

# WIRRAL COUNCIL

## CABINET

9 DECEMBER 2014

<b>SUBJECT</b>	<b>OVERVIEW OF THE COUNCIL'S FUTURE FINANCIAL POSITION</b>
<b>WARD/S AFFECTED</b>	<b>ALL</b>
<b>REPORT OF</b>	<b>DIRECTOR OF RESOURCES</b>
<b>RESPONSIBLE PORTFOLIO HOLDER</b>	<b>COUNCILLOR PHIL DAVIES</b>
<b>KEY DECISION</b>	<b>YES</b>

### 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 2014 and outlines the approach to operate within the finance available. The Budget for 2015/16 is to be considered by Cabinet on 10 February 2015 and Council on 24 February 2015.

### 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 2015/18 are being made. This follows the decisions the Council has taken over the last 5 years against a changing and challenging local government financial environment. The future response to further reductions in funding, planned through the setting of the 2015/16 budget is detailed in this report and elsewhere on this agenda.

#### 2015/18 FINANCIAL INFLUENCES

- 2.3 The MTFS, as agreed in February 2014, covers the three years 2014/17 and has an estimated funding gap of £83 million. It set out an anticipated level of funding and financial pressures known at that time. This view was based on known government allocations for 2014/15 and indicative allocations for 2015/16.
- 2.4 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.

- 2.5 As set out in previous updates to Cabinet the Council is facing severe funding reductions with further falls in Government grant to take place. These combined with increasing financial pressures have resulted in a continuing deficit position. The key cause of the deficit has been the decrease in Government Funding.
- 2.6 In developing a revised picture of the MTF5 the previous assumptions and funding gap have been reviewed to reflect announcements made by Government and developments since February 2014. The announcement of indicative general grant allocations for 2015/16 has been reflected in the latest projections. There have been no further Government announcements beyond indicative figures for 2015/16. For 2016/17 and 2017/18 the current projections reflect further potential reductions in central Government funding reflecting the Government's plan to eliminate the national deficit by early 2018. This is in line with the view of the Local Government Association (LGA) whose work on projections of grant funding for the period anticipated further reductions.
- 2.7 From 2015/16 the Council will take on a number of new responsibilities in the area of social care. The Government has indicated that these new burdens will come with financial support and work is ongoing to assess the full financial impact of these changes and the level of funding that may be received. When known these will be incorporated into the Budget for 2015/16. The changes are as follows:
- The Better Care Fund (BCF) is a pooled fund to help areas improve the integration of health and care services through the joint commissioning of services. The BCF is £3.8 billion nationally and revenue funding will be from within existing NHS budgets. The allocation for the Wirral area is expected to be over £30 million but replace current NHS and Council funding.
  - The Care Act from April 2015 will see new social care responsibilities for local authorities. These include altered assessment arrangements, the introduction of national eligibility criteria and support to carers. The allocation of funding to implement these changes is expected for 2015/16. Further reforms take effect from April 2016 and announcements on the methodology for allocation of resources to offset these burdens are expected.
  - The Independent Living Fund (ILF) delivers financial support to disabled people to enable them to live in their communities rather than in residential care should they choose to do so. The responsibility for and funding of this care will transfer to local authorities from the 1 July 2015. It is not presently known what resources will be released to support this change.

- 2.8 In terms of income the Council has limited ability to raise further income. The reduction in grants maybe offset by the Council's 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.
- 2.9 The future financial position takes account 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 pensions;
  - New legislative responsibilities;
  - Capital financing; and
  - Council Tax levels.
- 2.10 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 2015.

## **OVERALL FINANCIAL PROJECTIONS**

- 2.11 The MTFS approved for 2014/17 reflected the financial projections for the Council based on the SR 2013, a forecast impact of the changes to local government finance that commenced in April 2014 and budget assumptions. This forecast that the Council would have an overall deficit of £83 million for the period 2014/17.
- 2.12 The revised position now being updated highlights a gap of £70 million for the period 2015/18. 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 indicative grant figures for 2015/16 and the addition of the anticipated budget gap for 2017/18 to give a financial forecast for 2015/18. A summary of the movement in the forecast gap is given in the table.

## Funding Challenge – Updated Position 2015/18

Details	£m
Previous Forecast Funding Gap 2014/17	83
Less : Budget Savings Options 2014/17	41
Add : Revisions to Funding Gap 2015/18	28
Revised Forecast Funding Gap 2015/18	70

- 2.13 The analysis of all financial influences on the Council shows that the Council is facing a continuing financial deficit from 2015/16 that is expected to reach £70 million by 2017/18. The following sets out how the Councils projected deficit is built up.

### Overall Financial Context for Three Year Period

Details	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
Forecast Expenditure (including demographic changes)	275	277	264	816
Forecast Income (including reduced grants)	257	250	239	746
Funding Gap	18	27	25	70

### 2015/16 BUDGET AND FINANCIAL STRATEGY

- 2.14 The budget approach for 2015/16 has been focused on a series of changes to services without closing services that residents rely on. The following programmes have been used to classify and assess proposed savings:

#### Delivery Programmes

- Delivering Differently – Assessing the best means of delivering a service-choosing the most efficient and effective option.
- Managing Demand – Reducing demand and the costs of specialist, substantial services through empowering people and communities to help themselves.
- Income and Efficiency – By stopping subsidising chargeable services unless it helps up to meet another objective.
- Customer Contact – Moving Council customers away from expensive ways of contacting us and targeting those who need face to face support.

## Support Programmes

- People – Enabling the Council to define and deliver workforce requirements for the future, enabling people based change such as culture, up-skilling of staff and ensuring appropriate policies and procedures are in place.
- Technology and Information – Driving a strategic approach to the use of systems, data and information to support Council Services.
- Assets – Delivering the consolidated asset requirements of the services, enabling key service changes through the rationalisation and future proofing of the asset base.

This prioritised approach reflects the Corporate Plan and the way we need to deliver services in the future.

- 2.15 The Chief Executive's Public Consultation set out the background to the financial position and that the Council was required to identify £2.5 million of savings from the options presented to Public Consultation. These are the subject of a separate report on this agenda.
- 2.16 For 2015/16 £15.5 million of savings through efficiencies, changing the assumptions regarding Capital Financing and reflecting the intention to Freeze Council Tax for 2015/16 if the conditions surrounding the Council Tax Freeze Grant in 2014/15 are maintained in 2015/16.

Details	£m
Efficiency Savings	12.5
Changed Assumption – Capital Financing	1.7
Council Tax Freeze Grant (subject to Local Government Finance Settlement and final decision by Council	1.3

- 2.17 The above set out the currently anticipated funding gap faced by the Council as well as a series of proposed savings. The budget for 2015/16 is due to be considered by Cabinet on 10 February 2015 when final figures for a number of key budget assumptions such as grant funding will be known.

## **2016/17 – 2017/18 FINANCIAL STRATEGY**

- 2.18 The Medium Term Financial Strategy 2014/17 will be revised in the light of announcements and decisions made over the coming months and a new Strategy for 2015/18 will be considered by Cabinet on 10 February 2015.
- 2.19 It is clear that the total financial resources of the Council and partners need to be maximised, prioritised and channelled to the right areas and activities. As such resources will need to be 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.

- 2.20 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.
- 2.21 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 organisations to get focus on the overall “public purse” and ensuring that efficient ways of working are 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.

### **GENERAL FUND BALANCES AND RESERVES**

- 2.22 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 2015/16 budget. This will take account of the financial risks anticipated to be faced in the coming period 2015/18 and known commitments and plans. The outcome of the review will be reported to Cabinet on 10 February 2015.

### **CAPITAL PROGRAMME**

- 2.23 The Council has a planned 2014/17 Capital Programme of £92.0 million. The 2015/18 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.

## **3 RELEVANT RISKS**

- 3.1 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.

3.2 The funding projections for 2015/18 are based on a large amount of financial information and a number of assumptions. This process is ongoing with data and assumptions being kept under review and updated in the light of new information. Cabinet will be updated of the latest position on 10 February 2015 to inform the Budget setting process.

3.3 This report and the MTFSS sets out a planned approach to the funding deficit that the Council faces. The Council 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.

#### **4 OTHER OPTIONS CONSIDERED**

4.1 There are no other options considered in this report.

#### **5.1 CONSULTATION**

5.1 The Chief Executive's Public consultation that ran from 8 September 2014 to 31 October 2014 is the subject of a separate report.

#### **6 OUTSTANDING PREVIOUSLY APPROVED ACTIONS**

6.1 There are none directly relating to this report.

#### **7 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS**

7.1 There are none arising out of this report.

#### **8 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS**

8.1 The resource implications are detailed in the report. The financial implications will be further updated to Cabinet on 10 February 2015.

#### **9 LEGAL IMPLICATIONS**

9.1 The Council is required to agree a Budget for 2015/16 by 10 March 2015. 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.

#### **10 EQUALITIES IMPLICATIONS**

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

#### **11 CARBON REDUCTION IMPLICATIONS**

11.1 There are none arising out of this report.

## 12 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising out of this report.

## 13 RECOMMENDATIONS

13.1 To note the forecast funding gap for 2015/18 and that this includes assumptions regarding items still to be determined such as the Local Government Finance Settlement and the determination of levies for 2015/18.

13.2 That the further updates relating to the financial position be presented to Cabinet on 10 February 2015.

## 14 REASON FOR RECOMMENDATIONS

14.1 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.

14.2 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 Council MTFs and the need to deliver savings.

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## SUBJECT HISTORY

Council Meeting	Date
Cabinet – Council Budget 2015/16 – 2017/18	7 July 2014
Cabinet - Reports on the Budget 2014/15 including the Medium Term Financial Strategy	12 February 2014
Cabinet – Corporate Plan (included the Future Financial position)	27 November 2014