

**COUNCILLOR PHIL DAVIES****CABINET****20 FEBRUARY 2017****MEDIUM TERM FINANCIAL STRATEGY****2017/18 - 2020/21****Councillor Phil Davies (Leader of the Council) said:**

'We continue to face huge financial pressures, as increasing demand, rising costs and ongoing austerity policies combine to place unprecedented strain on our budget, and services.

We must do all we can to plan long term, put in place sustainable and radical change which allows us to continue providing the services which our most important to residents'.

REPORT SUMMARY

The Autumn Statements in 2015 and 2016 plus the Spending Review 2015 reiterated that Council funding will reduce into the medium term and that reductions to core funding will continue. The Government is phasing out the main Revenue Support Grant which provides funding for all services. By 2020 local authorities will retain 100% of Business Rates collected locally. In moving to this position the Government with the Local Government Association, and through the Business Rates Retention Scheme Pilots is looking at how this can be implemented and inform the future distribution of resources.

This report presents the Medium Term Financial Strategy 2017/18-2020/21 based on what is an evolving system of funding and a number of key questions are yet to be answered. However it is clear that the scale of the financial challenges remains. The report sets out the steps it is proposed are taken to ensure the Council sets balanced budgets while continuing to deliver the Wirral Plan. The Strategy includes a set of indicative financial proposals for 2018/19-2020/21.

The Medium Term Financial Strategy and these proposals will be developed further over the coming year in order to close the medium term budget funding gap and set the 2018/19 Budget. The approach will also ensure Council resources are prioritised to those actions that achieve most in terms of the delivery of the Wirral Plan pledges. Since the approval of the Wirral Plan 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 the priorities identified in the Wirral Plan.

This matter affects all Wards within the Borough and is therefore a key decision.

RECOMMENDATIONS

The Cabinet is asked to agree and recommend to Full Council:

- 1 In respect Medium Term Financial Strategy 2017/18-2020/21
 - a) The Medium Term Financial Strategy 2017/21.
 - b) The development of indicative proposals for the years 2018/19-2020/21 as part of the implementation of the Council's Medium Term Financial Strategy as set out in Annex 1.
 - c) The Flexible Use of Capital Receipts Strategy 2017/18 as set out in Annex 2.
 - d) To regular updates being presented to Cabinet on the progress of the implementation of the Medium Term Financial Strategy.
- 2 In respect to the Treasury Management Strategy 2017/20
 - a) The Treasury Management Strategy 2017/20.
 - b) The adoption of the Prudential Indicators.
 - c) The Minimum Revenue Provision Policy for 2017/18.
 - d) The Council Officers listed in Annex G of the Treasury Management Strategy to approve payments from the Council's bank account for all treasury management activities.

SUPPORTING INFORMATION

1.0 REASONS FOR RECOMMENDATIONS

- 1.1 An effective Medium Term Financial Strategy and Wirral Plan are necessary to ensure that the Council functions well. It is important that Councillors and residents are aware of the scale of the financial issues facing the Council. Updates to the financial projections for future years are made on a regular basis. While the Wirral Plan identifies how the 20 Pledges are to be achieved, the annual budget demonstrates in part how these are to be delivered. The Medium Term Financial Strategy indicates the resource issues and principles that shape not only the Budget for 2017/18 but also the future budgets by identifying current issues as well as potential developments / related issues. It is through the Strategy that future revenue and capital budgets are developed.
- 1.2 The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators on an annual basis. The TMSS also incorporates the Investment Strategy as required under the CLG's Investment Guidance.
- 1.3 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414) places a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.

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 MEDIUM TERM FINANCIAL STRATEGY 2017/18-2020/21

- 3.1 Over the period 2017/18-2020/21 the Council will face further financial challenges. The Medium Term Financial Strategy focuses on ensuring that resources are targeted to the 20 Pledges while operating within the reduced financial resources that will be available. The last Medium Term Financial Strategy was approved in February 2016 and covered 2016/17-2020/21.

3.2 The Budget Gap reported to Cabinet 8 December 2016 showed:-

Budget Projections 2017/18-2020/21 at December 2016

PROJECTIONS	17/18 £m	18/19 £m	19/20 £m	20/21 £m
Original Projected Spend	286	304	322	340
Original Projected Income	241	234	227	208
Cumulative Budget Gap	45	70	95	132
Annual Budget Gap	45	25	25	37

The projected 4-year budget gap reported to Cabinet in December 2016 was £132 million. The Provisional Local Government Settlement announced in December 2016 provided further details of potential funding for the MTFS period. A number of elements of future funding are subject to development and further decision. This means that there is a degree of uncertainty on the detail relating to :

- The phasing out of Revenue Support Grant and the retention of all Business Rates generated nationally.
- The transfer of new responsibilities including the funding of public health to local government.
- The retention of any mechanism to fund needs in areas where the potential to self-fund services is limited.
- The treatment and level of specific grants.
- The performance of the economy post Brexit and the impact on public sector finances.

3.3 Based upon the details released by the Government in December 2016, and from the February 2017 release regarding the Liverpool City Region 100% Business Rates Retention Pilot Scheme the projections over the MTFS period are similar to those previously forecast.

3.4 Wirral Council continues to seek to safeguard those services which it considers to be its highest priority and the approach for the period of the MTFS will be to minimise cuts to services which impact on – particularly – our most vulnerable residents. In 2016/17 the budget deficit was closed and the budget balanced through a strategic, prioritised and themed approach to achieving major savings. The Council took tough decisions but through a structured approach. Our latest predictions for the MTFS period show that pressures are increasing especially in the area of social care.

- 3.5 The Medium Term Financial Strategy, as well as providing further financial background to the period, sets out the Council's financial strategy over the next few years, the responses and approaches that may be adopted to meet the challenges faced and to close the funding gap. The Medium Term Financial Strategy contains the following sections:
- Overview of the period 2017/18-2020/21
 - Financial overview of 2017/18-2020/21
 - Financial Strategy 2017/18-2020/21
 - General Fund Balances and Earmarked Reserves
 - Capital, Treasury Management and Asset Management
- 3.6 Wherever a financial estimate can be made of likely events this has been included. Given the level of assumptions for any projection of this type, only significant items have been included. The aim of this Strategy is not to give provisional budget figures, but to provide the Council with a framework with which to support planning considerations for the medium term. The tables within the Medium Term Financial Strategy are dependent on the completion of the setting of the budget for 2017/18.
- 3.7 The MTFS and agreement of proposed savings in March 2017 will balance the Council's budget for 2017/18 and indicative proposals for the period 2018/19-2020/21. The Autumn Statement 2016 and Local Government Finance Settlement have confirmed that the Council will face a funding gap until the end of the MTFS period. While a number of financial details of the operation across this period remain uncertain the direction of travel is clear. To enable the Council to use its limited financial resources in ways that ensure the delivery of the Wirral Plan and assess opportunities for savings, there is a need to start work immediately on our future financial plans.
- 3.8 The work should build on and revisit the work that has been done over 2016/17. The Council in the period 2018/19-2020/21 faces continued financial constraints. Aligned to this the Council will in 2020 assume full responsibility for the raising and collection of income generated locally and used to fund the services accessed by Wirral residents. The scale of the challenge in the coming years requires early preparation and this report describes how the Council will seek to establish a sustainable financial position through the development of a number of financial proposals in 2017/18. These form the basis of plans for closing the funding gap over the Medium Term Financial Strategy timeframe.
- 3.9 The development of the indicative financial proposals aims to be through a "One Council", aligned approach to action planning and budgeting. It will utilise the insight and intelligence that has developed in the forming of strategies that support achievement of the Wirral Plan.

- 3.10 All relevant service areas will be asked to develop the indicative proposals presented for the period 2018/19 – 2020/21. The proposals are themed into the following:
- Delivering Differently
 - Income and Resource Management
 - Service Changes
- 3.11 An element of our approach to planning for the long term and delivering major change is directed through the Transformation Programme. It is an ongoing programme to both transform our services and achieve significant savings. While not sufficient to cover the total funding gap Transformation forms a key part of the budget strategy for 2017/18 and beyond. The costs of the programme are to be covered by a revenue reserve and capital funding through the flexible use of capital receipts powers that last until March 2019.
- 3.12 The Medium Term Financial Strategy incorporates the Treasury Management Strategy. This remains a key area of the financial strategy, especially with low interest rates and limited investment opportunity. It is included in Annex 4 of the Strategy and is subject to approval by the Council at the same time as the budget. The following paragraphs are specific to the strategy and highlighted to assist Members in their consideration of the Treasury Management Strategy.
- 3.13 CIPFA has defined treasury management as: “the management of the organisation’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”
- 3.14 The Council endorses this definition and acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is, therefore, committed to the principles of achieving value for money in treasury management and to employing suitable comprehensive performance measurement techniques, within the context of effective treasury management.
- 3.15 The purpose of the Treasury Management Strategy Statement is to set:
- Treasury Management Strategy for 2017/20.
 - Annual Investment Strategy for 2017/18
 - Minimum Revenue Provision (MRP) Statement
 - Treasury Management Policy Statement
 - Prudential Indicators for 2017/18, 2018/19 and 2019/20
 - Authorised Signatories for Treasury Management Activity

4.0 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 2017/18-2020/21. 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.

5.0 LEGAL IMPLICATIONS

- 5.1 There are none arising out of this report.

6.0 RESOURCE IMPLICATIONS: ICT, STAFFING AND ASSETS

- 6.1 A process is currently underway to determine the resources which are required to deliver the 20 pledges through the development of supporting strategies.

7.0 RELEVANT RISKS

- 7.1 The Medium Term Financial Strategy provides a strategic overview of the issues facing future authority finances and includes a risk assessment.
- 7.2 The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk are important and integral elements of its treasury management activities. The main risks to the treasury activities are:

- Liquidity Risk (Inadequate cash resources)
- Market or Interest Rate Risk (Fluctuations in interest rate levels)
- Inflation Risk (Exposure to inflation)
- Credit and Counterparty Risk (Security of investments)
- Refinancing Risk (Impact of debt maturing in future years)
- Legal and Regulatory Risk

8.0 ENGAGEMENT/CONSULTATION

- 8.1 The Wirral Plan and underpinning Pledge Strategies have been developed through engagement with a wide range of partners and subject to wide consultation with residents, partners and other stakeholders.

9.0 EQUALITY IMPLICATIONS

- 9.1 There are no equality implications arising out of the Medium Term Financial Strategy 2017/18-2020/21.

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APPENDICES

Appendix 1: Medium Term Financial Strategy 2017/18-2020/21

REFERENCE MATERIAL

CLG Local Authority Investment Guidance, 2004
CLG Changes to the Capital Financing System Consultation, 2009
Code of Practice for Treasury Management in Public Services (2011 Edition), CIPFA 2011.
Prudential Code for Capital Finance in Local Authorities (2011 Edition), CIPFA 2011.
Spending Review and Autumn Statement 2015 HM Treasury
Autumn Statement 2016 HM Treasury

SUBJECT HISTORY

Council Meeting	Date
<u>Medium Term Financial Strategy</u> Cabinet - Future Financial Position	9 December 2014
Cabinet - Medium Term Financial Strategy	10 February 2015
Cabinet- Council Budget 2016/17 and Medium Term Financial Strategy	17 December 2015
Cabinet - Medium Term Financial Strategy	22 February 2016
Cabinet - Medium Term Financial Strategy and Council Budget 2017/18	8 December 2016
<u>Treasury Management</u> Cabinet - Treasury Management Annual Report 2013/14	7 July 2014
Cabinet - Treasury Management Annual Report 2014/15	13 July 2015
Cabinet - Treasury Management Annual Report 2015/16	18 July 2016