

## Director of Finance Statement for Full County Council

Good morning Chairman, Councillors,

As the section 151 Officer for this Council, and ahead of your important debate today, there are a few messages I would like to draw to your attention. These messages are consistent with my Section 25 report in the papers you have before you.

However, by way of an up-date:

- since the papers before you were issued the Ministry of Housing Communities & Local Government have published their revised investment and MRP guidance. While there is no immediate impact on the 2018/19 budget that you consider today, my team are assessing whether there is any impact on the councils investment strategy from 2019/20 onwards;
- I confirm that the Final Financial Settlement has yet to be published although Parliament are scheduled to debate the figures tomorrow. I'm told we can expect to see our figures later today.

The situation you are considering today is a very serious one and I will explain why from a professional perspective:

1. For the last two years, I advised you that the level of risk in the council's medium term financial plan was significant. I also maintained that the budget proposals recommended by Cabinet would produce a balanced budget that was achievable, although extremely challenging. And the long term sustainability of the council depended on:
  - Achieving all of the savings planned for those years;

- Managing service demographic demand pressures; and
  - Transforming services to deliver further cost reductions to the base budget.
2. While the council has made significant efficiencies and cost reductions, (a cumulative total of £540m since 2010 and is on track to deliver £79m in the current financial year), there is more work to do: the council now needs to further develop and implement service transformation on a bigger scale if it is to attain a sustainable long term financial position.
  3. Let us consider the 2018/19 budget. The budget proposals you are considering today are balanced through significant use of one-off funding. Almost £60m.
  4. This includes proposals to:
    - fund £15m of planned transformation spend from capital receipts in accordance with Government permitted flexibilities;
    - apply the estimated one off gain of £20m from participating in the 100% business rates pilot programme to help achieve a stable budget; and,
    - apply £24m of council reserves.
  5. As things stand, this level of use of one off funding to balance the budget for 2018/19, is not repeatable in 2019/20.
  6. It is therefore essential that the council continues its work to transform services to deliver a sustainable position into 2019/20.

7. Turning now to consider the council's reserves. Last year, I stated that at around £65m earmarked reserves and £21m general reserves, this level was at the minimum safe level mindful of the significant uncertainty facing the council. By planning to apply £24m of these to balance 2018/19, this takes the level of reserves below this safe level. The council therefore needs to consider closely the need to replenish reserves over the medium term.
8. As has been the case since 2010, the budget proposals for 2018/19 include the need to deliver significant cost reductions and efficiencies: £66m. Delivering this level of cost reductions efficiencies for an 8<sup>th</sup> year is inevitably going to be challenging.
9. As you are all aware, managing spending pressures to within budgets is as challenging as delivering service cost reductions. It is therefore essential that the council continues to monitor both the savings action plans and the service pressures very closely throughout 2018/19.
10. Looking ahead to 2019/20, based on current prudent and sensible planning assumptions, the shortfall between estimated funding levels and spending need, at this early stage is significant at over £80 million. I would anticipate that all of the factors leading to this position (ie estimate of service pressures, estimate of savings, estimates of Government funding levels, and estimates of local funding) are all likely to vary as 2018 unfolds.
11. However, to put this in perspective:
  - **IF** the council is successful in becoming a 100% BRR pilot authority in 2019/20, there might a gain of around £20m in 2019/20, and
  - **IF** the Government removes negative RSG (at a cost of £17m the council in 2019/20),
  - **THEN** the shortfall in delivering a balanced budget would reduce significantly, but still exceed £40m.

12. To conclude,

- the papers before you set out a budget for 2018/19 that is balanced only by the significant use of one off funding that, as things stand, is not repeatable;
- there is therefore an urgent need for the council to further develop and implement a robust wide ranging transformation programme if the council is to set a balanced budget in 2019/20; and
- the council must underpin this programme with sound governance which cautions against optimism bias well ahead of setting the 2019/20 budget. THANK YOU