



COUNCILLOR PHIL DAVIES

CABINET

26 NOVEMBER 2018

MEDIUM TERM FINANCIAL STRATEGY

AND COUNCIL BUDGET 2019/20

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.

“Once again, this year, we are facing an almost unimaginable financial challenge. Continued reductions in our support from Central Government, combined with growing demand for our services, mean we must find ways to reduce our spending – or raising our income – by £45 million just next year.

“This is on top of the more than £200 million in cuts we have been forced into delivering since austerity began. This means we must make ever more difficult decisions, but we will never shirk our responsibilities to Wirral residents. We 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 will deliver on all of our promises to Wirral residents. Our medium-term financial strategy provides a budget for next year, which delivers on our priorities for Wirral and meets our principles as an Administration – it protects our most vulnerable, it shields the services our residents rely on most from the worst of the cuts, and it safeguards our workforce.

“Even in these most challenging circumstances, it is a budget we can be proud of and a budget I believe Wirral residents will support.”

REPORT SUMMARY

This report is part of the Council's formal budget process as set out in the constitution and in line with the legal requirements to set a balanced and sustainable budget for 2019/20. This report presents an update on the Medium Term Financial Strategy (MTFS) agreed earlier this year including details of the preparations for the following financial years. Cabinet is required to initiate and propose financial options to set the budget for next year. The purpose of the report is to approve a set of proposals.

It contains details on a number of financial matters:

- The approach to the preparation of the 2019/20 budget. It is anticipated that the Council will set a balanced budget in 2019/20 via increased income including that received from Council Tax, the implementation of a number of financial proposals and the use of one-off funding that will close the budget gap;
- An update on the progress of the MTFS, a renewed version will be considered by Cabinet in February 2019;
- 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 £45million as a result of financial pressures and, in part, the planned reduction in Government grant.

This is a key decision which affects all Wards within the Borough.

RECOMMENDATIONS

That the Cabinet:

1. Approve the financial proposals for 2019/20 that will be subject to consultation and further consideration by Cabinet in February as set out at appendix 1;
2. Note the financial challenges facing the council in setting a sustainable and balanced budget for MTFS 2019/20 - 2022/23;
3. Note the approach the Council is taking to close the budget gap over the four year budget planning horizon to deliver a sustainable budget;
4. Note the approaches the Council is pursuing to ensure future budget sustainability;
5. Agree that an updated Budget Report and MTFS be presented to Cabinet on 18 February 2019.

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 financial updates are presented to Cabinet 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 2019 for the 2019/20 financial year. This report details the actions, proposals and main risks to setting a balanced budget for 2019/20.

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 Council held on 7 March 2018, approved the 2018/19 budget, a balanced budget, using a number of one-off items totalling £26m for 2018/19. The move to a sustainable budget will require a reduction of the “one-off” items, as these are not repeatable. In July Cabinet agreed a MTFs with a budget gap of £45m for 2019/20 and £22m to be identified for 2020/21 to 2022/23. The first part of the MTFs process has identified revisions to budget assumptions and financial proposals to close the budget gap in 2019/20. Further work is ongoing to firm up on proposals to close the budget gap across the MTFs period to 2022/23 and to produce a budget plans for these years. The intention is to report these to Budget Cabinet in February 2019.

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

PROJECTIONS	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Cumulative Budget Gap	45	62	65	67
Annual Change in Budget Gap	45	17	3	2

MTFS 2019/20-2022/23 Process

- 3.2 At Cabinet in July the 2019/20 to 2022/23 MTFs was agreed. In addition, given the significant savings required for the Council to move to a fully sustainable budget over the MTFs four year time horizon, the Council has

utilised an enhanced budget process in order to facilitate a more robust methodology to identify, implement and deliver financial proposals required to balance the Council's Budget.

The budget process has and will follow similar governance processes to the previous years with proposals having been discussed Council wide before being published for consultation, and undergoing examination through Scrutiny meetings before final approval by Cabinet and Full Council.

Budget Context: Funding and Pressures

- 3.3 The Council operates in a difficult financial environment with continuing pressures in social care and reductions in funding. The Council will be, in a few years, increasingly self-funded from Business Rates, Council Tax and income generated locally
- 3.4 Local Government funding will change significantly in 2020/21 and presently there is very limited information on how these changes will affect individual Councils. The Council will continue to follow and understand, influence, and maximise benefit from the upcoming changes. However, it is possible that the Council may be adversely affected by these changes. Cabinet will be updated on any funding changes as they become public and the Council will actively contribute to relevant consultations.
- 3.5 The Chancellor announced the Autumn Budget on 29 October 2018. It appears to be a relatively positive one for Local Government with overall public spending forecasts for the 2019 Spending Review anticipated to be an improvement on what had previously been thought likely. The main message was an "end to austerity" and implies that the current government will not cut public expenditure to achieve a balanced budget. A number of economic indicators appear to support the assertion that austerity is ending. However this is dependent on the UK economy performing as expected.
- 3.6 In addition Local Government appears to be making it onto the Governments schedule with additional funding being announced for the current year and 2019/20. However the planned cuts to Revenue Support Grant of £1.4bn and £1.3bn are taking place. These have a significant impact on the budget gap for the Council for next year and 2020/21.
- 3.7 The 2019 Spending Review will provide details of revenue and capital plans for each Government department. The Budget has given indicative 5 year plans for public spending for the whole of the public sector.
- 3.8 The better than anticipated overall funding guidelines for the public sector may be seen as positive for local government in the next spending review period from 2020/21. In addition local government and acknowledgement of the current financial difficulties facing Councils was specifically mentioned by the Chancellor. Whilst these are well recognised by Members and Officers there now appears to be some recognition of these in Whitehall.

3.9 The specific items of interest announced in the Budget are as follows:

- £650m additional grant funding for adult social care in 2019/20. This is on top of the £240m for 2018/19 that was announced in October. The Budget details in the Red Book show the additional £650m is split into two amounts: £240m to continue the 2018-19 funding and then a new amount of £410m to fund social care generally:

“The Budget provides a further £410 million in 2019/20 for adults and children’s social care. Where necessary, local councils should use this funding to ensure that adult social care pressures do not create additional demand on the NHS. Local councils can also use it to improve their social care offer for older people, people with disabilities and children.” Para 5.16;

- An additional £55m (11.7% increase) for Disabled Facilities Grant (DFG) will be made available in 2019/20. DFG funds “home aids and adaptations for disabled children and adults on low incomes”. This grant is payable via the Better Care Fund and it is assumed the distribution will be the same as for the current grant allocations;
- For Children’s social care improvement an £84m fund will be made available to 20 authorities over 5 years. The purpose of the funding will be “to help more children to stay at home safely with their families”;
- A total of £450m will be made available to local authorities in 2019/20 to fund “potholes, repair damaged roads, and invest in keeping bridges open and safe”. The method of distribution has not been announced. It is assumed this funding is revenue rather than capital;
- A further £150m will be distributed to local authorities from the National Productivity Investment Fund (NPIF) to “support projects across England that ease congestion on local routes”;
- Transforming Cities funding will be extended a further year (2022/23) for the 6 metro mayors. This is worth an additional £240m in 2022/23. There will be a further £440m for the 10 city regions on a competitive funding basis (funding will be for two city regions only);
- Schools: £475m in-year increase in capital funding to each school, averaging £10,000 for primary and £50,000 for secondary schools;

Business rate relief

- Targeted increase in the threshold for Small Business Rate Relief to: “[cut] business rates by one-third for retail properties with a rateable value below £51,000, benefiting up to 90% of retail properties, for 2 years from April 2019, subject to state aid limits”. It is assumed that the Government will operate this as a specific relief funded by a section 31 grant, and that it can be applied by local authorities rather than waiting for applications from eligible businesses. Businesses will also have to

be careful that the relief does not take them above their State Aid limits;

- The £1,500 local newspaper business rates discount will be extended for another year and will continue to be funded through section 31 grant;
- Local authorities will be able to award mandatory business rate relief to public lavatories, whether publicly or privately owned (currently they cannot award business rate relief to their own properties). The Red Book indicates that all public conveniences will be eligible for 100% relief (and £5m is being made available from 2020/21) and that local authorities “will be fully compensated for the loss of income as a result”;
- There will be £657m co-funding to help local authorities manage the changing pressures on the local high street. Local authorities will be asked to draw-up plans to change under-used retail areas to residential use, and these will be accompanied by changes in the rules of compulsory purchase orders and use orders. £65m of the funding will be revenue and starts in 2019/20. The remainder is capital, with the largest amounts (£200m and £240m) in 2022/23 and 2023/24. There are no details on how this grant will be allocated.

3.10 The current MTFS includes the following funding assumptions that relate to the 2019/20 budget:

- General Council Tax is assumed to increase at 2.99%;
- No additional funding relating to the Adult Social Care Precept of 3%, with 2018/19 being the final year this was allowed to be levied at 3%;
- The Council Tax base is increased to reflect the growth in new homes and a number of other factors that affect the size of the base such as, Council Tax Reduction Scheme, Council Tax exemptions and the banding of properties, of which Wirral is largely weighted towards band A and B properties;
- Business Rates (NNDR) is assumed to increase at the rate of CPI. This equates to 2.4% in 2019/20;
- Revenue Support Grant (RSG) is assumed to reduce by 33% from 2018/19 to 2019/20. The figures for 2019/20 remain fairly certain following the four year settlement deal secured by the council, covering the period 2016/17-2019/20. The financial position remains subject to review. The provisional Local Government Finance Settlement is due to be announced on 6 December 2018. RSG will be part of the 75% business rates retention and the fairer funding mechanism which will be introduced from 2020/21. At this stage Ministry of Housing and Communities and Local Government (MHCLG) are consulting with

local authorities and the level of funding to the council remains uncertain beyond 2020/21.

3.11 The current MTFS includes the following financial pressure assumptions that relate to the 2019/20 budget:

- Adult Social Care pressures including the impact of the minimum wage, increases in activity and costs for residential and home care for example;
- Children's Services – No new pressures have been identified although it is recognised that the existing pressures are still prevalent within Local After Children and Safeguarding. Through the tight management of these areas and the use of current mitigations a standstill position should be maintaining for the service. The targeting of early help services to prevent needs escalating are also being used to prevent further financial pressures occurring;
- Replacement of "One-off" Funding of £26m. To establish a sustainable budget will require a reduction of the "One-off" funding, as by its nature, this is not repeatable. The one-off funding has come from the use of general fund balances and reserves, capital receipts and collection fund surpluses. It is currently planned to reduce the level in 2019/20 and 2020/21 with the development of permanent financial solutions such as additional income to replace the one off funding;
- Inflation for pay, pensions and contracts where required;
- Levies- an allocation of £0.9m has been made to cover the cost of increases in levies such as for the Mersey travel and Merseyside Waste and Recycling Authority. The Transport and Waste levies will not be confirmed until February 2019;
- Capital Financing Costs – £1.5m borrowing costs associated with the approval of new schemes in the capital programme. The Council has ambitious plans to regenerate the area and increase income as a result. Many involve capital investment before the financial benefits come on stream and this in term has associated financing costs that impact on future revenue budgets.

MTFS 2019/20-2022/23 UPDATE

3.12 Since 2010 the Council has, through its annual budget, 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 more diverse solutions through efficiencies, a number of innovations and transformation plus raising more income. For 2017/18 and 2018/19 there has been the use of one off funding as a solution and this now means that the period 2019/20-2021/22 represents a new challenge.

- 3.13 The Wirral Plan provides the framework within which the Budget and the MTFs are developed and informs the development of budgets, the prioritisation of resources and the difficult decisions that need to be made. The approaches agreed in the MTFs by Cabinet in July to resolving the funding gap and developing financial proposals for future years are as follows:

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 have to make up a significant part of the resolution of the funding gap;

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 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.

- 3.14 For the development of 2019/20 budget, work has been undertaken through the portfolios that support the delivery of the Wirral Plan. This has been a flexible implementation process that has also covered the later years of the MTFs to identify strategic options, direction and ideas. These are being developed further before being presented to Cabinet in February 2019.

- 3.15 The budget process has identified:

1) Financial Proposals that have been validated and are ready for approval; These are detailed in Appendix 1.

2) Financial Proposals that are being worked on and detailed plans need to be validated to enable timely implementation in future financial years.

3) Future strategic direction and ideas.

The Budget Strategy that has driven the development of budget proposals has been through the overarching themes of Income and investments, Transform how the Council works and operates and Working with partners and residents. The budget process and the development of new financial proposals has been through the Cabinet portfolios.

- 3.16 As part of the MTFs for 2019/20-2022/23 financial proposals for 2019/20 are included in Appendix 1 and these are summarised below.

SUMMARY OF FINANCIAL PROPOSALS FOR 2019/20

SUMMARY OF FINANCIAL PROPOSALS BY PORTFOLIO	19-20 £m
Highways and Transport	0.17
Jobs and Growth	8.15
Environment	0.20
Children's & Families	3.90
Adult Care and Health	8.65
Finance and Resources	17.63
Leisure and Recreation Services	2.95
Housing and Planning	0.10
TOTAL	41.75

3.17 BALANCING THE BUDGET 2019/20

PROJECTION	2019/20 £m
MTFS BUDGET GAP	45.00
Less Financial Proposals	41.75
Less Revision to budget assumptions (Council Tax, reduced demand pressures and funding)	3.25
BUDGET GAP	0

- 3.18 As can be seen from the table above the budget gap has been closed with the currently drafted financial proposals. For 2019/20 a number of uncertainties remain around levies and further Central Government announcements such as the local government finance settlement. The position will be updated and reported to Cabinet in February 2019 when the outcome of further developments will be clearer such as the results of the budget consultation. Whilst there are indicative proposals for subsequent years being considered, the budgets for the later years will be reviewed and refined before being formally considered in advance of each year through the MTFS. Further details will be included in the MTFS that will be considered by Budget Cabinet in February 2019.

GENERAL FUND BALANCES AND RESERVES

- 3.19 The level of Council General Fund balances and Earmarked Reserves are reviewed during the year through the revenue monitor, outturn reporting and budget setting processes.

General Fund Balances

The General Fund Balance will be maintained at £10 million. This level is at the minimum recommended amount given the level of risks and issues being managed in the current financial year and potential budget pressures in future years. It equates to 3% of General Fund balances to net expenditure.

General Fund Balances estimated at the end of 2018/19 and 2019/20

	2018/19	2019/20
General Fund Balances	£10m	£10m

Earmarked Reserves

Earmarked reserves are set aside or maintained for specific purposes, a number are ring fenced for a specific use or are available for use. Those reserves that are available for use will be utilised in part as part of next year's budget to resource the cost of transformational change and a balanced budget position.

CAPITAL PROGRAMME AND USE OF CAPITAL RECEIPTS

- 3.20 The Capital Programme 2019/20-2021/22 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.

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 2019/20 by 10 March 2019. 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 2019/20 is reliant on the generation of future capital receipts. 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 may be years where there is a projected funding gap which will be met from the use of one-off funding. 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 work 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.

7.5 At this stage new financial proposals to close the budget gap for 2019/20 are presented in this report and will be finalised at Cabinet in February following consultation. 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 In July 2018 Cabinet agreed a refreshed Medium Term Financial Strategy. This reflected the reduction in government funding from 2020 and continued pressures to fund the support of the most vulnerable. This report has outlined the plan to make further savings and raise additional income throughout the Council. As part of this process we are seeking views on our future budget and spending priorities, which will be delivered through an extensive programme of community and stakeholder consultation.
- 8.2 The majority of this year's financial proposals can be implemented without changing existing Council policies and procedures as they do not impact on public facing services and do not require wider public consultation. These include a number of service and financial management savings plus improvements to the Councils contracting and procurement arrangements.
- 8.3 A number of the financial proposals if agreed by Cabinet will require specific consultation. Subject to Cabinet agreement, the Council will commence appropriate consultation directly with any service users and stakeholders who are affected and feedback their views before final decisions are taken.
- 8.4 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.
- 8.5 Overview and Scrutiny Committees will have the opportunity to examine proposals in detail and report back. This will be through a number of Budget Workshops that have been planned as follows:

Tuesday 4th December	Wednesday 5th December	Thursday 6th December	Tuesday 11 th December
Environment	Children & Families	Adult Care and Health	Business

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 2019.

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

SUBJECT HISTORY

Council Meeting	Date
Council – Wirral Plan	13 July 2015
Cabinet – Medium Term Financial Strategy 2019/20-2022/23	16 July 2018
– Revenue Budget and Council Tax Levels 2018/19	19 February 2018
Council – Revenue Budget and Council Tax Levels 2018/19	4 March 2018

PROPOSED FINANCIAL PROPOSALS

APPENDIX 1

HIGHWAYS & TRANSPORT	19/20 £m
Assisted Travel Procurement full year impact of 2018/19 saving	0.12
Street Lighting LED savings	0.05
Total Highways & Transport	0.17

JOBS & GROWTH	19/20 £m
Marine Point Freehold	4.00
Benefits of Economic Regeneration	4.15
Total Jobs and Growth	8.15

ENVIRONMENT	19/20 £m
Cemeteries & Crematoria increased fees	0.20
Total Environment	0.20

CHILDRENS & FAMILIES	19/20 £m
Reduce Agency staff to core staff	1.00
Troubled Families Earned Autonomy funding	0.60
Looked After Children reduced numbers	0.40
Childrens management restructure	0.50
Business Support restructure	0.40
Special Guardianship Allowances	0.80
Remove 'Golden Hello' payment	0.20
Total Childrens and Families	3.90

ADULT CARE & HEALTH	19/20 £m
LD Transformation Programme-year 3 (2019/20)	2.00
Mitigating Adult Social Care demand through maximising independence and well being	5.80
Use of Grant Funding	0.85
Total Health & Care	8.65

FINANCE & RESOURCES	19/20 £m
Treasury Investment	2.00
Contracts review	1.50
Increase Council Tax Collection Rate	0.50
Capitalisation of salaries	0.15
Fees & Charges increases	1.00
Senior Manager and back office savings	1.90
Efficiencies from centralising IT budgets	0.18
Asset sales	1.50
Reducing Supplies and Services by 10%	2.50
One off reserves	2.00
Reduce Interims/Agency/Consultants(not Children and Schools)	1.00
Whole Council Service Reviews	1.00
Transformation funding reduction	2.00
Pensions regulatory changes	0.40
Total Finance and Resources	17.63

LEISURE AND RECREATION SERVICES	19/20 £m
Culture income target	0.10
Expert operator for the Floral Pavilion	2.05
Expert operator for golf courses	0.80
Total Leisure and Recreation Services	2.95

HOUSING & PLANNING	19/20 £m
Increase in Planning Income to cover costs	0.10
Total Housing and Planning	0.10

SUMMARY OF FINANCIAL PROPOSALS BY PORTFOLIO	19-20 £m
Highways and Transport	0.17
Jobs and Growth	8.15
Environment	0.20
Children's & Families	3.90
Adult Care and Health	8.65
Finance and Resources	17.63
Leisure and Recreation Services	2.95
Housing and Planning	0.10
TOTAL	41.75