

# **MEDIUM TERM FINANCIAL STRATEGY 2019/20-2022/23**

**A sustainable financial strategy to support our 20 Pledges**



# Foreword

Wirral Council like other Councils across the country continue to face challenges in providing good quality services whilst under significant financial constraints. To meet these financial challenges to continue to maintain and deliver improvements in services, the Council must have a strategy, the Medium Term Financial Strategy (MTFS). The challenges and plans for delivery will stretch over several years, or over what is known as 'the medium term'.

The MTFS has two main elements:

- The MTFS providing an overview of the approach to the period 2019/20-2022/23.
- The Medium Term Financial Plan (MTFP) contains a Financial Resilience Plan setting out how council finances will be managed over the period.

## Approach to 2019/20-2022/23

The MTFS helps provide the monies which will support the delivery of the Wirral Plan. Approved in July 2015 the plan provides a clear ambition for the area based on three overarching themes:

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|--------------------|--|
| <b>PEOPLE</b>      | Wirral is a place where the vulnerable are safe and protected, where every child gets a good start in life and older residents are respected and valued. |
| <b>BUSINESS</b>    | Wirral is a place where employers want to invest and businesses thrive.  |
| <b>ENVIRONMENT</b> | Wirral has an attractive and sustainable environment, where good health and an excellent quality of life are enjoyed by everyone who lives here.         |

The three themes are supported by 20 pledges which define the outcomes to be achieved by 2020. This shared set of outcomes, goals and objectives will see the Council and our partners working towards bringing together services and budgets to make best use of the available public sector resources for the benefit of Wirral people. It's not just about the Council. Our Partners are committed playing a leading role in achieving 8 of the 20 pledges.

For 2018/19 priorities have been set and the Council's focus on what it will deliver for residents, how it will be done and what will be achieved agreed. These are:

- Getting the Basics Right
- Jobs and Growth
- Children's Services
- Local Plan and Housing
- Leisure and Culture Review

The budget for 2018/19 outlined what the Council plans to do to take these forward, the plans to improve Children's Social Care, protecting services to residents and attracting investment and jobs to the area. The Council is committed to all of these whilst maintaining a balanced budget. The MTFs that follows builds on the investment and changes made in 2018/19 Budget.

The MTFs focus is on building the foundations for a sustainable financial future with sufficient support for services and describes how to provide the funding and services so that residents receive the support for their lives and communities. Outlined, in addition, is how the Council will invest in our local economy to encourage growth to continue.

The MTFs and the 2018/19 Budget is the first step in resolving the financial challenges we face and moving to a more self-sufficient funding position. Maintaining business as usual whilst reforming services and regenerating the local economy will be the future focus to target our resources. Establishing the correct baseline to do this is an essential component of our delivery and the MTFs sets out how we plan to do this in line with our financial principles. It details the financial remit within which the Wirral Plan directs all services up to 2023.

The plan enables funding to be targeted to prioritising the transformation of our local economy to be sustainable and inclusive. At the same time attention will continue to be directed on the most appropriate method to deliver services. These will be delivered not in isolation but through a partnership with the area and residents. We are increasingly looking to the future and taking responsibility for the challenges Wirral faces. This is more than the Council making choices on services. All residents are involved in the challenges that Wirral faces. Wirral Together introduces new ideas to tackle some of the social and services challenges the area faces.

#### Partnership and Wirral Together

The Wirral Plan has been adopted by all the Councils strategic partners from the public, private and third sectors. It is how all partners work towards a shared set of outcomes, goals and objectives, moving toward integrating as far as possible services and finances.

The Council and its partners need a focused approach to commissioning services, to integrating services across the public sector and to ensuring that services are decommissioned where they do not align with priorities or cannot be afforded. This is an outcome based approach to community engagement. Working together to manage demand and subsequently the cost of specialist, substantial services mean we can invest more resources into early intervention and prevention services. In line with the Wirral Plan and the views of residents it is important to protect the vulnerable and working with Health partners to improve the health and well-being of Wirral people will see the integration of resources to realise efficiencies to help meet the increasing demand.

The Integrated Commissioning Hub, a partnership between the Council and Wirral Clinical Commissioning Group (CCG) have a combined plan of how Adult and Health Care Services will be delivered. A pooled budget will enable funds to be targeted to the areas of most need that generate the most beneficial outcomes.

To be successful, the Council will call on all Wirral residents to play their part for example in playing an active role in their community and supporting local shops and businesses. This call will include taking steps to take part in the future shape of the area by increasing independence, civic pride and self-help. Measures such as recycling more, volunteering, getting on-line to access services and keeping healthy build a better future for all and help with the financial challenges being faced.

Future budgets will build on 2018/19, they will reflect the Wirral plan to make investments in services, reforming services where required to meet the needs of a changing population, encouraging local economic growth and supporting residents to make improvements in their lives. Whilst it is not possible to correct the changes in Council funding since 2010 in one budget, the MTFS is an important first step to a sustainable financial future. The aim is to grow our local economy, however this will take time and will need to be phased to ensure that it is achievable, deliverable, sustainable and responsible.

### Local Economy

It is essential that the Wirral economy thrives, not just for businesses but for residents. Long-term under-investment and poverty undermine the areas real economic potential. The Councils commitment is to build sustainable economic development with good jobs, that ultimately increases equality and fairness, reduces poverty, improving the life changes and well-being of everyone on Wirral. The Council will also benefit from this through new income from new businesses paying rates and income from visitors participating in local events.

The Council plans for regeneration will lead to a better, financially sustainable future for both our residents and the Council through a stronger and more inclusive local economy. It will make better use of local assets and mean that everyone has an opportunity to take part and benefit from economic growth, with all sectors of the community benefitting from local growth. To achieve our vision, we are transforming our approach to regeneration through the dual approaches of community wealth building and attracting new inward investment.

Community Wealth Building is the encouragement of local growth through groups and institutions working in co-operation with a strong focus on self-help, participation and social responsibility. It is a place-based approach to local economic improvement involving the community, partners and the local council to grow and keep wealth locally. Using existing local wealth, through area based bodies such as the Council and hospitals spending locally to benefit local areas by buying locally. This means that residents and their local employers can continue to be sustained and grow. This local investment, the Wirral Pound, would be retained in the area leading to new opportunities.

Attracting inward investment to Wirral aims to create new residential and business developments whilst retaining existing employers. Through the Wirral Growth Company and working with our developer Muse, the Council aims to regenerate large areas of Wirral. The company will bring together Council land, planning powers with private sector investment and development expertise. The focus will be on the renewal of key sites and communities in Wirral.

Through the MTFS and budgets in future years we will ensure that the commitments made in the Wirral Plan are delivered and fully funded through sustainable and robust finances. A strong financial position makes Wirral more resilient. Rebuilding our finances and reforming services will require work over coming budgets. However, the Council cannot do this in isolation. It will be for all of Wirral, partners and residents to address the challenges.

# Introduction

The MTFs covers a 4 year period detailing anticipated funding and assumptions on spending. Our challenge for 2019/20 and beyond is to deliver our 20 pledges whilst having fewer resources provided to us from central government. Our services are currently funded by council tax, business rates, government grants, plus fees and charges. Key areas of spending for the Council are services like social care for vulnerable children and adults, libraries, parks and transport.

The Council's budget also includes ring-fenced spending on education and housing benefits. These are funded by specific government grant which are 'ring-fenced' i.e. can only be used for these purposes and planning for these is undertaken separately from the revenue budget covered by the MTFs.

Over the next 4 years we anticipate rising costs (inflation) and demand for services alongside reduced central government funding that will result in a budget gap of £45m in 2019/20 and £67m by 2022/23. In 2018/19 alone, we will see a reduction of £7m of government grant funding, which together with increased costs and demands, resulted in a budget gap of £61m. We have already saved over £100m between 2011/12 and 2018/19 and therefore finding further efficiencies and savings is becoming progressively more challenging.

Over the period the Council will seek to achieve the following to resolve the funding gap:

## Short Term

Growth in income sources will make a limited contribution with the amount of council tax growing through new homes being built. Business rates are also expected to expand as new businesses are established along with fees and charges increasing too. Saving proposals will need to make up a significant part of the resolving of the funding gap and this will mean that not all services can continue to be provided in the same way.

## Medium to Long Term

In the long term the Councils plan is to change approaches so that it can raise or generate more income itself and be less reliant on central government. This will be through:

- **Income and investments.** Aiding local economic development so that the area becomes more self-sufficient through economic growth, community involvement and social action.
- **Transform** how the Council works and operates to improve service and deliver pledge outcomes and reduce costs.
- **Working with partners and residents** to provide the tools to get people into employment and improve health. Through this route there will be better life outcomes and a reduced need for social care.

Alongside the MTFs, the Council sets an annual budget for the next financial year. This is an iterative process with proposals being submitted as and when they are

identified to enable consultation and scrutiny to take place so that the impacts of the proposals are known in advance; it is important that the Council aligns resources available to the highest priority areas in the plan and is on-message to meet its corporate objectives. It is also essential to demonstrate good financial management, control and financial planning to ensure we can demonstrate value for money. This document provides an overview of the Council's financial position and how it will, through the Wirral Plan, make the most of the financial resources available.

The Council has responded to a changing and challenging local government financial environment. This needs to continue. It will impact on the shape and direction the Council takes, including the services it provides. The MTFS provides the financial foundations for the Wirral Plan.

# Vision for Wirral and its Finances

The Council faces a difficult financial outlook. Within this context the MTFs and the annual budget will continue to prioritise the themes and pledges made in the Wirral Plan and will protect those services for the most needy and vulnerable.

Reductions in central government funding will continue. The future for local government finance is for all Councils to be self-sustaining. This means that the Council needs to plan for a resilient budget that includes strong income sources to protect key services to our residents.

Over the period of the MTFs the Council will seek to accomplish the following:

- A balanced four year budget agreed annually.
- Growing and diversifying income generation in the area in a sustainable way.
- Maximisation of returns from Council investments within a prudent approach.
- Maintaining investment in key services and outcomes that support the Wirral Plan 20 Pledges.
- Maintenance of the right level of earmarked reserves and general fund balances to protect Council services and mitigate against future risks.
- A four year capital programme aligned to achieving the outcomes in the Wirral Plan and the maximisation of invest to save opportunities.
- Maximisation of income generation and collection.
- Using best practice financial management approaches and control of Council budgets.
- Minimisation of fraud and corruption.
- Fit for purpose annual accounts.

# Financial Challenges

The Council is planning to resolve the budget gap it faces over the MTFS period through action to generate new income and reduce expenditure.

## **MTFS Financial Influences**

The MTFS covers the four year period to 2022/23. It sets out anticipated levels of funding and financial pressures. Forecasts are kept under constant review as changes occur and decisions are taken. These are sometimes based on assumptions about inflation, financial pressures and levels of income such as from Council Tax.

The biggest influence on the Council's budget is the continuation of reductions in government grant funding and the move towards self-funding by all Councils. The business rates retention scheme (BRRS) introduced in 2013–14 has allowed councils to retain up to 50% of the real-terms growth in local business rates revenues and bear up to 50% of any real-terms falls. The government has announced plans to increase this share to 75% by 2020/21 and continues to expand a series of pilots of 100% retention in some areas of the country including the Liverpool City Region. The aim of these reforms is to provide stronger financial incentives for councils to boost local economies and tackle the underlying drivers of spending need. However, changes may see a potential for councils' income resources to diverge from their spending needs across the England. There is a risk that affluent areas with potential to raise more income may benefit whilst poorer areas suffer. This is currently being examined by the Government as part of the Fair Funding Review.

The Fair Funding Review commenced in late 2017, with the outcomes of the needs and resources reviews likely to be implemented in 2020/21. The Needs Assessment commenced with a consultation paper and the Council responded in March this year. Further consultation including on the ability of Councils to generate income are due out later this year.

The outcome of the review is anticipated to have a major impact on the distribution of funding between Councils in England. The consultation paper is a key part of the development of a new funding formula that will ultimately assess spending needs and available resources in every Council. Few details of the likely impact on Wirral are known but will be fed into future updates of the financial projection from 2020/21.

Between 2010 and 2015 Government funding to local government will have been cut by 33 per cent in real terms. In terms of income the Council can raise further income. The reduction in grants may be offset by the Council's share of any growth in business rate income, Council Tax and fees and charges.

In addition to this the Council has and continues to restrain its costs as far as possible. This has been through savings programmes over a number of years.

Although costs have been contained the Council continues to face cost increases and unavoidable financial demands. The assumption is that inflation is absorbed within budgets and only specific contracts receive budgeted inflationary increases.

The inflationary challenges are one element of the financial pressures faced. The on-going rise in demand led pressures for social care both in Children’s Services and Adults adds to the financial challenges faced by the Council. There are also other unavoidable increases such as levy changes and pension increases. The Council has little influence, in some of these areas, over the costs that it must incur.

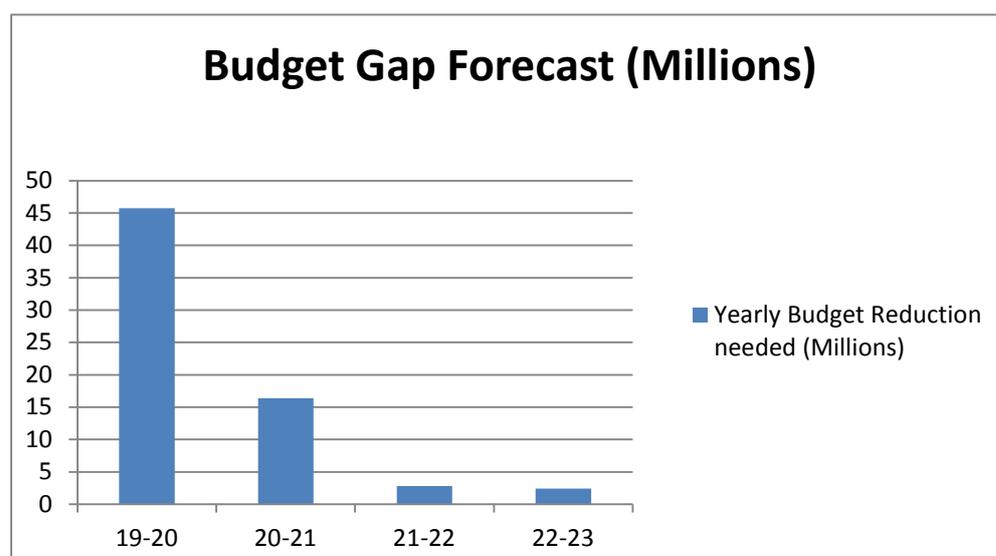
The Council will continue to invest its financial resources on its key Wirral priorities. Our annual expenditure will be focused on those areas that are most important to us.

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 are 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.

The Council has been able to set a balanced budget for 2018/19 with support from one off funding. However, after 2018/19 there is a new funding gap to be resolved. The gap is forecast to reach £67m by 2021/22 of which £45m relates to 2019/20.

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

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



The financial pressures in the period 2019-23 facing Wirral Council are considerable. The MTFS projections contain anticipated cost pressures and changes that the Council has to manage. The main anticipated expenditure changes are as follows:

- Economic – inflation and pay awards;
- Demographic – investment in Services for increased demands including greater houses;
- Policy – new service requirements, government legislation, grant settlement;

There are a number of areas where there may be additional costs to the Council in future years which are uncertain at present. One area to be addressed in the period of the MTFS is the approach to containing the demand for services, cost pressures and growth in a period when grant funding is reducing.

Wirral is very reliant on government grant to support all services. Since 2010 Government grant funding has reduced each year. This drop in funding coupled with a number of increasing financial pressures such as those due to changes in our population have meant that the Council has had to save considerable amounts over recent years. Wirral will continue to face considerable financial challenges, uncertainty and funding reductions over the medium term period. Beyond 2019/20 Central Government has made no detailed announcements on the general grant funding of local government. There remains a great deal of uncertainty in projecting Wirral's' future funding and an assumption of no central grant funding has been made in the final years of the MTFS period.

# Addressing the Challenges

Since 2010, Wirral has delivered a programme of savings and increased income in response to financial pressures and cuts to government funding. The response over recent years has been to find solutions through efficiencies, a number of innovations and transformation plus raising more income. The use of one off funding in 2018/19 means that the period 2019/20-2022/23 represents a new challenge and to respond requires a reset to the Medium Term Financial Strategy.

The key challenge for the Council is to maintain and improve where needed our services to the people of Wirral whilst managing with reduced central government funding.

To meet this challenge a number of financial approaches are developing and will be used across the four year period. The full details of their implementation will be through the annual budgets in each of the years of the MTFs period. It is anticipated that there will be a mix of approach across the timeframe as a number require actions that have long lead times that span a number of years.

## Our MTFs approaches 2019/20-2022/23

### Increasing Income

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. This will result in more the income that will protect services. The Council will provide the tools to encourage local regeneration leading to jobs and growth.

#### 1. 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 2019/20-2022/23 is to:

- Increase the number of properties paying Council Tax.
- 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.

## **2. 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.
- Improve collection rates and reduce the levels of outstanding debt for Business Rates.

## **3. 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.

## **4. 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.

## **Investment in Services**

The financial position for the Council is challenging over the 4 year MTFs period. Despite this the Council budget will continue to deliver funding to support spending on services more than £300 million a year. The focus of the Wirral Plan and the MTFs is on prioritising the allocation of these resources to ensure the right outcomes for Wirral, at best value for money, with our partners and providers. The budget will continue to be invested in line with the Wirral Plan themes:

- 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 are enjoyed by everyone who lives here.

Targeting resources to those who need our help the most – this may mean changes in some services – which we are trying to deliver in a way that is both fair and equitable; promoting independence with a move away from the Council doing everything, encouraging self-help and community empowerment and resilience through Wirral Together.

A key area for investment is Children’s Services. In this service the Council will continue to invest in prevention and early intervention to help families, by actions to help them come out of and stay out need and care. We will also protect our most vulnerable groups of children through working with partners. To improve Value for money in this area there is future work to be undertaken on the procurement and commissioning of services.

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

- Help Children to stay in the area with their families rather than being in expensive placements. Improving life opportunities and outcomes for our children.
- Reduce the cost of providing Children’s Social Care, through multi agency working.
- Reduce the relative high costs of providing children’s social care.

### Getting the Basics Right

Improving and modernising the Council is about understanding and responding to the needs of our residents. This means getting our everyday services right each day in all areas e.g. fixing potholes, replacing street lights, answering calls quickly, ensuring our streets are safe and clean etc. Communities need assurance that we are providing value for money for the local taxes they pay and allocating resources to the areas that matter most to them.

To enable this, we will review all services to ensure they are providing value for money through the **Reforming Services Programme**. Drawing on benchmarking and intelligence information on other Councils’ operations it will review the cost and configuration of all services. The use of benchmarking and predictive modelling tool CFO Insights will assist with this approach. This online analysis tool that gives access to insight on the financial performance, socio-economic context and service outcomes of every council in England, Scotland and Wales. The tool provides a

three-dimensional way in which to understand council income and spend by category, the outcomes for that spend and the socio-economic context within which a council operates. This enables comparison against others, not only nationally, but in the context of their geographical and statistical neighbours.

The aim across the period 2019 - 2023 is to:

- To be more efficient and assess Value for money – Making sure that we deliver our services in the most cost effective way possible – streamlining processes, joining up our back office functions and not spending money on administration that could be invested in services in line with our priorities.
- Review the mechanisms for delivering services to obtain the best fit for delivery to the residents of Wirral.
- Explore and enhance partnership working – working more in partnership with others in the public, community, voluntary and faith sectors, reducing duplication and delivering better outcomes for residents.

The total financial resource of the Council and wider partners needs to be maximised, prioritised and channelled to the right areas and activities. All financial planning activity will be targeted towards ensuring that resources are matched to the priorities identified in the Wirral plan, ensuring that statutory functions continue to be delivered and that enabling functions provide best value for money. Already the Council has 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.

The increasing deficit to 2023 coupled with the ability of the Council to continue to get “the same for less” will become 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 Wirral Plan sets out the vision and framework for those decisions.

To be successful, the Council will call on all Wirral residents to play their part for example in playing an active role in the community and supporting local shops and businesses.

# Conclusion and Next Steps

The financial challenge is considerable. For Wirral this means a funding gap of £67m over the next 4 years against an overall net expenditure of less than £300m per annum.

To respond and deliver the Wirral Plan the Council will over the period of the MTFS increase income, invest in services that support the delivery of the 20 Pledges and review what we do through Getting the Basics Right.

The total financial resource of the Council and its partners needs to be maximised, prioritised and channelled to the right areas and activities. All financial planning activity will be targeted towards ensuring that resources are matched to the priorities identified in the Wirral plan, ensuring that services continue to be delivered and enabling the provision of best value for money.

The successful delivery of the Wirral Plan and the MTFS in this challenging period is dependent on:

- A continuation of the new and focused approach to economic development in the area driving jobs and growth as the key to increasing and growing funding levels and sources. But also improving well-being for residents and bringing individual and organisational financial stability and resilience.
- A community approach to decisions and delivery with active community involvement with Wirral Together resulting in communities finding their own solutions and helping the area.
- A focus on early help and prevention to support independence and reduce demand on service.
- The prioritisation of resources to key areas.

The MTFS and budget development for 2019/20 will reflect the realignment of the Council, allocation of resources and its approach to financial strategy over the next four years. This will drive our approaches that will also lead to balanced sustainable budgets that support all Wirral residents, communities and businesses.

# **MEDIUM TERM FINANCIAL PLAN 2019/20-2022/23**

**A sustainable financial strategy to support our 20 Pledges**

## **Financial Resilience Plan**

## **Financial Resilience Plan: Management of Expenditure and Income**

### **Introduction**

The financial position for local councils continues to be challenging. To respond over the period, improving and maintaining financial resilience is a requirement that the MTFs needs to incorporate. It is about coping with the financial shocks and unpredictable events that take place. There are a number of ways of building resilience:

- Management of Spare resources.
- Use of Reserves.
- Income Generation.
- Forecasting and management of expenditure.
- Developing a holistic view of expenditure and spending.
- Rethinking the way services are delivered.
- Anticipating what is going to take place.

However, of these, two emerge as the main ones as follows:

- Improved Internal Financial Management - A major aspect of financial resilience is managing in changing conditions and contexts.
- Increased Income- Diversification of income through various Council approaches such as regeneration and commercialisation.

### **Review of Financial Resilience 2018/19**

During the early part of 2018 a review of the Council's Financial Resilience and Financial Management has occurred with the aim of making this a key part of the delivery of the MTFs to 2023. This was started for the following reasons:

- Increasing Financial Pressures on local government raising the profile of the strength of financial resilience in the sector. High profile examples such as Northamptonshire County Council demonstrate that the sector is facing a number of stresses and strains following the austerity programme that commenced in 2010 with the election of the coalition government
- Wirral financial performance and resilience changing over the last two years. The council has faced increasing financial pressures in both 2016/17 and 2017/18. While the overall outturn for the Council for both years has been favourable there has been a reliance on one-off funding such as balances and in year solutions to mitigate and put in place actions to resolve adverse financial pressures that developed in major service areas part way through both financial years. Linked to this the following has been identified:
  - A clear reduction in the level of earmarked reserves. There has been an increasing use of earmarked reserves as temporary budget funding while budget proposals are implemented.

- Short term financial planning. The budget for 2018/19 was for one year only, rather than across a wider MTFs timeframe. There has been limited planning for future years savings and increased additional income.
- An increasing tendency for services to have unplanned overspends and/or carry forward the implementation of financial proposals from one year to the next.
- Increasing size of the budget gap with a higher proportion of the solutions being found from one-off funding if no specific savings and additional income having been identified.
- Organisational changes and a new senior management structure. A new structure presents an opportunity to review financial roles and responsibilities to ensure that there is appropriate management of budgets and understanding of roles and responsibilities.
- A new approach to budget preparation and management through greater Member involvement via portfolio responsibilities.

### **Building Financial Resilience: Review Findings and Action Plan**

A combination of financial pressures in the last few years combined with increasing challenges in future years plus organisational changes make it an important priority to refresh and renew the Council approach to its financial resilience. Building financial resilience is a key part of the MTFs planning for our finances. A major part of this is getting the basics of financial management right especially given the pressures and changes that have occurred over recent years.

During 2018, we have tested our financial resilience plan with a diagnostic tool, the CIPFA Financial Management Model. The tool was used to assess the financial management arrangements in the operation and its findings are summarised in the points below:

#### Strengths

The high level strengths identified included:

- The outcomes based focus of the Wirral Plan demonstrates a willingness by Members and the Senior Leadership Team to be open to new ideas on how services might be delivered in future.
- The determination and commitment of the Senior Leadership Team and the Cabinet to instil a culture of financial discipline throughout the organisation.
- A budgeting process for 2018/19 and 2019/20-2022/23 that was becoming more grounded and rigorous.
- There are pockets of good practice in the Council.
- The Director of Finance has begun to raise the influence and profile of the Finance team on strategic issues.

## Development areas

The areas for development:

- There is a pressing need to agree a Medium Term Financial Strategy and associated transformation plan to address the projected spending gap.
- The future delivery of the Medium Term Financial Strategy and transformation plans are dependent on changing the existing culture within the Council.
- Members and senior officials need to more explicitly set a tone that financial discipline is important.
- Focusing the finite resources of finance and audit on the key areas of financial risk.
- Further developing the enablers that provide effective financial management.

The Council continually reviews and improves its financial resilience to ensure it can demonstrate long-term financial sustainability. Since the diagnostic has been carried out, the areas for development have already been progressed and programmes are in place to support these.

The programme has 4 elements being the 4 elements for financial resilience:

- Getting routine Financial Management Right.
- Benchmarking – making this routine.
- Clear plans for the delivering savings.
- Prudent use of reserves.

## **General Fund Balances and Earmarked Reserves**

### **Introduction**

The maintenance of general fund balances and earmarked reserves at the correct level is part of the Council's strategic financial planning and approach to the management of risks it will face in the future. Both need to be maintained at sufficient levels to ensure that unforeseen financial pressures can be met without jeopardising the viability of the Council.

The Council's approach to how it manages its reserves is based on Wirral's local circumstances. The amount held is decided by the Council in line with its perceived future local demands. As such there is no standard approach to the level of reserves that could be applicable to every Council. Despite the certainty given by the four year funding settlement the financial future for the Council continues to be challenging and a number major uncertainties remain. In determining the appropriate level, the Section 151 Officer has assessed a number of local factors. In determining the appropriate level of General Fund balances the Council takes account of the strategic, operational and financial risks factors facing the Council. This approach is supported by Grant Thornton (the Council's external Auditors) and by CIPFA (Chartered Institute of Public Finance and Accountancy, the professional body which issues the guidance in this area).

Wirral Council adopts a risk-based approach to financial planning, which is used to determine the minimum level of reserves required. The aims of this approach are to:

- Ensure the General Fund Balances are set at a reasonable level – this is the Council's 'last line of defence' should unforeseen financial difficulties emerge. Funding for the New Ferry explosion is an example of where these balances have been used
- Ensure earmarked reserves are set at a reasonable level to cover specific financial risks faced by Wirral Council – these may also be used on a short-term temporary basis for other purposes provided the funding is replaced in future years.

Over 2016/17- 2018/19 the overall level of available funds has and will continue to reduce. The use of one off support was planned for these years to close the budget gap. However, for future years the budget gap will be closed through the implementation of the new financial proposals and additional income. Any bridging of the gap using general fund balances and earmarked reserves will only be considered as a last resort and will only happened in the early part of the MTFs timeframe.

### **General Fund Balances**

Wirral Council's risk-based reserves strategy is applied in the context of the current state of the economy, the other financial risks facing the council and the underlying financial assumptions within the medium term financial plan. The level of the Working Balance must be maintained at £10m for 2018/19.

The setting and justification of General Fund balances is part of the Council Medium Term Financial Strategy. It is crucial the Council has sufficient balances, and earmarked reserves, to maintain financial standing and resilience. For local authorities there is no statutory minimum level and it is for each Council to take a view on the required level having regard to matters relevant to its local circumstances. CIPFA guidance issued in 2014 states that to assess the adequacy of unallocated general reserves the Chief Financial Officer should take account of the strategic, operational and financial risks facing their authority. The assessment of risks should include external risks, such as natural disasters as well as internal risks such as the achievement of savings. The Local Government Finance Act 1992 required Councils to consider their level of reserves at least once a year.

CIPFA state that the financial risks should be assessed in the context of the Council's overall approach to risk management. In its paper "Local Authority Reserves and Balances" the following factors are relevant to determining the level of balances.

- The treatment of inflation and interest rates.
- The treatment of demand led pressures.
- The treatment of planned efficiency savings/productivity gains.
- The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital developments.
- The availability of reserves, government grants and other funds to deal with major contingencies and the adequacy of provisions.
- The general financial climate to which the authority is subject.

In determining the appropriate level of balances, the Council takes account of the strategic, operational and financial risks facing the Council. In planning the financial future and the level of reserves the Council considers the main risks and uncertainties including:

- Legislative changes
- Inflation
- Grants and Partnerships
- Volume and Demand Changes
- Budget Savings
- Insurance and Claims
- Energy Security and Resilience

The basis of the level of general fund balances framework are an area of risk, a budget amount, an assessed level of risk, and a percentage factor, which will vary according to the level of risk, which produces a value.

This has been Wirral Council's approach since November 2012 and is reviewed in line with CIPFA guidance. A consideration of the risks and the financial circumstances that might be faced by Wirral for 2018/19 has been made. The risk factors used in the Council's assessment are like those recommended by CIPFA guidance.

The calculation of the level of General Reserves Balances is as follows:

	2017/18	2018/19
Assessed Minimum Level of Balances	£10.0m	£10.0m

It is currently anticipated that this level will be maintained across the MTFS timeframe.

### Earmarked Reserves

The Council maintains earmarked reserves in addition to its General Fund Balances, which are set aside for specific purposes. The Council is obliged to maintain a number of Legally Restricted Reserves; these are sums of money that the Council is required to set aside for legally defined purposes (e.g. the Dedicated Schools Grant). Reserves are set aside by the Council to meet future expenditure such as decisions causing anticipated expenditure to be delayed. As such they are only available to be spent on specific purposes. The categories of earmarked reserves are as follows:

Category and Purpose
<b>INSURANCE AND TAXATION</b> Assessed liabilities including potential cost of meeting outstanding Insurance Fund claims, Business Rates appeals, etc.
<b>TRANSFORMATION</b> To support the Transformation programme, which includes support to deliver future savings and the reconfiguration of services.
<b>SCHOOLS RELATED</b> Balances and sums for school-related services which can only be used by schools and not available to pay for Council services.
<b>SUPPORT SERVICE ACTIVITIES AND PROJECTS</b> Includes Government Grant funded schemes when the grant is received and spend incurred in the following year and sums held that are earmarked for the completion of programmes such as Community Asset Transfer.

A robust reserves strategy is a key part of the financial resilience of the Council and provides the first line of defence underpinning the statutory requirement to set an annually balanced budget. Adequate reserve levels help prevent local authorities from overcommitting themselves financially, mitigate against risk and provide organisational stability in the event of unanticipated, unforeseen or emergency spending being required. An assessment of the adequacy of reserves is a key statutory requirement to be undertaken at least annually.

The Council in recent years has increasingly relied on reserves in balancing the budget and in meeting service related financial demands. Actual general fund and earmarked reserves have reduced by £20m between 31 March 2014 and 31 March 2017, representing a 20% reduction. Looking forward, reserves are forecast to reduce further to £47m by 31 March 2019.

The Budget 2018/19 strategy does not provide for any replenishment of reserves but draws down some £15m as general budget support. This is not sustainable in the longer term and opportunities will need to be taken to contribute to reserves, wherever possible. Demands on the use of reserves will be restricted and closely monitored in the light of ongoing risks being faced by the Council.

The experience at Wirral is common to other Councils. A recent Study by the Office of Budget Responsibility contained details of the level of local authority reserves since 2010/11. This showed that in period 2015/16 and 2016/17, English local authorities drew down from their stock of reserves by £0.4 and £1.5 billion respectively. This reversed the build-up of reserves from 2010, which saw them rise by an average of just under £2 billion a year between 2010/11 and 2014/15.

## **Monitoring and Management**

Compliance against a benchmark for general fund balances is monitored on a regular basis and reported to Members through the Revenue Monitor report. The aims of this approach are to:

- Ensure the General Fund Balances are set at a reasonable level- this is the Councils 'last line of defence' should unforeseen financial difficulties emerge;
- Compliance against this benchmark is monitored on a regular basis and reported to Members through the revenue budget monitor.

## **Summary**

Although the budget position is very challenging and will remain so for the foreseeable future, the Section 151 Officer considers the level of reserves and balances to be reasonable for 2019/20-2022/23 based on:

- Working Balance of £10m, which assessed as reasonable given the financial risks the council is facing;
- Current level of general fund earmarked reserves.

The Council uses its reserves instead of making budget reductions the level of reserves held will reduce as they are used up. Reserves are being used in 2018/19 In future years will only be used to smooth budget changes. However, the budget changes required to balance the budget cannot be avoided using balances. In addition, using reserves means that the Council is less likely to be able to fund unforeseen events or plan for future transformational changes without the need to make further reductions in expenditure. A financial priority is the bolstering of reserves to fund support to future changes and provided financial resilience during the MTFS timeframe.

## **Capital and Treasury Management**

### **Balance Sheet Management**

Balance sheet management is a comprehensive approach to managing assets and liabilities to ensure that resources are used effectively (both financially and operationally) and that appropriate governance arrangements are in place around the use of public sector assets and liabilities. Failure to do this could expose the authority to a range of operational, reputational and accounting risks.

The Council already has embedded processes to review its fixed assets through the asset management strategies, for treasury management and borrowing. Over the course of 2018/19 it will undertake a self-assessment of the process for managing and making provisions for outstanding debtors to ensure that it is effective and will implement any appropriate changes.

### **Capital Overview**

The MTFs includes the capital strategy for a three year period 2017/18 to 2019/20. The strategy is designed to maximise outcomes through a prioritisation of limited resource allocations. The Council will continue to identify future capital resources including on-going reviews of its own asset holdings, the latter aiming to generate receipts to be reinvested into its capital resources. In addition, the strategy seeks to minimise the level of unsupported borrowing where no additional source of income or saving can be identified to cover the ongoing revenue costs.

### **Capital Strategy**

The Capital Strategy is concerned with, and sets the framework for, all aspects of the Council's capital expenditure – its planning, prioritisation, management and funding. It is closely related to and informed by; the Council's Asset Management Plan and is an integral aspect of the Council's medium term service and financial planning process as reflected in the MTFs. It is also essential that the strategy reflects the wider public and private sector investment into the overall improvement of the area.

The key aims of the Capital Strategy are:

- how the Council identifies, programmes and prioritises capital requirements and proposals;
- provide a clear context within which proposals are evaluated to ensure that all capital investment is targeted at meeting the Wirral Plan objectives;
- consider options available to maximise funding for capital expenditure;
- identify the resources available for capital investment over the three year planning period;

## Treasury Management

The Treasury Management Strategy sets out the expected treasury operations for this period, linked to the Council's Medium Term Financial Strategy, Capital Strategy, Asset Management Plan and the Wirral Plan. It is inextricably linked to delivering the Council's priorities and strategy. It contains four key legislative requirements:

- The Treasury Management Strategy Statement which sets out how the Council's treasury service supports capital decisions, day to day treasury management and the limitations on activity through treasury prudential indicators. The key indicator is the Authorised Limit required by Section 3 of the Local Government Act 2003 and is in accordance with the CIPFA Codes of Practice;
- The reporting of the prudential indicators for external debt and the treasury management prudential indicators as required by the CIPFA Treasury Management Code of Practice;
- The investment strategy which sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss. This strategy is in accordance with the Department for Communities and Local Government (DCLG) Guidance on Local Government Investments updated in 2010;
- The Council's Minimum Revenue Provision (MRP) Policy, which sets out how the Council will pay for capital assets through revenue each year as required by Local Authorities (Capital Finance and Accounting) Regulations 2008.

Revised editions of the CIPFA Prudential Code for Capital Finance in Local Authorities and CIPFA Treasury Management Code of Practice were published in November 2011. The Council has adopted the codes and the Treasury Management Strategy Statement 2018-21 reflects the updated codes.