

Appendix 3

Draft MCC Financial Strategy 2019 onwards

Version Control

Title	Draft MCC Financial Strategy 2019 onwards
Purpose	To provide a framework within which resources can be matched to priorities whilst maintaining financial sustainability
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Introduction/foreword

This Financial Strategy provides the link between the Monmouthshire's long-term objectives and its financial capacity. It seeks to ensure that the MCC's strategic objectives can be achieved within the confines of the financial resources that it has at its disposal.

The purpose is not to try to predict the future, but instead try to outline the possible scenarios that may be faced and how the organisation would respond. Starting from a good understanding of the current financial situation and an assessment of the most likely plausible scenarios, the organisation can then stress test its performance against these different scenarios and the organisation's Corporate Plan (Purpose and Values) to develop its medium to long term financial planning.

Current Financial Situation

Local Government in Wales has borne the brunt of austerity with core grant funding being reduced by 22% since 2009/10. If the protection afforded to schools is taken into account then other services have seen a reduction of 35%.

In Monmouthshire, £19 million has already been taken out of the budget over the last four years. The Authority remains the lowest funded Authority in Wales with provisional Aggregate External Finance (core grant from WG) per head of population of £995. This compares to an average for Wales of £1344 per head and a maximum of £1,587 per head in Blaenau Gwent.

The Council has consistently delivered within its total budget, however the consistent theme is that net cost of service overspends have been offset by better than expected council tax receipts and lower than expected costs associated with outstanding debt. So whilst the overall outturn position has been positive over the last four years, there are underlying pressures in service areas that still need to be addressed.

Every year a set of savings proposals have been agreed in order to balance the budget. Over the last four years the success rate with achieving these savings has been good, where achievement percentage has been lower, this has generally been a timing issue with the changes required to deliver the savings being slower to materialise than expected.

Year	Savings agreed £000s	Savings achieved £000s	Savings achieved as a percentage
2018/19 at Month 2 forecast	5061	4336	86%
2017/18	5308	4939	93%
2016/17	3659	2414	66%

2015/16	4779	4267	89%
2014/15	5453	4972	91%

This has been a significant achievement given this period of austerity has been on going for the last 8 years and it is a credit to teams for the resilience and innovation they have already demonstrated.

A review of reserves was undertaken in 2016/17 following a period of decline in earmarked reserves. The revised policy approved at that time aimed to ensure that robust business cases for the use of ear marked reserves are produced so that this resource is directed in the most effective way to support the Authority in moving forward and making the appropriate changes. The General Reserve has been maintained at a level between 4 and 6% of net expenditure and school balances saw a significant reduction at the end of 2016/17.

Council approves a Treasury and Investment Strategy each year and a review of the policy on the amount to be set aside to repay debt made a significant contribution to lowering the resource requirement in this area in the medium term. The Authority also continues to take advantage of lower interest rates on short term debt and using capital receipts to fund capital projects to keep investments at a minimum.

The Capital strategy has enabled capital investment to be focussed on the replacement of two comprehensive schools, by limiting investment on existing assets.

Future Scanning

The WLGA report 'Fair and Sustainable Funding for Essential Local Services' is attached as Appendix 1 and provides a comprehensive narrative on the future pressures facing local government in Wales. It considers the challenges continuing to face local government and argues that there are extremely difficult choices ahead if grant funding continues to reduce, as authorities reach a tipping point. The current model is not sustainable, there is need for a more fundamental review of how services are funded, so that those services that prevent negative outcomes in the future and contribute most to sustainable economic growth are prioritised.

In terms of Monmouthshire, challenges on the Authority's finances are similar to those identified by the WLGA and many arise from the wider environment within which local government operates, such as:

- Economic climate – inflation and interest rates,
- Demographic – aging population, this is a particular issue for Monmouthshire
- Central and Welsh Government policy and legislation including new responsibilities, reorganisation of LG and the distribution and level of grant funding
- National pay awards, the pay scale review and Government decisions on Teachers and Fire fighter pensions
- Advances in digital technology

Customer expectations

The above list is not exhaustive and will be kept under review as part of updating this strategy. At this stage, it shows that there are competing and increasing demands on resources. Whilst at the same time the level of resources looks set to continue to diminish in real terms.

This Medium Term Financial Strategy covers the financial years 2019/20 to 2022/23 and seeks to identify and quantify the specific pressures facing Monmouthshire and demonstrate how the council will maintain financial stability by managing these pressures and delivering efficiencies. It is a key part of the Council's integrated corporate, service and financial planning cycle. This process is designed to ensure that corporate and service plans are developed in the context of available resources and that those resources are allocated in line with the corporate purpose, values and priorities set out in the Corporate Plan, as summarised below:

Our Foundation: Purpose and Values

Monmouthshire County Council has a clear purpose. We shape this in line with the goals and ambitions of our partners in other public services that are part of the Monmouthshire Public Service Board (PSB). Monmouthshire County Council's Corporate Business Plan provides direction and sets out the things we will be working on for the next four years, taking us up to the end of the political term in 2022.

Purpose

Our Purpose is:

We want to help build sustainable and resilient communities that support the well-being of current and future generations.

This purpose is at the heart of everything we do to improve the economic, social, environmental and cultural well-being of Monmouthshire and we share this with our public service partners as part of the Public Service Board. We will consider sustainable development in how we plan and deliver the action set in this plan

Our Corporate Plan

Monmouthshire County Council's Corporate Business Plan sets out the things we will be working on in the medium term. The plan sets out our five Organisational Goals (also our well-being objectives) supported by the 22 commitments to action we will make and the ways in which they will be measured in the run-up to 2022. This plan has been developed aligned to the direction set in the Corporate Plan. The Plan is underpinned by a clear policy framework that sets out in more detail our work to enable the delivery of the plan (see appendix). The aspiration and objectives set for Monmouthshire by the PSB and Council are:

Purpose: Building Sustainable and Resilient Communities

<i>Public Service Board Well-being Objectives</i>	<i>Monmouthshire County Council Goals & Well-being Objectives</i>
Provide children and young people with the best possible start in life	The best possible start in life
Respond to the challenges associated with demographic change	Lifelong well-being
Protect and enhance the resilience of our natural environment whilst mitigating and adapting to the impact of climate change	Maximise the potential of the natural and built environment
Develop opportunities for communities and businesses to be part of an economically thriving and well-connected county.	Thriving and well-connected county
	Future - focussed Council

Values

We can only achieve great things for our place through the people who live and work here, those on our payroll and those in Monmouthshire's communities including the countless volunteers and groups that give this place a richness and vibrancy. Our values reflect who we are, how we do things and how we are shaping the future. We try our best to apply these in everything we do.

Openness. We are open and honest. People have the chance to get involved in decisions that affect them, tell us what matters and do things for themselves/their communities. If we cannot do something to help, we'll say so; if it will take a while to get the answer we'll explain why; if we can't answer immediately we'll try to connect you to the people who can help – building trust and engagement is a key foundation.






Fairness. We provide fair chances, to help people and communities thrive. If something does not seem fair, we will listen and help explain why. We will always try to treat everyone fairly and consistently. We cannot always make everyone happy, but will commit to listening and explaining why we did what we did.

Flexibility. We will continue to change and be flexible to enable delivery of the most effective and efficient services. This means a genuine commitment to working with everyone to embrace new ways of working.

Teamwork. We will work with you and our partners to support and inspire everyone to get involved so we can achieve great things together. We don't see ourselves as the 'fixers' or problem-solvers, but we will leverage all of the ideas, assets and resources available to make sure we do the things that most positively impact our people and places.

Applying the Well-being of Future Generations Act

The Well-being of Future Generations Act is the fundamental legislation that requires us to carry out sustainable development, more information on the Act is in the appendix. We have applied the five ways of working set out in the act when developing our plan, the extent we have incorporated these is set out below:

Sustainable Development Principle	How have these principles driven the development of the policy
 <p>Long Term</p> <p>Balancing short term need with long term and planning for the future</p>	<p>Annual budgeting cycles are set within the context of a medium term financial plan.</p>
 <p>Collaboration</p> <p>Working together with other partners to deliver objectives</p>	<p>Resources can be aligned to deliver priorities within the Corporate Plan through a variety of mechanisms including working in partnership</p>
 <p>Involvement</p> <p>Involving those with an interest and seeking their views</p>	<p>The process of identifying and developing budget proposals includes the need to engage with interested parties and record their views and the impact on the proposals</p>
 <p>Prevention</p> <p>Putting resources into preventing problems occurring or getting worse</p>	<p>Business cases for such proposals can be put forward and assessed</p>
 <p>Integration</p> <p>Considering impact on all wellbeing goals together and on other bodies</p>	<p>A key requirement of budget process is that each proposal will be assessed against the well being goals.</p>

We have also tried to maximise our contribution to achieving each of the seven national wellbeing goals. The contribution our local objectives make towards the seven national objectives has been assessed and is shown in the table below:

	Contribution to Well-being Goals						
	Prosperous Wales	Resilient Wales	Healthier Wales	More equal Wales	Wales of cohesive communities	vibrant culture and thriving Welsh Language	Globally responsible Wales
<p>Each proposal to enable demands and resources to be matched will be assessed against these goals as they are developed</p>							

22 Commitments to Action

The 22 commitments are being developed assessed to identify the financial implications of each one so that resources can be redirected to the priorities identified if required. An initial assessment is shown below and will be updated as these strategy is reviewed.

Please note the following keys identify the financial status of the commitments.

(e) – Covered from existing resources, is cost neutral or could produce savings.

(p) – Covered in evidenced based pressures.

(a) – May require additional funds.

The 22 commitments are as follows;

A. Best possible start in life

1. The Council invests in Future Schools (a)
2. The Council has a plan for raising standards in schools (e)
3. The Council carries out a strategic education review (e)
4. The Council implements a model of early intervention and prevention for children and families (e)
5. The Council ensures permanent accommodation and support for looked after children (p)

B. Thriving and connected county

6. The Council develops and delivers a new economy and enterprise strategy (e)
7. The Council maximises economic potential through delivering the Cardiff Capital Region City Deal (p)
8. The Council delivers better infrastructure connectivity and opportunity (a)
9. The Council provides more opportunities for local living, working and leisure (a)
10. The Council unlocks economic value of its spending power (e)

C. Maximise the potential of the natural and built environment

11. The Council develops and delivers a sustainable plan for enhancing the local environment (p)
12. The Council produces 'green and clean' energy (a)
13. The Council keeps rural roads and areas safe (e)

14. The Council enhances local heritage through community ownership and development of arts and cultural services (a)

D. Lifelong well-being

15. The Council enables connected and caring communities supporting people to live independently (p)
16. The Council delivers on social justice, better prosperity and reducing inequality (a)
17. The Council enables better local services through supporting volunteers and social action (e)
18. The Council boosts leisure, recreation and wellbeing (p)

F. Forward-looking, future focused Council

19. The Council enables and provides good sustainable local services whilst delivering excellent customer experience across all channels (e)
20. The Council opens up democratic engagement and collective decision-making (e)
21. The Council delivers a sustainable and resilient organisation and relevant, viable and valued public services (e)
22. The Council puts people at the heart of all it does and inspires excellence in the workplace and employees (e)

What resources are available to deliver the Corporate Plan?

Grant funding from Welsh Government

In the absence of multi year settlement from Welsh Government, forecasting the level of core funding available for the next four years presents a challenge. The provisional settlement for 2019/20 identified a reduction in the revenue settlement (Aggregate External Finance) across Wales of 0.3%. For Monmouthshire the reduction in AEF is 1% after taking into account new responsibilities and transfers into and out of the settlement.

Council Tax

A proportion of Authority's income comes from its local community in the form of Council tax. For Monmouthshire the proportion of its budget requirement raised from council tax is the highest in Wales at 39% compared to Caerphilly where the proportion is 19%. For planning purposes, an increase in council tax of 4.95% is projected for 2019/20 and 3.95% for the following 3 years.

Other Income

A number of services of the council are provided at a charge to the user, such as leisure services, car parks, transport and meals. Previously an assumption has been made in the plan that income will be increased year on year by 2.5%. For the next four year period, the strategy is to enable individual services to consider the most appropriate price or activity increases that can be achieved over the medium term, given their knowledge of the sensitivity of users to such changes. The Council's recently agreed Commercial Strategy will also provide a framework for services to consider how to exploit any commercial opportunities whilst not exposing the Authority to unnecessary or unquantified risk. Therefore no automatic across the board increase in income has been included in the MTFP. Any specific service proposals will be considered alongside other budget proposals.

Specific pressures

Scanning the environment for future pressures has identified the following for inclusion in the MTFP in terms of assumptions:

Pay award – 2% for 2019/20, 1% for rest of MTFP

Vacancy factor – 2% (exempt schools)

Superannuation – 23.1%, rising 1% each year of the MTFP

Teachers superannuation – Employers rate increasing from 16.48% to 23.6% at 1st Sept 2019.

In addition, services have identified further specific pressures which will need to be thoroughly reviewed as part of the annual budget process:

Summary table of specific service pressures

Pressures by Directorate	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Children & Young People	1,292	560	0	0
Social Care & Health	1,124	857	70	0
Enterprise	833	180	240	20
Resources	217	59	60	62
Chief Executives Unit	35	0	0	0
Corporate Costs & Levies	910	844	2,201	2,418
Appropriations	349	0	0	0
Totals	4,760	2,500	2,571	2,500

The Authority has previously identified some work streams to deliver savings into the medium term and these are captured within the MTFP below, and will need to be

thoroughly reviewed as part of the annual budget process. The net effect of all of the about assumptions are captured in the current summary below, demonstrating a gap of £4.6 million in 2019/20 rising to £13.8 million in 2022/23:

Summary MTFP table:

Services	Indicative Base 2019/20 £000	Indicative Base 2020/21 £000	Indicative Base 2021/22 £000	Indicative Base 2022/23 £000
Children & Young People	52,240	53,234	53,673	54,116
Social Care & Health	46,556	47,626	47,874	48,246
Enterprise	12,660	12,648	13,027	13,218
Resources	6,848	6,971	7,094	7,208
Chief Executive's Unit	15,882	16,384	16,642	16,903
Corporate Costs & Levies	22,022	23,140	25,490	28,114
Sub Total	156,208	160,004	163,800	167,806
Transfers to reserves	444	63	63	63
Transfers from reserves	(427)	(96)	(218)	(88)
Treasury	7,717	7,717	7,717	7,717
EBP	187	187	187	187
Appropriations Total	7,922	7,872	7,749	7,879
Total Expenditure Budget	164,130	167,876	171,550	175,685
Aggregate External Financing (AEF)	(92,335)	(90,673)	(89,041)	(87,439)
Council Tax (MCC)	(53,428)	(55,538)	(57,732)	(60,012)
Council Tax (Gwent Police)	(11,069)	(11,269)	(11,472)	(11,678)
Council Tax (Community Councils)	(2,676)	(2,676)	(2,676)	(2,676)
Sub Total Financing	(159,509)	(160,157)	(160,921)	(161,805)
(Headroom)/Shortfall	4,621	7,719	10,629	13,880

Scenario planning

Whilst the above model is being used for planning purposes, it is useful to be aware of other scenarios that could occur if various assumptions changed. The table below shows, for illustrative purposes only, the effect of a 1% change in the underlying assumptions used in the model:

1% Variance	Illustrative Annual effect in 2019/20	
	£'000	
Expenditure:		
Pay award (non-schools staff)	639	
Pay award (schools - teaching staff)	278	
Pay award (schools - non teaching staff)	113	
Superannuation rates	370	
Non-pay inflation	651	
Income and Efficiencies:		
Staff vacancy factor (non-schools)	531	
Other income - non-public bodies	108	
Funding:		
Aggregate External Funding (AEF)	933	
Council Tax (MCC) - Band D increase	509	Effect reduced by CTRS

Managing the gap

Clearly the gap between resources and demands for the Authority remains a challenge. Assuming that the funding available from WG is not going to increase substantially in the medium term the Authority has a number of basic options:

Reduce costs and become more efficient

Reduce costs by reducing the level or number of services offered

Increase income by raising existing prices or increasing activity levels

Increase income by increasing the range of services being charged, or finding new ways to generate income over and above costs

Seek new sources of grant income

The Future Monmouthshire themes and work identified, continues to be worked on and brought into the MTFP when proposals are ready. In addition, services continue to work on proposals to meet a percentage reduction in their budgets year on year.

The supporting strategies for Capital, Treasury and Investment and Reserves, seek to underpin the Medium Term Financial Plan and enable the Council to remain financially sustainable, whilst delivering the priorities outlined in the Corporate Plan.

Insert Four year proposals to close the gap (to be completed)

Action Plan - investment and savings plans for future

Action	Expected Impact of the Action	MCC Objective & Strategic Plan contributed to	Performance Indicator/milestone savings£
<i>e.g.. Deliver, implement, launch, create, pilot etc..</i>	<i>e.g.. What is different as a result of your action</i>	<p><i>e.g MCC objective:</i> <i>The best possible start in life</i> <i>Thriving and well-connected county</i> <i>Maximise the potential of the natural and built environment</i> <i>Lifelong well-being</i> <i>Future-focussed Council</i></p> <p><i>Strategic plan:</i> <i>PSB well-being plan, Corporate Plan, MTFP etc.</i></p>	<p><i>e.g.</i> <i>Milestone: Cabinet approve, complete development phase, roll-out completed etc.</i></p> <p><i>PI: Number of, Percentage of etc</i></p>
Manage the pressures	Financial sustainability	All	Balanced MTFP, outturn delivered within budget
Deliver the savings	Financial sustainability	All	Balanced MTFP, outturn delivered within budget
Continue to align resources with the 22 commitments to action over the MTFP, identifying where to draw resources from other areas of the business to facilitate this ambition	Priorities delivered whilst maintaining financial sustainability	All	Balanced MTFP, outturn delivered within budget Whilst prioiorties delivered.

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How we will Evaluate Progress

This section sets out how we will evaluate our progress to ensure transparency and accountability as part of our governance arrangements.

Setting out proposals for meeting the MTFP gap to Cabinet

Scrutiny of budget proposals via select committees and engagement with the public and other groups

Regular revenue and capital budget monitoring to budget holders, senior managers and Cabinet Members

Scrutiny of revenue and capital budget monitoring by Select committees

Savings monitoring through budget monitoring and business plans

Monitoring of reserve levels through budget monitoring and bi-annual assessment when constructing budget and through the statement of accounts

Success of commercial strategy for increasing income streams

Treasury strategy through monitoring through Audit committee

Risks

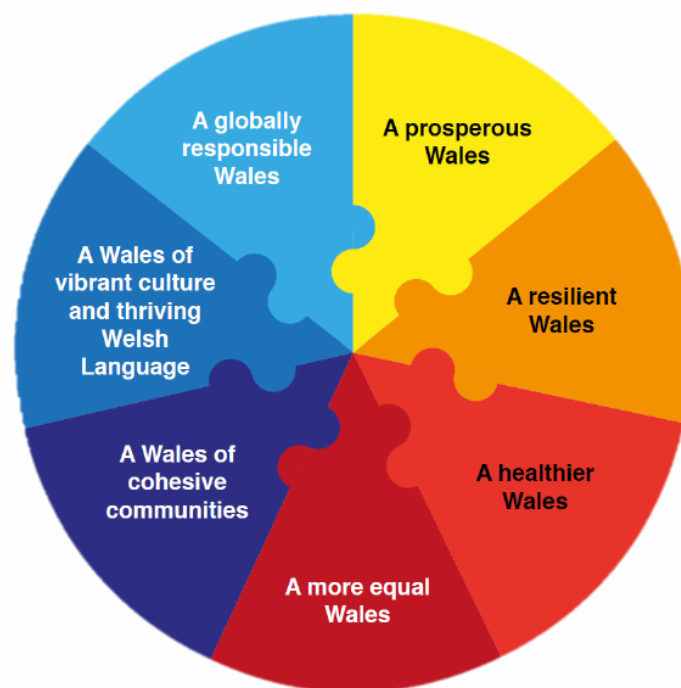
There are risks attached to the delivery of this plan and good governance will ensure these risks are understood, managed and communicated. The Council has an established risk management policy that sets out the Council's policy and approach to strategic risk management. The risks related to the delivery of this plan have been identified, assessed and mitigating actions established.

Risk	Reason why identified	Risk Level (Pre – mitigation)				Planned Mitigation & timescales	Residual Risk Level (Post – mitigation)			
		Year	Likelihood	Impact	Risk Level		Year	Likelihood	Impact	Risk Level
Potential risk that services may become financially unsustainable in the short to medium term.	<i>Cash Funding has reduced by 12.77% in the last 5 years. At the same time demand on services and external pressures have increased</i>	18/19	Possible	Major	Medium	<i>Implement a longer-term financial plan which aligns with the medium Term Financial Plan – March 2019</i>	18/19	Unlikely	Major	Low
		19/20	Possible	Major	Medium		19/20	Unlikely	Major	Low
		20/21	Possible	Major	Medium		20/21	Unlikely	Major	Low
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Appendix - National Policy Context

The Well-Being of Future Generations Act

The Well-being of Future Generations Act is the fundamental legislation that requires us to carry out sustainable development, this should ensure that present needs are met without compromising future generations in meeting their own needs. When carrying out sustainable development, we have to publish well-being objectives which are designed to maximise our contribution to achieving each of the seven national wellbeing goals and take all reasonable steps to meet the objectives. The seven wellbeing goals are shown in the diagram below while our own well-being goals are incorporated within this plan. The contribution our plan makes towards the seven national objectives has been assessed and is shown in this plan.



In planning our services and taking action to meet our well-being objectives we must consider, but also demonstrate that we have applied, the following sustainable governance principles in our decision-making:

- Balancing short term needs with long term needs.
- Using an integrated approach, balancing social, economic and environmental needs.
- Involving others and considering their views.
- Working in collaboration with others.
- Putting resources into preventing problems

The Act also puts a well-being duty on specified public bodies to act jointly via Public Service Boards (PSB) to improve the economic, social, environmental and cultural well-being of their area by contributing to the achievement of the well-being goals.

Insert 'Fair and Sustainable Funding for Essential Local Services' WLGA

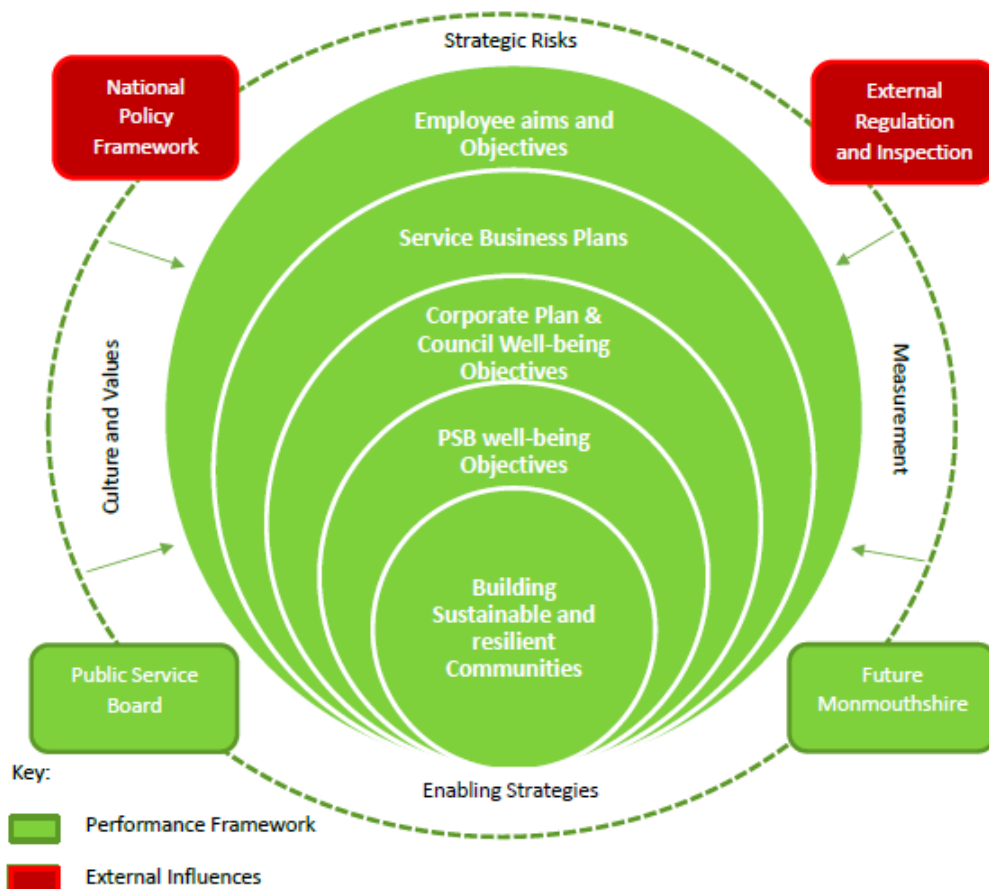
Appendix – Local Policy context

Our Improvement Framework is supported by a range of plans as part of our Policy Framework that guide our actions to improve services.

Performance Management Framework

Our performance management framework; illustrates the interdependencies and how the policies, plans and programmes it contains, should be mutually reinforcing. In simple terms, our performance management framework is integral to the adoption and application of our plan because it makes sure that everyone is pulling in the same direction to deliver real and tangible outcomes.

Building sustainable and resilient communities is the unifying purpose of the diverse range of services for which we are responsible. We are a partner in the Public Service Board, which is responsible for setting well-being objectives for the county. The council's own well-being objectives are set by the Council based on the same well-being assessment as the PSB objectives and, form the backbone of our Five Organisational Goals in the corporate plan. Each of our teams has a business plan that aligns to these objectives. We have a range of performance measures that we use to keep track of our progress. Our risk management policy enables us to manage strategic risks to our delivery. Our employee aims and objectives show how the contributions that individual colleagues make to these objectives and delivering our vision in accordance with our values.



Our 'enabling strategies' support the delivery of our objectives. Our work is also informed and guided by national policy and external regulation and inspection.

Level	Policy Framework	
Vision	The Public Service Board Well-Being Plan Monmouthshire's Public Service Board has produced a well-being plan which sets four objectives they will work on to improve well-being in the County now and in the future	
Plan	Corporate Plan including Council well-being objectives Monmouthshire County Council's Corporate Business Plan sets out the direction for the Council in the next 5 years. The plan sets five Organisational Goals (also the Council's well-being objectives) supported by the 22 commitments to action and the ways in which they will be measured in the run-up to 2022.	
Strategy	Asset Management Strategy & Plan Describes how we manage our land and property portfolio	Financial Strategy Sets out the financial challenges we face & how we will meet these challenges
	People Strategy The strategy connects people to purpose to improve performance and deliver better outcomes	Digital and Customer Strategy The steps we will take to develop our digital offer in our services and communities
	Local Development Plan Our proposals and policies for future development and use of land	
Programmes	Economy and Enterprise Strategy Our proposals for increasing competitiveness, innovation and productivity.	Social Justice Strategy To set out the Council's commitment to address inequalities in the county in order to make our society function better.
	Commercial Strategy Provides a new policy regarding the acquisition of Investment properties.	Procurement Strategy To set out a progressive vision for fit for future procurement across the Council
Delivery	Service business plans Each service has a plan that evaluates performance, plans actions for the year ahead, includes metrics to monitor performance and manages risks.	Employee Aims and Objectives Employee appraisals enable individuals and teams to outline the values and performance that is relevant in their role and connects them to the purpose of the organisation.
Evaluation & Risks	Evaluation Evaluates performance, plans & metrics to monitor performance.	Strategic Risk Assessment Identifies, manages and monitors the Council's Strategic risks.

Future Monmouthshire

The *Future Monmouthshire* programme is about ensuring the council remains relevant and viable for the next generation, while continuing to meet the day-to-day needs of residents, visitors and businesses. Future Monmouthshire and its interventions are built around our design principles. Future Monmouthshire has also focussed in on a number of significant future trends, such as the future of work, the utility of automated systems and machine learning, forward-looking land-use and house building and alternative models of service delivery. We have nine design principles that link to longer-term goals which help guide our work.