



**COUNCILLOR PHIL DAVIES**

**CABINET**

**18 DECEMBER 2017**

**MEDIUM TERM FINANCIAL STRATEGY**

**AND COUNCIL BUDGET 2018/19**

**Councillor Phil Davies (Leader of the Council) said :**

“We have a responsibility to set a fair, sustainable and balanced budget. This is a challenge which gets more difficult every year, as austerity policies continue to bite.

“We continue to be forced into making ever more difficult decisions, but we will never shirk our responsibilities to Wirral residents and will always find ways to use our diminishing resources to improve our borough and the quality of life our residents can enjoy.

“We will invest public resources where it will deliver the most impact – in creating jobs, in improving the local environment, and in protecting our most vulnerable children, adults and families.

“We have committed to 20 Pledges in our Wirral Plan and, despite the continued reductions in our budget, we are determined we will deliver on what we promised.”

**REPORT SUMMARY**

The Cabinet throughout the year receives financial updates, through which the Council’s financial position is revised, considered and understood. The Council is in the process of producing its budget for 2018/19. This report presents an update on the Medium Term Financial Strategy (MTFS) including details of the preparations for the next financial year. It contains details on a number of financial matters:

- The approach to the preparation of the 2018/19 budget. It is currently anticipated that the Council will set a balanced budget in 2018/19 through the use of one off funding, Council Tax decisions and the implementation of a number of financial proposals that will close the funding gap.
- An update on the progress of the MTFS.

- Details of the main financial challenges and changes that will occur in the next financial year. The Council continues to face a funding gap projected at £61 million due in part to Government austerity measures, £25 million investment in Children's Services and increasing demand for services.
- The key financial factors affecting 2018/19 including growth, savings and changes to funding including income. In relation to the latter, Cabinet at its February meeting will consider a Council Tax increase of 4.99% for next year. This is made up of a 1.99% rise to fund a number of Council wide pressures and an Adult Social Care precept of 3% to finance pressures faced by the service. Full Council in March will be asked to agree Council Tax amounts for 2018/19.
- The use of general fund balances, earmarked reserves and other sources of one off funding to support services and bridge the budget gap faced in 2018/19.

The report affects all Wards within the Borough.

The decisions in this report are key decisions.

## **RECOMMENDATIONS**

1. Note the recent developments regarding the forecast budget gap and the progress towards implementing the MTFs including the pressures for 2018/19.
2. Note the projected budget gap for 2018/19 and the requirement to develop the further budget reductions and financial proposals.
3. Note the projected funding gap for the period 2019/20-2020/21 and the requirement to develop the current budget process to deliver the required budget reductions.
4. An updated Budget Report and MTFs be presented to Cabinet on 19 February 2018. This to cover the updated financial projections including further budget reductions and financial proposals for 2018/19 and details of the impact of the announcements such as the Local Government Finance Settlement.

## **SUPPORTING INFORMATION**

### **1.0 REASONS FOR RECOMMENDATIONS**

- 1.1 The MTFS supports the delivery of the Wirral Plan. The Strategy, and associated financial governance arrangements, is key to ensuring the Council is well run and financially stable. Throughout the year major financial matters are presented to Cabinet in a series of reports which highlight the financial position so enabling decisions to be taken to ensure the Council remains financially stable.
- 1.2 The Council has to meet a legal requirement to set a balanced Budget in March 2018 for the 2018/19 financial year. This report details the actions, proposals and main risks to setting a balanced budget for 2018/19 and for the following two year period.

### **2.0 OTHER OPTIONS CONSIDERED**

- 2.1 The Council has a legal requirement to set a balanced Budget each March for the following financial year. This report details proposals and initiatives that increase income or reduce expenditure and assist in decisions regarding setting the Budget. Cabinet could choose alternative approaches to the delivering of a balanced budget.

### **3.0 BACKGROUND INFORMATION**

- 3.1 The Council continues to respond to challenging financial environment due to reductions in funding and increasing expenditure demands, including those in both Children's and Adult Social Care. The Government has announced its intention to end the Revenue Support Grant and allow local authorities to retain 100% of Business Rates. Authorities will be in a few years increasing self-funded from Business Rates, Council Tax, income generated locally and any Specific Grants from Government. From these sources the Council faces a challenging service and financial climate with increasing service demands and costs often as a consequence of the socio-economic and demographic changes.
- 3.2 The multi-year settlement set out by the government in December 2015 covers the main elements of funding (Revenue Support Grant, Council Tax Levels and Business rates operation) from 2016/17 to 2019/20. Wirral, along with the vast majority of local authorities, accepted the Government 4 Year Settlement Offer. Whilst this provides certainty of funding over the period 2016/17-2019/20 in that the annual reductions in Grant are clear it also confirms increasing Council Tax. Whilst this does provide some assurance around funding levels, the settlement does demonstrate annual reductions in funding levels with the Council's income at approximately the same level in 2020 as in 2016. There is uncertainty beyond 2020/21.

- 3.3 The Chancellor announced the Autumn Budget on 22 November 2017. The Budget contained few details on Local Government Funding and has not resulted in a revision to the projections for 2018/19. It did however set out a lower projected level of economic growth than previously expected, with forecast increases of 1.3% and 1.5% per annum over the next 5 years. While borrowing is anticipated to be lower than expected in the spring budget, it is expected that the Government will continue to borrow into the next Parliament.
- 3.4 As a consequence of financial planning the Council remains in a good position to set a balanced budget in 2018/19, that will contain a number of revisions from the MTFs agreed in February. The proposals detailed in this report are intended to enable the Council to manage the pressures in a planned way not only to meet the legal requirement for a balanced Budget for 2018/19 but also contribute towards addressing the forecast funding gap over the period of the MTFs 2018/19-2020/21.

### **THE WIRRAL PLAN**

- 3.5 The Council Plan was approved by Council on 13 July 2015 and was then adopted by all strategic partners from the public, private and third sectors to create the first Wirral Plan.
- 3.6 The Plan provides a clear ambition for the borough based on three overarching priority areas:-

#### **PEOPLE**

Wirral is a place where the vulnerable are safe and protected, every child gets a good start in life and older residents are respected and valued.

#### **BUSINESS**

Wirral is a place where employers want to invest and businesses thrive.

#### **ENVIRONMENT**

Wirral has an attractive and sustainable environment, where good health and an excellent quality of life is enjoyed by everyone who lives here.

- 3.7 The ambition for Wirral is underpinned by 20 pledges which define the outcomes to be achieved by 2020. This shared set of outcomes, goals and objectives sees the partners working towards integrating services and budgets and making best use of the available public sector resources for the benefit of Wirral people. Partners committed to playing a lead role in achieving 8 of the 20 pledges.
- 3.8 There are a series of Strategies which support the Plan that have been agreed and have been developed into a series of under-pinning Delivery Plans and the outcome of this work informs the development of the MTFs.

## **MTFS 2017/18-2020/21-UPDATE**

- 3.9 The current MTFS covering 2017/18-2020/21 was approved by Council in March 2017. This detailed the financial challenge and the size of the anticipated remaining funding gap. It also contained a balanced 4 Year Plan through the implementation of new approaches to service delivery, Delivering Differently and the generation of income.
- 3.10 The Wirral Plan provides the framework within which the Budget and the MTFS will be developed and informs the development of budgets, the prioritisation of resources and the difficult decisions that need to be made. For the development of 2018/19 the budget development has been through the portfolios that support the delivery of the Wirral Plan.
- 3.11 As previously reported the three years 2018/19 to 2020/21 sees the Council facing a continued, challenging financial future. The ending of the general Government Grant together with the pressures of demographic changes and inflation mean there was an anticipated funding gap of £87 million over the three years and this included a £25 million funding gap in 2018/19.
- 3.12 As a consequence of the agreement of the MTFS in February, the Council was able to set a balanced budget for 2017/18 which incorporated funding from reserves, and was well placed to balance a budget for 2018/19, subject to council tax decisions and dependent on the delivery of a number of MTFS proposals. The objective is to develop a Strategy and associated programme of changes to close the funding gap and focus future limited resources on the delivery of Wirral Plan outcomes and pledges. This includes using the Council's projected net revenue budget in the best way to deliver on our pledges, in partnership with our other public sector colleagues.
- 3.13 **Update on the Delivery of the MTFS 2017/18-2020/21**

The Council since 2010 has already delivered a range of financial proposals that have included savings to reduced budgets in addition to increasing income from a number of sources. Since the MTFS was agreed in March the Council has made further progress towards implementing its financial plans including savings. However 2017/18 has been a challenging year. A number of financial pressures that have emerged towards the end of 2016/17 in relation of the Social Care of Children and Adults have continued in 2017/18. In updating the MTFS these pressures need to be assessed and considered. Forecasts of the financial position for future years are kept under review as circumstances change and decisions are taken. These are based on assumptions about inflation, financial pressures and levels of income such as grant. Updating the MTFS reflects the projected position for the current financial year. This enables Council to take account and prepare for challenges that it is facing and is a key element in ensuring the Council is financial resilient going forward to the pressures it faces.

3.14 As stated previously the Council is expecting to be able to set a balanced budget for 2018/19, depending on the delivery of the current financial strategy, use of one off funding and the agreement of new financial proposals. However there are a number of factors affecting the budget position. The latest Projected financial position for 2017/18 is an overspend at 30 September of £1.2m (Quarter 1 was £4.2m). This is after the allocation of £12m of Contingency and £3.2m of mitigation. The main area of pressure is Children's Services, where resources in 2017/18 have increased by £15m being originally planned as one-off support for 2017/18. Projections are for an overspend of £3.8m (with further £1m for Legal Services costs) for the service this year.

3.15 The position reflects in part the national picture with children's social care coming under unprecedented levels of demand across the Country. It is understood that 75% of children's social care departments are overspending with an estimated 90 children a day are being taken into care. Wirral currently has its highest ever level of looked after children increasing by 150 in the past year. The projections are that this will increase in future years to potentially over 900 children. This has put the current budget for 2017/18 under strain and unless action is taken will continue into future financial years. In revising the MTFs and budget for 2018/19 investment will be included for Children's Social Care with an additional £25 million planned for the service. This will be focused on

- New and permanent social workers to reduce the use of agency staff.
- Investing in early help and intervention services to be more able to work with families earlier before they need more extensive interventions.
- Increasing the safeguarding capacity.
- Funding the increased cost of placements for children in care including legal fees, transport and youth provision.

The service is undergoing a significant period of transformation and this investment is needed to deliver a more efficient and sustainable children's service in the future with fewer children in care. The aim is to reconfigure services to provide effective support to Wirral children, services that are appropriate, moving to an early intervention and prevention approach, with fewer Children having to experience being placed in care in the future years.

3.16 The MTFs has delivered a range of innovative changes as well as generating increased income. However the increase in the gap now presented by the pressures in social care means that a new strategy and framework for future budgets is required. If the Council is to achieve the required future budget reductions while continuing to invest in services including regeneration for the people of Wirral, further service transformation and investment in the re-development of the area to produce income is needed. To take this forward additional resources of £5 million are considered needed for 2018/19. This will be used to progress initiatives such as the Growth Company, rationalisation of assets, the integration of health and social care and the digital strategy.

- 3.17 The current MTFS 2017/18-2020/21 has also been revised to reflect changes in assumptions and revisions to projections for housing and Merseytravel projections.

### THE BUDGET STRATEGY

- 3.18 Our MTFS focusses on ensuring resources are targeted towards achieving the 20 Pledges articulated in the Wirral Plan whilst operating within the reduced financial envelope we have available. The total revised budget deficit for the 2018/19 is projected to be £61 million.

<b>FINANCIAL PROJECTIONS</b>	<b>2018/19 £m</b>	
Annual Budget Gap (MTFS Feb 2017)	25	
Add : Children's Services	25	
Add : Transformation	5	
Add : Other Amendments	-3	52
Add : Replenish Use of Balances		+9
<b>Budget Gap</b>		<b>61</b>

- 3.19 The financial position remains subject to review. The Local Government Finance Settlement is due to be announced in mid-December 2017. The Transport and Waste levies will not be confirmed until February 2018.
- 3.20 The Council is increasingly planning for the longer-term, with a view to setting sustainable and achievable plans to deliver improved outcomes for local people. The budget proposals for 2018/19 that have been and are being developed demonstrate that approach, with a focus on ensuring resources are invested in the right places, taking regard of the needs of residents and the Wirral Plan pledges.
- 3.21 This structured and strategic approach to budget setting over the medium term reflects the changing circumstances in which the Council and partners operate. It means there is a demand to take a longer and higher-level view of what Wirral will look like and need in the future. It requires the maximisation of every opportunity to innovate and increase income.
- 3.22 As part of the MTFS for 2017/18-2020/21 financial proposals for 2018/19 were agreed in March 2017. These are summarised below with further details in Appendix 1.

### SUMMARY OF AGREED PROPOSALS FOR 2018/19

<b>SUMMARY OF AGREED SAVINGS BY PORTFOLIO</b>	<b>18-19 £m</b>
ENVIRONMENT	- 0.10
HIGHWAYS & TRANSPORT	0.08
HEALTH & CARE	- 2.70
FINANCE & INCOME	- 18.95
<b>TOTAL</b>	<b>- 21.67</b>

- 3.23 The annual budget setting out the planned budget and MTFs are key to demonstrating the Council's financial resilience. Both must show the risks the Council faces and how it plans to manage these. Both must be based on a realistic picture and the MTFs agreed in February has been revised to reflect the financial realities faced and the requirement to fund the pressures that are present in 2017/18 and 2018/19. To accommodate an increase in the gap has meant the budget process has had to look for greater financial proposals than was originally envisaged in March this year and considerable later in the process than would normally have occurred. As a consequence of this the development of financial proposals is on-going with a number of options and approaches underdevelopment. These will be finalised for Budget Cabinet in February 2018.
- 3.24 The Budget Strategy that has driven the development of budget proposals has been again through the overarching themes of Delivering Differently, Income and Resources and Service Changes. The budget process and the development of new financial proposals has been through the Wirral Plan portfolios.
- 3.25 Whilst the focus has been on fixing the immediate pressures presented in the current financial year the Council is investing in its longer term financial stability. While revenue resources are challenged with investment focused on Children's Services for 2018/19, the Council is utilising its capital resources including assets to invest for the future and build income sources to support services. This is through initiatives such as the Wirral Growth Company, the capital programme and transformational programmes.

### 3.26 **BALANCING THE BUDGET**

As stated before the Council in its current financial strategy 2017/18-2020/21 agreed to a series of indicative proposals and actions that balanced its budget gap. These if successfully delivered would have resulted in balanced budgets for the period to 2020/21. The impact of the new financial pressures for 2017/18 means that the Council is facing a budget gap in 2018/19 that will be in part solved in the main through the use of one-off, short term funding.

<b>PROJECTION</b>	<b>18-19 £m</b>
BUDGET GAP	52
Add : One-Offs used in the previous year	9
BUDGET GAP	61
Less Agreed Proposals (February 2017)	22
BUDGET GAP	28
Capital Receipts to fund another year of transformation	10
one-off use of Balances, Reserves & Collection Fund	12
<b>REVISED BUDGET GAP</b>	<b>17</b>

- 3.27 As can be seen from the table above there remains a budget gap. For 2018/19 further options are being developed and will be considered to close the remaining gap. It is anticipated that this will be achieved through the annual assessment of the Collection Fund, earmarked reserves and a number of further financial proposals plus efficiencies. The use of one-off funding in 2018/19 of currently over £22 million will in future years need to be replaced by financial proposals including increased income. The challenge associated with extracting a further £22 million of budget changes from the Council from 2019/20 should not be underestimated, especially after 8 years of annual reductions. The scale of reductions still to be found make it more difficult to make gains through efficiencies and delivering differently that don't effect service delivery. The year 1 2018/19 requirement of over £22 million will also mean that significant decisions are required in 2018. It is anticipated that the capital investment the Council is making through ventures such as the Growth Company will yield additional income to help close the budget gap in future years.
- 3.28 The figures are subject to change given the awaited Local Government Finance Settlement, announcements on Specific Government Grants and the determination of the Levies. The position will be updated and reported to Cabinet on 19 February 2018 when the outcomes further developments will also be considered. Whilst there are indicative proposals for subsequent years being considered, the budgets for the later years will be reviewed and refined before being formally approved in advance of each year.

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

- 3.29 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 2018/19 Budget. This will take account of the financial risks anticipated to be faced in the coming period 2017/21 and known commitments and plans. The outcome of the review will be reported to Cabinet on 19 February 2018 and will be based upon:-

RELEASE OF RESERVES	£m	COMMENT
Collection Fund	tbc	Position has to be formally declared by 22 January 2018.
Insurance Fund	2.5	Report to recommend release based on claims management and funding changes.
General reserves	tbc	Review of reserves is on -going with a target to release a minimum of £3.5 million.
General Fund Reserves	6.0	Release based on Q2 position plus the Treasury changes.

## **CAPITAL PROGRAMME AND USE OF CAPITAL RECEIPTS**

- 3.30 The Council has a planned 2017/20 Capital Programme and the 2018/19 onwards 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. The revisions will also include the use of capital receipts to fund the Transformation Programme.
- 3.31 The capital receipts flexibility announced in the Autumn Statement 2015 and changed the rules regarding their use. From 1 April 2016 to 31 March 2019 the Council is able to spend any receipts generated from the sale of assets. For 2018/19 a new Flexible Use of Capital Receipts Strategy will be produced and incorporated into the MTFS.
- 3.32 The establishment and publication of the Strategy will allow the Council to fund from capital receipts and achieve part of the budget strategy for 2018/19. The Government guidelines state that it is for individual Councils to decide whether or not a project qualifies for the flexibility.

## **4.0 FINANCIAL IMPLICATIONS**

- 4.1 The financial implications are detailed in the report.

## **5.0 LEGAL IMPLICATIONS**

- 5.1 The Council is required to agree a Budget for 2018/19 by 10 March 2018. 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.
- 5.2 The duty of the Council is to avoid a budget shortfall which is not just an academic exercise in balancing the books. The Chief Financial Officer of a local authority has a personal duty under Local Government Finance Act 1988 Section 114A to make a report to the Executive if it appears that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to meet that expenditure.

## **6.0 RESOURCE IMPLICATIONS: ICT, STAFFING AND ASSETS**

- 6.1 Investment into IT continues in accord with the development and implementation of the Digital requirements. In respect of assets the Council continues to review its estate, working with partners in order to maximise both investment and rental income and the generation of capital receipts from the release of surplus assets.

## **7.0 RELEVANT RISKS**

- 7.1 The financial position is based on forecast amounts which are outside of Council control such as Government funding and the levies from other bodies as well as reflecting changing demand for services. A key risk is that any of these assumptions can change which is increasingly the case when projections are made over the medium term. This is mitigated by keeping the MTFS under, at least, an annual review.
- 7.2 The budget for 2018/19 is reliant on the generation of future capital receipts. It is planned that £10 million of revenue funding will be funded from capital receipts through utilising the flexible use of capital receipts freedoms in 2018/19. The generation of capital receipts is sensitive to the fluctuations in the performance of the property market including changes in land values. If sales and prices reduce or not take place, it will be necessary to look to mitigate including through the use of limited revenue funding and further sales of assets.
- 7.3 There is a risk that agreed changes will not be delivered. The progress on the delivery of the agreed Budget will be through the Financial Monitoring reports presented to Cabinet. The level of General Fund balances includes an element to reflect the risk associated with the delivery of the savings. In the medium term the delivery of the new homes is reliant upon developers being able and prepared to build the housing.
- 7.4 Over the period of the MTFS there are years where there is a projected funding gap which will be met from the use of balances. Whilst this approach can be adopted it does present a risk in that this action is only a temporary solution. The challenge associated with the use of one off funding is the requirement to develop budget reductions across the Council or additional income. While work has been started on future years further is required with the development of the MTFS planning process to meet the challenges of replacing the one off funding with permanent solutions. This can be mitigated by the earlier delivery of the proposals emanating from the Transformation Programme.
- 7.5 At this stage new financial proposals to close the budget gap for 2018/19 are being developed and will be reported to Cabinet in February. A failure to achieve this will result in either the further use of one off funding such as balances or the failure to set a budget.

## **8.0 ENGAGEMENT/CONSULTATION**

- 8.1 Subject to Cabinet agreement, the Council will commence appropriate consultation.
- 8.2 The Council will also work with staff and Trade Unions where required to ensure obligations in relation to statutory; staff consultation is delivered appropriately and within agreed guidelines.

## 9.0 EQUALITIES IMPLICATIONS

9.1 It is recognised that some of the developing proposals could have equalities implications. These will be considered prior to decisions being taken by Cabinet in February 2018.

**REPORT AUTHOR:** Jenny Spick  
Senior Finance Manager - Financial Planning and Policy  
Telephone 0151 666 3582  
Email [jennyspick@wirral.gov.uk](mailto:jennyspick@wirral.gov.uk)

## SUBJECT HISTORY

<b>Council Meeting</b>	<b>Date</b>
Council – Wirral Plan	13 July 2015
Cabinet – Revenue Budget and Council Tax Levels 2017/18	20 February 2017
Council – Revenue Budget and Council Tax Levels 2017/18	6 March 2017

**AGREED FINANCIAL PROPOSALS**

**APPENDIX 1**

<b>ENVIRONMENT</b>	<b>18-19 £m</b>
Increase in Planning Income	- 0.10
<b>Total Environment</b>	<b>- 0.10</b>

<b>HIGHWAYS &amp; TRANSPORT</b>	<b>18-19 £m</b>
Car Park Maintenance re-instated from 16/17 freeze	0.08
<b>Total Highways &amp; Transport</b>	<b>0.08</b>

<b>HEALTH &amp; CARE</b>	<b>18-19 £m</b>
Savings within Adult Social Care	- 2.70
<b>Total Health &amp; Care</b>	<b>- 2.70</b>

<b>FINANCE &amp; INCOME</b>	<b>18-19 £m</b>
Council Tax Increase of 1.99% per year	- 2.70
Council Tax Adult Social Care Precept of 3% per year 17/18, 18/19	- 4.00
Business Rates increased collection	- 3.50
Business Rates Inflation	- 1.00
Fees & Charges - general in line with policy of full cost recovery	- 1.00
Fees & Charges - in other proposals	0.95
Improved Better Care Fund	- 6.90
Re-instate Employees / Member Training Budgets removed in 16/17.	0.30
Housing – continued house building towards the Pledge.	- 1.10
<b>Total Finance &amp; Income</b>	<b>- 18.95</b>

**SUMMARY OF AGREED FINANCIAL PROPOSALS FROM MARCH 2017**

	<b>18-19 £m</b>
ENVIRONMENT	- 0.10
HIGHWAYS & TRANSPORT	0.08
HEALTH & CARE	- 2.70
FINANCE & INCOME	- 18.95
<b>TOTAL</b>	<b>- 21.67</b>