

Westmorland and Furness Shadow Overview and Scrutiny Committee

Date: 10 August 2022

Title: Strategic Financial Planning

Report from: Andrew Jarvis, Cabinet Member for Finance

Report Author: Helen Smith, Interim s151 Officer

Wards: All

Key Decision: No

1.0 Purpose/Summary of report

- 1.1. This report sets out the proposed financial disaggregation and aggregation process from a funding, revenue cost and balance sheet perspective to give initial potential funding envelopes for the Unitary Councils and Cumbria Fire and Rescue Service.
- 1.2. This report also provides clarity on the decisions required by each Unitary Council and Cumbria Fire and Rescue Service to deliver the strategic planning process to enable the development of their 2023/24 revenue and capital budgets and Medium Term Financial Plans.
- 1.3. This report sets out the timeline for the strategic planning approach required to support the establishment of two financial sustainable Unitary authorities and a financially sustainable Cumbria Fire and Rescue service (CFRS).

2.0 Recommendation

2.1 It is recommended that Overview and Scrutiny Committee:-

- (1) Notes the progress to date and the next steps in preparing budgets for 2023/24.

3.0 Background and Proposals

Background

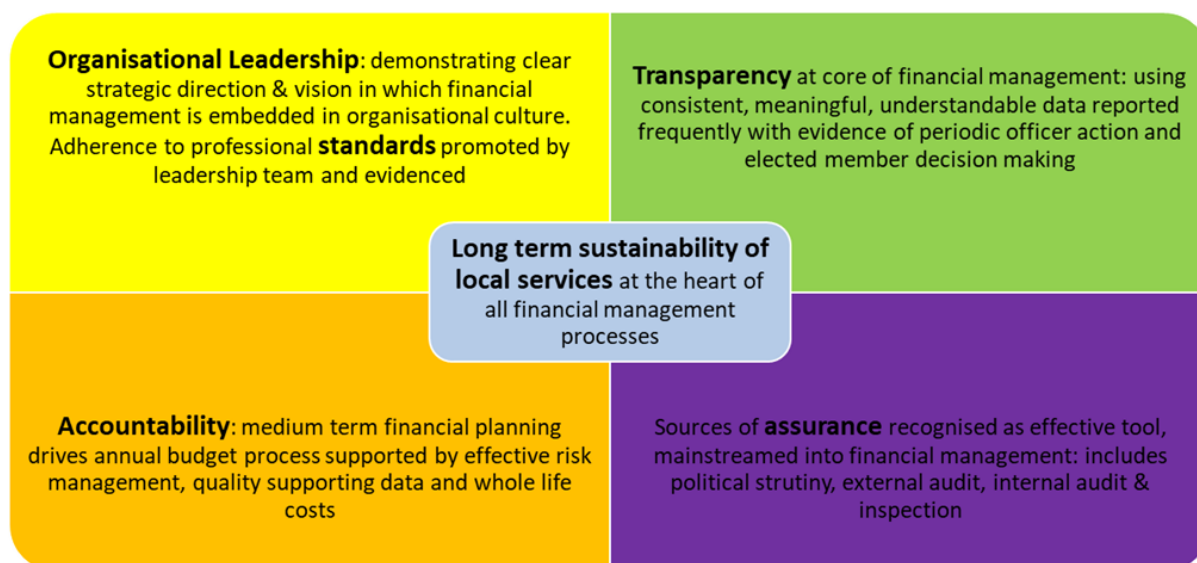
- 3.1 As part of the LGR Implementation Plan a strategic planning process has been proposed that enables the two new Unitary Councils and CFRS to determine how they will deliver services to achieve their Council Plan priorities and deliver them within a balanced budget.

- 3.2 For 2023/24 the strategic planning process requires decisions and information to be provided as part of the overall financial disaggregation work. It will also require individual organisations to make decisions on their own assumptions around financing and risk in order that a balanced budget for 2023/24 and Medium-Term Financial Plan can be finalised for approval by the Executive and Full Council in February 2023.
- 3.3 In respect of the Financial Disaggregation work there are a number of decisions which will need to be taken jointly by both unitary authorities and CFRS to approve the principles and approach taken to allocate the existing resources.
- 3.4 These decisions include capital and revenue funding and expenditure and all balance sheet items (which include reserves, liabilities, and assets).
- 3.5 This report sets out which decisions are joint, and which will be decisions for individual authorities.
- 3.6 Disaggregation in this context is the identification and transfer of services currently provided by Cumbria County Council to residents and service users in the Westmorland and Furness Council area to the new Westmorland and Furness Council and for services provided by CCC to residents and service users in the Cumberland Council area to Cumberland Council. The Fire and Rescue service will also be disaggregated from Cumbria County Council. This splitting includes service delivery, customer data, funding, expenditure, assets, liabilities, contracts, shared services, partnerships, and staff.
- 3.7 Alongside this there is the aggregation of the District Council services into the Unitary Councils including service delivery, customer data, funding, expenditure, assets, liabilities, contracts, shared services, partnerships, and staff.
- 3.8 This report set out the basis for agreement on the disaggregation of finances, as a fair and equitable split between the new authorities, and the principles to be applied during this process.
- 3.9 Once this is approved as a fair and equitable split by both Shadow Executives, the implementation of this will be incorporated into the 2023/24 budget preparation process including preparing Medium Term Financial Plans, budget setting priorities and setting balanced budgets for 1 April 2023.

Financial planning process

- 3.10 The Medium-Term Financial Plan (sometimes called a Medium-Term Financial Strategy) is the framework for how the Council uses its financial resources to fund the activity to deliver the Council's vision

and outcomes. It is a key element of the financial management structure of local authorities:



- 3.11 Statute requires a balanced budget must been set for 2023/24 and good practice requires a 3-5 year planning period for the Council's finances to support delivery of the Council Plan.
- 3.12 As part of the Council Plan there will be an aspiration for transformational change delivering transformational savings for future years and to achieve that there will need to be an understanding of the investment required and how that is funded, linked to option appraisals for the relevant services.
- 3.13 Capital programmes will merge, and financial sustainability of each Council will need to support the investment plans. Also treasury management, asset management and investment strategies will all need to be updated and the value for money principle applies to everything.
- 3.14 This report sets out the work carried out to date and the work required as part of the strategic planning process that will enable a Medium-Term Financial Plan to be prepared for 2023/24 – 2027/28 and approved and balanced budgets to be produced for 2023/24.

Process and Principles

- 3.15 The disaggregation and aggregation process will be iterative. It is necessary to agree the principles so that draft budgets can be prepared. These budgets will be based on the latest financial information available (2022/23 revenue budgets, capital programmes, funding etc).

3.16 A final position for assets and liabilities transferred will be based on the audited Statement of Accounts 2022/23. As these will not be available until after the 1 April 2023, some technical adjustments to the new Council's budgets may be required.

3.17 The application of the principles to disaggregation and aggregation will affect the distribution of budgets and funding and could potentially have a significant impact on the future financial sustainability of all the new organisations.

3.18 The financial disaggregation and aggregation process also cannot be conducted in isolation from other elements of the Strategic Planning process, particularly interdependencies with

- Commissioning and procurement work on contracts and grants.
- Assets and capital programme work; and
- Disaggregation of staff principles being developed.

3.19 The Finance Officers Group (now the Finance and Commercial Theme Board) were originally tasked to develop draft principles based on the overall objectives:

- to agree an approach and mechanism to establish two financially sustainable Unitary Councils for Cumbria from 1 April 2023 and a Cumbria Fire and Rescue Service (PCC or standalone fire authority)
- to ensure that in total both Unitary Councils and Fire Service revenue budgets can be funded from the existing funding envelope for Cumbria (uplifted where possible for inflation/finance settlement updates and Council Tax and Business Rate assumptions)
- to develop opening balance sheet positions for both Unitary Councils and Fire Service that supports agreed options for delivery of services, transformation activities and the organisation design and vision
- establish a realistic timeline and effective governance arrangements.

3.20 The group followed the values of:

- A general duty to cooperate
- Application of the principles will be evidence based and use approved data sources
- The final agreed approach will require local pragmatism around a fair and reasonable approach
- Core consideration is of value for money and financial sustainability
- Statutory and accounting requirements will be primary to developing the principles including the general matching principle of assets and liabilities;

- Independent advice and guidance will be provided and a mediation process in place if required.

3.21 It is important to understand that there is no additional funding for Cumbria for LGR so all spend for delivery of the LGR programme and the costs of delivering services in the future must be achieved within the existing Cumbria funding envelope.

Government Funding

3.22 Government funding for local government is announced each autumn in the Provisional Local Government Finance Settlement based on high-level announcements included in the Government Spending Review. There are 2 types of Government Grants: General and Specific. General grants support overall spend, are not earmarked for a specific purpose, and do not need to be re-paid if not spent. Specific grants are for a particular service or project, often have conditions and may have to be repaid if not used for that reason.

3.23 The Department for Levelling Up and Housing and Communities (DLUHC) establish the funding formula that drives Local Government funding nationally. This includes an assessment known as the Settlement Funding Assessment (SFA) to determine the baseline funding required by local authorities. This is calculated through many formulas and data sources and results in a calculation that determines the level of Revenue Support Grant and the Baseline Funding Level for setting how much of business rates collected locally are retained locally.

3.24 The Government initially planned to replace the current funding allocation model with a new Fairer Funding model, but this has been delayed many times and is not expected to apply until at least April 2024.

3.25 The disaggregation and aggregation work is required for 2 main purposes:

- a) To form a basis for budget setting
- b) To inform DLUHC and other relevant Government departments how the funding previously allocated to Cumbria County Council and the six district councils should be split between the new unitary authorities and Cumbria Fire and Rescue service for the 2023/24 Finance Settlement and until the Fairer Funding review or other new allocation bases are agreed nationally. Government will assume the total amount of funding that would have gone to the 7 Cumbrian authorities will be paid to the two new unitary authorities and Cumbria Fire and Rescue Service so LGR will have a neutral impact on the funding of all other local authorities across the UK.

3.26 A 2-phase approach has been adopted in preparing financial models for the new Unitary Councils:

Phase 1

- To disaggregate and aggregate major funding streams (Settlement Funding Assessment and grants) based on 2022-23 allocations
- To estimate proposed resources for Cumberland, Westmorland and Furness, and a separate fire authority/ function
- To estimate council tax income and retained business rates income based on the latest returns from each of the billing authorities

Phase 2

- To estimate projected funding allocations for 2023-24 based on disaggregation and aggregation and assumptions for funding changes in 2023-24

3.27 Initial work is complete for phase 1 but this is an iterative process which will be updated as more data is received, including as funding allocations are updated.

3.28 The proposed principles for the disaggregation of major funding streams are:

- SFA and specific grants disaggregated using the latest national funding distribution methodologies (2013/14 formulas) but updated for the latest data available.
- Where the original methodology and basis for distribution could not be adequately replicated due to data no longer being available an updated methodology has been proposed. The only grant affected by this is the Public Health grant and it is proposed that the formula proposed by DHSC (ACRA) in 2016 is used. This updated formula hasn't yet been adopted but is likely to be part of the Fair Funding changes and is supported by the Director of Public Health.
- For smaller service grants we have proposed using overall population as a proxy for need.
- For the Fire Authority grant allocations are proposed to be based on the SFA and direct grant allocations within the Local Government Settlement for 2022/23 and includes proportion of other general grants.

3.29 The updated data that has been used to inform the disaggregation and aggregation calculations have been provided through the data hub for the LGR programme. This has ensured that the appropriate quality assurance has taken place and it is consistent with the data sources being used for other decision making across the programme.

- 3.30 The main reason for using updated data sources is that they will better reflect the need and cost drivers within the services at this time and hence will support delivery of financially sustainable services for the future.
- 3.31 No assumptions around Fairer Funding changes have been assumed – they will form part of the MTFS modelling for each unitary authority. Each unitary authority will also need to make its own assumptions about inflation and indexation to be applied to individual grants when preparing their draft budgets and MTFP.
- 3.32 Appendix 1 to 3 show the grants currently considered and the latest approach and indicative figures.

Council Tax

- 3.33 Council tax is set based on the council tax base (the estimated total number of Band D properties in the area) multiplied by the council tax for the year. There are 3 main issues effecting the council tax for 2023/24:
- Different levels of council tax are set for each of the three billing authorities (Barrow Borough Council, Eden District Council and South Lakeland District Council). There are specific rules on how this is harmonised for 2023/24 onwards as part of LGR (details of council tax harmonisation will be covered in separate briefings and reports).
 - The tax-base is reduced for reliefs and increased by premiums. Each billing authority sets its own reliefs and premiums, and these will need to be aligned for 2023/24 onwards for each Unitary council.
 - An element of council tax will need to be split for Cumbria Fire and Rescue Service – this needs to be notified to DLUHC by the end of September 2022.
- 3.34 Options around harmonisation are being prepared and a final decision will need to be taken by each Unitary council as part of the 2023/24 budget setting in February 2023.
- 3.35 Options around reliefs and premiums are being prepared by the Revenues and Benefits workstream and will be considered by each Unitary.

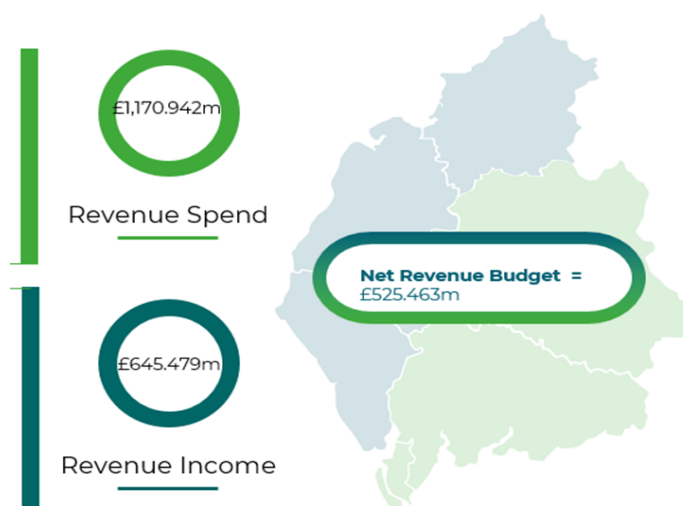
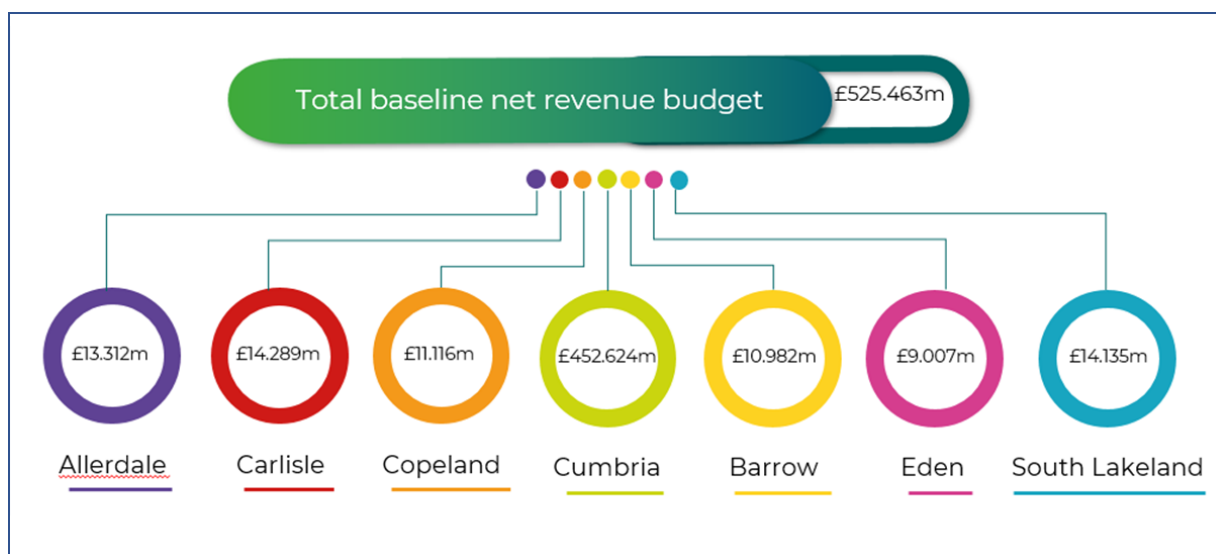
Business Rates

- 3.36 Income from business rates basically split 50% to Government and 50% to local authorities (currently 10% Cumbria County Council and 40% to district Councils) with tariffs and top-ups against baseline shares and levy for income above baseline. From 1 April 2023 the national of 48% to the unitary authority and 2% for the fire and rescue authority will be applied. The Cumbria County Council

baseline will need to be allocated to each unitary authority: this is included in the funding allocation set out above. Each unitary authority will need to make its own assumptions about growth in properties and rateable values, potential increases in the business rate multiplier to be set by Government and provisions for bad debts and appeals. These assumptions are all part of business-as-usual budget setting.

Revenue Budgets

- 3.37 The starting point for the 2023/24 budgets are the aggregation, disaggregation, and integration of the existing Council revenue budgets. There is not sufficient time or resources for a zero-based budget approach.
- 3.38 Officers have combined the 2022/23 detailed budgets for district and county at the cost centre and nominal level. One-off budgets and internal charging has been removed to make the baseline budgets as comparable across all authorities. The overall baseline net revenue budget for 2022/23 for all seven authorities is just over £0.5billion and a gross budget of circa £1.2bn:



Revenue budgets have been aggregated and disaggregated using proposed principles many of which are consistent with the principles being adopted for the disaggregation and aggregation of funding. These have been informed by services and have used data from the data hub to maintain consistency and quality assurance. Initially the mechanism will be applied to the current 2022/23 baseline-budget.

3.39 This approach will provide:

- An indicative base net expenditure budget for each Unitary and CFRS that reflects need as best as possible for each authority i.e. a realistic split of existing commitments/responsibility to deliver existing service provision
- An equitable starting position for evaluating service design options – allowing implications of service design options to be fully understood and costed
- An opportunity to check and challenge the ‘equitable’ position for each authority compared to the proposed funding allocations

3.40 At this stage a RAG (red, amber, green) rating of disaggregation approaches has been done to understand which ones needed more work or more detail. Government departments may have a view on the disaggregation approach, particularly for certain service areas and discussions with them are continuing.

3.41 The disaggregation principles proposed are:

1	Location Service Delivered: e.g. location of assets - buildings, parks, geographic footprint of service
2	Residence of service user: e.g. ‘Ordinary Residence’ principle for Social Care, where split may be based on ‘home’ postcode of service user, not location service is delivered
3	Population: e.g. where costs/income based upon demand/usage. May include whole population or sub-set (e.g. 0-17, 18-64, 65+)
4	Other Cost/Income drivers: underlying drivers for service areas, e.g. road length, FTE ‘s, number of households, council tax base or business rates tax base, demand data, activity data, performance data
5	Funding Formula: split prescribed within funding terms and conditions e.g. Dedicated Schools Grant (DSG), Public Health Grant, Better Care Fund (BCF), Improved Better Care Fund (IBCF) may have specific grant formula / data to allocate the funding. Work ongoing to review formula’s where seen as out of date
6	Technical: disaggregation to follow responsibility e.g. corporate costs such as residual pension, teacher additional pension, MRP –specialist advice being provided, depreciation (follows assets split)

- 3.42 The revenue budgets for 2023/24 will be developed using the 2022/23 baseline data, but they will then need to be updated for any additional pressures that are emerging either from national impacts or blueprint service delivery options and savings identified by the blueprint process and existing saving proposals.
- 3.43 As part of the usual financial management arrangements within each sovereign council, any in-year additional pressures from 2022/23 will be reviewed by each existing council and included as appropriate. Each unitary authority will make its own assumptions on changes in service demand, inflation, income from fees and charges etc.

Balance Sheet Disaggregation

- 3.44 It is necessary to split or merge all other financial matters of all seven current councils. The main areas are:
- Land and buildings: initial dis-aggregation being undertaken now
 - Other Balance sheet items: this work is complex and will require close working with all sovereign councils. Aggregation (at district level) is straightforward
 - Capital Debt allocation: dis-aggregation being undertaken by a third party (Link)
 - Reserves: Work ongoing matching reserves with specific risks where appropriate, principles for disaggregation of wider reserves to be completed
- 3.45 Members will be updated separately on the principles and proposed allocations for the balance sheet disaggregation and aggregation work. It is progressing well, and briefings will be available through July and August to reach agreement on those principles.

Shared and Hosted Services

- 3.46 While the majority of services have been disaggregated for 1 April 2023 there are some services where this is either not possible due to statutory requirements (Coroners Services) or may not be practical or represent value for money. In these cases recommendations have been / will be made about how a single service can be provided, either in the short or long-term, through a shared or hosted service and timescales for the splitting of services if it is not intended to be a permanent hosting arrangement.
- 3.47 Even where a service is to be provided jointly the budget will need to be disaggregated as the host authority will need to bill the client authority for the value of services, they have hosted, and the client authority will need a budget to pay for the services they are receiving so funding will also need to be disaggregated. As for all other services and additional costs pressures or savings will be identified when the

blueprints are costed to feed into 2023/24 budgets. Arrangements will be established for funding to be passed from client to host authority after initial disaggregation.

- 3.48 Principles for deciding which authority will act as host are being developed and will be reviewed through the Member Liaison Group to then inform formal decision making by the two executives.

Implementation and Transition Costs

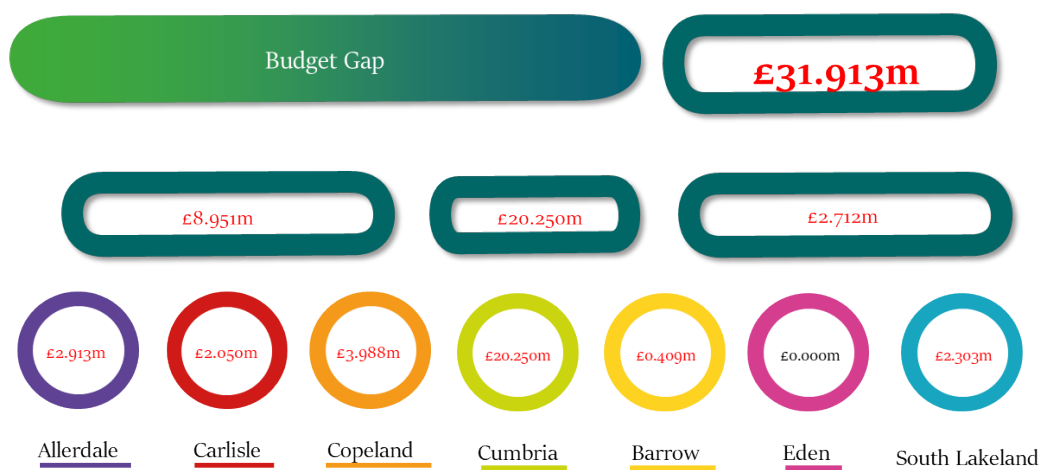
- 3.49 There are no additional resources from Government or elsewhere to fund the LGR process so all expenditure must be funded from existing budgets or resources.

- 3.50 The LGR Implementation reserve has been established to fund implementation costs required to create the two unitary authorities and a separate fire and rescue service for 1 April 2023. It has been funded by the sovereign councils and any balance remaining on the reserve will be allocated back to the two Unitary Councils.

- 3.51 A programme of transition and transformation will be required for each unitary during the first few years of their operation to determine, fund and deliver savings and improvements. Any funding for these programmes will need to come from either existing resources or additional savings above those needed to balance the 2023/24 budgets and will be incorporated into the MTFPs and Council Plans for each unitary. The potential for transformation is built into the day one efficient, safe, and legal work to ensure the opportunity is not hindered.

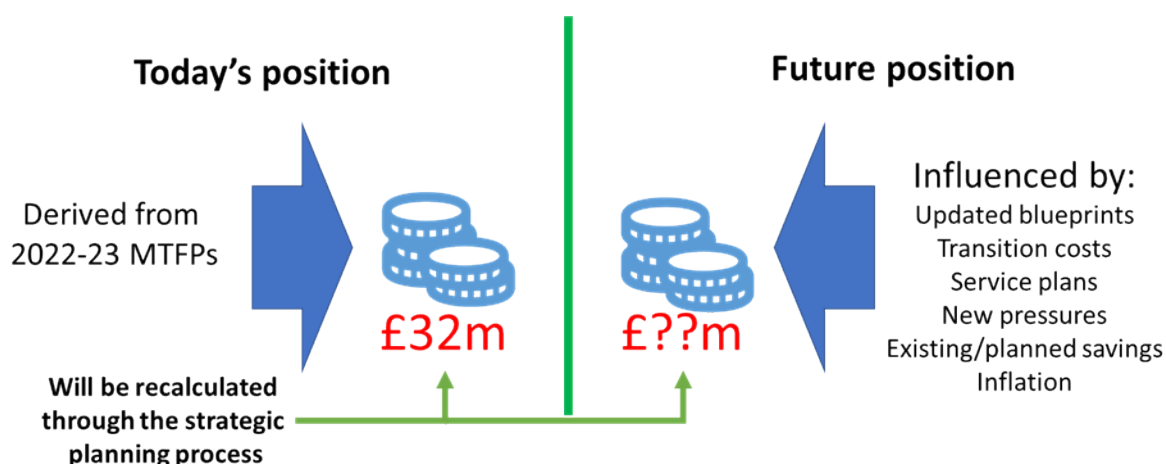
Budget Gap 2023/24

- 3.52 Each sovereign authority has a MTFP for at least a 3-year period and many for a 5-year period. Each MTFP has been prepared on the basis of assumptions around costs and revenues and around each authority's balance of risks and opportunities and risk appetites. The published MTFP budget gap is around £32m for 2023/24 and £35m for 2024/25:



3.53 The sovereign authority budget gaps are not based on like-for-like assumptions and harmonising assumptions would result in a different funding gap. An example of the difference is the assumed pay award for 2022/23 which varies between 1.75% and 5% with most councils assuming 2%. In terms of significance, a 1% change in assumption for the County Council staff pay (currently assumed 3%) equates to a £2m change in the budget gap while a 1% change in assumption for one district (currently assumed 2%) equates to a £0.20m change in the budget gap.

3.54 Each Unitary council and Fire Service will need to determine their own assumptions for pay awards, inflation, growth etc. This work is underway and will feed into the draft budgets for 2023/24.



3.55 The key strategic planning decisions for the Shadow Authorities to set their draft 2023/24 budgets and MTFP's are shown in the table below. Ultimately it is a Full Council decision to approve the Budget. It is proposed that draft budgets are established by the end of October 2022 in order that the appropriate consultation on the budget decisions can take place. This will include level of Council Tax increases and harmonisation and proposed savings and pressures to enable a balanced budget for 2023/24 to be delivered:

What	Who	When
MTFS assumptions re inflation etc	Interim team and Executive	October 2022
Council Tax increases and harmonisation	Interim team and Executive for proposal to Full Council	October 2022
Business rates	Interim team and Executive ahead of Full Council	October 2022
Fees and charges harmonisation	Interim team and Executive ahead of Full Council	October 2022
Capital programme and associated financing	Interim team and Executive ahead of Full Council	October 2022
Risk profile and risk appetite	Interim team and Executive ahead of Full Council	October 2022

Conclusion and Next Steps

- 3.56 This report has set out proposals for disaggregating and aggregating the funding, revenue costs and balance sheets of the existing sovereign authorities. It has given high level indicative funding envelopes for the two new unitary authorities and fire and rescue authority.
- 3.57 The 2023/24 strategic planning process will require decisions and information to be provide as part of the overall financial disaggregation work.
- 3.58 There are a number of decisions which will need to be taken jointly by both unitary authorities and CFRS to approve the principles and approach taken to allocate the existing resources.
- 3.59 It will also require the new unitary authorities to make decisions on their own assumptions around financing and risk in order that a balanced budget for 2023/24 and medium term financial plan can be finalised for approval by Executive and Full Council in February 2023.
- 3.60 An initial full Member briefing has been held to cover the background requirements for financial planning arising from Local Government Reorganisation (LGR) and to give a high-level steer on the principles and numbers.
- 3.61 This briefing concentrated on the disaggregation and aggregation work on funding. Decisions will be required on this so that Government can be informed about how the funding previously allocated to Cumbria County Council and the six districts councils, can be allocated to the new authorities.
- 3.62 Further briefings will be arranged and will cover Revenue Budgets, Assets, Debt and Reserves.

4.0 Consultation

- 4.1 The Structural Change Order requires us to establish two new authorities by 1 April 2023.
- 4.2 Formal consultation will be undertaken on the proposed budgets before the budgets are approved by Council.

5.0 Alternative Options

- 5.1 The report sets out proposals to agree an approach and mechanism to establish two financially sustainable Unitary Councils from 1 April 2023 and a Cumbria Fire and Rescue Service.
- 5.2 The proposals for funding have followed the national formulas used by Government (DLUHC) but have been updated with the latest data sets.

6.0 Implications

Financial, Resources and Procurement

6.1 This report sets out the basis for agreement on the disaggregation of finances, as a fair and equitable split between the new authorities, and the principles to be applied during this process.

Human Resources

6.2 There are no direct implications associated with this report.

Legal

6.3 There are no direct implications associated with this report.

Health and Sustainability Impact Assessment

6.4 Have you completed a Health and Sustainability Impact Assessment? No

6.5 If you have not completed an Impact Assessment, please explain your reasons: There are no direct implications arising from this report.

Equality and Diversity

6.6 Have you completed an Equality Impact Analysis? No

6.7 If you have not completed an Impact Analysis, please explain your reasons: There are no direct implications arising from this report.

Risk Management	Consequence	Controls required
Do not agree an approach and mechanism to establish two financially sustainable Unitary Councils for Cumbria and a Fire and Rescue Service	Council priorities will not be delivered nor a balanced budget and MTFP	Identification of decisions required and timing of decision. Implementation of decisions incorporated into Budget Preparation Process

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Appendices Attached to this Report

Appendix No.	Name of Appendix
1	List of Corporate, service and fire grants for disaggregation and aggregation
2	Summary of disaggregation choices and approach
3	Indicative corporate resource allocations for 2022/23
4	Blueprints, service plan and strategic financial planning timeline
5	Strategic Planning – High level timeline and key stages

Background Documents Available

Name of Background document	Where it is available
None	