

**REPORT TO:** Executive Board

**DATE:** 15 November 2018

**REPORTING OFFICER:** Operational Director, Finance

**PORTFOLIO:** Resources

**SUBJECT:** Medium Term Financial Strategy 2019-2022

**WARD(S):** Borough-wide

## **1.0 PURPOSE OF REPORT**

1.1 To establish the Medium Term Financial Strategy for the period 2019/20 to 2021/22.

## **2.0 RECOMMENDATION: That**

- 1) the Medium Term Financial Strategy be approved;**
- 2) the 2019/20 base budget be prepared on the basis of the underlying assumptions set out in the Strategy;**
- 3) the Budget Strategy and Capital Strategy be approved;**
- 4) the Reserves and Balances Strategy be approved; and**
- 5) the award of Council Tax Support for 2019/20 remains at the 2018/19 level of 21.55%.**

## **3.0 SUPPORTING INFORMATION**

3.1 The Medium Term Financial Strategy (MTFS) sets out a three-year projection of the Council's resources and spending. It has been based on information that is currently available but there is information yet to be received, primarily from Government.

3.2 Although the projections in the Strategy must be treated with a considerable degree of caution, they clearly show there is continued need to make a significant level of savings over the next three years. This is an effect of the projections of public spending through to 2020 resulting from the 2015 Comprehensive Spending Review and uncertainty from 2020 on Government plans for public spending and continuity of the austerity programme. The strategy takes into account the:

- Budget 2018 announced by the Chancellor of the Exchequer on 13 March 2018.
- Comprehensive Spending Review 2015 announced by the Chancellor of the Exchequer on 25 November 2015.
- Local Government Finance Settlement 2018/19 dated 06 February 2018.

- 3.3 The strategy provides initial guidance to the Council on its financial position into the medium term. The strategy identifies that revenue savings of approximately £9.8m, £8.2m, and £3.3m are required over the next three years. As a result a total of £21.3m will need to be removed from the Council's budget, by reducing spending or increasing income. This represents 19.5% of the net budget. It continues to be a significant challenge to find sufficient savings over the medium term in order to balance the budget.
- 3.4 The Council's current financial position is particularly challenging and continued reductions to Government funding together with increasing service demands is beginning to have a serious impact upon the Council's finances. In 2017/18 the Council overspent on the approved budget by £1.026m and as at 30 September 2018 the Council is forecasting a 2018/19 year-end overspend of £4.3m unless corrective action is taken.
- 3.5 As at 31 March 2018 the Council had general reserves of £5.004m, earmarked reserves of £39.023m and provisions of £13.876m to meet existing known risks. It would not be considered prudent for general reserves to reduce any further and therefore earmarked reserves and provisions will be continue to be reviewed to release funds for general purposes.
- 3.6 In their report titled 'The Audit Findings for Halton Borough Council', for the year ended 31 March 2018, the External Auditor (Grant Thornton LLP) stated in evaluating the risk of the Council's financial position and sustainability of the Council, that the Council does not have a history of financial difficulty but the position is becoming more challenging. The Auditor concluded that financial risk was sufficiently mitigated and proper arrangements were in place to make properly informed decisions and resources deployed to achieve planned and sustainable outcomes.
- 3.7 In setting its revenue and capital budgets, the Council will need to have regard to its priority areas, namely:
- Healthy Halton
  - Environment & Regeneration in Halton
  - Children and Young People in Halton
  - Employment Learning and Skills in Halton
  - Safer Halton; and
  - Corporate Effectiveness and Business Efficiency

3.8 These priorities are set out in more detail in the Council's Corporate Plan.

3.9 In summary, the Council's Medium Term Financial Strategy (MTFS) has the following objectives:

- To deliver a balanced and sustainable budget.
- To prioritise spending towards the Council's priority areas.
- To avoid excessive council tax increases.
- To achieve significant cashable efficiency gains.
- To protect front line services and vulnerable members of the community as far as possible.
- To deliver improved procurement.

### **Budget Strategy**

3.10 The MTFS shows that in order to balance the budget over the medium term there is a requirement to make significant cost savings. In making these savings the Council will need to have in mind the objectives of the Medium Term Financial Strategy set out above.

3.11 The Council will identify further savings by:

- Reviewing the portfolio of land and other assets, including its use of buildings in accordance with the Accommodation Strategy.
- Continuing to drive improved procurement across the Council.
- Identifying opportunities to generate new or additional sources of income.
- Exploring opportunities for shared services and joint working with partner organisations.
- Offering staff voluntary redundancy or early retirement under the terms of the Staffing Protocol, where there is a clear benefit to the Council.
- Delivering services in more efficient and effective ways such as via greater use of technology.
- Reducing the cost of services either by reducing spend or increasing income.
- Utilising cost and performance benchmarking data from comparable authorities, to highlight potential areas where savings might be achieved.
- Considering alternative approaches to address high demand and high cost services.
- Using the Invest to Save Reserve to invest in initiatives which will deliver revenue budget savings through improved efficiency, reduced costs, and/or increased income.
- Continuing to facilitate economic development and regeneration across the Borough, particularly in light of the opportunities provided by the Mersey Gateway Bridge, in order to deliver new

jobs, generate additional business rates income and additional council tax income.

- Reducing or ceasing the delivery of some lower priority services.

### **Capital Strategy**

- 3.12 The Asset Management Strategy sets out how the land and buildings that are in Council ownership or occupation are structured to support the Council's priorities. The capital programme is a major part of the Strategy.
- 3.13 The MTFS shows that there is sufficient resource to cover the cost of the current Capital Programme. However, the scope for the Council to generate new capital receipts is limited. Therefore, it is likely that proposals for new capital schemes will need to include their own funding.
- 3.14 Prudential borrowing remains an option for funding capital schemes, but the capital financing costs as a result of that borrowing will increase the Council's revenue budget gap and would therefore require greater revenue savings to be found by the relevant Directorate.

## **4.0 POLICY IMPLICATIONS**

- 4.1 The MTFS represents the "finance guidelines" that form part of the medium term corporate planning process. These guidelines identify the financial constraints which the Council will face in delivering its key objectives, and are an important influence on the development of the Corporate Plan, Service Plans and Strategies.

## **5.0 FINANCIAL IMPLICATIONS**

- 5.1 The MTFS provides a guide to projected receivable funding resources over the three year term. The grant amounts included in the MTFS are based on the latest information provided by Government. As new information comes to light the forecast of future income streams will be updated. Decreases to funding resources will create further budget pressures for the Council in delivering its key objectives.

## **6.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES**

- 6.1 The revenue budget and capital programme support the delivery and achievement of all the Council's priorities. Reductions of the magnitude identified within the Strategy are bound to have a negative impact upon the delivery of those priorities.

## **7.0 RISK ANALYSIS**

7.1 The MTFFS is a key part of the Council's financial planning process, and as such minimises the risk that the Council fails to achieve a balanced budget.

## **8.0 EQUALITY AND DIVERSITY ISSUES**

8.1 There are no direct equality and diversity issues.

## **9.0 REASON FOR THE DECISION**

9.1 To seek approval for the Council's Medium Term Financial Strategy for 2019/20 to 2021/22.

## **10.0 ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

10.1 The alternative option of not maintaining a Medium Term Financial Strategy has been considered. However, this would not follow good financial management practice, as the Medium Term Financial Strategy is a key element in informing the Council's financial planning and budget setting processes.

## **11.0 IMPLEMENTATION DATE**

11.1 The Medium Term Financial Strategy 2019/22 will be implemented from 1st April 2019.

## **12.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972**

<b>Document</b>	<b>Place of Inspection</b>	<b>Contact Officer</b>
Local Government Grant Settlement 2018/19	Revenues and Financial Management Division, Kingsway House, Widnes	Steve Baker
Autumn Statement and Spending Review 2015	“ “	“ “
Spring Budget 2018	“ “	“ “
2019/20 Local Government Finance Settlement – Technical Consultation	“ “	“ “

# **MEDIUM TERM FINANCIAL STRATEGY**

**2019/20 to 2021/22**

**Finance Department  
November 2018**

## 1.0 INTRODUCTION

- 1.1 The Medium Term Financial Strategy (MTFS) sets out a three-year projection of the Council's resources and spending covering the period 2019/20 to 2021/22. The projections made within the MTFS must be treated with caution and require continuous updating as the underlying assumptions behind them become clearer.
- 1.2 The MTFS represents the "finance guidelines" that form part of the medium term corporate planning process. These guidelines identify the financial constraints which the Council will face in delivering its key objectives, and are an important influence on the development of the Corporate Plan, Service Plans and other Strategies.
- 1.3 Beyond 2019/20 there is great uncertainty regarding the funding of Local Government. Arguably, there is more uncertainty for 2020/21 onwards than there has been at any point during the last 10 years.
- 1.4 The implications for Halton of the following changes to Local Government funding will have to be considered for 2020/21. More information should be known about each as we progress through the next year:
  - Fair Funding Review – A review of how Local Government funding should be apportioned between Councils. The last review was in April 2013 and since then cuts made to Local Government have been on a percentage basis. This has had the impact of protecting those authorities less reliant on Government grant funding, with those councils who are more reliant (such as Halton) having to deal with the largest cuts in funding on a per head basis.
  - 75% Business Rate Retention – Government have confirmed from 2021 the percentage share of retained rates at a local level will be 75%. It is unclear how this will impact on pilot authorities such as Halton and whether they will continue at 100% or switch to 75% retention.
  - Business Rate Baseline Reset – It is currently proposed there will be a reset of the business rate baseline in April 2020, which could work against Halton and similar authorities who have seen significant growth in business rates since the current baseline was set in 2013. It is not known whether there will be a transition process put in place to protect authorities from too high a loss in funding from an increase in their baseline position.
  - 2019 Public Spending Review – The next medium term review of public spending for the period from 2020 is expected to be announced in 2019.
  - Pension Triennial Review – The next Pension Fund revaluation will take effect from April 2020.
  - Social Care Green Paper – This was expected to be announced by Government in the Summer of 2018 but has been delayed. It is

uncertain what impact this will have upon the future of Local Government funding.

- 1.5 There are a number of Government announcements which in addition to service demands form the basis of the Financial Forecast, details of which are outlined below.

## **2.0 Spending Review and Autumn Statement 2015**

- 2.1 The 2015 Spending Review and Autumn Statement was announced by the Chancellor of the Exchequer on 25 November 2015. The main points impacting on Local Government finances included:

- a) Local Government settlement funding will be cut by approximately 30% over the 4 years of the spending review, cuts will be weighted towards the earlier years. Revenue Support Grant will be gradually phased out over the course of this period.
- b) An option for Councils to set a precept over the council tax referendum threshold to help meet the increased needs of Adult Social Care. The option will be made available in each of the 4 years of the spending review.
- c) An additional £1.5 billion being made available to local authorities within the Better Care Fund by 2019/20.
- d) The ring-fence on Public Health spending will be maintained. Government will make savings in Public Health spending with annual real-term savings of 3.9% over the next five years.
- e) There will be a consultation to the New Homes Bonus grant. The aim will be to “sharpen” the incentive to reward communities for additional homes whilst reducing the length of payments from 6 years to 4 years.
- f) £250m to be provided nationally over the next 5 years to tackle potholes on local roads. In addition the roads maintenance capital budget will increase by £300m nationally.
- g) An apprenticeship levy will be applied to larger employers from April 2017, the cost of which will be 0.5% of the employer’s wage bill.
- h) A national funding formula for schools will be introduced, the intention for which was a start date of April 2017 but has now been pushed back to April 2018.

## **3.0 Local Government Finance Settlement 2018/19**

- 3.1 Government announced the 2018/19 final Local Government Finance Settlement on 06 February 2018. The Settlement Funding Assessment

for the Council was £47.8m a reduction of £3.2m (6.4%) from the previous year.

- 3.2 Government also issued indicative Settlement Funding Assessment figures for the following year which show a further reduction of £3.0m (5.6%) for the final year of the 2015 Spending Review.
- 3.3 Government further announced one-off monies for 2018/19 of £150m of additional funding through the Adult Social Care Support Grant. The value of the grant to Halton was £0.399m.
- 3.4 The Secretary of State confirmed that there will be a business rates baseline reset in 2020/21 and, from 2020/21, business rates retention will be at 75% (with existing grants, including RSG and Public Health Grant incorporated into business rates retention).
- 3.5 There was an increase to the referendum limit for Council Tax from 2% to 3%. Government also stated its intention that the referendum principles applied in 2018/19 would also be in place for 2019/20.
- 3.6 Despite strong rumours, Government confirmed there was to be no changes (for 2018/19) to the way New Homes Bonus grant was calculated.
- 3.7 On 15 September 2016, Executive Board approved the necessary steps to be taken to accept a 4 year settlement offer from Government which guaranteed the amounts due to the Council under the indicative Settlement Funding Assessment; only in exceptional circumstances would the amounts be subject to change.

#### **4.0 Spring Budget 2018**

- 4.1 The Chancellor of the Exchequer presented his 2018 Spring Budget to the House of Commons on 13 March 2018. The areas relevant to local government finances included:
  - a) The Chancellor reported on improved Gross Domestic Product (GDP) and borrowing forecasts, reporting this gives the Government more latitude and that if figures continue to improve then in the Autumn Budget there is scope to increase public spending. Plans for the Autumn Budget to include an overall path of Government spend for 2020 and beyond, with a detailed spending review being planned in 2019.
  - b) Confirmation that the next revaluation of business rates will be in 2021, with triennial revaluations thereafter (currently 5 years).

#### **5.0 Council Tax Support**

- 5.1 Support funding for council tax discounts is funded by Government through a grant included in the Settlement Funding Assessment. Every council is responsible for implementing a local scheme to offer council tax discounts to those residents who may have been eligible to this previously through Council Tax Benefit.
- 5.2 The Halton scheme uses as a basis the previous regulations relating to Council Tax Benefit, which ensures that support for claimants with disabilities, claimants with children and claimants who are working is maintained. At the end of the existing support calculation, a reduction of 21.55% is made from every non pensioner award of support, to cover the shortfall in the Government grant funding for Halton's Scheme.
- 5.3 In 2013/14 the level of grant awarded was shown separately within the formula for the Settlement Funding Assessment but from 2014/15 onwards the grant is no longer separately identifiable. It is assumed the level of funding will reduce each year in line with the Council's overall Settlement Funding Assessment.
- 5.4 The MTFS assumes that the level of council tax support given to existing claimants will remain at the rate of 21.55% for the period of the MTFS. It also assumes that council tax support funding will not be shared with Parish Councils.

## **6.0 Business Rate Retention Scheme**

- 6.1 The Business Rates Retention scheme was introduced in April 2013, the intention of which was to reward councils for promoting economic development and generating future growth in business rates. The Council will only be rewarded if it increases its local share of business rates above a pre-set baseline. Conversely if the local share of business rates collected falls below the baseline position this would be to the Councils detriment.
- 6.2 In 2018/19 the Council used £3.391m of surplus (one-off) business rates income to help fund the budget position. The mid-year forecast of cumulative retained business rates as at 30 September 2018, indicates that by year-end there will be a relatively small surplus relating to the Council within the Collection Fund.
- 6.3 It is difficult to accurately forecast retained business rates due to appeals and changing rating values, the financial forecast therefore assumes there will be no Council local share available for distribution in 2019/20.
- 6.4 An estimate of the Council's share of retained business rates will be provided to DCLG in January 2019. It is currently forecast that the 2019/20 retained amount will be above the baseline figure. It is difficult to predict the level of business rates for future years due to the

unpredictability of the economic climate and the high level of appeals received on the rateable value of properties but the forecast assumes growth of £2.6m above the baseline position.

- 6.5 The business rate baseline position will be reset in 2020/21 which could potentially have an adverse impact on Halton as the growth the Council has generated in business rates since 2013 may be reduced as part of the reset. The Forecast therefore assumes a loss in funding of £4m to business rates in 2020.

### **100% Business Rate Retention – Pilot Scheme**

- 6.6 As part of the Liverpool City Region, the Council has signed up to being a member of a pilot scheme for 100% business rate retention. The pilot scheme has been in operation since April 2017. DCLG have provided confirmation the pilot scheme will continue in 2019/20.
- 6.7 The pilot scheme results in Halton no longer being in receipt of Revenue Support Grant (RSG) through the Settlement Funding Assessment. RSG is replaced by the additional business rates retained; in addition the improved and additional Better Care Fund grants have been included in the pilot and are now funded by retained business rates.
- 6.8 DCLG has confirmed the operation of the pilot scheme should be at no financial detriment to participating councils. Therefore for as long as the pilot scheme operates Halton will be no worse off financially than it would have been if it is was still operating under the 49% rate retention scheme.
- 6.9 Operation of “no financial detriment” within the pilot scheme means that any LCR authority who reports a deficit as a result of the pilot will as a first call be reimbursed from the other LCR pilot authorities who report a surplus as a result of the pilot. Only when any available surplus has been exhausted will Government step in and provide financial support.
- 6.10 For the first year of the pilot scheme all LCR authorities reported an improved position as a result of retaining 100% business rates. As at 30 September 2018 all LCR authorities were estimating 2018/19 pilot retention schemes would report a surplus at the end of March 2019 and therefore no detriment funding would be required.

### **Settlement Funding Assessment**

- 6.11 In 2018/19 DCLG allocated Halton a Settlement Funding Assessment (SFA) of £52.683m. This was made up of £45.214m business rates baseline funding and £7.469m of top-up grant funding. Top-up grant funding is received as the Council’s funding baseline is greater than the business rate baseline i.e. the Council’s needs are greater than business rates it can generate. The business rates baseline and

funding level is set in the system until 2020 and uplifted each year by the Consumer Price Index (CPI).

6.12 Table 1 shows the expected Settlement Funding Assessment for the next two years based on information provided at the time of the 2018/19 settlement announcement. As Government have yet to publish any public spending plans from 2020/21, SFA for that year has been increased by the Governments inflation target of 2%.

6.13 Also included at Table 1 are the forecasts for business rate growth retained for the next three years and the difference between each of the years.

**Table 1 – Business Rate Retention**

	18/19 £'000	19/20 £'000	20/21 £'000	21/22 £'000
Business Rate Baseline	45,214	46,119	47,041	47,982
Top-Up Funding	7,469	4,858	4,051	4,132
<b>Total Settlement Funding Assessment</b>	<b>52,683</b>	<b>50,977</b>	<b>51,092</b>	<b>52,114</b>
Business Rates Growth Retained	<b>7,633</b>	<b>4,326</b>	<b>413</b>	<b>501</b>
<b>Forecast Business Rates Retained (Incl Top-Up Funding)</b>	<b>60,316</b>	<b>55,303</b>	<b>51,505</b>	<b>52,615</b>
<b>Change in Business Rates Retained</b>		<b>-5,013</b>	<b>-3,798</b>	<b>1,110</b>

## **7.0 Specific Grants**

7.1 The level of specific revenue grants received by Halton in 2018/19 is approximately £173.8m, including Housing Benefit Subsidy of £49.8m, Dedicated School Grant of £76.0m, Public Health Grant of £10.2m and DfT Support Grant for the Mersey Gateway crossing of £27.0m.

7.2 Halton was allocated a New Homes Bonus grant of £2.152m for 2018/19 which was used to balance the budget. Halton will receive additional allocations in each year of the scheme, based upon the number of new homes and empty homes brought back into use entering the council tax register in each year. The allocation for 2019/20 has not been announced although based on how the New Homes Bonus scheme operates it is forecast the Council will gain an additional £0.077m in the first year of the financial forecast.

- 7.3 The Council receives grant funding from Government to compensate for changes made to cap the increase in the small business rating multiplier each year. In late March 2018 MHCLG informed the Liverpool City Region of an error made in calculating the 2018/19 grant for all six authorities. As budgets had already been set it was too late to make the change and therefore the reduction will be applied permanently in 2019/20, a reduction for the Council of £0.411m
- 7.4 Indicative allocations for the 2019/20 Public Health grant show a reduction of 2.6% to the 2018/19 grant allocation, a loss of £0.269m to the Council. The forecast assumes Public Health grant reductions will be contained within the overall spend for Public Health.
- 7.5 It is unclear as to the allocation of Public Health grant from 2020/21 although it has been identified as one grant which may roll into business rate retention when baselines are reset from 2020. During the past year the Department of Health and Social Care issued a discussion paper on the future formula calculation in apportioning the Public Health grant. It was proposed to move away from the current formula to a more complicated formula first proposed by the Advisory Committee on Resource Allocation (ACRA) devised in 2013 and consulted on in 2015. Modelling of the change in apportionment methods will have an adverse impact on grant allocated to Halton of approximately 9.5%.
- 7.6 The forecast change in the level of specific grant funding for Halton is shown in Table 2:

**Table 2 – Change in Grant 2019/20 to 2021/22**

	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
Changes to New Homes Bonus	77	-112	-112
Section 31 Compensation Grant	-411	0	0
<b>Total Change</b>	<b>-334</b>	<b>-112</b>	<b>-112</b>

## **8.0 COUNCIL TAX FORECAST**

- 8.1 For 2018/19 the Council Tax for a Band D property in Halton is £1,377.88 (excluding Police, Fire and Parish precepts), which is expected to generate income of £47.447m.
- 8.2 When setting Council Tax levels it is clear that higher increases reduce the requirement to make savings. However, there are other factors

that need to be considered when determining the appropriate increase in Council Tax. These factors include:

- Halton has the 4th lowest Council Tax level in the North West for 2018/19,
- Halton's 2018/19 Council Tax is £48.95 (3.4%) below the average Council Tax set by unitary councils in England.
- Inflation - the Consumer Price Index (CPI) as at September 2018 (latest available) is currently at 2.4% and the Retail Price Index (RPI) is at 3.3%.
- The public spending review, welfare reforms and high needs, which are all placing pressure upon the Council's funding and demand for the Council's services.

8.3 The consultation on the 2019/20 Local Government finance settlement in July 2018 detailed the Government's proposals for 2019/20 council tax referendum principles. The proposal is for a core referendum threshold of less than 3%, with continuation of the Adult Social Care precept of 2% with the flexibility to increase by a further 1% to 3% as long as it does not increase by over 6% for the three year period 2017/18 to 2019/20.

8.4 The 2019/20 Council Tax Base shows an increase of 515 Band D equivalent properties to a total of 34,950 assuming a collection rate of 97%. The increase in the Tax Base will generate an additional £0.710m of council tax income.

8.5 For the purposes of this Strategy it is assumed the Council will apply a council tax increase of approximately 3% in 2019/20. There is no council tax increase relating to the social care precept, as the total allowable increase of 6% over three years (2017/18 to 2019/20) has been exhausted in 2017/18 and 2018/19 (3% each year). It is assumed that there will be a 2% increase in each of the final two years of the Forecast.

8.6 Table 3 below estimates the net amount of council tax income that will be produced for various percentage increases in Halton's Band D Council Tax for the next three years and assumes no change in council tax base beyond 2019/20.

**Table 3 – Additional Council Tax Income 2019/20 to 2021/22**

<b>Projected Increases in Council Tax Income (£'000)</b>	<b>2019/20 £'000</b>	<b>2020/21 £'000</b>	<b>2021/22 £'000</b>	<b>Total £'000</b>
0%	-	-	-	-
1%	482	487	490	1,459
2%	963	982	1,002	2,947

3%	1,445	1,488	1,532	4,465
4%	1,926	2,003	2,084	6,013
5%	2,408	2,528	2,655	7,590

8.7 Over the past few years the amount of council tax collected has been greater than forecast. As at 31 March 2018 there was a surplus of £3.207m of council tax held as part of the Collection Fund relating to the Council only (excluding Police and Fire). In 2018/19 £1.471m of this was used in balancing the budget. This Strategy assumes that an amount of £1.736m will be released in 2019/20 to provide a further one-off budget saving.

## 9.0 Spending Forecast

9.1 The Spending Forecast provides an estimate of the increase in revenue expenditure that will be required over the next three years in order to maintain existing policies and programmes. In effect this represents an early estimate of the standstill budget requirement using the information that is currently available.

9.2 The scope of the Forecast covers General Fund revenue activities that are financed through the Settlement Funding Assessment, Specific Grants and Council Tax.

9.3 The Forecast includes the budgetary consequences of previous budget decisions, including one-off savings used to balance the 2018/19 budget. This adds £1.980m to the Spending Forecast for 2019/20.

9.4 Pay and price inflation is the biggest uncertainty in the Spending Forecast. As part of the Summer Budget 2015 it was announced that public sector pay awards would be restricted to 1% for four years from 2016/17. However, in 2018/19 a two year pay offer (2018-2020) of 2% was offered by Central Government and subsequently agreed with Unions, with those on lower grades receiving a greater increase in line with the National Living Wage.

9.5 The next pension triennial review will take place in 2019 and be effective from 2020/21 to 2022/23. The Forecast assumes the employers' pension contribution over this period will remain static, given the improved funding position of the Cheshire Pension Fund.

9.6 The Consumer Price Index (CPI) for September 2018 – the index by which the Government measures inflation - stands at 2.4% which is above the Government's 2% target. The Spending Forecast assumes that many items of supplies and services expenditure will continue to be cash limited. In other cases the Forecast assumes an appropriate rate that reflects current and estimated future prices.

9.7 The Council has a significant capital programme and the Spending Forecast includes the financing costs of the existing programme,

including the investment of Council cash balances. The net revenue costs associated with the capital programme are included in the Forecast at a reduction of £0.307m in 2019/20, whilst an increase of £0.200m is forecast for each of the last two years of the forecast. The MTFs assumes that any new capital projects which are approved over the medium term will be self-funded through capital grant, capital receipts or will generate revenue savings to fund the cost of borrowing.

- 9.8 The construction of the Mersey Gateway crossing was completed in October 2017. The Council has made a contribution towards the construction costs of the bridge funded by prudential borrowing, the financing costs of which will be met from toll revenues and Department for Transport (DfT) grant. The Mersey Gateway Crossing Board will continue to manage the Mersey Gateway; their costs will also be met from toll revenues and DfT grant.
- 9.9 No surplus toll revenue is included with this forecast, as if revenue is greater than forecast this will be offset by reductions in the annual revenue grant provided by DfT.
- 9.10 A key assumption that has been used in constructing the MTFs is that total spending in the current year is kept within the overall budget. In particular it can be difficult to control 'demand led' budgets such as children in care and care in the community and many income streams. In this context it is important to consider the contingency for uncertain and unexpected items. Due to the considerable uncertainty in inflation, interest rates, demand led budgets, impact of spending cuts and loss of income, the spending forecast includes a contingency of £1m in 2019/20, £1.5m in 2020/21 and £2.0m in 2021/22.
- 9.11 The Council has had an arrangement in place for the last 8 years whereby staff have included within their terms and conditions 4 days unpaid leave. It is estimated this saves the Council £0.750 per year. This arrangement ends in 2018 with the effect of increasing overall staff costs.
- 9.12 The Additional Better Care Fund grant is payable for three years between 2017/18 and 2019/20, gradually reducing each year. The grant is funded through the LCR 100% business rate retention pilot and the effect of this funding reduction is shown in the business rate retention figures earlier on within the Strategy. The Spending Forecast shows the reductions in spend of £0.923m in 2019/20 and £0.904m in 2020/21 equal to the reduced funding.
- 9.13 The Council has held an Equal Pay reserve for a number of years to provide for the cost of claims being received. The risk of the receipt of claims reduces on an annual basis and therefore £0.500m of the reserve is used in balancing the budget each year. As at March 2020 the reserve will be fully utilised and from 2020/21 growth of £0.500 in

included in the forecast position as the reserve will no longer be available.

- 9.14 The Children and Families Department is continuing to experience significant budget pressures and for the current financial year is expected to be approximately £4.1m over budget by year-end. There is high demand for a number of services within the Department including residential placements, direct payments, out-of-borough fostering and special guardianship orders. Significant sums have been provided in previous years from contingency budgets and £3m additional budget provided in 2018/19. Initiatives are in place to help reduce the overspend position for the forthcoming year and the contingency budget will also help address this pressure.
- 9.15 The Chancellor of the Exchequer stated in his 2015 Summer Budget that a new compulsory National Living Wage (NLW) for over 25s was to be introduced from April 2016. This was set at £7.83 per hour from April 2018 and will continue to rise each financial year until 2020 when it is expected to reach £9.00. The cost of the NLW for Council employees is built into pay inflation and the cost for care contracts is included within price inflation.
- 9.16 Table 4 summarises the Spending Forecast.

**Table 4 – General Fund Medium Term Standstill Spending Forecast**

Increase in spending required to maintain existing policies and services	Year on year change (£'000)		
	2019/20	2020/21	2021/22
Full Year Effect of Previous Year Budget	1,980	0	0
Capital Programme	-307	200	200
Pay and Price Inflation	4,356	2,702	2,646
Contingency	1,000	1,500	2,000
Additional Better Care Fund	-923	-904	0
4 Days Unpaid Leave	750	0	0
Equal Pay – Release of Reserve	0	0	500
<b>TOTAL INCREASE</b>	<b>6,856</b>	<b>3,498</b>	<b>5,346</b>

## 10.0 The Funding Gap

- 10.1 At this level of spending there is a funding gap with the forecast level of resources. Table 5 demonstrates the forecast gap between spending and forecast resources at different levels of council tax increase.

**Table 5: Funding Gap with a given % increase in Council Tax**

	<b>2019/20 £'000</b>	<b>2020/21 £'000</b>	<b>2021/22 £'000</b>
Increase in Spending Forecast	6,856	3,498	5,346
Change in Business Rates Retained (Incl Top-Up)	5,013	3,798	-1,110
Change in Grant	334	112	112
Increase in Council Tax Base	-710	0	0
Council Tax Surplus	-272	1,736	0
<b>Funding Gap Before Council Tax</b>	<b>11,221</b>	<b>9,144</b>	<b>4,348</b>
<b>Funding Gap After Council Tax Increase at Various Levels</b>			
<b>0%</b>	11,221	9,144	4,348
<b>1%</b>	10,739	8,657	3,858
<b>2%</b>	10,258	8,162	3,346
<b>3%</b>	9,776	7,656	2,816
<b>4%</b>	9,295	7,141	2,264
<b>5%</b>	8,813	6,616	1,693

- 10.2 The table shows that total savings of £9,776m are forecast to be needed to balance next year's budget after the use of one-off surplus council tax and an assumed 3% increase to council tax.
- 10.3 The use of surplus council tax adds to the deficit position for the following year and is included in the above table.
- 10.4 Further savings of £8.162m in 2020/21 and £3.346m in 2021/22, are required assuming a 2% increase to Council Tax. The total funding gap is approximately £21,284m and represents 19.5% of the Council's 2018/19 net budget.

10.5 This represents a significant challenge for the Council to balance its budget. As a result every aspect of the Council's budget needs to be scrutinised to identify potential savings. In addition, all opportunities will continue to be taken to generate additional income from charging for services, in order to reduce costs whilst maintaining levels of service delivery.

## 11.0 Capital Programme

11.1 The Council's capital programme is updated regularly throughout the year. Table 6 summarises the fully funded capital programme for the next two years.

**Table 6 – Capital Programme**

	<b>2019/20 (£'000)</b>	<b>2020/21 (£'000)</b>
<b>Spending</b>	<b>10,852</b>	<b>5,529</b>
Funding:		
Prudential Borrowing	5,862	2,660
Grants	1,393	910
Revenue Financing	98	0
Capital Receipts	3,499	1,959
<b>Total Funding</b>	<b>10,852</b>	<b>5,529</b>

11.2 The current system of capital controls allows councils to support and fund the capital programme by way of prudential borrowing. Such borrowing is required to be:

- prudent
- affordable, and
- sustainable

11.3 The Council has used prudential borrowing provided that the cost of borrowing has been covered by revenue budget savings and the spending forecast continues this assumption.

11.4 In previous years the Council has been extremely successful in attracting capital grants and contributions. In this way the Council has been able to undertake significant capital expenditure without financing costs falling on the revenue budget and this approach will continue.

## 12.0 Reserves and Balances

12.1 The Council's Reserves and Balances Strategy is attached in the Appendix. It sets out the Council's strategy in respect of the level of

reserves and balances it wishes to maintain, by reference to the financial needs and risks associated with the Council's activities.

- 12.2 The level of balances and reserves will be reviewed as part of the budget and final accounts processes.

### **13.0 Schools Budget**

- 13.1 Schools are funded by the Dedicated Schools Grant (DSG). The DSG is used to fund the Individual Schools Budget which is allocated to schools through a locally agreed formula. The central allocation of DSG is in accordance with the revised Department for Education guidance.

- 13.2 The Schools Forum assesses and considers current and future arrangements and changes to schools funding following consultation with local schools and academies.

- 13.3 From April 2018 Halton has adopted the National Funding Formula (NFF) as the basis for the methodology behind the allocation of Schools Block DSG monies. The Schools Block of DSG is now ring-fenced for allocation through the formula to local mainstream schools and academies with the exception of a transfer to the High Needs Block of DSG. The Council has been informed that local authorities will continue to determine the local funding formula up to and including 2020-21.

### **14.0 Partnership/Joint Working/Shared Services**

- 14.1 In 2015/16 the Government introduced a £3.8 billion fund to support the pooling of budgets for health and social care services, shared between the NHS and local authorities. This was intended to deliver better outcomes and greater efficiencies through more integrated services for older and disabled people. The Better Care Fund (BCF) provides an opportunity to improve the lives of some of the most vulnerable people in our society, to provide them with a better service and better quality of life. The Fund will be an important enabler for integrated care, acting as a significant catalyst for change.

- 14.2 The Council has been the host body in a Complex Care Pooled budget for a number of years. From 01 April 2015 the Better Care Fund was included within the pooled budget arrangements, working jointly with Halton Clinical Commissioning Group (HCCG). The gross expenditure value of the pooled budget for 2018/19 is approximately £58m.

- 14.3 The Council will receive a number of different strands of Better Care funding in 2019/20, this is summarised at Table 6, including details for 2018/19:

#### **Table 6 - Better Care Funding (BCF) 2018/19 to 2020/21**

	2018/19 £'000	2019/20 £'000	2020/21 £'000
Original BCF	9,844	Not Known	Not Known
Improved BCF	3,045	5,233	Not Known
Additional BCF	1,827	904	Not Known

#### 14.4 Details of the grants are as follows:

- Original BCF
  - Paid as a grant by the Department of Health To Halton CCG.
  - Required to be included within the Complex Care Pool Budget.
- Improved BCF
  - Announced by Government in 2015, payable from April 2017.
  - Paid direct to Local Government, original intention to be paid as a direct grant.
  - From April 2017 included within the LCR Business Rate Retention Pilot Scheme and therefore funded from business rates.
  - Uncertainty to funding from 2020/21 but assumed as part of this Strategy that it will continue.
- Additional BCF
  - Announced by Government as part of the 2017 Spring Budget and not expected to continue beyond 2020.
  - From April 2018 included within the LCR Business Rate Retention Pilot Scheme and therefore funded from business rates.

14.5 The Council has established partnerships and shared service arrangements with a number of councils and other organisations over recent years for activities including, Children Services, Adult Social Services, Procurement and ICT Services. The Council is also part of the Liverpool City Region Combined Authority and the agreement with Government regarding devolution of powers and resources to the City Region. These arrangements should provide opportunities to achieve significant on-going savings from alternative ways of working and improved service delivery across the City Region.

## 15.0 Efficiency Strategy

15.1 In order to maintain the level of performance across services delivered by the Council, it needs to find new and innovative ways to deliver services whilst making efficiency savings. The Council recognises the need to look more radically at the way it does business in order to achieve the level of savings that will protect key services.

- 15.2 The Council has published an Efficiency Plan linked to the four year settlement from 2016/17 to 2019/20.
- 15.3 The Council has an established Efficiency Programme in place to review services in a consistent way. This enables the identification of opportunities to enhance productivity, reduce costs, explore alternative delivery mechanisms and ensure that services are configured in the most appropriate way to meet the needs of service users.
- 15.4 The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness. This is strengthened and improved by the centrally coordinated procurement arrangements established via the Procurement Division. Procurement is considered a key mechanism for delivering efficiencies across the Council.
- 15.5 The Council's strategy regarding accommodation aims to rationalise the land and property portfolio and wherever possible to locate staff in Council owned buildings. Progress continues to be made with implementation of the strategy, which has and will continue to result in revenue budget savings during the period of the forecast.

## **16.0 Monitoring**

- 16.1 Spending against each Department's revenue budget and capital programme is monitored and reported to the Policy and Performance Boards, alongside service outcomes, within the quarterly performance management reports. The Council-wide position is also reported quarterly to Executive Board.

## **17.0 Summary**

- 17.1 The 2015 Comprehensive Spending Review followed the approach Government have taken since 2010 in implementing the public spending austerity programme. The spending review only published details up to 2019/20 and therefore the final two years of the strategy come with further uncertainty and only assumptions can be made at this point with regards to the direction of travel for public spending. This strategy highlights that considerable savings will be required over the next three years, there remains great uncertainty to the future funding of services.
- 17.2 The Business Rates Retention Scheme and localisation of Council Tax Support carry further risk to the funding available to the Council over the medium and longer term. Whilst there may be opportunity to take advantage of growth, there will be circumstances outside of the Council's control such as decline in the national economy which could be at the detriment of business rates and council tax collected.

- 17.3 Future levels of growth and savings required will be directly influenced by the decisions made concerning council tax increases. Council tax increases will reduce the level of savings required, although the legislative requirements regarding council tax referendums will restrict the Council's scope to increase council tax.
- 17.4 The Medium Term Financial Strategy has been based on information that is currently available. Revisions will need to be made as new developments take place and new information becomes available.

## **APPENDIX**

### **RESERVES AND BALANCES STRATEGY**

#### **1.0 INTRODUCTION**

- 1.1 The following sets out the Council's Strategy in respect of the level of reserves and balances it wishes to maintain, by reference to the financial needs and risks associated with the Council's activities.
- 1.2 The overall strategy is to provide the Council with an appropriate level of reserves and balances in relation to its day to day activities and to ensure the Council's financial standing is sound and supports the achievement of its long term objectives and corporate priorities.
- 1.3 The Operational Director, Finance will undertake quarterly reviews of the level of reserves and balances and take appropriate action in order to ensure the overall strategy is achieved. The outcome of the reviews will be reported to the Executive Board and will be used to inform the Medium Term Financial Strategy (MTFS), the annual budget setting process and the final accounts process.
- 1.4 The Strategy concentrates upon the Council's key reserves and balances, being those which may potentially have a significant affect upon the Council's financial standing and its day to day operations.

#### **2.0 GENERAL BALANCES**

- 2.1 It has been the Council's policy to maintain general balances at a reasonable level, based upon the financial risks and challenges it faces. This is particularly important at the current time given the increasing demand-led pressures upon Children's Services and Adult Social Care. Close monitoring and control of budgets has meant this policy has been successfully achieved. As at 31 March 2018 the balance of the Council's General Reserve was £5.0m.

#### **3.0 PROVISIONS**

##### **Sundry Debtors**

- 3.1 The Council makes provision for bad and doubtful debts based upon an annual review of outstanding debts profiled by age and the associated risks of non-payment, depending upon the types of debt.
- 3.2 Past experience has shown that after 43 days (the period covering the initial stages of recovery action) the likelihood of sundry debts being paid reduces significantly and therefore the risk of them not being recovered increases greatly. Full provision will therefore be made for all sundry debts outstanding for more than 43 days.

- 3.3 The bad debt provisions in respect of sundry debtors at 31 March 2018 totals £2.6m.

#### **Council Tax / Business Rates (NNDR)**

- 3.4 Bad debt provisions are made in respect of Council Tax and National Non Domestic Rate (NNDR) debts. The bad debt provisions (Council Share) in respect of Council Tax and NNDR debtors at 31 March 2018 totals £6.8m.
- 3.5 The levels of bad debt provisions held are considered prudent in relation to the current level and age profile of outstanding debts. But they will be reviewed annually, particularly in the light of the prevailing economic climate and reductions in Council Tax Support payments and empty property discounts which may affect collection rates. Therefore appropriate provisions will be made to minimise the risk of financial loss to the Council.
- 3.6 The Council is required to hold a provision for NNDR valuation appeal claims. The provision as at 31 March 2018 totals £5.5m. The treatment and funding of appeals is currently being considered nationally as part of the consultation regarding the implementation of 75% business rates retention from 2020 onwards. Once the outcome of this is known, the implications for future provisions for appeals can be determined.

#### **4.0 CAPITAL RESERVE**

- 4.1 The Council holds a Capital Reserve to support the financing of the Council's capital programme which currently totals £2.9m and is based upon current capital funding needs.

#### **5.0 INVEST TO SAVE FUND**

- 5.1 The Council has an Invest to Save Fund which at 31 March 2018 stood at £0.6m. This is in order to provide one-off funding for proposals which will generate efficiencies and thereby create significant, permanent, revenue budget savings, whilst also supporting the achievement of the Council's corporate objectives.

#### **6.0 TRANSFORMATION FUND**

- 6.1 The Council has a Transformation Fund to fund the costs associated with efficiency reviews and structural changes required in order to deliver a balanced budget. At 31 March 2018 the fund's balance stood at £1.0m.