REPORT TO:	Executive Board
DATE:	10 December 2015
REPORTING OFFICER:	Operational Director, Finance
PORTFOLIO:	Resources
SUBJECT:	Medium Term Financial Strategy 2016-19
WARD(S):	Borough-wide

1.0 PURPOSE OF REPORT

1.1 To establish the Medium Term Financial Strategy for the period 2016/17 to 2018/19.

2.0 RECOMMENDATION: That

i) the Medium Term Financial Strategy be approved;

ii) the base budget be prepared on the basis of the underlying assumptions set out in the Strategy;

iii) the Budget Strategy and Capital Strategy be approved;

iv) the Reserves and Balances Strategy be approved;

v) the award of Council Tax Support for 2016/17 remains at the 2015/16 level of 21.55%;

vi) the Council's 2016/17 Council Tax Support grant is not shared with the Parish Councils.

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. Whilst the Strategy contains some detail covering the 2015 Comprehensive Spending Review, as more information becomes available revisions will need to be made.

3.2 Although the projections in the Strategy must be treated with a considerable degree of caution, they clearly show there is need to make a significant level of savings over the next three years. This is an effect of the Government policy to reduce the national deficit through reductions in public sector funding. The strategy takes into account the:

- Autumn Statement 2014 announced by the Chancellor of the Exchequer on 3rd December 2014.
- Business Rates Review 2015.
- Summer Budget 2015 announced by the Chancellor of the Exchequer on 8th July 2015.
- Technical Consultation – Local Authority Public Health Allocations 2015/16 : In-Year Savings.
- Comprehensive Spending Review 2015 announced by the Chancellor of the Exchequer on 25th November 2015.

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 £18m, £16m, and £7m are required over the next three years. As a result a total of over £41m will need to be removed from the Council's budget, by reducing spending or increasing income. This represents 17% of the gross expenditure 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 sound. There are sufficient reserves and balances to meet existing known risks. In their report titled 'The Audit Findings for Halton Council', for the year ended 31st March 2015, the External Auditor (Grant Thornton LLP) stated that the Council has:

- A good track record of setting a balanced budget, achieving both a positive outturn and savings/efficiencies.
- Has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

However, Grant Thornton also highlighted that "based on current funding expectations, the Council could reach a financial 'tipping point' in 2018/19, where savings and transformation options have been exhausted and increasing cost pressures and reduced reserves could mean significant reductions in essential services would need to be made in order to achieve a balanced budget."

3.5 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

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

3.7 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

3.8 The MTFS shows that in order to balance the budget over the medium term there is a requirement not only to make significant cost savings of nearly £18m in 2016/17 but also a further £16m in 2017/18 and £7m in 2018/19. In making these savings the Council will need to have in mind the objectives of the Medium Term Financial Strategy set out above.

3.9 Given the scale of the financial challenges facing it, the Council has decided to consider 2016/17 budget saving proposals in three sets. The first set of saving proposals were approved by Council on 14th October 2015. These totalled £7.8m and consisted of £3.8m from the Community & Resources Directorate and £4.0m from the People and Economy Directorate.

3.10 The Council will identify further savings by:

- Progressing the Efficiency Programme.
- 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.
- Reviewing (subject to negotiations) the terms and conditions of staff.
- Offering staff voluntary redundancy under the terms of the Staffing Protocol.
- 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.
- Stopping some lower priority services.

3.11 Over the years the Council has prided itself that compulsory redundancies have been minimised. But given the scale of the savings facing the Council this will be difficult to achieve over the next three years.

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, in the current economic climate it is unlikely that the Council will receive significant levels of capital receipts in future. As such the opportunity for additional capital spending is severely limited and therefore, new spending can only take place for schemes that come with their own funding.

3.14 Prudential borrowing remains an option, but the capital financing costs as a result of the borrowing will need to be found from savings within the relevant Directorates’ revenue budget.

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 Government grant 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 grant income 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 2016/17 to 2018/19.

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 2016-19 will be implemented from 1st April 2016.

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

Document	Place of Inspection	Contact Officer
Formula Grant Settlement 2015/16	Financial Management Division, Kingsway House, Widnes	Alison Walker
Business Rates Review 2015	“ “	“ “
Local Authority Public Health Allocations 2015/16: In Year Savings Technical Consultation	“ “	“ “
Autumn Statement and Spending Review 2015	“ “	“ “

MEDIUM TERM FINANCIAL STRATEGY

2016/17 TO 2018/19

Finance Department
December 2015

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 2016/17 to 2018/19. 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 Strategies.

2.0 AUTUMN STATEMENT 2014

2.1 The 2014 Autumn Statement was announced by the Chancellor of the Exchequer on 3 December 2014. This included some messages relating to Business Rates:

a) Extension of the Small Business Rate Relief into 2015-16 funded by the Exchequer.

b) Extension of the Business Rates 2% cap in 2015-16 funded by the Exchequer.

c) Increase in retail discount on business rates from £1,000 to £1,500 funded by the Exchequer.

d) The Government will carry out a review of the future structure of business rates and report in time for the Chancellor's Budget 2016.

3.0 BUSINESS RATES REVIEW 2015

3.1 Government issued a review on Business Rates on 16 March 2015. The review considered changes to business rates in view of trends in the use of non-domestic property and in response to concerns raised by ratepayers that the business rates system is in need of modernisation to make it fit for a 21st century economy.

3.2 In order to ensure that business rates continue to raise sustainable revenues to fund public services, the outcomes of the review will be fiscally neutral and aligned with the Government's wider fiscal plans.

3.3 The review will report its findings in time for the Chancellor's Budget 2016.

4.0 SUMMER BUDGET 2015

4.1 The 2015 Summer Budget was announced by The Chancellor of the Exchequer on 8 July 2015. This included some key messages for Local Government:

a) Public Sector pay will be limited to 1% for four years from 2016/17

b) From April 2016, a new compulsory National Living Wage for the over 25s will be introduced to replace the National Minimum Wage, currently set at £6.50 per hour.

c) The National Living Wage will be set at £7.20 when it comes into effect in April 2016. It will then rise over the next four years to £9.00 per hour in 2020.

d) The austerity programme will continue over the term of this Medium Term Financial Strategy with public spending cuts in each of the three years.

e) The Government is committed to reduce the working age welfare bill by £12bn.

5.0 TECHNICAL CONSULTATION – LOCAL AUTHORITY PUBLIC HEALTH ALLOCATIONS 2015/16: IN YEAR SAVINGS

5.1 On 31 July 2015 the Department for Health (DoH) published a consultation paper on 2015/16 reductions to the Public Health grant.

5.2 As part of wider Government action on deficit reduction, the 2015/16 Public Health grant to local authorities will be reduced by £200m. The consultation set out technical options for implementing the saving.

5.3 The options included a standard, flat rate reduction of 6.2% applied to all or a process that differentiates between local authorities in different circumstances (allowing for evidence of hardship, for example) applying varied percentages that still total £200m.

5.4 The document stated that the preferred option of the DoH is an across the board cut of 6.2%.

5.5 SIGOMA responded to the consultation on behalf of its local authority members, including Halton. The response focused on the particular difficulties the cuts will cause in terms of demand for services and the impact on overall finances. The response supported the preferred option in principle over the other options.

6.0 SPENDING REVIEW AND AUTUMN STATEMENT 2015

6.1 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 an estimated 30% over the next 4 years, it is expected the cuts will be weighted towards 2016/17 and 2017/18. Revenue Support Grant will be gradually phased out over the course of this period.

b) There will be an option for Councils to set a precept of an additional 2% over the council tax referendum threshold to help meet the increased needs of adult social care. The referendum threshold itself has not however been announced yet.

c) An additional £1.5 billion being made available within the Better Care Fund by 2019/20 to increase social care funds.

d) The ring-fence on Public Health spending will be maintained in 2016/17 and 2017/18. Although the Government will make savings in Public Health spending with annual real-term savings of 3.9% over the next five years.

e) Councils will be allowed to spend up to 100% of fixed asset receipts on the revenue costs of reform projects.

f) There will be a consultation on changes to the local government finance system to help rebalance support to authorities with social care responsibilities

g) 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.

h) £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.

i) An apprenticeship levy will be applied to larger employers from April 2017, cost of which will be 0.5% of the employers wage bill. Although not confirmed yet, it is understood that councils will not be exempted from this levy.

j) Small business rate relief will be extended for a further year.

k) A national funding formula for schools will be introduced from April 2017.

6.2 The 2015 Spending Review and Autumn Statement provided data primarily on a national basis. Only limited details are provided regarding the announcements and the assumptions contained therein. As a result, some degree of caution must be used when translating the national position into the forecast position for Halton within the MTFS.

7.0 COUNCIL TAX SUPPORT

7.1 In 2013/14 Government changed the way of funding council tax benefit. Previously, 100% funding had been provided by Government. Responsibility has now transferred to Local Government and Halton has introduced its own localised scheme. The 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.

7.2 Funding for the local scheme is part-provided through the Revenue Support Grant (RSG) from Government. In 2013/14 the level of grant awarded was shown separately within the formula for RSG, but from 2014/15 the grant is no longer separately identifiable. It is assumed the level of funding will fall in line with the Council's overall Settlement Funding Assessment.

7.3 The MTFS therefore 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.

8.0 BUSINESS RATES RETENTION SCHEME

8.1 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. At the time of the 2015/16 finance settlement the Government issued Halton with a retained (local share) business rates baseline of £25.3m. The intention is if Halton increases its local share of business rates above the baseline the increase is fully retained by the Council.

8.2 An estimate of the Council's share of retained business rates will be provided to DCLG in January 2016. It is currently forecast that the retained amount will be in line with 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.

8.3 On 5 October 2015 and ahead of the Comprehensive Spending Review, the Chancellor of the Exchequer announced that local government would gain new powers with regard to the retention of local business rates. He pledged that by the end of the current Parliament local government will be able to retain 100% of business rates compared to the 49% it currently retains. Local government will be given power to reduce business rates to boost economic activity within the local area. However, any increase must be with the approval of the Local Enterprise Partnership (LEP), then only up to a maximum of 2p (4%) on the rate, and for specific approved projects. At the time of preparing the report only the headline announcements had been published, further details will be revealed and consulted upon over the coming year.

9.0 SOCIAL CARE ACT

9.1 The Care Act represents the most significant reform of care and support in more than 60 years, putting people and their carer's in control of their care and support. For the first time, the Act will put a limit or cap on the amount anyone will have to pay towards the costs of their care. The cap on care costs will be, at present, £72,000 after which the state will pay the costs.

9.2 In addition to the care cap the Government has increased the means testing level, so that Government help begins earlier than before, meaning people with modest wealth will be eligible for state help towards the cap.

9.3 Under the Act every Council has also had to offer a deferred payment scheme from April 2015, as no one should be forced to sell their home during their lifetime in order to pay for their residential care.

9.4 The Social Care Act gives Carers new rights and puts them on the same footing as the people they care for. From April 2015 all Carers are entitled to an assessment and if eligible they will have a legal right to receive support for those needs, just like the people they care for.

9.5 The implementation of the Care Act was initially planned to happen in two stages. Some changes came into force on 1 April 2015 and others, most importantly, the care cap was to be introduced from April 2016. This has now been delayed by the Government to April 2020.

9.6 The MTFS takes account of further pressures relating to the Care Act from 2016/17. The 2015 Spending Review included an additional £1.5 billion being made available within the Better Care Fund by 2019/20 to increase Social Care funds.

10.0 EXTERNAL SUPPORT

Settlement Funding Assessment

10.1 In 2015/16 (the third year of the business rates retention scheme) DCLG allocated Halton a settlement funding assessment of £61.03m.

This was made up of £28.26m Revenue Support Grant and £32.77m business rates baseline funding. The business rates baseline funding includes £25.32m as the business rates baseline and £7.45m of top-up grant funding. Top-up grant funding is received as the Council's funding baseline is greater than the business rate baseline ie. the Council's needs are greater than the 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 Retail Price Index (RPI) only.

10.2 The Comprehensive Spending Review 2015 was announced on 25th November 2015. Based upon the information received, Halton's Settlement Funding Assessment (SFA) for the three year period of the MTFS has been updated. The MTFS includes an estimated reduction in RSG for 2016/17 of 24.2% and further reductions in each of the years thereafter. The increase in business rates for 2016/17 is based upon the RPI index for September 2015 which was 0.8%. For 2017/18 the Government's 2% inflation target has been used. Therefore, a small increase is shown to the business rates baseline funding and top-up grant, as set out in table 1 below.

Table 1 – Halton's Settlement Funding Assessment

	15/16 £'000	16/17 £'000	17/18 £'000	18/19 £'000	% change from 15/16 to 18/19
Revenue Support Grant	**28,261**	**21,400**	**14,500**	**10,400**	**-63.2%**
Baseline Funding Level consisting of: Business Rates Baseline Top Up Grant	 25,319 7,449	 25,522 7,509	 26,032 7,659	 26,554 7,812	 4.8% 4.8%
Total Baseline Funding Level	**32,768**	**33,031**	**33,691**	**34,366**	
Total Settlement Funding Assessment	**61,029**	**54,431**	**48,191**	**44,766**	**-26.6%**

Specific Grants

10.3 The level of specific revenue grants received by Halton in 2015/16 is £150m, including Housing Benefit of £53.8m and the Dedicated School Grant of £76.3m. This also includes a number of one-off grants for 2015/16.

10.4 Halton was allocated a New Homes Bonus grant of £2.165m for 2015/16 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 entering the council tax register in each year.

Although the allocation for 2016/17 has not yet been announced, it is estimated that the increase in the grant will be approximately £0.4m. 2016/17 is the sixth year of the scheme and it is therefore assumed in future years that the level of grant received will be constant.

10.5 Education Services Grant (ESG) was introduced in April 2013 as a means of passing funding to academy schools to fund central education services previously the responsibility of the Council but now the responsibility of academy schools. No new money was provided to fund the grant, instead it came from a top-slice from the Revenue Support Grant.

10.6 For each locally maintained school which transfers to academy status the grant allocated to the Council will be reduced based on a per pupil funding formula. In 2015/16 there has been only one school, St Augustine's which has transferred to academy status, pupil numbers for the school are low and it is estimated the loss of funding will be approximately £7,000.

10.7 During 2015/16 the Government reduced in-year the Public Health grant available to local authorities by £200m nationally. Following a consultation it was agreed that all individual Council allocations would be reduced by 6.2%. This resulted in an in-year loss of funding of £0.630m for Halton. The Department of Health is consulting on changes to the formula used for allocating the Public Health grant from 2016/17 onwards. Indicative figures show the loss in funding to Halton could be approximately £0.750m. In addition, the 2015 Spending Review identified that the Government are planning annual real term savings of 3.9% over a five year period. The forecast assumes Public Health grant reductions will be contained within the overall spend for Public Health.

10.8 The forecast decrease in the level of formula and specific grant funding for Halton is shown in Table 2:

Table 2 – Reduction in Grant 2016/17 to 2018/19

	2016/17	**2017/18**	**2018/19**
	£000's	**£000's**	**£000's**
Reduction in Settlement Funding Assessment	-6,598	-6,240	-3,426
Increase to New Homes Bonus	400	-	-
Reduction to Education Services Grant	-7	-	-
Cumulative Reduction	-6,205	-12,445	-15,871

10.9 The table shows over the next three years Halton will lose £16.3m as part of the Settlement Funding Allocation.

11.0 COUNCIL TAX FORECAST

11.1 For 2015/16 the Council Tax for a Band D property in Halton is £1,204.01 (excluding Police, Fire and Parish precepts), which will generate income of £38.649m.

11.2 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 2015/16,

- Halton's 2015/16 Council Tax is £53.30 (3.6%) below the average Council Tax set by councils in England.

- Inflation - the Consumer Price Index (CPI) as at September 2015 is currently at minus 0.1% and the Retail Price Index (RPI) is at 0.8%.

- The spending review, welfare reforms and high needs, which are all placing pressure upon the Council's funding and demand for the Council's services.

11.3 The Localism Act 2011 abolished capping of council tax increases and instead provides local residents with the power to approve or veto excessive council tax rises. For 2015/16 the Government set a threshold of 2% and any council tax rises above this were subject to a referendum. The Government have yet to announce the referendum limit for 2016/17.

11.4 The Government announced a council tax freeze scheme for 2014/15 and 2015/16. The scheme offered councils who froze or reduced council tax in 2014/15 and 2015/16 grant funding equivalent to 1% of their council tax requirement before the deduction for Council Tax Support. The Council opted not to accept these freeze grants. There has not yet been any announcement regarding the availability of a 2016/17 council tax freeze grant.

11.5 The 2016/17 Council Tax Base was reported to Executive Board on 19 November 2015 showing an increase of 848 Band D equivalent properties to a total of 32,948 assuming a collection rate of 97%. The increase in the Tax Base will generate an additional £1m of council tax income.

11.6 As part of the 2015 Spending Review it was announced that Councils with responsibility for Social Care will have the option to set a "Social Care precept" of up to 2% above the council tax referendum limit, to fund increased needs within Adult Social Care. It is understood that as a "precept" this must appear as a separate item on council tax bills.

11.7 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 2016/17.

Table 3 – Additional Council Tax Income 2016/17 to 2018/19

Projected Increases in Council Tax Income (£'000)	2016/17 £'000	2017/18 £'000	2018/19 £'000	Total £'000
0%	-	-	-	-
1%	397	400	405	1,202
2%	793	810	825	2,428
3%	1,190	1,226	1,263	3,679
4%	1,587	1,650	1,716	4,953

11.8 It is not yet known what the referendum limit is for council tax increases for 2016/17. However, in the last four years, the level at which a council tax increase triggers a referendum has been below RPI for the previous September in three of the four years.

11.9 On average over the last four years, the level at which a council tax increase triggers a referendum has been 0.5% below CPI and 1.1% below RPI for the previous September.

11.10 Based on average differentials over the last four years between the referendum limit and CPI and RPI for the previous September, a referendum limit in 2016/17 would be set at or below 0%.

11.11 Over the past few years the amount of council tax collected has been greater than forecast. As at 31 March 2015 there was a surplus of £1.8m of council tax held as part of the Collection Fund. This strategy assumes that £1.8m will be released in 2016/17 to provide a one-off budget saving. This offsets a similar amount of £1.7m which was used in balancing the 2015/16 budget.

12.0 SPENDING FORECAST

12.1 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.

12.2 The scope of the forecast covers General Fund revenue activities that are financed through the Settlement Funding Assessment, Specific Grants and Council Tax. School budgets are considered in Section 16.

12.3 The forecast includes the budgetary consequences of previous budget decisions, including one-off savings used to balance the 2015/16 budget. This adds £8.8m to the spending forecast for 2016/17. It also includes the one-off items from the first set of approved savings used to balance the 2016/17 budget. This adds £3.9m to the spending forecast for 2017/18.

12.4 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. The spending forecast therefore assumes pay will increase by no more than 1% for each of the three years of the forecast.

12.5 Inflation has decreased since this time last year, currently the Consumer Price Index (CPI) – the index by which the Government measures inflation - stands at minus 0.1% 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.

12.6 The Council has a significant capital programme and the spending forecast includes the financing costs of the existing programme. The net revenue costs associated with the capital programme are included in the forecast at a reduction of £0.261m in 2016/17, followed by a reduction of £0.370m in 2017/18. It is assumed that any new capital projects which are approved over the medium term will be self-funded either through grant, capital receipts or generate revenue receipts to fund the cost of borrowing.

12.7 During the period of the MTFS, construction will progress on the Mersey Gateway bridge. The Council will make a contribution towards the construction costs of the bridge funded by prudential borrowing, the financing costs of which will be met from future toll revenues and DfT grant. In order to manage the construction and operation of the Mersey Gateway the Council established the Mersey Gateway Crossings Board. The cost of operating the Board will also be met from future toll revenues and DfT grant.

12.8 In January 2013 the Department for Work and Pensions published its White Paper on state pension reforms. Under the proposed changes the current basic and additional state pensions will be replaced by a single tier pension.

12.9 The proposals will mean the end of contracted out National Insurance payments. This will result in additional costs as the Council will pay higher National Insurance contributions. The estimated effect is an increase in National Insurance payments of 3.4% to the Council for each employee who is a member of the Local Government Pension Scheme.

12.10 The Chancellor confirmed in his 2013 budget report that the creation of the single tier state pension will be brought forward to 2016/17. Therefore this has been reflected in the spending forecast at an estimated cost of £1.3m.

12.11 A key assumption that has been used in constructing the MTFS is that total spending in 2015/16 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. In this context it is important to consider the contingency for uncertain and unexpected items. Due to the considerable uncertainty over inflation, interest rates, demand led budgets, impact of spending cuts and loss of income, the spending forecast includes a contingency of £1m in 2016/17, £1.5m in 2017/18 and £1.5m in 2018/19.

12.12 The Children and Families Department is continuing to experience significant budget pressures and for the current financial year is expected to be approximately £2.5m 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, special guardianship orders and in-house foster carer placements. There are initiatives in place to help reduce the overspend position but the MTFS includes an additional £0.912m to help bring the budget back to a balanced position.

12.13 The Chancellor stated in his 2015 Summer Budget that a new compulsory National Living Wage for over 25s will be introduced from April 2016, as mentioned in paragraph 4.1. This will be set at £7.20 per hour from April 2016 and will then rise each financial year until 2020 when it will reach £9.00. The forecast includes separate figures relating to HBC staff (direct costs) and contracts which may increase as a result of this.

12.14 For Halton, based on current staffing levels and ages the cost of the National Living Wage equates to an additional cost of £0.03m (including estimated pension and National Insurance costs) that will need to be paid to staff from 2016/17.

12.15 With regards to other contract costs, it is expected that there will be additional costs relating to the National Living Wage, particularly from care providers within Social Care. It is difficult to put a firm value on this due to the host of unknowns and variables which make forecasting in this area difficult. However, the NW Directors of Adult Social Services

(ADASS) Finance & Resource Group has completed an exercise to offer some early insight into the potential scale of the financial impact on social care budgets across the North West region. The work represents an initial high level estimate which needs to be treated with necessary caution and forecasts will be refined as more information becomes available. For Halton the potential financial burden for the external provision of social care could be significant and therefore the forecast includes an additional £0.5m.

12.16 As discussed in section 9 of the report, the Social Care Act has brought about new responsibilities and budget pressures. These have been included in the forecast from financial year 2016/17.

12.17 The MTFS also includes other spending pressures such as the costs associated with transitioning from Children's to Adults. It also includes a reduction in costs relating to actuarials, enhanced pension costs payable over a number of years for staff who have previously left on early retirement.

12.18 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)**		
	2016/17	**2017/18**	**2018/19**
Full Year Effect of Previous Year Budget	8,759	3,929	-
Capital Programme	-261	-370	-
Pay and Price Inflation	1,033	1,423	1,717
Annual Pay Increments	300	300	300
Contingency	1,000	1,500	1,500
Single Tier State Pension	1,300	-	-
Reduction in Pension Actuarial Costs	-927	-	-
Children & Families Department Demand Pressures	912	210	290
Transition Costs from Children's to Adult's	190	-	-
National Living Wage – Contracts	500	-	-
National Living Wage – Direct Cost	35	173	156
Apprenticeship Levy	-	300	-
Social Care Act	300	100	100
TOTAL INCREASE	**13,141**	**7,565**	**4,063**

13.0 THE FUNDING GAP

13.1 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

Council Tax Increase of:	2016/17 £'000	2017/18 £'000	2018/19 £'000
0%	18,298	15,604	7,489
1%	17,901	14,807	6,287
2%	17,505	14,001	5,061
3%	17,108	13,188	3,801
4%	16,711	12,367	2,536

13.2 The table shows that total savings of over £18m are forecast to be needed to balance next year's budget with further savings of £16m in 2017/18 and £7m in 2018/19, before any increase to Council Tax. The total funding gap is over £41m and represents 17% of the Council's gross expenditure budget.

13.3 Savings totalling £7.8m have already been approved by Council on 14 October 2015. This consists of £3.8m from the Community & Resources Directorate and £4.0m from the People & Economy Directorate. This leaves a funding gap of £10m in 2016/17 following these initial savings.

13.4 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.

14.0 CAPITAL PROGRAMME

14.1 The Council's capital programme is updated regularly throughout the year. Table 6 below summarises the fully funded capital programme.

Table 6 – Capital Programme

	2016/17 (£'000)	2017/18 (£'000)	2018/19 (£'000)
Spending	**92,174**	**54,228**	**6,920**
Funding:			
Prudential Borrowing	74,649	45,550	4,190
Grants	10,972	4,118	306
Revenue Financing	3,473	2,124	555
Capital Receipts	3,080	2,436	1,869
Total Funding	**92,174**	**54,228**	**6,920**

14.2 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

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

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

14.5 In recent years a major source of funding the capital programme has been capital receipts. However, the number and value of assets now held is much less than it was and therefore no major capital receipts are included within the forecast.

15.0 RESERVES AND BALANCES

15.1 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.

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

16.0 SCHOOLS BUDGET

16.1 Schools are fully funded by the Dedicated Schools Grant (DSG). The DSG is used to fund the Individual Schools Budget (ISB) which is allocated to schools by way of a formula and the central allocation in accordance with the revised Department for Education (DfE) guidelines.

16.2 The Schools Forum assesses and considers current and future arrangements and changes to schools funding, agreeing any formula changes.

16.3 In April 2013 schools received budgets based on the new funding formula which is the first step in a proposed move towards a national funding formula. It is envisaged that national funding formula will be implemented during the next spending review period.

16.4 From April 2013 funding is divided into three separate blocks within the Dedicated Schools Budget. These are the Schools Block, High Needs Block and Early Years Block.

16.5 Under the new funding guidelines, the amount of centrally held monies is tightly restricted for anything other than Early Years and High Needs provision.

16.6 Funding for schools converting to academies is paid directly to the academy from the Education Funding Agency rather than going through the Council. Included within the grant paid to the schools are monies that previously funded educational support services which the Council provides. There is an element of financial risk to the Council in future years if other schools transfer to academy status which will lead to a shortfall in income to fund the expenditure for the central services.

16.7 The 2015 Spending Review announcement included a new national funding formula for schools to be introduced from April 2017.

17.0 PARTNERSHIPS/JOINT WORKING/SHARED SERVICES

17.1 In 2015/16 the Government introduced a £3.8 billion pooled budget for health and social care services, shared between the NHS and local authorities, 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.

17.2 The Council has been the host body in a Complex Care Pooled budget for a number of years and from 1st April 2015 included the Better Care Fund, working jointly with Halton Clinical Commissioning Group (HCCG). An additional £10.5m was transferred from Health to the Council. This will improve outcomes for the public, provide better value for money and be more sustainable by working closely together to meet individual's needs.

17.3 The Council has established partnerships and shared service arrangements with a number of councils and other organisations over recent years. Halton is also part of the Combined Authority and the agreement with Government regarding devolution of powers and resources to the Liverpool City Region. These arrangements may bring some additional costs initially, but will provide opportunities to achieve significant on-going savings from alternative ways of working and improved service delivery across the City Region.

18.0 EFFICIENCY STRATEGY

18.1 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.

18.2 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.

18.3 Through the Efficiency Programme the Council has achieved savings of over £12.5m to date, including Procurement savings.

18.4 The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness. This has been much 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.

18.5 An e-tendering system, “the Chest”, is used to advertise and manage all tender exercises and sourcing activities. It also aims to encourage transparency of opportunity with Small and Medium Enterprises (SMEs). An increase in value thresholds within the Council’s standing orders has been made in order to generate potential savings through less bureaucracy and a more streamlined approach.

18.6 The accommodation strategy aims to rationalise the Council’s 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 significant budget savings during the period of the forecast.

19.0 MONITORING

19.1 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.

20.0 SUMMARY

20.1 As a result of Autumn Statement 2014, the Summer Budget 2015 and the Comprehensive Spending Review 2015 there have been severe reductions to the Council's funding, which are expected to continue in the medium term. In addition, the Business Rates Retention Scheme and localisation of Council Tax Support bring further risk to the funding potential of the Council over the period of the Medium Term Financial Strategy and beyond. This will mean a considerable deterioration in monies available to fund services in the Borough.

20.2 As a consequence there is a requirement to make significant budget savings. There are also spending pressures, not included in the spending forecast, which will result in the need for further savings.

20.3 Future levels of growth and savings will therefore be directly influenced by the decisions made concerning council tax increases. Council tax increases will reduce the level of savings required, although the setting of capping through council tax referendum legislation will ensure the Government keep the cost of increases to council tax to a minimum.

20.4 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. Close monitoring and control of budgets has meant this policy has been successfully achieved. Going into financial year 2015/16 the level of the general reserve stood at £8.8m, although £3m of this has been approved in balancing the budget for 2015/16, which will reduce the general reserve balance to £5.8m.

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 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 2015 totals £3.3m.

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 in respect of Council Tax and NNDR debtors at 31st March 2015 totals £5.3m.

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 2015 totals £9.2m. Only 49% of this is attributable to the Council, 50% relates to Central Government with the remaining 1% attributable to Cheshire Fire Service.

4.0 INSURANCE RESERVE

4.1 The Council maintains an Insurance Reserve in order to meet the cost of current and future insurance claims which exceed the level of cover provided by the Council's insurers.

4.2 In particular, this relates to claims in respect of school premises, where the Council's insurance policy has an excess of £100,000. In addition, the cost of renewal of contents etc. often exceeds the insured costs. Past experience has shown that the proportion of costs falling to be funded from the Insurance Reserve in these instances can be very significant.

4.3 The Insurance Reserve will therefore be maintained at the level of total outstanding claims, in order to provide for both the cost of uninsured claims and the potential cost of future school claims. At 31 March 2015 the Insurance Reserve stood at £4.1m, although £1m of this has been approved in balancing the budget for 2015/16, which will reduce the insurance reserve balance to £3.1m.

5.0 CAPITAL RESERVE

5.1 The Council holds a Capital Reserve to support the financing of the Council's capital programme which currently totals £3.9m and is based upon current capital funding needs.

6.0 INVEST TO SAVE FUND

6.1 The Council has an Invest to Save Fund which at 31st March 2015 stood at £1.2m. 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. A reduction of £0.5m has been approved in setting the budget for 2015/16, which will reduce the invest to save fund to £0.7m.

7.0 TRANSFORMATION FUND

7.1 In 2010/11 the Council created a Transformation Fund to fund the costs associated with efficiency reviews and structural changes required in order to deliver a balanced budget. At 31st March 2015 the fund's balance stood at £2.3m, although a reduction of £0.5m has been approved in setting the budget for 2015/16, which will reduce the Transformation Fund to £1.8m.