

CABINET**23 DECEMBER 2019****COUNCIL BUDGET 2020/21 & MEDIUM TERM FINANCIAL STRATEGY**

Councillor Janette Williamson, Portfolio Holder for Finance and Resources said:

"The challenge of setting a fair, sustainable and balanced budget gets more difficult every year, as austerity policies continue to bite.

"Once again, this year, we are facing an almost insurmountable financial challenge, with growing demand for our services, meaning we must find ways to reduce our spending – or raising our income – by yet another £32 million just next year on top of the more than £200 million in cuts we have been forced into delivering since austerity began.

"However, we are not resting on our laurels and are working hard investing to generate extra income in the future which will not only play a key role in regenerating Birkenhead town centre and other areas of the borough but will provide income from council-owned sites for years to come. And our broader community wealth building initiative is focused on keeping wealth in Wirral for the benefit of local residents and businesses.

"But in the meantime, even though we face ever more difficult decisions, 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, investing 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."

REPORT SUMMARY

This report is part of the Council's formal budget process, as set out in the constitution and in accordance with the legal requirements to set a balanced and sustainable budget for 2020/21.

This report also presents an update on the Medium Term Financial Plan (MTFP) covering the period from 2021/22 to 2024/25.

RECOMMENDATIONS

That the Cabinet be requested to:

- 1) Approve the financial proposals for 2020/21 that will be subject to consultation and further consideration by Cabinet in February 2020;
- 2) Note the financial challenges facing the Council in setting a sustainable and balanced budget for the MTFP period from 2021/22 to 2024/25;
- 3) Note the approach the Council is taking to closing the funding gap in future years; and
- 4) Agree that an updated Budget Report and MTFP be presented to Cabinet in February 2020.

SUPPORTING INFORMATION

1.0 REASON FOR RECOMMENDATIONS

- 1.1 The Council has a legal requirement to set a balanced budget in March 2020 for the 2020/21 financial year. This report sets out the actions, proposals and main risks to setting a balanced budget for 2020/21.
- 1.2 The MTFP supports the delivery of the Wirral Plan and is key to ensuring the Council is financially stable. Progress against the MTFP is monitored throughout each year, as part of routine financial management, to ensure that plans are on track and any necessary corrective action is taken at the earliest opportunity.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 The Council has a legal obligation to set a balanced budget in March each year for the following financial year and this report sets out proposals and initiatives that increase income or reduce expenditure to assist in decisions regarding budget setting. The Cabinet could however choose alternative options to delivering a balanced budget before the budget is finalised in March 2020.

3.0 BACKGROUND INFORMATION

- 3.1 In September 2019, the Government announced the Local Government Finance Settlement for 2020/21 budgets, in the form of a single year Spending Round. A multi-year Spending Review will now follow in 2020.
- 3.2 This single year Spending Round forms the basis for updating the MTFP and sets out a 4.3% real-term increase in overall Government funding for Local Authorities - against a backdrop of consistent cuts in the previous three Spending Reviews since 2010 and continuing pressures in social care.
- 3.3 Details of how the overall announcement will affect the specific funding settlements for individual Local Authorities are not expected to be available until December 2019 at the earliest.
- 3.4 The Spending Round settlement for 2020/21 represents an improvement in funding in comparison to previous assumptions for 2020/21, given:
- No loss of the Council's equivalent of the Revenue Support Grant or Public Health Grant;
 - A £6.4m increase in funding for Adult and Children's Social Care;
 - A proposed £2.8m increase in Council Tax - resulting from permission to include a 2% Adult Social Care Precept in 20/21, over and above an inflationary increase of up to 2%;
 - A (£0.8m) reduction in Council Tax due to the Council's review of the Local Council Tax Reduction Scheme; and
 - A new round of the New Homes Bonus allocations for 2020/21 only.

3.5 In July 2018, the Cabinet agreed a four-year MTFS plan, which included the following funding gaps each year:

	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m
Annual budget gap	45	17	3	2
Cumulative budget gap	45	62	65	67

3.6 A balanced budget for 2019/20 was subsequently approved on 4 March 2019, following Cabinet led activity to identify savings of £45m to bridge the 2019/20 gap.

3.7 The latest MTFP position for 2020/21 to 2024/25 – which takes into account changes in funding assumptions and actions taken in 2019/20 – is set out in the table below:

	2020/21	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m	£m
MTFP gap	-	28	30	29	28

3.8 The position for 2020/21 is now balanced and includes pressures of £34.9m, offset by savings of £32.9m. Further details of the individual components of these pressures and savings, changes in funding and the breakdown of the gap are shown in Appendices 1 to 3.

3.9 Achieving this balanced position for 2020/21 remains heavily dependent on demand for services remaining in line with the Council's latest assumptions – in key areas such as Adult and Children's social care - along with an ability to achieve planned asset disposals at their forecast values. This means that the financial position for 2020/21 is not without risk. Pressures and savings will need to be closely monitored through monthly budget monitoring activity to ensure that appropriate action is taken at the earliest opportunity to mitigate any risks which materialise.

3.10 Adult Social Care is experiencing significant demographic growth. From 2017 to 2018, there has been a 3.2% increase in adults with Learning Disabilities and Mental Health issues and a 1.3% increase in older people requiring support. This trend is expected to continue from 2019 to 2020. The key activities being undertaken to mitigate this growth revolve around developing solutions which support individuals to remain independent for longer, and therefore require less intensive, less expensive support. This has positive outcomes for the individuals and the services that support them. The Council is currently investing in and developing alternative care models, such as Extra Care housing and investment in assistive technology but these activities require capital investment and will take a number of years to be fully implemented. As such, demand-related expenditure will remain an issue for the foreseeable future.

3.11 Children and Families is experiencing significant expenditure pressure due to growth in the number of children requiring care and the costs associated with the complexity

of their needs when they need residential care. Early intervention activity is designed to prevent children entering the care system, which has positive outcomes for children and families and is less costly to the Council. However, there is always likely to be a need for residential care and the existing environment is one of private care homes, which are costly. Proposals are in development with Liverpool City Region to provide a child-focussed, long term sustainable residential portfolio, where outcomes and resourcing can be managed. However, the positive impact of these proposals would only begin to materialise from 2021/22 onwards.

- 3.12 Beyond 2020/21, where the Council expects to be able to balance its budget, the financial position becomes significantly more uncertain for future years – as a result of a lack of clarity around future funding. The Government is currently conducting a Fair Funding Review for which the outcome may not be known for some time, with the imminent General Election adding to the uncertainty. The Business Rates Retention Scheme – for which Wirral is currently participating in a pilot scheme which allows 100% business rates retention – is also anticipated to change and could eventually result in a move to a 75% retention scheme. A green paper on adult social care is also expected which could change the funding landscape.
- 3.13 Given the uncertainty around funding, the Council has assessed the MTFP gap for each year of the plan to increase to around £30m each year as a result of concerns around potential future funding reductions. As and when more information becomes available on future funding, the MTFP will be updated to reflect this and the Council will continue to contribute to consultations on any proposed funding changes.
- 3.14 In recent years the Council has been able to utilise reserves and capital receipts, such as proceeds gained from the Vue Cinema, to support funding gaps. Reserves have however been significantly depleted over recent years – with the balance on the General Fund now at the minimum level for financial sustainability of £10m – and beyond 2021/22 no further capital receipts are anticipated.
- 3.15 In 2021/22, the MTFP gap of £28m is primarily driven by an assumption that overall funding, post-inflation, reduces by c £25m. This includes assumed reductions in the Public Health grant and Business Rates - on the basis that the Revenue Support Grant equivalent is withdrawn - and that no further capital receipts from the sale of assets are achievable. In addition, it is also assumed that the Council's net operating costs increase by £3m. This net increase in costs is driven by annual pay rises, an end to the current agreement on unpaid Christmas leave, additional funding costs associated with the Capital Programme and waste costs (for which no reserve funding remains post 2020/21). These cost increases are only partly offset by the removal of one-off 2020/21 costs and LED street lighting programme savings, creating a net £3m increase in the Council's cost base.
- 3.16 For 2022/23, the gap in the MTFP increases by £2m from 2021/22 to a level of £30m. The gap remains primarily driven by the same assumed reductions in funding as highlighted for 2021/22. Although funding is expected to increase by £6m as a result of inflation, net operating cost are anticipated to increase by c £8m to cover annual pay increases, additional funding costs associated with the Capital Programme, increases in the insurance fund reserve and Wirral Waters funding costs. This results in the funding gap increasing by £2m from 2021/22 to £30m. By 2022/23, the Council expects to have Wirral Waters and the regeneration programme in operation to

generate additional business rates and council tax, along with demand mitigations such as Breaking the Cycle, Digitalisation and Smarter Homes etc. However, given the uncertainties around future funding and the timing of development activity, these activities have not been factored into the MTFP at this stage.

- 3.17 In 2023/24, the MTFP gap falls by £1m from £30m to £29m. This £1m in year movement results from the assumption that funding inflation will increase income by c £7m, offset by net operating cost increases of £6m. Net cost increases result from assumptions around annual pay rises, additional funding costs associated with the Capital Programme, the expectation of no pension surplus payments post the end of the 2020 triennial agreement and the introduction of a food waste collection service.
- 3.18 In 2024/25, the MTFP gap is predicted to fall slightly by £1m to £28m – representing the net impact of inflationary funding growth of £7m offset by increases in net costs of c £6m for annual pay rises and Capital Programme funding costs.
- 3.19 Like other local authorities, the Council has worked in recent years to identify further opportunities to increase income and growth through capital investment. The Capital Programme can act as a catalyst to accelerate the pace and scale of regeneration and growth in the borough, encouraging market confidence, demand and growth from developers, inward investors and indigenous businesses, boosting the revenue potential of the Council through direct income and/or future increased business rate receipts. (The programme to replace traditional street lighting with LED lighting is one example of how using capital can be used benefit the local area and generate savings to help address funding pressures. The LED Phase 2 Contract commenced in early October 2019 and will see some 9,000 column improvements and over 26,000 new more efficient energy saving LED lanterns being installed).
- 3.20 Via a robust governance and assessment process, the Council will continue to provide a proportion of Capital Programme resources in support of the acquisition of properties (Strategic Acquisition Programme), viability gap funding for development costs (Wirral Waters Investment Fund) and business growth grants and loans (Business Investment Fund) to meet this aim. Key examples of this approach include capital grants to leverage external funding for Eureka! Mersey, strategic acquisitions within Birkenhead and New Ferry to support town centre regeneration plans and use of the Wirral Waters Investment Fund to support public realm and green infrastructure at Tower Road South to unlock the potential of future housing, education and commercial developments within the Enterprise Zone.
- 3.21 The Council has also introduced a Community Wealth Building Strategy to co-ordinate and consolidate activities designed to make local economies fairer and retain wealth within Wirral. This strategy is designed to empower local communities to address the specific issues they face and take ownership of non-statutory Council services. Through working with the Centre for Local Economic Strategies (CLES), five key focus areas have been identified:
- **Plural Ownership** - Encouraging small businesses and community owned businesses/worker co-operatives through partnerships with Capacity Lab to support the Voluntary Charity Faith (VCF) market, Community Action Wirral and the Community Business Forum of the Chamber of Commerce, as well as through the Wirral Growth Company;
 - **Procurement** – Focussing on local procurement, including working with Capacity Lab to promote public sector contracts to VCF organisations and

continued application of Social Value policies in Council procurement practices;

- **Land & Assets** – To utilise existing assets as a base to build community wealth through initiatives such as the One Wirral Public Estate Group, which brings together all public sector bodies in a locality to work together on land and property management;
- **Making Financial Power Work for Local Places** – To harness local wealth, rather than relying solely on national or international investment, through potential opportunities such as: the Northwest Community Bank (along with Lancashire and Liverpool), Working with Power to grow the community business sector (accessing lottery funding) and crowdfunding, using the Spacehive platform; and
- **Workforce** – To create job security, opportunities for progression and support the real living wage in Wirral through initiatives such as the Wirral Ways to Work Programme, Households into work, ConnectUs, the Health Related Worklessness programme and the Wirral apprenticeship scheme.

3.22 The Council has also historically secured significant resources through external funding routes in support of our Wirral Plan pledges. Key examples include successful bids for European Structural Investment Funds to support employment support and investment activity, Mayoral Town Centre Fund and Future High Street Fund for town centre regeneration, and Housing Infrastructure Fund to drive housing growth. We will continue to prioritise submissions for external funding, City Region Devolved Investment Funds and Government initiatives where this maximises the resources of the Council and supports Corporate Plan priorities.

4.0 FINANCIAL IMPLICATIONS

4.1 The financial implications of the 2020/21 budget and updates to the MTFP are as detailed in the above sections of this report.

5.0 LEGAL IMPLICATIONS

5.1 The Council is required to agree a budget for 2020/21 by March 2020. 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. The Chief Financial Officer of a Local Authority has a personal duty, under the 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 is proposed to incur) in a financial year is likely to exceed the resources (including sums borrowed) which are available to meet that expenditure.

6.0 RESOURCE IMPLICATIONS: ICT, STAFFING AND ASSETS

6.1 No additional resource requirements directly result from this report.

6.2 This report is however aimed at maximising the use of available resources to remain within budget and ensure a balanced position for future years to 2024/25.

7.0 RELEVANT RISKS

- 7.1 The Council's ability to close the funding gap is highly dependent on the accuracy of assumptions used for Government funding and levies from other bodies, as well as demand estimates for Council services. As the Spending Round only covers one year, the uncertainty around future funding over the MTFP period remains high.
- 7.2 A key risk to the Council's financial plans is that these assumptions can change as more information becomes available. As such, the MTFP is regularly reviewed and updated as part of routine financial management.
- 7.3 The budget for 2020/21 is reliant on the generation of future capital receipts, which is sensitive to the fluctuations in the property market and changes in land values. If planned disposals do not take place or can only be achieved at reduced prices, this will create a funding pressure for which further mitigation would need to be sought.
- 7.4 There is also a risk that agreed savings will not be delivered or will be delayed. Progress on delivery of agreed savings will be monitored using Budget Monitoring reports presented to Cabinet. As such the Council continues to hold a General Fund reserve of £10m. This represents a minimum level of contingency to support the organisation if savings cannot be delivered and no other options for mitigation can be identified.
- 7.5 The Council's ability to use one-off funding to bridge funding gaps has reduced significantly over recent years and is only a temporary solution. Longer term, the Council continues to work towards permanent solutions to replace the need for one-off funding.

8.0 ENGAGEMENT/CONSULTATION

- 8.1 Views are being sought on the Council's 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.
- 8.3 Should any financial proposals agreed by Cabinet require specific consultation, the Council will commence appropriate consultation directly with any service users and stakeholders who are affected and will feedback their views before final decisions are taken.
- 8.4 The Council will 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 Committees will also have the opportunity to examine proposals in detail at the following scheduled meetings:

Business Management	Children & Families	Adult Care & Health	Economic & Housing Growth
23 rd January 2020	25 th January 2020	29 th January 2020	30 th January 2020

9.0 EQUALITY IMPLICATIONS

- 9.1 It is recognised that some of the developing proposals could have equality implications. Any implications will be considered and any negative impacts will be mitigated where possible.
- 9.2 Equality implications will be assessed during planning, decision and implementation stages and will be recognised as an ongoing responsibility. Equality issues will be a conscious consideration and an integral part of the process.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

- 10.1 The content and/or recommendations contained within this report are expected to have no impact on emissions of CO2.

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BACKGROUND PAPERS

APPENDIX 1 – Proposed financial proposals

APPENDIX 2 – Savings

APPENDIX 3 – Budget Gap

SUBJECT HISTORY (last 3 years)

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

APPENDIX 1

FINANCIAL PRESSURES

Item	Description	Value £m	Perm/ Temp
Adult Care & Health			
Demand Factors	Increasing demand and acuity in care packages in Adult Social Care	3.80	P
Contract Increases	Agreed increase for contracts with Cheshire & Wirral Partnership	0.17	P
Contract Increases	Agreed increase for contracts with Wirral Community Foundation Trust	0.27	P
Demographic Growth	Additional demand associated with increasing population	1.91	P
Fee Rate Increase	Increased provider free rate associated with the actual cost of care	3.00	P
Specialist Fee Rate Increase	Increased provider free rate associated with the actual cost of care	0.65	P
ACH reserve	Replacing adult care & health one off reserves	4.00	P
Total Adult Care & Health		13.80	
Children & Families			
EDT	Increased costs relating to the resourcing of the Emergency Duty Team (out of hours service)	0.14	P
EHPHA	Contractual increase for Environmental Port Health Authority	0.09	P
Residential Placement numbers & rate	Increased costs of additional forecast looked after children and fee increases	2.97	P
Troubled Families	Grant reduction to support Troubled Families programme	1.61	P
Total Children & Families		4.81	
Delivery Services			
Assisted Travel	Costs associated with growth in demand for assisted travel	0.37	P
Market Income	Reduction in income from Birkenhead Market	0.20	P
Barrowman	Street cleansing barrowman	0.20	P
Car Parking	Reduction in income from supermarket car parking	0.35	P
Energy	Increased energy costs of Council owned buildings	0.50	P
Garden Waste Recycling	Decreased income from household for garden waste recycling take-up	0.20	P
Golf Courses	Reversal of the transfer of two golf courses to expert provider	0.11	P
Enforcement	Loss of income from termination of enforcement contract	0.50	P
Leisure Income	Reduction of income from take up of leisure centre facilities	0.54	P
Waste Contract Inflation	Contractual inflation on waste management contract	0.30	P
Winter Maintenance	Additional costs of winter gritting	0.20	P
Waste Levy	Contractual increases on the Merseyside Waste Development Levy	0.90	P
Health and Safety	Additional works required to ensure Health & Safety standards are met	0.10	P
PFI Support	Additional resources to support PFI contract	0.05	P
Total Delivery Services		4.52	
Business Management			
Coroners Service	Additional demand and legacy cost increases	0.27	P
New Committee System	Additional cost associated with moving to a Committee System	0.10	P
Housing Benefit Grant	Reduction in Government Housing Benefit Administration Grant	0.60	P
Grads & Apprentices	Funding for graduates and apprenticeship scheme for cohort II	0.39	P
Traded Services Income	Legacy of unachievable income from traded services	0.42	P
Communications	Unachievable income from advertising	0.16	P
Total Business Management		1.94	
Economic and Housing Growth			
Wirral Growth Company	Re-phased income from regeneration developments	3.48	P
Planning Posts	Additional posts in Planning Department	0.30	P
Regeneration Growth	Investment for regeneration to generate future income	0.50	P
Regen Posts	Funding for new posts	0.30	P
Local Plan	Posts associated with local plan	0.40	P
Culture Events	Underpinning of cultural events programme following Borough of Culture Year	0.50	P
Total Economic & Housing Growth		5.48	
Cross Cutting & Corporate			
Welfare Assistance	Additional resource for the Local Welfare Assistance Scheme	0.20	P
Climate Emergency	Investment to support Climate Emergency Declaration	0.25	P
Staff Pay	Increased resources to meet the staff pay rise	2.88	P
Capital Financing	Cost of financing the Capital Programme	1.00	P
Total Cross Cutting & Corporate		4.33	
Total Pressures		34.88	

APPENDIX 2

SAVINGS

Item	Description	Value £m	Perm/ Temp
Adult Care & Health			
New Housing	Housing for Independence including Extra Care Housing	0.50	P
Better use of technology	Use of Technology to increase Independence and reduce falls	0.50	P
Review of Care	Care Package Review for Independence	2.30	P
Provider efficiencies	Wirral Evolutions increasing employment and reducing cost	0.50	P
Financial Assessment	Use of Electronic Financial Assessments to ensure accelerated income collection times	0.20	P
Total Adult Care & Health		4.00	
Children & Families			
Looked After Children reductions	Managed movement of looked after children from high cost services to lower cost/better outcomes	1.27	P
Total Children & Families		1.27	
Delivery Services			
3G Pitches	Additional income from use of new 3G pitches	0.10	P
Marine Lake	Lease of Marine Lake food and drink offer	0.10	P
LED Lighting	Reduction in energy costs from low energy LED Street Lighting	0.13	P
Total Delivery Services		0.33	
Economic and Housing Growth			
Release of Leases	Cost reduction as a result of exiting leased office accommodation	0.03	P
Total Economic & Housing Growth		0.03	
Cross Cutting & Corporate			
Minimum Revenue Provision	Reduction in the amount set aside for the future repayment of debt	2.59	P
Pensions Valuation	Reduction in employers pension contributions following the triennial	7.29	P
Cash Flow Investments	Investing in ethical and commercial opportunities	2.00	P
Pension Strain	Capitalisation of pension strain from exits	1.18	P
Lobo refinancing	Interest rate savings from refinancing of high interest legacy loans	2.00	P
New Council Model	Council wide structural modernisation model	5.00	P
Contracts review	Reduction in cost from renegotiating/ceasing council wide contracted supply	5.00	P
Zero based budgeting		1.12	P
Capitalisation of salaries		1.12	P
Total Cross Cutting & Corporate		27.29	
Total Savings		32.92	

APPENDIX 3

2020/21 BUDGET GAP

		£m
2019/20 Baseline Budget		285.21
2020/21 Funding:		£m
	2020/21 Council Tax	146.66
	Adult Social Care Precept	2.85
	Change in CTRS	(0.80)
	Business Rates	70.73
	Section 31 Grants	12.47
	Top up Grant	34.40
	BCF	16.87
	New Homes Bonus	0.65
	Capital receipts	4.50
Total 2020/21 Funding		288.33
2020/21 Budget:	Budget 19/20	285.21
	Add: 20/21 Pressures	34.88
	Less: 20/21 Savings	(32.92)
	Less: Social Care Grant income	(6.38)
	Plus:	
	2019/20 unachieved savings	6.03
	BCF grant	1.50
Total budget 20/21		288.33
Budget Gap/(Surplus)		(0.00)