

WIRRAL COUNCIL

CABINET

10 DECEMBER 2013

SUBJECT	FUTURE FINANCIAL POSITION
WARD/S AFFECTED	ALL
REPORT OF	DIRECTOR OF RESOURCES
RESPONSIBLE PORTFOLIO HOLDER	COUNCILLOR PHIL DAVIES
KEY DECISION	YES

1 EXECUTIVE SUMMARY

- 1.1 This report provides an overview of the Council's future financial position. It provides an update to the Medium Term Financial Strategy approved in March 2013 and outlines the approach to operate within the finance available and for the budget options for 2014/15.

2 BACKGROUND AND KEY ISSUES

- 2.1 The Medium Term Financial Strategy (MTFS) provides an overview of the Council's financial position and the strategy required to operate within the finance available. The Council sets a detailed budget for the forthcoming financial year but the annual process fits within financial plans for a longer timeframe to ensure decisions taken have due regard to future sustainability and are part of a more strategic approach to the future challenges.
- 2.2 This report sets out an update to the MTFS and provides the context in which budget decisions for the period 2014/17 are being made. The latest projections indicate forecast net funding available over the 3 year period of £780 million against current a net spend forecast of £863 million. A funding deficit of £83 million. This is further broken down at paragraph 4.3.
- 2.3 The Council has since 2010 responded to a changing and challenging local government financial environment. The future response to further reductions in funding, planned through the setting of the 2014/15 budget is detailed in this report and elsewhere on the agenda for this Cabinet.

3 2014/17 FINANCIAL INFLUENCES

- 3.1 The Council's MTFS covers the three year period 2013/16 as agreed in March 2013 estimated a funding gap of £109 million. It set out an anticipated level of funding and financial pressures known at that time. This view was based on indicative government allocations for 2014/15 and the latest information on 2015/16.

- 3.2 Forecasts of the Councils financial position over three years are kept under constant review as external circumstances change and decisions are taken. These are based on assumptions about inflation, financial pressures and levels of income such as grant.
- 3.3 In developing a revised picture of the MTFs the previous assumptions and funding gap has been revised in the light of announcements made by government since March 2013. A key aspect of this has been the announcement of provisional funding levels for 2014/15 and the Spending Review (SR). A real terms cut of 10% was confirmed in the SR and at an individual Council level it is estimated that English Councils on average will suffer a 12.5% reduction in funding. For Wirral the loss may be more than 15%. It is assumed that further reductions will be repeated in 2016/17. The revised picture therefore takes the view that the reductions in government funding are permanent and will continue until at least 2017/18.
- 3.4 In terms of income the Council has limited ability to raise further income. The reduction in grants maybe offset by the Councils share of any growth in real terms in business rate income and any growth in its Council Tax-Base. However, it is important that unachievable income projections are not used to close real budget gaps.
- 3.5 The future financial position takes accounts of assumptions about growth, specific cost increases and unavoidable financial demands. The following areas are incorporated into the projections:-
- Growth, including demographic changes;
 - inflation, including pay and changes in superannuation;
 - New legislative responsibilities;
 - Capital financing; and
 - Council Tax levels.
- 3.6 The assumptions are kept under review and revised as and when new information becomes known. During the budget process certain assumptions will be confirmed whilst others will emerge or need to be changed. The impact of any revisions will be assessed and brought together in the budget setting report that Budget Cabinet will consider in February 2014.
- 3.7 The current projected outturn for 2013/14 indicates that the actual expenditure is being contained with the budget available. This is important context for the next stage of planning. The in-year revenue monitoring 2013/14 - Month 7 shows a projected General Fund underspend of £0.5 million and is also on this agenda. It shows that the achievement of savings for the year are mainly on track and that the budgetary issues identified are being resolved within the resources current anticipated to be available. This presents a sustainable financial position, upon which the future year's budget and projections can be safely based.

4 OVERALL FINANCIAL PROJECTIONS

- 4.1 The MTFS approved for 2013/16 reflected the financial projections for the Council based on the SR 2010, a forecast impact of the changes to local government finance that commenced in April 2013 and budget assumptions. This forecast that the Council would have an overall deficit of £109 million for the period 2013/16.
- 4.2 The revised position now being updated highlights a gap of £83 million for the period 2014/17. The previous forecast gap has been updated for information released in the summer and the Council's agreed budget saving options. Further revisions have come from the announcement of the SR 2013 for 2015/16 and the addition of the anticipated budget gap for 2016/17 to give a financial forecast for 2014/17. A summary of the movement in the forecast gap is given in the table below.

Funding Challenge – Updated Position

	£m
Funding Gap 2013/16 as at March 2013	109
Less (savings agreed in March 2013)	
Savings Budget Options 2013/14	48
Savings Budget Options 2014/15	17
Savings Budget Options 2015/16	14
Add:	
Forecast Funding Gap 2016/17	25
Add:	
Revision to forecast for 2014/15	10
Revision to forecast for 2015/16	18
Forecast Funding Gap 2014/17 as at December 2013	83

- 4.3 The analysis of all financial influences on the Council shows that the Council is facing a growing financial deficit from 2014/15 that is expected to reach £83 million by 2016/17. The following sets out how the Councils projected deficit is built up.

Overall Financial Context for Three Year Period

	2014/15 £m	2015/16 £m	2016/17 £m	Total £m
Forecast Expenditure (including demographic changes)	300.3	288.1	275.1	863.5
Forecast Income (including reduced grants)	272.8	257.4	250.0	780.2
Forecast Funding Gap	27.5	30.7	25.1	83.3

5 2014/15 BUDGET AND FINANCIAL STRATEGY

5.1 In developing the 2014/15 Budget, the Council has adopted a number of principles when proposing budget options that will close the funding gap. The budget consultation has used a priority approach to assess savings options under the following classification of savings:

- Being more efficient – Making sure that we deliver our services in the most cost effective way possible – streamlining processes, joining up our back office functions and never wasting money on administration that could be invested in services.
- Working together – working more in partnership with others in the public, community, voluntary and faith sectors, reducing duplication and delivering better outcomes for residents.
- Promoting Independence –moving away from the Council doing everything and instead encouraging self help and community empowerment and resilience.
- Targeting resources – we have to target our resources on those who need our help the most – this will mean cuts in some services – which we are trying to deliver in a way that is both fair and equitable.

5.2 As reported elsewhere on this agenda the Council through What Really Matters, consulted on £17.5 million of savings. With further efficiency savings of over £7 million identified and a potential increase in Council Tax to generate over £2 million. All these budget options if adopted would help the Council close its current forecast funding gap for the next financial year.

5.3 The above set out the currently anticipated funding gap faced by the Council. The budget for 2014/15 is due to be considered by Budget Cabinet in February 2014 when final figures for a number of key budget assumptions such as grant funding will be known.

6 2015/16 – 2016/17 FINANCIAL STRATEGY

6.1 The Medium Term Financial Strategy 2013/16 will be revised in the light of announcements and decisions made over the coming months and a new Strategy for 2014/17 will be considered by Budget Cabinet.

6.2 However it is already clear that in the period 2014/17 the total financial resources of the Council and its partners need to be maximised, prioritised and channelled to the right areas and activities. The Council's financial planning will focus on ensuring that resources are matched to priorities as identified in the Corporate Plan whilst ensuring that statutory functions continue to be delivered and that enabling functions are provided in the most efficient way.

- 6.3 The Council has already examined and challenged the way services are delivered looking for improvements in the effectiveness of services to produce savings. It has also challenged the methods of delivery, who is delivering services the most cost effective services.
- 6.4 The increasing deficit coupled with the ability of the Council to continue to get “the same for less” becomes increasingly difficult and the emphasis for future years will be on the challenging services the Council continues to fund, integrating with partner organisation to get focus on the overall “public purse” and ensuring that efficient ways of working is at the heart of the organisation. Efficiencies alone will not resolve the funding gap. Difficult decisions on the range of services provided will need to be made and the Corporate Plan will set out the vision and framework for those decisions.

7 GENERAL FUND BALANCES AND RESERVES

- 7.1 The level of General Fund balances and reserves that the Council maintains is critical to its financial resilience. It is important balances and reserves maintained are sufficient to fund costs that occur be it from planned activities or unexpected events. A review of reserves, provisions and general fund balances is being undertaken as part of the process to set the 2014/15 budget. This will take account of the financial risks anticipated to be faced in the coming period 2014/17 and known commitments and plans. The outcome of the review will be reported to Budget Cabinet in February 2014.

8 CAPITAL PROGRAMME

- 8.1 The Councils has a planned 2013/16 Capital Programme of £82.5 million. This is the money it is currently planned will be used to maintain, enhance and acquire assets, such as roads and schools.
- 8.2 The 2014/17 programme will be reported to Budget Cabinet. In preparing this the existing Programme will be revised with the re-profiling of schemes and the resources anticipated being available. New schemes will be considered for inclusion in the Programme.

9 RELEVANT RISKS

- 9.1 The report sets out the anticipated future financial position for the Council. It contains and / or is based on forecast amounts for key budget items such as Government funding being based on a number of assumptions. A key risk to these forecasts is that the assumptions change of which the most likely are those related to:
- Government funding levels;
 - Government decisions on Council Tax rises,
 - Changes in Government policies,
 - Demand for services;
 - Changes in inflation
 - Levies from other bodies.

- 9.2 The funding gap projections for 2014/17 are based on a large amount of financial information and a number of assumptions. The Council through its budget process is aligning its services with the resources that will be available. This process is on going with data and assumptions being kept under review and updated in the light of new information. Budget Cabinet will be updated of the latest position in February 2014 when the budget for 2014/15 is set.
- 9.3 This report and the MTFSS sets out a planned approach to the funding deficit that the Council faces. The Councils response to this through its budget options comes with risks that arise in the main from the considerable size reductions in expenditure that are required. To mitigate the risk, the achievement of agreed savings will have to be proactively managed.

10 OTHER OPTIONS CONSIDERED

- 10.1 There are no other options considered in this report.

11 CONSULTATION

- 11.1 The outcome of the What Really Matters will help influence future priorities and service delivery.

12 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

- 12.1 There are none arising out of this report.

13 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

- 13.1 The resource implications are detailed in the report. The financial implications will be further updated at Budget Cabinet.

14 LEGAL IMPLICATIONS

- 14.1 The Council is required to agree a Budget for 2014/15 by 10 March 2014. As part of agreeing the Budget the Chief Financial Officer is required under Section 25 of the Local Government Act 2003 to produce a report on the robustness of the estimates made for the Council Budget.

15 EQUALITIES IMPLICATIONS

- 15.1 There are none arising out of this report.
- 15.2 An Equality Impact Assessment (EIA) is not required.

16 CARBON REDUCTION IMPLICATIONS

- 16.1 There are none arising out of this report.

17 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

17.1 There are none arising out of this report.

18 RECOMMENDATIONS

18.1 To note the forecast funding gap for 2014/17 and that this includes assumptions regarding items still to be determined such as the Local Government Finance Settlement and the determination of levies for 2014/15.

18.2 That a further update be presented to Budget Cabinet in February.

19 REASON FOR RECOMMENDATIONS

19.1 An updated MTFS is critical to an effective financial strategy and governance. The Corporate Plan and the MTFS is key to ensuring that the Council functions well in the future. It is important that Members are informed of the major financial issues that the Council faces and are in turn able to make the required financial decisions.

19.2 The financial future remains difficult. Reductions in Government funding will continue and coupled with increasing services demand mean that the Council is facing a budget deficit over the coming years if it does not take actions to reduce expenditure or generate new income. This report updates Members on the Councils MTFS and the need to deliver savings.

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SUBJECT HISTORY

Council Meeting	Date
Cabinet - Reports on the Budget 2013/14 including the Medium Term Financial Strategy	18 February 2013
Cabinet - Planning the Budget Process for the next Budget Round 2014/17	18 April 2013