later years.

#### How can I have my say?

- In the autumn, there will be a more detailed consultation, which will focus on income and transformational proposals.

#### What if funding reductions turn out to be worse than expected?

- We have assumed that funding will reduce by 0.5% and that is reflected in our budget gap.
- The Council could withstand a further 0.9% reduction by using a budget we would otherwise use for one-off investment.

#### What next?

- We will continue to keep the budget gap under review – things can change quickly and regular review is an important part of being prepared.
- Directorates will refine their work on the 2020/21 efficiency and income proposals during the summer.
- There will be early implementation of efficiency proposals where possible, and where appropriate.
- There will be further focus on framing proposals to meet the £8.2 million to be delivered through more transformational change.
- Progress, along with any further clarity on funding issues, will be reported in the autumn in order to inform consultation.

## The Capital Programme

#### What is capital?

- Capital expenditure refers to acquiring or improving assets for the long term.
- Similar to the revenue budget, councils receive some general and specific grant funding to support capital expenditure. However, other than that, there are some significant differences to how capital expenditure is funded.
- One of these is that Council are permitted to borrow to fund capital expenditure **as long as that borrowing is affordable**. Councils can also fund capital expenditure from proceeds we get from selling other assets (called capital receipts.)
- The capital programme sets out our expenditure plans and how we will pay for them over a five-year period.
- The current five-year capital programme was approved by Council in February 2019. This set the programme for 2019/20 and the indicative programme until 2023/24.
- The 2020/21 Budget Strategy must set the approach to updating the indicative programme and rolling it forward one year to cover 2024/25.

### **What is the picture on Capital?**

- There are two overarching considerations – investment pressures and affordability.

### **What are the investment pressures on the Programme?**

- Broadly speaking, these relate to investment in existing assets, or to investment in development projects to meet the Council's strategic aims. Some examples include:
  - Maintaining our Highways infrastructure
  - Property maintenance
  - Demand for affordable housing
  - 21<sup>st</sup> Century Schools Programme – Band A&B
  - Economic development and regeneration aspirations
  - Sustainable transport initiatives
  - Mandatory investment – e.g. disabled adaptations

### **What are the key considerations in terms of affordability?**

- General Capital Funding provided by WG has reduced by 35% over the past decade
- This places pressure on the Council to fund necessary investment. It effectively means that in order to fund new capital spend, we must either borrow or sell existing assets (to generate a capital receipt.)
- There are important considerations around both – see more below.

### **What is the position on capital receipts?**

- In times of financial pressure, reducing the assets we hold can have a dual benefit in terms of financial planning. Firstly, it provides funds to support the capital programme. Secondly, it reduces the financial pressures associated with maintaining assets.
- The current capital programme already includes challenging targets in respect of capital receipts, with over £35 million to be found between 2019/20 and 2023/24.
- There is a risk associated with including capital receipts in the capital programme. Unsurprisingly, as they involve the sale of assets, the realisation and timing of receipts can be relatively unpredictable.
- It is therefore important to ensure there is a clear, approved strategy to realise them and that progress is kept under close review.

### **What is the position in terms of borrowing?**

- Borrowing places pressures on the revenue budget because debt must be repaid with interest.
- Broadly speaking, each £1 million of capital expenditure places additional pressure of £65,000 on the revenue budget in early years – and this assumes a long asset life of 25 years, the impact on revenue is higher when asset lives are shorter.
- The Revenue Q&A (above) explained that the capital-financing budget already accounts for a significant proportion of the revenue budget. Even with no further borrowing, this budget will increase over the medium term.
- Given the challenges on the revenue budget, the MTFP assumes there will be no further borrowing beyond that which is already included in the current capital programme.

**Is there opportunity for some investment pay for itself through savings or new income streams?**

- Yes, these are called invest to save (ITS) or invest to earn (ITE) schemes.
- Usually, the capital investment results in savings or income, that help meet the borrowing costs without having net impact on the revenue budget.
- The key in these situations is to have a robust business case at the outset, to be sure that the income / savings will actually materialise and that they will be sufficient to meet the borrowing costs. If they don't there's a risk that the revenue budget will end up picking up those costs.

**In light of the above, what will be the approach to updating the capital programme?**

- Firstly, directorates will be asked to confirm if commitments in the current programme remain essential, or whether there is any scope to reduce or defer them. This should include a realistic appraisal of capacity to deliver these schemes.
- Secondly, it will be important to keep progress towards capital receipts under review. This is an important factor in overall programme affordability.
- After that, the overarching approach, in line with the Capital Strategy approved in February, will be to focus on looking after our existing assets. Even then, there must be evidence of need to spend, and this should be prioritised by risk.
- New capital expenditure pressures that do not relate to existing assets should only be considered if they can be funded externally, or if there is clear evidence of a sound invest to save business case.
- For 2024/25, which will be the "new" year in the 2020 Programme, additional borrowing will only be considered where it relates to existing assets.
- All proposed investment should be in line with the Capital Ambition delivery programme, and all alternative solutions for funding and achieving the same outcome should be explored before additional Council funding is considered.

**What next?**

- Directorates will be asked to commence with the approach outlined above, starting with a robust review of the current programme.