REPORT TO:	Executive Board
DATE:	14 November 2019
REPORTING OFFICER:	Operational Director, Finance
PORTFOLIO:	Resources
SUBJECT:	Medium Term Financial Strategy 2020-2023
WARD(S):	Borough-wide

1.0 PURPOSE OF REPORT

1.1 To establish the Medium Term Financial Strategy for the period 2020/21 to 2022/23.

2.0 RECOMMENDATION: That

1) the Medium Term Financial Strategy be approved;

2) the 2020/21 base budget be prepared on the basis of the underlying assumptions set out in the Strategy;

3) the Reserves and Balances Strategy be approved; and

4) the award of Council Tax Support for 2020/21 remains at the 2019/20 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 upon information that is currently available. Financial information has been announced by Government in relation to 2020/21, which will be finalised as part of the Local Government Financial Settlement in December 2019.

3.2 The projections in the Strategy must be treated with a considerable degree of caution, however, they clearly show there is continued need to make a significant level of savings over the next three years. The projections for 2020/21 take account of the Chancellor's 2019 Spending Review, however, as this was for one year only it creates uncertainty to the following two years projections.

3.3 The Strategy provides initial guidance to the Council on its financial position into the medium term. Adopting a prudent view the strategy identifies that revenue savings of approximately £7.9m, £15.1m, and

£4.40m are required over the next three years. As a result a total of £27.4m will need to be removed from the Council's budget, by reducing spending or increasing income. This represents approximately 25% of the Council's 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 financial equity position remains sound with the level of reserves sufficient to meet existing needs. Of concern however, is the impact of continuing reductions to Government funding, together with increasing service demands which are beginning to have a serious impact on the Council's finances. This has been evidenced in the financial outturn position on the Council's budget over the last three years. In 2016/17 the Council's overall overspend was £0.6m, followed by £1.0m in 2017/18 and £2.4m in 2018/19. The projected overspend position as at March 2020 is forecast to be in the region of £6.1m

3.5 As at 31 March 2019 the Council had general reserves of £5.0m, earmarked reserves of £39.5m and provisions of £5.9m 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 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

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

3.8 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 cashable efficiency gains.
- To deliver improved procurement.
- To maximise the funding available to the Council.
- To protect front line services and vulnerable members of the community as far as possible.

Budget Strategy

3.9 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.

3.10 The Council will identify further savings by:

- Continuing to review the portfolio of land and other assets, including its use of buildings in accordance with the Accommodation Strategy.
- Identifying opportunities to generate new or additional sources of income.
- Continuing to drive improved procurement across the Council.
- Exploring opportunities for shared services and joint working with partner organisations.
- Offering staff voluntary redundancy 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 net 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 delivery 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

3.11 On 6 March 2019 the Council approved the 2019/20 Capital Strategy which provided the following:

- a high-level, long term overview of how capital expenditure, capital financing and treasury management activity will contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

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 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.

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 MTFS 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 2020/21 to 2022/23.

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 2020/21 will be implemented from 1st April 2020.

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

Document	Place of Inspection	Contact Officer
Local Government Grant Settlement 2019/20	Revenues and Financial Management Division, Halton Stadium, Widnes	Steve Baker
Government Spending Round 2019	“ “	“ “
Local Government Finance Settlement 2020-21 Technical Consultation	“ “	“ “
2019/20 Local Government Finance Settlement	“ “	“ “

MEDIUM TERM FINANCIAL STRATEGY

2020/21 to 2022/23

Finance Department
November 2019

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 2020/21 to 2022/23. 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 2020/21 there is great uncertainty regarding the funding of Local Government. The impact of Brexit negotiations and the possibility of a General Election have exacerbated this uncertainty and a number of major reviews to local government finance have all been delayed as a result, along with the Government's multi-year Spending Review. The potential impact of Brexit on the Council's budget remains unclear.

1.4 The impact for Halton of the following matters will continue to be considered for 2021/22. It is expected that further information should be known as progress is made with them through the next financial year:

- Fair Funding Review – A review of how cumulative 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 more reliant (such as Halton) have had to deal with the bigger cuts in funding on a per head basis.
- 75% Business Rate Retention – Government have confirmed 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, if 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. This 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 if there will be a transition process put in place to protect authorities from too high a loss in funding from an increase to the baseline position.
- 2020 Public Spending Review – The next medium term review of public spending is expected to be announced in 2020 and is likely to cover a three year period.
- 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 on 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 Local Government Finance Settlement 2019/20

2.1 Government announced the 2019/20 final Local Government Finance Settlement on 29 January 2019.

a) The Settlement Funding Assessment for Halton was £44.9m a reduction of £2.9m (6.2%) from the previous year.

b) There was no change to the referendum limit for Council Tax of 3%.

c) There was an additional funding announcement of £180m made available to Local Government, funded from the surplus on the Business Rate retention levy/safety net account. The value of this to Halton was £0.5m, payable for the one year only.

d) The final 2019/20 award of New Homes Bonus grant to Halton was confirmed as £2.4m.

e) The final 2019/20 Public Health grant was confirmed as £9.9m, a reduction of £0.3m (2.6%) from the 2018/19 grant award.

f) A new additional grant was made available to help with existing social care pressures. The value of the grant to Halton was £1.1m and no reporting requirements or conditions were attached to the grant.

g) A Winter Pressures grant was announced, relating to spend on Adult Social Care needs to help alleviate winter pressures on the NHS. The funding was required to be pooled and reported as part of the Better Care Fund and the grant for Halton was £0.6m.

h) The Secretary of State said that he shared the concerns of CIPFA regarding some councils' commercial investments and the potential "risks they are exposing" themselves and the public to and he would discuss with the Treasury "whether further intervention might be required"

3.0 2019 Spending Review

3.1 Government announced the 2020/21 Spending Review on 04 September 2019, setting out their spending plans over the next year.

3.2 All Government Departments, including local government, are guaranteed at least an inflationary increase in 2020-21.

3.3 The Spending Review document show that councils will increase "core spending power" by £2.9 billion against the 2019-20 allocation of £46.2 billion, Including:

- Additional Social Care Grant of £1 billion for councils in 2020-21.
- Option to raise an additional £0.5 billion by a 2% adult social care precept on Council Tax.
- Council tax referendum threshold increase will be set at 2% for 2020-21.

3.4 MHCLG will consult on the detailed methodology of new social care funding allocations as part of the Local Government Finance Settlement.

3.5 High Needs schools funding is increasing by over £700 million in 2020-21. In 2020-21, the Government will ensure that per pupil funding for all schools can rise in line with inflation (1.8%). The minimum per-pupil amount for 2020-21 will increase to £5,000 for secondary schools and £3,750 for primary schools (rising to £4,000 in 2021-22).

3.6 Councils are also expected to benefit from additional resources through a real terms increase in NHS Better Care Fund contributions and the Public Health grant.

3.7 Core funding for Brexit preparation by Government Departments continues at £2 billion in 2020-21.

3.8 A full multi-year Spending Review will be conducted in 2020, which will hopefully cover the following three financial years.

4.0 Technical Consultation – Local Government Finance Settlement 2020/21

4.1 Following the 2019 Spending Review MHCLG published a technical consultation seeking views on the 2020/21 Finance Settlement. The consultation included a number of confirmations and proposals.

4.2 Reflecting the one-year Spending Review and plans for a more substantial Spending Review during 2020, proposal is to implement a 'roll-forward' settlement for 2020-21, which MHCLG identify as providing stability for the majority of funding sources for local government.

4.3 The Government remains committed to reforming local government finance and the proposed multi-year Spending Review in 2020 will lay the groundwork for these reforms. MHCLG will continue to work towards their aim to implement these reforms in 2021-22, including a full reset of business rates retention baselines.

4.4 Confirmation was provided that the five initial business rate retention pilots (including Liverpool City Region) first introduced in April 2017 would continue for a further year into 2020/21. As planned, all other pilots (except for London) will end at March 2020.

4.5 The Settlement Funding Assessment for each council will be increased by the small business rate multiplier.

4.6 It was confirmed that there will be a core council tax referendum principle of up to 2%; an Adult Social Care precept of 2% on top of the core principle; and no referendum principles will apply for Parish Councils or Mayoral Combined Authorities.

4.7 Existing Improved Better Care Fund funding will be maintained at 2019/20 levels, as well as rolling the £240 million which was allocated as Winter Pressures Grant into the Improved Better Care Fund, with the same distribution as for 2019/20.

4.8 Indicative allocations were provided of the additional £1 billion available nationally for Social Care. Based on the proposed allocation methodology this would be worth approximately £2.9m to Halton.

4.9 It is proposed that the methodology for New Homes Bonus grant will not change for 2020/21 but there will be no legacy payments made for new homes or homes brought back into use in previous years. It is estimated the Council will lose approximately £0.885m over the three year period 2021/22 to 2023/24 as a result of this change in approach.

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 benefit, 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 Settlement Funding Assessment, but from 2014/15 onwards the grant is no longer separately identifiable. It is assumed the level of funding will therefore have reduced 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 aim of the business rate retention scheme is to promote 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 Council's detriment.

6.2 In 2019/20 the Council used £1.385m of surplus (one-off) business rates income generated to help fund the budget position. The mid-year forecast of cumulative retained business rates as at 30 September 2019, 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 the small balance held at 31 March 2019 of £0.374m will be available for distribution.

6.4 An estimate of the Council's share of retained business rates will be provided to MHCLG in January 2020. It is currently forecast that the 2020/21 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 retained business rates will total £53.027m.

6.5 The business rate baseline position will be reset in 2021/22 which could potentially have an adverse impact on Halton as the growth 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 2021/22.

100% Business Rate Retention – Pilot Scheme

6.6 As part of the Liverpool City Region, the Council is within the pilot scheme for 100% business rate retention. The pilot scheme has been in operation since April 2017. MHCLG have provided confirmation the pilot scheme will continue in 2020/21.

6.7 The pilot scheme results in Halton no longer being in receipt of Revenue Support Grant (RSG) through the Settlement Funding Assessment. RSG will be replaced by the additional business rates retained; in addition, funding for the Improved and Additional Better Care Fund has been included within the pilot and is funded by business rates retained.

6.8 MHCLG has confirmed the operation of the pilot scheme should be at "no financial detriment" to participating councils. Therefore whilst the pilot scheme operates, Halton will be no worse off financially than it would have been if it is was still operating under 49% rate retention.

6.9 Operation of "no financial detriment" within the pilot scheme means that any LCR council who suffer a deficit as a result of the pilot will at first be reimbursed from the other LCR councils who are in 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 two years of the pilot scheme all LCR councils reported a surplus position as a result of retaining 100% business rates. The forecast assumes that this situation will continue and therefore Halton's retained income of £2m from the pilot scheme will be used towards balancing the budget for 2020/21.

6.11 As at 30 September 2019 all LCR councils were estimating they would be in surplus at 31st March 2020 and therefore no detriment funding would be required.

Settlement Funding Assessment

6.12 In 2019/20 MHCLG allocated Halton a Settlement Funding Assessment (SFA) of £51.002m. This was made up of £46.107m business rates baseline funding and £4.895m 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 financial needs are greater than the funding it can generate from business rates. The business rates baseline and funding level is set in the system until 2021 and uplifted each year by the Consumer Price Index (CPI).

6.13 Table 1 shows the expected Settlement Funding Assessment for the next two years based on information provided at the time of the 2019/20 settlement announcement. As Government have yet to publish any public spending plans from 2021/22 onwards, the SFA for those years have been increased by the Government's inflation target of 2%.

6.14 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. The significant reduction forecast in retained growth between 2020/21 and 2021/22, is due to the assumed impact of the national roll-out of 75% rates retention and the introduction of the Fair Funding Review.

Table 1 – Business Rate Retention

	19/20 £'000	20/21 £'000	21/22 £'000	22/23 £'000
Business Rate Baseline	46,106	47,028	47,969	48,928
Top-Up Funding	4,896	4,993	4,189	4,273
Total Settlement Funding Assessment	**51,002**	**52,021**	**52,158**	**53,201**
Business Rates Growth Retained	**4,901**	**5,999**	**2,119**	**2,161**
Forecast Business Rates Retained (Incl Top-Up Funding)	**55,903**	**58,020**	**54,277**	**55,362**
Increase (Decrease) in Business Rates Retained		**2,117**	**(3,743)**	**1,085**

7.0 Specific Grants

7.1 The level of specific revenue grants received by Halton in 2019/20 is approximately £179.4m, including Housing Benefit Subsidy of £42.6m, Dedicated School Grant of £87.3m, Public Health Grant of £9.9m and DfT Support Grant for the Mersey Gateway crossing of £25.8m.

7.2 Halton was allocated a New Homes Bonus grant of £2.381m for 2019/20 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 2020/21 has not been announced although based on how the New Homes Bonus scheme operates it is forecast the Council will lose approximately £0.217m in the first year of the forecast. Further grant losses are expected in the final two years of the forecast as MHCLG have proposed legacy payments are gradually eradicated.

7.3 There is limited information available on 2020/21 Public Health grant allocations other than that grant funding will be protected at 2019/20 levels as a minimum.

7.4 The Social Care Grant announced at the time of the 2019/20 finance settlement will be increased in 2020/21 with Halton receiving an additional allocation of £2.915m. It is not known if the new allocation plus the allocation announced at the time of the 2019/20 finance settlement will continue in future years. The forecast assumes a prudent approach that the funding will no longer be receivable in 2021/22.

7.5 The forecast change in the level of specific grant funding for Halton is shown in Table 2:

<u>Table 2 – Change in Grant 2020/21 to 2022/23</u>

	2020/21	2021/22	2022/23
	£000's	£000's	£000's
Increase (Decrease) to New Homes Bonus	(217)	(807)	(687)
Increase (Decrease) to Social Care Grant	2,915	(4,007)	0
Increase (Decrease) in Grants	**2,698**	**(4,814)**	**(687)**

8.0 Council Tax Forecast

8.1 For 2019/20 the Council Tax for a Band D property in Halton is £1,419.08 (excluding Police, Fire, LCR and Parish precepts), which is expected to generate income of £49.597m.

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 2019/20,

- Halton's 2018/19 Council Tax is £65.14 (4.4%) below the average Council Tax set by unitary councils in England.

- Inflation - the Consumer Price Index (CPI) as at September 2019 (latest available) is currently at 1.7% and the Retail Price Index (RPI) is at 2.4%.

- 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 technical consultation on the 2020/21 Local Government finance settlement, detailed the Government's proposals for 2020/21 council tax referendum principles. The proposal is for a core referendum principle of less than 2% increase in general council tax; with the option of an Adult Social Care precept of up to an additional 2% increase.

8.4 The 2020/21 Council Tax Base shows an increase of 409 Band D equivalent properties in the Borough, to a total of 35,359 assuming a collection rate of 97%. The increase in the Tax Base will generate an additional £0.581m of council tax income.

8.5 For the purposes of this strategy it is assumed the Council will apply a council tax increase of 2% in 2020/21. It is further assumed there will be a 2% increase for the Adult Social Care precept in 2020/21.

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 2020/21.

Table 3 – Additional Council Tax Income 2020/21 to 2022/23

Projected Increases in Council Tax Income	2020/21 £'000	2021/22 £'000	2022/23 £'000	Total £'000
0%	-	-	-	-
1%	504	509	514	1,527
2%	1,009	1,029	1,049	3,087
3%	1,513	1,558	1,605	4,676
4%	2,017	2,098	2,182	6,297

8.7 Over the past few years the amount of council tax collected has been greater than forecast. As at 31 March 2019 there was a surplus of £3.332m of council tax held as part of the Collection Fund relating to the Council only (excluding Police, Fire and LCR). In 2019/20 £2.050m of this was used in balancing the budget. This strategy assumes that an amount of £1.282m will be released in 2020/21 to provide a one-off budget saving. This will be shared with all major preceptors, the value to the Council being approximately £1.084m.

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 2019/20 budget. This adds £4.868m to the spending forecast for 2020/21.

9.4 Pay and price inflation is the biggest uncertainty in the spending forecast. Pay awards have been forecast at 2.5% in 2020/21 and 2% in each of the following two years. This takes into account the level of public sector pay awards made over the last year which have been higher than at any point during the austerity period.

9.5 The Cheshire Pension Fund triennial revaluation is currently taking place, the outcome of which is expected shortly. The funding level of Halton's part of the Pension Fund is running above 95% whereas in 2016 (the last triennial review) it was running at below 90%. Modelling by the Cheshire Pension Fund Actuary (Hymans) has been undertaken of funding levels over the medium term, which suggests that the Council will benefit from decreasing pension contribution rates of 1% in each of the three years of the forecast. Employer contribution rates are forecast to be as follows:

- 2019/20 – 23.4%
- 2020/21 – 22.4%
- 2021/22 – 21.4%
- 2022/23 – 20.4%

9.6 The Consumer Price Index (CPI) for September 2019 – the index by which the Government measures inflation - stands at 1.7% which is below 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 spending forecast takes account of the Executive Board decision of 11 April 2019 setting care provider contract uplifts for 2019/20 and 2020/21. The report highlighted risks with regard to future quality of care provision and financial sustainability of care providers in the Borough, based on existing rates paid. Inflation is therefore included within the forecast to increase care rates to those approved by Executive Board.

9.8 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 Council has a strong cash position which has helped negate the need for borrowing over the past number of years whilst at the same time increase interest receivable over budgeted rates. The Council will continue to review the need for additional borrowing at opportune times in accordance with the Treasury Management Strategy.

9.9 The net revenue costs associated with the capital programme are included in the forecast at a marginal increase of £0.044m in 2020/21, whilst an increase of £0.376m is forecast in 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.

9.10 Over the last three financial years the Council has recorded a net overspend against available budget. The forecast for the current year projects the budget will overspend in the region of £6m. Notably pressures are continuing to be recorded against the following areas:

- Direct Payments for Adults and Children's Social Care Services
- Children in Care Costs
- Community Care Costs for Adult Social Services
- Transport arrangements across Adults and Children's Social Care and school transport.
- Income targets for a number of traded services
- Increasing ICT costs for software licensing.

9.11 Increasing demand for front line and support services is further evidenced in the recently published Indices of Deprivation 2019. The Indices of Deprivation measure relative deprivation levels across all local authorities. Halton's average deprivation score national ranking is 23 out of 317 local authorities. In 2015 this was 27 out of 326. The categories where Halton has the highest ranking is Health Deprivation and Disability.

- Health – 45% of Halton's population live in areas falling in the most deprived areas nationally.
- Income Affecting Children - 24% of Halton's population live in areas falling in the most deprived areas nationally.
- Education - 17% of Halton's population live in areas falling in the most deprived areas nationally.
- Income Affecting Older People - 12% of Halton's population live in areas falling in the most deprived areas nationally.

9.12 The Indices highlight the resulting significant demand pressures which fall upon Council services. To help address the underlying overspends within certain areas of the Council's current budget, growth of £5m is included within the forecast to assist with bringing net spending back within the approved budget and help address areas where service demand is increasing.

9.13 Led by the Local Government Association, in September 2019 the Council undertook a Corporate Peer Challenge. The core components of the challenge consisted of:

- Understanding of the local place and priority setting
- Leadership of Place
- Financial planning and viability
- Organisational leadership and governance
- Capacity to deliver

Growth of £1m has been included in the first year of the forecast to help the Council address the areas for consideration which have been suggested by the peer challenge.

9.14 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 be met from future toll revenues and DfT grant.

9.15 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 the DfT.

9.16 A key assumption that has been used in constructing the forecast 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 2020/21, £1.5m in 2021/22 and £2.0m in 2022/23.

9.17 The Council has an arrangement in place whereby staff have included within their terms and conditions 4 days unpaid leave. It is estimated this saves the Council £0.750 per year. The current arrangement ends in 2021 with the effect of increasing overall staff costs. Growth is therefore included in the last year of the forecast to reflect the additional cost, should the arrangement not be renewed.

9.18 The additional Better Care Fund grant has been extended to cover 2020/21, payable at 2019/20 funding levels. The grant is funded through the LCR 100% business rate retention pilot and the effect of this funding ending in 2020/21 is shown in the business rate retention figures earlier on within the Strategy. The spending forecast shows the reduction in spend of £0.904m in 2021/22.

9.19 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 2021 the reserve will be fully utilised and from 2021/22 growth of £0.500 in included in the forecast position.

9.20 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)		
	2020/21	**2021/22**	**2022/23**
Full Year Effect of Previous Year Budget (incl Council Tax and Business Rate Surplus)	7,989	3,458	0
Capital Programme	44	374	2
Pay and Price Inflation	3,757	1,633	2,036
Service Demand Pressures	5,000	0	0
Peer Review Areas for Consideration	1,000	0	0
Contingency	1,000	1,500	2,000
Additional Better Care Fund	0	-904	0
4 Days Unpaid Leave Arrangement	0	0	750
Equal Pay – Release of Reserve	0	500	0
TOTAL INCREASE	**18,790**	**6,561**	**4,788**

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

	2020/21 £'000	**2021/22 £'000**	**2022/23 £'000**
Increase in Spending Forecast	18,790	6,561	4,788
Change in Business Rates Retained (Incl Top-Up)	-2,117	3,743	-1,085
Change in Grant	-2,698	4,814	687
Increase in Council Tax Base	-581	0	0
Council Tax Surplus	-1,084	0	0
Business Rate Surplus	-374	0	0
Use of Business Rate Pilot Reserve	-2,000	0	0
Funding Gap Before Council Tax	**9,936**	**15,118**	**4,390**
Funding Gap After Council Tax Increase at Various Levels			
0%	9,936	15,118	4,390
1%	9,432	14,609	3,876
2%	8,927	14,089	3,341

3%	8,423	13,560	2,785
4%	7,919	13,020	2,208

10.2 The table shows that total savings of £7.919m are forecast to be needed to balance next year's budget after the use of one-off surplus council tax and business rates, use of reserves and an assumed 4% total increase to council tax.

10.3 The use of surplus council tax and business rates income adds to the deficit position for the following year and are included in the above table.

10.4 Further savings of £15.118m in 2020/21 and £4.390m in 2021/22, are required, assuming no increase to Council Tax. The total funding gap is approximately £27.427m and represents 25.2% of the Council's 2019/20 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 and generating additional council tax and business rates, 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

	2020/21 (£'000)	**2021/22 (£'000)**
Spending	**6,395**	**5,098**
Funding:		
Prudential Borrowing	3,160	2,643
Grants	1,276	586
Capital Receipts	1,959	1,869
Total Funding	**6,395**	**5,098**

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 capital programme is underpinned by the Capital Strategy agreed by Council in March 2019.

11.4 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.

11.5 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 the 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 monitoring 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.

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 for 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 2019/20 is approximately £60.370m.

14.3 The Council will receive a number of different strands of Better Care funding in 2020/21. As part of the 2019 Spending Round Government proposes to continue existing iBCF funding at 2019/20 levels and using the same methodology. The Spending Review announced that the NHS contribution to Adult Social Care through the BCF will increase by 3.4% in real terms in 2020/21, although details of the methodology used are still to be announced. Table 6 summarises BCF allocations for 2019/20 and 2020/21:

Table 6 - Better Care Funding (BCF) 2019/20 to 2020/21

	2019/20 £'000	2020/21 £'000
Original BCF	10,377	Not Yet Known
Improved BCF	5,233	5,233
Additional BCF	904	904

14.4 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 previously had an Efficiency Programme to review services in a consistent way. This approach is now embedded into the Council's culture and assists with 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. The Council will consider the findings from the Peer Challenge to consider how it can develop further ideas to drive efficiency savings.

15.3 The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness. This is strengthened and improved by centrally coordinated procurement arrangements via the Procurement Division. Procurement is considered a key mechanism for delivering efficiencies across the Council.

15.4 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 relevant 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 This Strategy highlights that considerable savings will be required over the next three years, alongside this there remains great uncertainty regarding the future funding of Council 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 regularly 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 2019 the balance of the Councils 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 2019 totals £2.8m.

Council Tax / Business Rates

3.4 Bad debt provisions are made in respect of Council Tax and Business Rates debts. The bad debt provisions (Council Share) in respect of Council Tax and Business Rates debtors at 31 March 2019 totals £8.1m.

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 also required to hold a provision for Business Rates valuation appeal claims. The provision as at 31 March 2019 totals £5.4m. 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 2021/22 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 £2.0m 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 2019 stood at £0.4m. This is held 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 2019 the fund's balance stood at £0.8m.