REPORT TO:	Executive Board
DATE:	21 November 2013
REPORTING OFFICER:	Operational Director Finance
SUBJECT:	Medium Term Financial Strategy
WARD(S):	Borough-wide
PORTFOLIO:	Resources

1.0 PURPOSE OF REPORT

1.1 To establish the Medium Term Financial Strategy for 2014/15 to 2016/17.

2.0 RECOMMENDED: That

1) **the Medium Term Financial Strategy be approved;**

2) **the base budget be prepared on the basis of the underlying assumptions set out in the Strategy;**

3) **the Budget Strategy and Capital Strategy be approved;**

4) **the Reserves and Balances Strategy be approved;**

5) **the award of Council Tax support for 2014/15 remains at the 2013/14 level of 21.55%.**

3.0 SUPPORTING INFORMATION

3.1 The Medium Term Financial Strategy (MTFS) sets out a three-year projection of the Council's resources and spending. It has been based on information that is currently available but there is information yet to be received, primarily from Government and revisions will need to be made as new information becomes available.

3.2 Although the projections in the strategy must be treated with a considerable degree of caution, they clearly show there is need to make a significant level of savings over the next three years. This is an effect of the Government policy to reduce the national deficit through reductions in public sector funding. The strategy takes into account the:

- 2010 Comprehensive Spending Review published by the Government on 20th October 2010, covering the four year period to 2014/15
- 2013 Comprehensive Spending Review published by the Government on 26th June 2013 which only covered the financial year 2015/16
- 2014/15 and 2015/16 Technical Consultation on the Local Government Finance Settlement published by the Department for Communities and Local Government (DCLG) on 25th July 2013

3.3 The strategy provides initial guidance to the Council on its financial position into the medium term. The strategy identifies that revenue savings of approximately £15m, £17m, and £14m are required over the next three years. As a result a total of £46m will need to be removed from the Council's budget. This represents 26% of the gross expenditure budget. It continues to be a significant challenge to find sufficient savings over the medium term in order to balance the budget.

3.4 The Council's current financial position is sound. There are sufficient reserves and balances to meet existing known risks. In their report regarding Financial Resilience for the year ended 31st March 2013, the External Auditor (Grant Thornton LLP) stated that the Council has:

- A proven track record of keeping expenditure within budget.
- A structured approach to identifying and managing budget pressures.

3.5 In setting its revenue and capital budgets, the Council will need to have regard to its priority areas, namely:

- Healthy Halton
- Environment & Regeneration in Halton
- Children and Young People in Halton
- Employment Learning and Skills in Halton; and
- Safer Halton

3.6 These priorities are set out in more detail in the Council's Corporate Plan.

3.7 In summary, the Council's Medium Term Financial Strategy (MTFS) has the following objectives:

- To deliver a balanced and sustainable budget.
- To prioritise spending towards the Council's five priority areas.
- To avoid excessive council tax increases.
- To achieve significant cashable efficiency gains.
- To protect front line services as far as possible.
- To deliver improved procurement.

Budget Strategy

3.8 The MTFS shows that in order to balance the budget over the medium term there is a requirement not only to make significant cost savings of up to £15m in 2014/15 but also a further £17m in 2015/16 and £14m in 2016/17. In making these savings the Council will need to have in mind the objectives of the Medium Term Financial Strategy set out above.

3.9 The Council will identify savings by:

- Progressing the Efficiency Programme.
- Reviewing the portfolio of land and other assets, including its use of buildings in accordance with the Accommodation Strategy.
- Continuing to drive improved procurement across the Council.
- Identifying opportunities to generate new or additional sources of income.
- Reviewing (subject to negotiations) the terms and conditions of staff.
- Offering staff voluntary early retirement and voluntary redundancy under the terms of the Staffing Protocol.
- Delivering services in more efficient and effective ways such as via greater use of technology.
- Reducing the cost of services either by reducing spend or increasing income.
- Stopping some lower priority services.

3.10 Over the years the Council has prided itself that compulsory redundancies have been minimised. But given the scale of the savings facing the Council this will be difficult to achieve over the next three years.

Capital Strategy

3.11 The Asset Management Strategy sets out how the land and buildings that are in Council ownership or occupation are structured to support the Council's priorities. The capital programme is a major part of the Strategy.

3.12 The MTFS shows that there is sufficient resource to cover the cost of the current Capital Programme. However, in the current economic climate it is unlikely that the Council will receive significant levels of capital receipts. As such the opportunity for additional capital spending is severely limited and therefore, new spending can only take place for schemes that come with their own funding.

3.13 Prudential borrowing remains an option but the financing costs as a result of the borrowing will need to be found from savings within the revenue budget.

4.0 POLICY IMPLICATIONS

4.1 The MTFS represents the “finance guidelines” that form part of the medium term corporate planning process. These guidelines identify the financial constraints which the Council will face in delivering its key objectives, and are an important influence on the development of the Corporate Plan, Service Plans and Strategies.

5.0 OTHER/FINANCIAL IMPLICATIONS

5.1 The MTFS provides a guide to projected receivable government grant over the three year term. The grant amounts included in the MTFS are assumed based on the latest information provided by Government, as new information comes to light forecast of future income streams will be updated. Decreases to grant income will create further budget pressures in the Council delivering its key objectives.

6.0 IMPLICATIONS FOR THE COUNCIL’S PRIORITIES

6.1 The revenue budget and capital programme support the delivery and achievement of all the Council’s priorities. Reductions of the magnitude identified within the strategy are bound to have a negative impact upon the delivery of those priorities.

7.0 RISK ANALYSIS

7.1 The MTFS is a key part of the Council’s financial planning process, and as such minimises the risk that the Council fails to achieve a balanced budget.

8.0 EQUALITY AND DIVERSITY ISSUES

8.1 There are no direct equality and diversity issues.

9.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972

Document	Place of Inspection	Contact Officer
Formula Grant Settlement 2013/14	Kingsway House	Alison Walker
Comprehensive Spending Review 2010 (CSR2010)	”	”
Comprehensive Spending Review 2013 (CSR2013)	“	“

Local Government Finance Settlement (Technical Consultation) 2014-15 and 2015-16 “ “

MEDIUM TERM FINANCIAL STRATEGY

2014/15 TO 2016/17

Finance Department
November 2013

1.0 INTRODUCTION

1.1 The Medium Term Financial Strategy (MTFS) sets out a three-year projection of the Council's resources and spending covering the period 2014/15 to 2016/17. The projections made within the MTFS must be treated with caution and require continuous updating as the underlying assumptions behind them become clearer.

1.2 The MTFS represents the "finance guidelines" that form part of the medium term corporate planning process. These guidelines identify the financial constraints which the Council will face in delivering its key objectives, and are an important influence on the development of the Corporate Plan, Service Plans and Strategies.

2.0 COMPREHENSIVE SPENDING REVIEW 2010

2.1 The financial year 2014/15 is the final year covered by the Government's Comprehensive Spending Review (CSR10) which was announced on the 20th October 2010, setting out the Government's public sector spending plans covering the four year period up to 2014/15.

2.2 The CSR10 set out how the coalition Government would carry out the deficit reduction plan. Overall it reported how Government departments would face a loss of funding of an average of 19% over the four years of the review in order to save £83 billion. The cuts to Local Government have been the highest for all Government departments, a reduction of 37% in real terms.

2.3 Following on from CSR10 the Government have introduced a number of new policies into the Local Government Finance system. These include:

a) setting public sector pay awards at an average of 1% per annum
b) funding for new development deals across core cities
c) the implementation of the New Homes Bonus (NHB) Scheme. The NHB scheme is designed to provide incentives and rewards for Councils and Communities who build new homes in their area. By 2014/15 it is forecast the annual cost of the scheme will be £891m. The funding for this is however met by top-slicing of Formula Funding along with a £250m contribution from Government. Top-slicing of Formula Funding takes money away from Councils with a high needs base (such as Halton) to those with a high tax base.
d) The Chancellor announced in his 2013 budget that Local Government funding would be cut by a further 1% in 2014/15 to help meet the national deficit reduction plan.

2.4 CSR10 made a grant available to councils to freeze council tax in 2011/12 at their 2010/11 levels. The scheme made funding available to councils equivalent to a 2.5% increase on 2010/11 council tax levels and paid in each of the four years of the spending review to compensate for council tax income foregone during the CSR10 period. The Council agreed to the conditions of the scheme and were allocated a grant of £1.087m in 2011/12.

2.5 As part of the 2011 Chancellors Autumn Statement, the Government made funding available for a further council tax freeze covering 2012/13. The grant of £1.087m was only available for one year and represented the equivalent of a 2.5% increase in council tax.

2.6 The Government made a further grant offer to Local Government to freeze council tax for 2013/14. However, this was only the equivalent of 1% increase in council tax and was available for two years only. The Council opted not to accept this freeze grant and approved a council tax increase of 1.9% for 2013/14.

3.0 COMPREHENSIVE SPENDING REVIEW 2013

3.1 The Comprehensive Spending Review 2013 (CSR13) was announced on the 26th June 2013. This set out the Government's public sector spending plans for one year only, this being the financial year 2015/16.

3.2 The CSR13 set out how the coalition Government will continue to carry out the deficit reduction plan. Overall Government departments will face a loss of funding of £11.5 billion in 2015-16. It was reported Local Government will face above average cuts of 8.2% in cash terms in financial year 2015/16.

3.3 A number of policies were introduced by CSR13. These include:

a) Council tax freeze grants for 2011/12 and 2013/14 are to be included in a Council's funding assessment for 2015/16. It was expected that the final year of payment for these grants would be 2014/15, but Government have amended the rules of the grant and they will continue to be paid for 2015/16. The MTFS assumes that the freeze grant for 2011/12 will fall out in 2016/17.

b) Council tax freeze grants for 2014/15 and 2015/16. These are to be offered at a rate of 1% for 2014/15 payable for two financial years and 1% for 2015/16 payable for one year only. If the Council opts to accept the freeze grants the estimated total value of them over the two financial years for Halton is £1.35m.

c) £3.8bn of social care and health budgets will be brought together by 2015/16 for joint commissioning and pooling. This will enable closer working in local areas, in order to deliver better services to older and disabled people keeping them out of hospital and avoiding long hospital stays. £200m will be made available for local authorities from the NHS in 2014-15, to ensure change can start immediately through investment in new systems and ways of working. It is difficult for the Council to take account of this additional funding yet, as there is no clear indication of the controls, conditions and new burdens associated with this funding.

d) Public sector pay awards will be restricted to 1%.

e) £400m will be top sliced from the New Homes Bonus (NHB) and passed to Local Enterprise Partnerships (LEPs) as part of the Single Local Growth Fund. It is estimated this will be approximately 30% of NHB which the Council was due to receive in 2015/16.

f) Education Services grant funding by the Department for Education will be cut by 25%. This is intended to be in line with the changing nature of the schools system. The Government will reduce central education support by reducing the Education Services grant by around £200 million in 2015-16.

4.0 TECHNICAL CONSULTATION – LOCAL GOVERNMENT FINANCE SETTLEMENT 2014/15 & 2015/16

4.1 On 25th July 2013 DCLG opened a technical consultation on the Local Government Financial Settlement for 2014-15 and 2015-16.

4.2 DCLG have provided exemplifications of funding for 2014/15 and 2015/16 for all local authorities. This now suggests there will be a funding cut of 10% and 14% in cash terms for each of the two years. The 2015/16 cut of 14% is significantly higher than the 8.2% announced in CSR13.

4.3 The difference in the level of cuts between CSR 2013 and the technical consultation is explained to some degree by a further top-slicing of the Revenue Support Grant (RSG) for separate funding pots. These include funding new social care burdens, funding for the Independent Living Fund, funding for capitalisation and an increased safety net for the Business Rates Retention Scheme.

4.4 Halton has responded to the consultation, as have Sigoma and the Liverpool City Region, and made DCLG aware of the unfairness of increasing funding cuts, so soon after the publication of CSR13.

5.0 LOCALISING COUNCIL TAX SUPPORT

5.1 In 2013/14 Government changed the way of funding council tax benefit. Previously, 100% funding had been provided by Central Government. Responsibility has now transferred to Local Government and Halton has introduced its own localised scheme. The scheme uses as a basis the previous regulations relating to Council Tax Benefit which will ensure that existing support for claimants with disabilities, claimants with children and claimants who are working are maintained. At the end of the existing calculation a reduction of 21.55% is made from every non pensioner award of benefit to cover the shortfall in the government grant allocation for Halton.

5.2 Funding for the local scheme is part provided through Revenue Support Grant from Government. In 2013/14 the level of grant awarded was shown separately within the formula for RSG, but from 2014/15 the grant is no longer separately identifiable. The assumption in the MTFS is that the level of grant will be reduced from 2013/14 as per the reduction to local government funding (14%), but this cannot be verified.

5.3 The MTFS therefore assumes that the level of council tax support given to existing claimants will remain at the rate of 21.55% for the period of the MTFS.

6.0 BUSINESS RATE RETENTION SCHEME

6.1 The Business Rates Retention scheme was introduced in April 2013, the intention of which was to reward councils for promoting economic development and generating future growth in business rates. At the time of the 2013/14 finance settlement the Government issued Halton with a retained (local share) business rates baseline of £24.4m. The intention is if Halton increases its local share of business rates above the baseline the increase is retained in full by the Council.

6.2 An estimate of business rates was prepared at the start of the current financial year and it was forecast that the business rates the Council will generate during 2013/14 will be in line with the baseline. It is difficult to predict the level of business rates for future years due to the unpredictability of the current economic climate and appeals on the rateable value of properties.

7.0 EXTERNAL SUPPORT

Settlement Funding Assessment

7.1 In 2013/14 (the first year of the business rates retention scheme) DCLG allocated Halton a settlement funding assessment of £78.9m. This was made up of £47.4m Revenue Support Grant and £31.5m business rates baseline funding. The business rates baseline funding includes £24.4m as the business rates baseline and £7.2m of top-up grant funding. Top-up grant funding is received as the Council's funding baseline is greater than the business rate baseline. The business rates baseline and funding level is set in the system until 2020 and uplifted each year by RPI only.

7.2 Indicative funding assessments for 2014/15 and 2015/16 have been received from DCLG as part of the technical consultation. These have been included within the MTFS and are as set out in table 2 below.

Table 2 –Halton's Funding Assessment

	13/14	14/15	15/16	% change from 13/14 to 15/16
Revenue Support Grant	47,409	38,563	27,601	-41.7%
Baseline Funding Level consisting of:				
Business Rates Baseline	24,370	25,164	25,871	6.2%
Top Up	7,170	7,404	7,611	6.2%
Total Baseline Funding Level	31,540	32,568	33,482	6.2%
Funding Assessment	78,949	71,131	61,083	-22.6%

7.3 Included within the funding assessment is an amount for formula funding based on what is known as the "four block model". This distributes grant over three blocks based upon Ministerial judgement. The system is not transparent making it difficult to identify the amount of grant received by individual councils for new functions or grant transfers.

7.4 The fourth block is the damping mechanism to ensure that all councils receive at least the minimum increase or decrease in grant, known as "the floor". In this way councils are protected from significant detrimental grant changes in comparison to other Councils. The floor level included in the 2013/14 finance settlement was set at 2.7%, Halton received £3.1m by way of damping, equivalent to 5.3% of the total formula funding it received. The continued existence of the floor mechanism is therefore extremely important for the Council's current and future funding.

Specific Grants

7.5 The level of specific grants received by Halton in 2013/14 is £101m, including the Dedicated School Grant of £83.1m.

7.6 The CSR10 introduced the New Homes Bonus grant, the aim of which was to “create a powerful, simple, transparent and permanent incentive which rewards councils that deliver sustainable housing development”. The award of the grant is based on the additional number of new dwellings, a supplement for new social housing and payments for bringing empty homes back into use.

7.7 Halton was allocated a New Homes Bonus grant of £1.052m for 2013/14 which was used to balance the budget; this will be paid to the Council in each of the next three years. Halton will receive additional allocations in each year of the scheme, although the allocation for 2014/15 has not yet been announced. The Government have set aside £250m annually in each year of the spending review to part-fund the scheme, but funding beyond these levels will be met by top-slicing the councils’ formula grant nationally.

7.8 CSR 2013 confirmed £400m of New Homes Bonus grant allocations will be top-sliced in 2015/16 to contribute towards the creation of the Single Local Growth Fund administered by the LEPs. It is estimated £400m will be approximately 30% of the value of the New Homes Bonus in 2015/16. Therefore it is assumed within the MTFS that the Council’s NHB allocations will be reduced by 30% and passed directly to the LEP.

7.9 The Education Services Grant (ESG) was introduced in April 2013 as a means of passing funding to academy schools to fund central education services which are now the responsibility of academy schools.

7.10 ESG funding for 2013/14 came from a top-slice of councils’ formula funding. ESG allocations for 2013/14 were allocated to local authorities and academy schools on a simple per pupil basis, according to the number of pupils for which they are responsible.

7.11 CSR 2013 confirmed funding for ESG would be cut by a further 25% from 2015/16.

7.12 Government have given no indication of cuts to funding for 2016/17, however, the MTFS assumes a cut of 10% to the Council’s funding assessment. Each 1% cut to funding in 2016/17 equals a loss of Government grant of £0.6m.

7.13 The forecast decrease in the level of formula and specific grant funding for Halton is shown in Table 3 below:

Table 3 – Reduction in Grant 2014/15 to 2016/17

	2014/15 £000's	2015/16 £000's	2016/17 £000's
Reduction in Settlement Funding Assessment	-7,733	-10,966	-6,025
New Homes Bonus Funding Single Local Growth Fund	-	-470	-
Education Services Grant	-	-450	-
Cessation of 2011/12 Council Tax Freeze Grant			-1,086
In Year Reduction	-7,733	-11,886	-7,111
Cumulative Reduction	-7,733	-19,619	-26,730

7.14 The table shows over the next three years Halton will lose £27m in formula grant allocations, which represents a 34.2% reduction in the funding assessment received in 2013/14.

8.0 COUNCIL TAX FORECAST

8.1 For 2013/14 the Council Tax for a Band D property in Halton is £1,159.53 (excluding police, fire and parish precepts), which will generate income of £36.165m. Each additional 1% increase to Council Tax will generate £0.360m.

8.2 When setting Council Tax levels it is clear that higher increases reduce the requirement to make savings. However, there are other factors that need to be considered when determining the appropriate increase in Council Tax. These factors include:

- Halton has the 3rd lowest Council Tax level in the North West and the 42nd lowest in England for 2013/14,
- Halton's 2013/14 Council Tax is £73.16 (5%) below the average Council Tax set by councils in England.
- Inflation - the Consumer Price Index (CPI) as at August 2013 is currently at 2.7% and the Retail Price Index (RPI) at 3.3%.

- The spending review, welfare reforms, the slow housing market, inflation and high unemployment figures, which are all placing pressure upon the Council's funding and demand for services.

8.3 The Localism Act 2011 abolished capping of council tax increases and instead provides local residents with the power to approve or veto excessive council tax rises. For 2014/15 and 2015/16 the Government have confirmed that a rate of 2% will be set and any council tax rises above this will trigger a referendum.

8.4 The Government have announced a council tax freeze scheme for 2014/15 and 2015/16. The scheme will offer councils who freeze or reduce council tax in 2014/15 grant funding equivalent to 1% of their council tax requirement before the deduction for Council Tax Support. However, the funding will only be paid for two years. The Government have also offered a council tax freeze grant of 1% before the deduction for Council Tax Support for 2015/16, however this will only be paid for one year.

8.5 Should the Council accept the council tax freeze grants the grants will be worth an estimated £435,000 in each of the years for which they are payable. It should be noted that when the grant ends in 2016/17 the shortfall in grant funding will have to be found from either additional savings or increasing the Council Tax.

8.6 Table 4 below estimates the net amount of Council Tax income that will be produced for various % increases in Halton's Band D Council Tax for the next three years and assumes no change in council tax base. It also shows the value of Council Tax freeze grants over the three years:

Table 4 – Council Tax Income for 2014/15 to 2016/17

Projected Increases in Council Tax Income (£'000)	**2014/15 £'000**	**2015/16 £'000**	**2016/17 £'000**	**Total £'000**
0%	-	-	-	-
1%	362	365	369	1,096
2%	723	737	752	2.212
Council Tax Freeze Grant	435	870	-1,305	-

9.0 SPENDING FORECAST

9.1 The spending forecast provides an estimate of the increase in revenue expenditure that will be required over the next three years in order to maintain existing policies and programmes. In effect this represents an early estimate of the standstill budget requirement using the information that is currently available.

9.2 The scope of the forecast covers General Fund revenue activities that are financed through the Settlement Funding Assessment, Specific Grants and the Council Tax. School budgets are considered in Section 13.

9.3 The forecast includes the budgetary consequences of previous budget decisions, including one-off savings used to balance the 2013/14 budget; this adds £2.5m to the forecast for 2014/15.

9.4 Pay and price inflation is the biggest uncertainty and the single most costly factor in the spending forecast. As part of the Chancellor's 2011 Autumn Statement he informed that in order to maintain stability and meet the Government's fiscal rules, public sector pay awards would be set at an average of 1% for years 2013/14 and 2014/15. As part of the CSR13 it was announced that public sector pay awards would be further restricted to 1% for 2015/16. The spending forecast therefore assumes pay will increase by no more than 1% for each of the three years of the forecast.

9.5 Inflation has increased since this time last year, currently the Consumer Price Index (CPI) – the index by which the Government measures inflation - stands at 2.7% which is above the Government's 2% target. The spending forecast assumes that many items of supplies and services expenditure will continue to be cash limited. In other cases the forecast assumes an appropriate rate that reflects the picture of current and future prices.

9.6 The Council has a significant capital programme and the spending forecast includes the financing costs of the existing programme. Financing costs for the early land acquisition relating to the Mersey Gateway Project were previously funded from borrowings. It is expected that grant from Department of Transport (DfT) will be received during the period of the MTFS which will enable the Council to repay those borrowings. As a result, the net revenue costs associated with the capital programme are included in the forecast at a reduction of £0.9m in 2014/15, followed by an increase of £0.03m in 2015/16 and a reduction £0.3m in 2016/17.

9.7 During the period of the MTFS, construction will commence on the Mersey Gateway bridge. The Council will make a contribution towards the construction costs of the bridge funded by prudential borrowing, the financing costs of which will be met from future toll revenues and DfT grant. In order to manage the construction and operation of the Mersey Gateway the Council will establish the Mersey Gateway Crossings Board. The cost of operating the Board will also be met from future toll revenues and DfT grant.

9.8 For the three years of the forecast a 0.5% rise to cover the increasing costs of employer's superannuation contributions has been included. This is estimated to add an additional £0.3m for each year.

9.9 The disposal of waste using landfill is subject to Landfill Tax paid on top of landfill fees. The 2010 Emergency Budget announced that the standard rate for Landfill Tax would continue to increase annually by £8 per tonne until 2014/15 when it will cost £80 per tonne. It is estimated that an additional £0.2m will be required to fund the increase in Landfill Tax in 2014/15. It is assumed in the forecast that future increases beyond 2014/15 will be linked to the Retail Price Index (RPI).

9.10 The Borough's older population continues to increase with people living longer. Table 5 below shows Halton's population figures:

Table 5 – Halton's Population Breakdown 2012 Mid-Year Estimates

Age Range			
0-15	16-64	65+	Total
24,900	81,200	19,600	125,700

9.11 In the long term (to 2021) Halton's population is projected to grow by 3% from 125,700 to 129,300. The older people population is projected to grow by 26% from 19,600 to 24,700 in 2021. This is putting considerable pressure on the community care budget and therefore a further £0.3m is included in each year of the spending forecast.

9.12 SCOPE, a national charity, who support people with Cerebral Palsy have six registered residential homes in Halton supporting approximately 50 people. SCOPE has announced that they intend to de-register all homes. Halton will need to undertake assessments of residents needs and if required provide residential care, the cost of which is estimated to be £0.7m in 2014/15 rising to £2.1m by 2016/17 and is included in the spending forecast.

9.13 In January 2013 the Department for Work and Pensions published its White Paper on state pension reforms. Under the proposed changes the current basic and additional state pensions will be replaced by a single tier pension.

9.14 The proposals will mean the end of contracted out National Insurance payments. This will result in additional costs as the Council will pay higher National Insurance contributions. The estimated effect is an increase in National Insurance payments of 3.4% to the Council for each employee who is a member of the Local Government Pension Scheme.

9.15 The Chancellor confirmed in his 2013 budget report that the creation of the single tier state pension will be brought forward to 2016/17. Therefore this has been reflected in the spending forecast.

9.16 A key assumption that has been used in constructing the MTFS is that total spending in 2013/14 is kept within the overall budget. In particular it can be difficult to control ‘demand led’ budgets such as children in care and care in the community. In this context it is important to consider the contingency for uncertain and unexpected items. Due to the considerable uncertainty over inflation, interest rates, demand led budgets, impact of spending cuts and loss of income, the spending forecast includes a contingency of £2m in 2014/15, £2.5m in 2015/16 and £2.5m in 2016/17.

9.17 Table 6 summarises the Spending Forecast, which highlights likely increases in the net budget of £7.4m in 2014/15, £6.1m in 2015/16 and £7.1m in 2016/17.

Table 6 – General Fund Medium Term Standstill Spending Forecast

Increase in spending required to maintain existing policies and services	**Year on year change (£'000)**		
	2014/15	**2015/16**	**2016/17**
Full Year Effect of Previous Year Budget	2,541	-	-
Capital Programme	-914	35	-320
Pay and Price Inflation	1,714	1,766	1,820
Annual Pay Increments	500	500	500
Superannuation	250	250	250
Waste Disposal	267	-	-
Older Population	300	300	300
Scope – De-Registering Properties	700	700	700
Single Tier State Pension	-	-	1,300
Contingency	2,000	2,500	2,500
TOTAL INCREASE	**7,358**	**6,051**	**7,050**

10.0 THE FUNDING GAP

10.1 At this level of spending there is a funding gap with the forecast level of resources. Table 7 demonstrates the forecast gap between spending and forecast resources at different levels of Council Tax increase.

Table 7: Funding Gap with a given % increase in Council Tax

Council Tax Increase of:	**2014/15**	**2015/16**	**2016/17**
0%	15,091	17,104	14,161
1%	14,729	16,377	13,064
2%	14,368	15,644	11,949
Council Tax Freeze Grant	14,656	15,799	14,161

10.2 The table shows that savings of over £15m are forecast to be needed to balance next year's budget with further savings of £17m in 2015/16 and £14m in 2016/17, before any increase to Council Tax. The total funding gap is over £46m and represents 26% of the Council's gross expenditure budget.

10.3 This represents a significant challenge for the Council to balance its budget. As a result every aspect of the Council's budget needs to be scrutinised to identify potential savings. In addition, all opportunities will continue to be taken to generate additional income from charging for services, in order to reduce costs whilst maintaining levels of service delivery.

11.0 CAPITAL PROGRAMME

11.1 The Council's capital programme is updated regularly throughout the year. Table 8 summarises the fully funded capital programme.

Table 8 – Capital Programme

	2014/15 (£'000)	**2015/16 (£'000)**	**2016/17 (£'000)**
Spending	**12,971**	**8,715**	**4,379**
Funding:			
Prudential Borrowing	4,421	1,250	4,739
Grants	6,322	5,296	-
Revenue Financing	359	300	-
Capital Receipts	1,869	1,869	-
Total Funding	**12,971**	**8,715**	**4,379**

11.2 The current system of capital controls allows councils to support and fund the capital programme by way of prudential borrowing. Such borrowing is required to be:

- prudent
- affordable, and
- sustainable

11.3 The Council has used prudential borrowing provided that the cost of borrowing has been covered by revenue budget savings. The spending forecast continues this approach.

11.4 In previous years the Council has been extremely successful in attracting grants and contributions. In this way the Council has been able to undertake significant capital expenditure without financing costs falling on the budget.

11.5 In recent years a major source of funding the capital programme has been capital receipts. However, the number and value of assets now held is much less than it was and therefore no major capital receipts are included within the forecast.

12.0 RESERVES AND BALANCES

12.1 The Council's Reserves and Balances Strategy is attached in the Appendix. It sets out the Council's strategy in respect of the level of reserves and balances it wishes to maintain, by reference to the financial needs and risks associated with the Council's activities.

12.2 The level of balances and reserves will be reviewed as part of the budget and final accounts processes.

13.0 SCHOOLS BUDGET

13.1 Schools are fully funded by the Dedicated Schools Grant (DSG). The DSG is used to fund the Individual Schools Budget (ISB) which is allocated to schools by way of a formula and the central allocation in accordance with the revised Department for Education (DfE) guidelines.

13.2 The Schools Forum assesses and considers current and future arrangements and changes to schools funding, agreeing any formula changes.

13.3 In April 2013 schools received budgets based on the new funding formula which is the first step in a proposed move towards a national funding formula. It is envisaged that national funding formula will be implemented during the next spending review period.

13.4 From April 2013 funding is divided into three separate blocks within the Dedicated Schools Budget. These are the Schools Block, High Needs Block and Early Years Block.

13.5 Under the new funding guidelines, the amount of centrally held monies is tightly restricted for anything other than Early Years and High Needs provision.

13.6 Funding for schools converting to academies is paid directly to the academy from the Education Funding Agency rather than going through the Council. Included within the grant paid to the schools are monies that previously funded educational support services which the Council provides. There is an element of financial risk to the Council in future years if other schools choose to become academies which will lead to a shortfall in income to fund the expenditure for the central services.

14.0 PARTNERSHIPS

14.1 1st April 2013 brought into being the Clinical Commissioning Groups, the drivers of new clinically-led commissioning system, whom councils have developed similar partnerships with as they did with PCTs.

14.2 Halton is the host body in a Complex Care Pooled budget from 1st April 2013 working jointly with Halton Clinical Commissioning Group (HCCG) This brings together the Integrated Community Equipment Service, Intermediate Care Services, Adult Social Community Care (including Section 117 & joint funded packages of care), HCCG Continuing Health Care, HCCG section 117 and Reablement Services.

14.3 The Council has established partnerships and shared service arrangements with a number of councils and other organisations over recent years. It will continue to develop such arrangements where it is considered beneficial both in terms of service delivery and cost reduction.

15.0 EFFICIENCY STRATEGY

15.1 In order to maintain the level of performance across services delivered by the Council, it needs to find new and innovative ways to deliver services whilst making efficiency savings. The Council is determined not to compromise on the quality of the services that are provided to the community. However, it recognises the need to look more radically at the way it does business in order to achieve the level of savings that will protect key services.

15.2 The Council has an established Efficiency Programme in place to review services in a consistent way. This enables the identification of opportunities to enhance productivity, reduce costs, explore alternative delivery mechanisms and ensure that services are configured in the most appropriate way to meet the needs of service users.

15.3 Through the Efficiency Programme the Council has achieved savings of over £12m to date, including Procurement savings

15.4 The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness. This has been much strengthened and improved by the centrally coordinated procurement arrangements established via the Procurement Division. Procurement is considered a key mechanism for delivering efficiencies across the Council.

15.5 An e-tendering system, “Due North (the Chest)”, has been introduced to advertise and manage all tender exercises and sourcing activities. It also aims to encourage transparency of opportunity with Small and Medium Enterprises (SMEs). An increase in value thresholds within the

Council's standing orders has been made in order to generate potential savings through less bureaucracy and a more streamlined approach.

15.6 The accommodation strategy aims to rationalise the Council's land and property portfolio and wherever possible to locate staff in Council owned buildings. Progress continues to be made with implementation of the strategy, which has and will continue to result in significant budget savings during the period of the forecast.

16.0 MONITORING

16.1 Spending against each Department's revenue budget and capital programme is monitored and reported to the Policy and Performance Boards, alongside service outcomes, within the quarterly performance management reports. The Council-wide position is also reported quarterly to Executive Board.

17.0 SUMMARY

17.1 As a result CSR10, CSR13 and the technical consultation to the Finance Settlement 2014/15 and 2015/16 there have been severe cuts to the Council's funding, which are expected to continue in the medium term. In addition, the Business Rate Retention Scheme, localisation of council tax support and top-slicing of New Homes Bonus, bring further risk to the funding potential of the Council over the period of the Medium Term Financial Strategy and beyond. This will mean a considerable deterioration in monies available to fund services in the Borough.

17.2 As a consequence there is a requirement to make significant budget savings. There are also spending pressures, not included in the spending forecast, which will result in the need for further savings to keep future council tax increases to reasonable levels.

17.3 Future levels of growth and savings will therefore be directly influenced by the decisions made concerning council tax increases. Council tax increases will reduce the level of savings required, although the setting of capping through council tax referendum legislation will ensure the Government keep the cost of increases to council tax to a minimum.

17.4 The Medium Term Financial Strategy has been based on information that is currently available. Revisions will need to be made as new developments take place and new information becomes available.

APPENDIX

RESERVES AND BALANCES STRATEGY

1.0 INTRODUCTION

1.1 The following sets out the Council's Strategy in respect of the level of reserves and balances it wishes to maintain, by reference to the financial needs and risks associated with the Council's activities.

1.2 The overall strategy is to provide the Council with an appropriate level of reserves and balances in relation to its day to day activities and to ensure the Council's financial standing is sound and supports the achievement of its long term objectives and corporate priorities.

1.3 The Operational Director, Finance will undertake quarterly reviews of the level of reserves and balances and take appropriate action in order to ensure the overall strategy is achieved. The outcome of the reviews will be reported to the Executive Board and will be used to inform the Medium Term Financial Strategy (MTFS), the annual budget setting process and the final accounts process.

1.4 The Strategy concentrates upon the Council's key reserves and balances, being those which may potentially have a significant affect upon the Council's financial standing and its day to day operations.

2.0 GENERAL BALANCES

2.1 It has been the Council's policy since it gained unitary status to maintain general balances at a reasonable level. Close monitoring and control of budgets since then has meant this policy has been successfully achieved. It is considered prudent to maintain general balances at a reasonable level in order to provide for any major unforeseen future events. Going into 2013/14 the level of the general reserve stood at £8.1m, this will be reduced by the close of the financial year as it was agreed £1m would be used in balancing the budget for 2013/14.

2.2 The level of revenue budget savings currently indicated by the MTFS provides increased uncertainty in terms of the Council's ability to deliver spending in line with its annual budget, which would result in a reduction in general balances. It is therefore considered prudent to maintain general balances at approximately 7% of the Council's net revenue budget in order to provide for such eventualities, as well as to minimise the financial impact of any major unforeseen future events.

3.0 BAD DEBT PROVISIONS

Sundry Debtors

3.1 The Council makes provision for bad and doubtful debts based upon an annual review of outstanding debts profiled by age and the associated risks of non-payment, depending upon the types of debt.

3.2 Past experience has shown that after 43 days the likelihood of sundry debts being paid reduces significantly and therefore the risk of them not being recovered increases greatly. Full provision will therefore be made for all sundry debts outstanding for more than 43 days.

3.3 The bad debt provisions in respect of sundry debtors currently total £4.3m.

Council Tax / Business Rates (NNDR)

3.4 Bad debt provisions are made in respect of Council Tax and National Non Domestic Rate (NNDR) debts, based on an overall 97.8% collection rate. The bad debt provisions in respect of Council Tax and NNDR debtors currently total £3.1m.

3.5 The levels of bad debt provisions held are considered prudent in relation to the current level and age profile of outstanding debts. But they will be reviewed annually, particularly in the light of the prevailing economic climate and reductions in council tax support payments and empty property discounts which may affect collection rates. Therefore appropriate provisions will be made to minimise the risk of financial loss to the Council.

4.0 INSURANCE RESERVE

4.1 The Council maintains an Insurance Reserve in order to meet the cost of current and future insurance claims which exceed the level of cover provided by the Council's insurers.

4.2 In particular, this relates to claims in respect of school premises, where the Council's insurance policy has an excess of £100,000. In addition, the cost of renewal of contents etc. often exceeds the insured costs. Past experience has shown that the proportion of costs falling to be funded from the Insurance Reserve in these instances can be very significant.

4.3 The Insurance Reserve will therefore be maintained at the level of total outstanding claims, in order to provide for both the cost of uninsured claims and the potential cost of future school claims. The Insurance Reserve currently totals £4.2m.

4.4 A separate Insurance Reserve exists to meet future claims in respect of the Council's previous housing stock, which was transferred to Halton Housing Trust in 2005. This reserve is primarily intended to minimise the financial risk to the Council of potential future environmental claims relating to the period prior to the transfer. This reserve currently totals £1.3m.

5.0 CAPITAL RESERVE

5.1 The Council holds a Capital Reserve to support the financing of the Council's capital programme which currently totals £2.m. However, following the capitalisation direction received in respect of 2008/09 Mersey Gateway preparation costs, the Capital Reserve has been earmarked to meet remaining Mersey Gateway preparation costs in 2013/14 and revenue costs associated with the Mersey Gateway Crossings Board.

6.0 EQUAL PAY RESERVE

6.1 The Council has set-aside funds totalling £3.6m to assist with meeting the costs of equal pay claims. The likely cost of meeting equal pay claims is as yet unknown and whilst the level of reserves are sufficient to meet current claims, a balance should be maintained for future claims.

7.0 INVEST TO SAVE FUND

7.1 The Council has an Invest to Save Fund which currently totals £1.5m, in order to provide one-off funding for proposals which will generate efficiencies and thereby create significant, permanent, revenue budget savings, whilst also supporting the achievement of the Council's corporate objectives.

7.2 Applications for funding which meet specific criteria are considered by Executive Board and ultimately a proportion of the revenue budget savings achieved are returned in order to sustain the Fund.

8.0 TRANSFORMATION FUND

8.1 In 2010/11 the Council created a Transformation Fund to fund the costs associated with efficiency reviews and structural changes required in order to deliver a balanced budget. The fund's balance is currently £1.8m, which is considered reasonable given the financial challenges facing the Council over the coming years.