

**Audit and Risk Management Committee Monday, 23 July 2018**

<b>REPORT TITLE:</b>	<b>MEDIUM TERM FINANCIAL STRATEGY 2019/20-2022/23</b>
<b>REPORT OF:</b>	<b>Director of Finance and Investment (S151)</b>

**REPORT SUMMARY**

This report discusses the Medium Term Financial Strategy (MTFS) 2019/20 to 2022/23 that is shown in Appendix 1 and was agreed at Cabinet on the 16 July 2018. The MTFS represents the financial plan required to deliver the pledges and outcomes as set out in the Wirral Plan. It is also a key element in the improvement of the Councils financial sustainability.

**RECOMMENDATIONS**

That the Committee notes the Council's MTFS 2019/20-2022/23.

## **SUPPORTING INFORMATION**

### **1.0 REASONS FOR RECOMMENDATION/S**

- 1.1 Audit & Risk Management Committee has responsibility for reviewing governance and that effective processes are in place in the Council, making necessary recommendations to Cabinet where effectiveness needs to improve. Part of this includes seeking assurances that the Council has sufficient financial resilience to mitigate and manage its future financial risks. The MTFS is being presented to the Committee as the main element of the Council's approach to improving financial resilience. An effective financial strategy and governance are also necessary to ensure that an organisation functions well.

### **2.0 OTHER OPTIONS CONSIDERED**

- 2.1 The Wirral Plan and the Medium Term Financial Strategy are key policy documents and drive all other business planning processes within the Council. Consequently they are vital for the Council's future development, therefore no other options were considered.

### **3.0 BACKGROUND INFORMATION**

- 3.1 The Cabinet considers updates on the Council's financial position throughout the year. This allows the consideration of the financial position of the council and the decisions required to ensure that the council makes the most of its financial resources. The latest of these reports is the MTFS 2019/20-2022/23 considered at its meeting on 16 July.
- 3.2 This report updates Members of the Audit and Risk Management Committee of the latest review of the MTFS including Financial Resilience. This provided an update on a number of financial matters:
- The financial outlook for the Council, expenditure, income and budget gap over the medium term up to 2023.
  - Approach to the development of financial proposals for the years 2019/20-2022/23.
  - The development of a Financial Resilience Plan.
- 3.3 The Council continues to face financial constraints and pressures. The medium term financial planning period to 2023 will see continued grant funding reductions and financial pressures as a result of increasing demand. Aligned to this the Council will in 2020, assume full responsibility for the raising and collection of income generated locally that will be used to fund the services accessed by Wirral residents.

3.4 The MTFS describes the robust and measured way that that Council will address these challenges via a three phased approach:

- The Medium Term Financial Strategy describes what the future financial position of the Council will look like, what our challenges are and how we will allocate our resources to meet our corporate priorities and achieve the outcomes of the Wirral Plan.
- The Medium Term Financial Plan describes how we are currently financed and future changes to this, our approach to meeting the financial challenges and how we will measure this.
- The Financial Resilience plan describes how we can evidence our financial sustainability over the medium term to provide assurance to local taxpayers that we are providing value for money, our process for decision making is robust and we are safeguarding public funds.

### **MEDIUM TERM FINANCIAL STRATEGY 2019 - 2023**

3.5 Over the period 2019 - 2023 the Council will continue to deliver the pledges contained in the Wirral Plan whilst operating in a challenging financial environment. The Medium Term Financial Strategy focuses on ensuring that resources are targeted to the 20 Pledges while operating within the reduced government-related financial resources that will be available. The Council's like for like government funding has reduced since 2010/11 and will continue to reduce until 2020/21.

3.6 Since its approval in July 2015, considerable progress has been made in all areas of the Wirral Plan. At the same time the Council has been moving forward with an integrated approach to planning policy and financial strategy on a long term basis. This is to ensure that our resources are targeted in accordance with our priority outcomes. The last Medium Term Financial Strategy was approved in February 2017 and covered the period 2017 - 2021. The resetting of the MTFS to the period 2019/20-2022/23 recognises the changing landscape since 2017 and the need to rethink where we target our resources to ensure we can provide value for money for our local taxpayers.

### **Funding Challenges**

3.7 The Government announced in December 2015 the key components of the Council's funding for the period up to 2019/20. Through Wirral's acceptance of the four year settlement deal, these levels were confirmed for three years. This does and has provided some assurance around funding and enables financial planning to be clearer. There does however remain uncertainty beyond 2019/20 until 2022/23 with a Government review of how our funding will be calculated.

- 3.8 The Council set a balanced budget for 2018/19 utilising one off funding of £26m. This enabled a protection of services to the most vulnerable and those services that are most important to our communities to remain in place. It also provided temporary investment into Children's Services to offset future demand, which is being used to pump prime invest to save initiatives and divert reactive funding to preventive work. This was enabled through a planned programme of drawing down available for use reserves and the programme of Children's investment being 'repaid' through efficiencies over a three year period. This approach is clearly not sustainable in the long term and to ensure reserves do not fall to an unsustainable level, the replenishment of temporary funding is included within the following year's budget gap
- 3.9 Continuing their plan to end government grant funding by 2020, for the following two years the government funding we receive will be phased out. The forecast budget gap to 2023 is as follows:

**Budget Projections 2019/20-2022/23: Budget Gap Forecast**

PROJECTIONS	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Cumulative Budget Gap	45	62	65	67
Annual Increase in Budget Gap	45	17	3	2

- 3.10 A number of elements of future funding are subject to development. This means that there is a degree of uncertainty on the detail relating to:
- A Government Fair Funding Review that will determine the level of spending the Government thinks we will need. The outcome of this is due in late 2019, to be implemented from 2020/21. We have been informed that 2020/21 will be a transition year and our new formula will formally be reset in April 2021
  - The phasing out of Revenue Support Grant and the retention of Business Rates.
  - The transfer of new responsibilities including the un-ring-fencing of public health grant and the transfer of this into the business rates pool
  - The treatment and level of specific grants.
  - The performance of the economy post Brexit and the impact on public sector finances.
- 3.11 Wirral Council continues to seek to protect those services which it considers to be its highest priority and the approach for the period of the Medium Term Financial Strategy will be to minimise cuts to services which impact on our most vulnerable residents e.g. children and adults social care. However due to the extent of the budget gap, there is some inevitability that not all services can be provided in the same way.

## Resourcing the Council's Priorities

- 3.12 A focus for the Council over the next four years is the generation of income to help supplement our funding from local taxpayers. The future for local government finances is one in which Councils aim to be financially self-sufficient. This means that Wirral has to plan to establish a strong and buoyant tax base and other sources of direct income. The Council will provide the tools to encourage local regeneration leading to jobs and growth. The local plan will be the mechanism to generate significant new income from Council Tax, in some cases within the higher bands and will support the local economy through the creation of new jobs. The **Income Strategy** describes in more detail our ambition to generate more income.
- 3.13 With the establishment of the Wirral Growth Company this will unlock sites for regeneration and housing across the borough. This will enable existing and new inward investment, creating thousands of jobs and opportunities for young people wanting apprentices after leaving school and college. Providing access to employment for young people will see them on a good footing to live and work in Wirral over a longer term enabling better life prospects. The **Growth Strategy** provides details of how this will be achieved and our vision for the future.
- 3.14 Through our commercialisation agenda we will take a more confident approach that will open up opportunities to generate income from commercial activities, whether this is ensuring we are charging appropriate market rates for the services we sell, to providing our in-house professional services to local partners and the private sector. Our **Commercial Strategy** highlights our plan for a more innovative and commercial approach.
- 3.15 By adopting a more risk aware approach to investments we will be able to generate a higher return on our treasury management activities to generate more income. More diverse and innovative investments are available to us and many local authorities have already successfully branched out into investing in non-traditional areas such as green energy, solar power, bonds and commercial property. These types of investment are not without risk and a longer lead in time is required to ensure adequate due diligence can be carried out to provide assurance that the investments are sound. Our **Treasury Management Strategy** sets out the framework under which we operate for investments.

3.16 For our Council Tax base this will mean:

- Enabling new housing through planning policy and the Local Plan.
- Ensuring that our Council Tax Reduction Scheme is fair and provides support to the most vulnerable groups.
- Planning to maximise income from Council Tax within the guidelines set by Government.

The aim across the period 2019-23 is to:

- Increase the number of properties paying Council Tax, especially in the higher bands
- Minimise the number of homes that are empty and maximise income through the appropriate application of discounts and exemptions.
- Improve collection rates and reduce the levels of outstanding debt for Council Tax.

3.17 For our Business Rate base this will mean:

- Attracting new investment to Wirral.
- Using loans and grants to ensure businesses are supported in the area.
- Enabling development to take place in the area, with the mixed development of a number of sites in Wirral, using our land, prudential borrowing or other financial mechanisms to encourage regeneration and jobs including new employment, in newly developed spaces.
- Setting a fair and equitable Council Tax within the guidelines set by Government.

The aim across the period 2019/20-2022/23 is to:

- Grow and maintain the business rate tax base in Wirral.
- Maximise businesses paying the expected level of business rates.
- Support new incubators and SME's to grow using business rate flexibilities.

3.18 For our Fees and Charges this will mean:

- The introduction of new income sources through charges and trading, for example with local businesses.
- Review of and ensuring fees and charges take account of costs, demand and comparable charges made by others for similar services.
- Ensure the fees and charges are recognised as a key and increasingly important part of the financial resources of the Council.

3.19 For our Treasury Management this will mean:

- The optimisation of returns on investments whilst ensuring security and liquidity.
- Examination of new opportunities for innovative investments, balancing risk with opportunity to be more risk aware to generate short and long term income.
- Use of prudential borrowing where it is supported by a sound business case in accordance with the principles of the Treasury Management Strategy.
- Ensure that Treasury Management is recognised as a major contributor to the Councils overall financial standing the resilience. Whilst operating within the relevant guidelines and regulations.

### **Wirral Together**

- 3.20 One important aspect of the MTFs will be the engagement of communities about where they want the Council's resources to be spent and what they can do themselves to enable us to divert resources into the areas that are most valuable to them. Working with our trusted partners in the voluntary and third sector will also be important to enable them to provide services on the ground, targeted to the area of most need.
- 3.21 Other initiatives such as crowd funding can play an integral part in matching Council funding with contribution from local businesses and local residents for community projects that communities can take ownership of and feel proud of. We must also unlock any grant funding available to us from external organisations to help supplement our budget and maximise the opportunities to support services to the community.
- 3.22 Working with our major contractors to generate opportunity from social value will play a major part in supporting the sustainability of council funding by reducing expenditure and/or generating investments across all areas of the Council.
- 3.23 A thriving economy supports new business to grow and will encourage the need for new housing and through our work with Anchor Institutions in the borough to encourage them to spend more locally, we can support small local business prosper.

### **MEDIUM TERM FINANCIAL PLAN**

- 3.24 The Medium Term Financial Plan is the tool to implement the Strategy. It describes our plan to ensure the Council is sustainable in the medium to long term, and how we will manage the governance, policies and actions we have in place to ensure the Strategy can be delivered.

## **Reserves**

- 3.25 The plan contains a statement on how we will use our earmarked reserves to supplement investment in projects that will generate efficiencies, savings and income initiatives for the future. Over the past few years we have been utilising our reserves to support such projects and have drawn down all available uncommitted reserves to ensure we can continue to provide services. However, our reserves position going into 2019/20 is a stable one – with sufficient reserves in hand to mitigate any unforeseen and unexpected expenditure – and at a level that can provide the financial resilience the Council needs. We are no longer in a position to use reserves going forward to support ongoing day to day expenditure, and nor should we as this is an unsustainable and irresponsible strategy.
- 3.26 Our usable reserves (excluding school balances) are in the main split into two categories:
- General fund balance – this is to be kept for unforeseen and unexpected expenditure e.g. emergency planning
  - Earmarked reserves – these are amounts committed against specific future expenditure e.g. Insurance Fund, Flood Defences, Local Welfare provision

## **Capital and Treasury Management**

- 3.27 The Medium Term Financial Plan provides details on our approach to utilising capital funding. Capital expenditure is described as expenditure on anything that will last over 12 months and can be regarded as an asset e.g. buildings, vehicles, machinery. We are not allowed to use capital funding to provide day to day services but we can use it to enhance assets and technology to enable us to spend less on day to day services e.g. assistive digital technology in older people's homes can be paid for from capital funding and will result in less visits from social workers; meaning that we do not need as much social care provision in that area and older people feel more independent and can remain in their own homes for longer.
- 3.28 Where possible we use our own cash flow to pay for capital projects but we generally have to borrow money to pay for capital expenditure. We can borrow money cheaply however from a public sector loan fund and when considering funding capital projects, the saving or income the project generate must offset the cost of the interest on the loan.
- 3.29 Our Treasury Management Strategy is approved at Full Council and is the framework by which we invest our surplus cash balances or need to borrow cash for projects and initiatives. At any time, the Council may have a surplus of cash in the bank that it will invest (lend out) to other organisations to generate an income return. This is good practice and the income we receive is re-invested into front-line services to pay for day to day expenditure. We are not allowed to spend the surplus cash on day to day expenditure as it required to pay our suppliers when due.



- 3.30 We invest cash in many different types of organisations to minimise the risk of loss and we generate a different return of income depending on the risk profile of the investment e.g. a higher rate of return for more flexible investments.

## **FINANCIAL RESILIENCE PLAN**

- 3.31 The financial resilience plan highlights a series of actions that will be tested to ensure we can demonstrate a high level of financial management and control, effective leadership and decision making and ensuring evidence is available to prove that we are providing value for money for our local taxpayers.
- 3.32 In order to compile the plan we have undertaken a diagnostic to test 4 specific areas to identify where strengths are and to identify where can further improve to ensure our resilience can be maintained.
- 3.33 The plan also enables us to carry out predictive modelling to identify future demand to enable advance planning to manage and mitigate any future pressure. This will ensure our medium term financial situation is robust and we can provide assurance that the Council is financially sustainable.

## **ANNUAL BUDGET SETTING**

- 3.34 Each year we are legally bound to set an annual budget, agreed by Full Council. The process for budget setting for each year 2019 – 2023 is a continuous one with activities taking place all year round to ensure a balanced annual budget can be set.
- 3.35 The development of financial proposals for future years takes place via a Cabinet Portfolio aligned approach to action planning and budgeting. Budget proposals are encouraged organisation wide and are reviewed by an Officer 'Star Chamber' meeting that assesses the feasibility, acceptability and deliverability of each proposal in line with the corporate objectives and Wirral Plan.
- 3.36 Portfolio Holders subsequently present these proposals to a Member Star Chamber led by the Leader and Deputy Leader(s) of the Council and the Portfolio Holder for Finance and Investment. Portfolio Holders are accountable for progressing proposals via business cases through consultation and Scrutiny before they are recommended by the Cabinet to Full Council for approval.
- 3.37 Once the budget has been set, Portfolio Holders are accountable for ensuring they are delivered and monitored during the year.

## **4 FINANCIAL IMPLICATIONS**

- 4.1 The budget setting and planning process is integrated with the Wirral Plan. A process has been set out in this report that will determine how resources will continue to be directed to support the delivery of the 20 Pledges. Also detailed is an approach to the planning required to meet the continuing financial challenges the Council faces in the period 2018/19-2022/23. Further resource implications are detailed within the Medium Term Financial Strategy and these implications are reviewed by the reports revising the financial position submitted to Cabinet throughout the year

## **5 LEGAL IMPLICATIONS**

- 5.1 There are none arising directly from this report.

## **6 RESOURCE IMPLICATIONS**

- 6.1 There are none arising directly from this report.

## **7 RELEVANT RISKS**

- 7.1 This report outlines the contents of the report on the MTFS 2019/20-2022/23 considered by Cabinet. The council faces financial challenges in this period as it seeks to increase income, reduce costs whilst transforming its approach to services. There is a risk in future years that the Council does not achieve a planned approach. The Financial Resilience Plan and its development will mitigate an element of this risk.

## **8 ENGAGEMENT/CONSULTATION**

- 8.1 There has been no formal consultation on the MTFS. As part of the formal 2019/20 budget setting process a formal consultation will take place on the individual proposals submitted with scrutiny committees and communities.

## **9 EQUALITY IMPLICATIONS**

- 9.1 Equality and diversity themes are embedded into policy development and service planning as well as the budget planning process. The Council actively promotes equality of opportunity and are committed to eliminating unlawful discrimination for all our residents, customers and employees. The Council values diversity, mainstreaming equalities into all of its service planning to enhance quality, improve access and deliver better value. In recommending a balanced budget for 2019/20, the equalities implications will be considered for each individual proposal.

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## APPENDIX

Medium Term Financial Strategy 2019/20-2022/23 – reported to Cabinet 16 July 2018

### SUBJECT HISTORY

Council Meeting	Date
Cabinet Medium Term Financial Strategy 2019/20-2022/23	16 July 2018
Medium Term Financial Strategy 2017-21	20 February 2017