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| COUNCIL | DATE 30 October 2019 | ITEM NO 13 |
| TITLE Treasury Management Mid-Year and Capital Strategy Update | WARD (S) All | |
| CHIEF OFFICER Director of Finance | CABINET MEMBER Finance and Resources | |
| DECISION CLASSIFICATION Key | FINAL DECISION ON THE RECOMMENDATIONS IN THIS REPORT TO BE MADE AT THIS MEETING Yes | |

ADDENDUM

I. Flexible Use of Capital Receipts - links to the Council's new Medium Term Financial Strategy (MTFS)

- 1.1 In February 2019, Council agreed the flexible use of capital receipts policy. Government dispensation to utilise this mechanism is open until March 2022 and provides local authorities freedom to use capital receipts from the disposal of property, plant and equipment (with the exception of Right to Buy disposals) to fund revenue costs arising from change projects that are designed to reduce demand, costs or generate on-going savings.
- 1.2 The council is developing a new Medium Term Financial Strategy (MTFS) with the aim of Building a Fairer Greenwich.

2. Background

- 2.1 After a decade of funding cuts / disinvestment and with continued growing demand for services, the council is approaching the next decade with greater uncertainty and risk than before. The council has sought to protect residents from the full effects of austerity through measures such as not passing on the full costs of services, but this cannot continue.
- 2.2 No local authority can manage increasing demand, rising costs and ever decreasing resources indefinitely - services for vulnerable residents will potentially be put at risk if this continues.

3. The Gap

- 3.1 Since the start of austerity, the pressures on the scarce revenue resources of the authority have grown and over the last few years, the factors of increasing demand from a growing population and complex need, price increases and reductions in funding have combined to a point where we have £25m of pressures within the system.
- 3.2 The council has responded in several ways, including the introduction of Budget Recovery Boards (BRB), which aim to challenge directorates financial structures and then support them in improvement. To date, more than £7m of proposals have been generated from this process and the work is ongoing.
- 3.3 Business rates generation has increased gradually – there has been a temporary boost from the pilot London pooling, but this is due to cease at the end of this year, however, local performance has been steady.
- 3.4 Looking forward, there are a number of factors affecting the gap such as price and demand (e.g. inflation and demographic changes), potential funding changes and economic growth. Over a multi-year period, it is not a simple forecast as such, but modelling of many scenarios, with a wide-ranging set of outputs.
- 3.5 A central path through those projections leads to a position of steady growth pressures cumulating in a total gap of £57m by the end of the period, as set out in Table I.

Table I – MTFS Central Forecast

| MTFS Driver | Baseline | 20/21 | 21/22 | 22/23 | 23/24 | Total |
|-------------------------|-----------------|--------------|--------------|--------------|--------------|--------------|
| Structural Overspend | 25 | | | | | 25 |
| Price and Demand | | 10 | 10 | 10 | 10 | 40 |
| Funding Reductions | | 3 | 3 | 4 | 3 | 13 |
| BRB | (7) | | | | | (7) |
| Business Rates | (5) | | | | | (5) |
| Economic Growth | | (2) | (2) | (2) | (3) | (9) |
| Savings Required | 13 | 11 | 11 | 12 | 10 | 57 |

3.6 A key point to note is that the main driver surrounds price and demand factors, rather than funding reductions at this stage (the forecasts exclude any new service growth proposals or changes in the level of council tax charged – see para 4.2 also).

4. One Year Spending Round

4.1 A three-year Spending Review was due to take place this year, but was replaced by a one-year Spending Round, which can, by definition, provide only limited certainty.

4.2 The government made a number of announcements, including some relating to social care. It is providing a one off additional sum for 2020/21 and is extending the adult social care precept i.e. it is expecting authorities to raise money for adult social care by way of increased council tax. Furthermore, it is also expecting that authorities will raise their main level of council tax, to raise funds.

4.3 Council tax is a regressive tax, based on out of date property values from nearly 30 years ago and is not an appropriate mechanism to address social care need. A simple look at areas such as Greenwich and Richmond, with differing social care needs, but Richmond having a much higher council tax base and therefore raises more funding with every 1% rise, demonstrates that there is in effect, “no comparison”.

4.4 The announcements do not, however, fully address the underlying pressures faced by Greenwich (and other boroughs) and with Parliament agreeing to an election in December, councils now face the prospect of waiting until January to find out their provisional funding levels for 2020/21, whilst trying to set the budget in February, thereby providing an extra level of uncertainty.

4.5 Next year (2020/21) will therefore be another transitional year, as the funding cliff edge moves out another year and a three-year Spending Review is awaited, alongside the results of the election and Brexit.

5. 2021/22 onwards

5.1 From 2021/22 a new funding mechanism is due to come into place. The Fair Funding Review is still being worked on by the government, following its delayed introduction. The Area Cost Adjustment (an adjustment for the cost

of service provision in a given location) is an element of the new formula being worked on and will have a detrimental impact on funding levels for Greenwich. We await the latest consultation to explore this further, however, current modelling of this factor shows that Greenwich is likely to be impacted the most severely in the entire country.

6. Summary

- 6.1 Overall, in an age of absolute uncertainty, the funding system remains broken, an Adult Social Care Green Paper that has been delayed five times over the last two years and short-term decisions continuing to be made, plus a new funding mechanism sees proposals which are a threat to our financial stability.
- 6.2 Despite all of this, the council is committed to Building a Fairer Greenwich and has set in train a number of cross cutting work themes, set out in section 14 of the report. This council is determined to deliver for its community and will set about the cultural changes needed to bring about continuous improvement.