

REPORT TO: Executive Board
DATE: 20th November 2014
REPORTING OFFICER: Operational Director, Finance
PORTFOLIO: Resources
SUBJECT: Medium Term Financial Strategy 2015-18
WARD(S): Borough-wide

1.0 PURPOSE OF REPORT

1.1 To establish the Medium Term Financial Strategy for 2015/16 to 2017/18.

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 2015/16 remains at the 2014/15 level of 21.55%; and**
- 6) the Council's 2015/16 Council Tax Support Grant is not shared with the Parish Councils.**

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:

- 2013 Comprehensive Spending Review published by the Government on 26th June 2013 which only covered the financial year 2015/16
- Autumn Statement 2013 delivered to Parliament by the Chancellor of The Exchequer on 3rd December 2013
- Budget 2014 delivered to Parliament by The Chancellor of the Exchequer on 19th March 2014
- 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
- 2015/16 Technical Consultation on the Local Government Finance Settlement published by the Department for Communities and Local Government (DCLG) on 22nd July 2014

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 £19m, £13m, and £10m are required over the next three years. As a result a total of £42m will need to be removed from the Council's budget. This represents 23% 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 titled 'value for money' for the year ended 31st March 2014, 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
- Safer Halton; and
- Corporate Effectiveness and Business Efficiency

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 £19m in 2015/16 but also a further £13m in 2016/17 and £10m in 2017/18. 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.
- Exploring opportunities for shared services and joint working with partner organisations.
- 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 in future. 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 relevant Directorate's 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 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 based on the latest information provided by Government. As new information comes to light the forecast of future income streams will be updated. Decreases to grant income will create further budget pressures for the Council in 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 REASON FOR THE DECISION

- 9.1 To seek approval for the Council's Medium Term Financial Strategy for 2015/16 to 2017/18.

10.0 ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

- 10.1 The alternative option of not maintaining a Medium Term Financial Strategy has been considered. However, this would not follow good

financial management practice, as the Medium Term Financial Strategy is a key element in informing the Council's financial planning and budget setting processes.

11.0 IMPLEMENTATION DATE

11.1 The Medium Term Financial Strategy 2015-18 will be implemented from 1st April 2015.

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

Document	Place of Inspection	Contact Officer
Formula Grant Settlement 2014/15	Kingsway House	Alison Walker
Comprehensive Spending Review 2013 (CSR2013)	“	“
Local Government Finance Settlement (Technical Consultation) 2014-15 and 2015-16	“	“
Local Government Finance Settlement (Technical Consultation) 2015-16	“	“

MEDIUM TERM FINANCIAL STRATEGY

2015/16 TO 2017/18

**Finance Department
November 2014**

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 2015/16 to 2017/18. 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.

3.0 COMPREHENSIVE SPENDING REVIEW 2013

- 3.1 The Comprehensive Spending Review (CSR) 2010 set out the Government's public sector spending plans for the four year period up to and including 2014/15. The CSR 2013 was announced on the 26th June 2013. This set out the Government's public sector spending plans for the financial year 2015/16 only.
- 3.2 The CSR 2013 set out how the coalition Government will continue to carry out the deficit reduction plan. Overall, Government departments will face a reduction in funding of £11.5 billion in 2015-16 of which Local Government will bear £2.1 billion.
- 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 settlement 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.
 - b) Council tax freeze grants for 2014/15 and 2015/16. These were offered at a rate of 1% for 2014/15 payable for two financial years and 1% for 2015/16 payable for one year only. The Council opted not to accept the freeze grant for 2014/15.
 - c) Council tax freeze grants included in the settlement funding assessment for 2015/16 will also be included in the 2016/17 Local Government spending control total base position.
 - d) £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.

- e) Public sector pay awards restricted to 1%.
- f) Education Services grant funding by the Department for Education will be cut by 25%. This grant currently funds central education support provided to schools such as education welfare services and school improvement. 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 AUTUMN STATEMENT 2013

4.1 The 2013 Autumn Statement was delivered by The Chancellor of the Exchequer to Parliament on 3rd December 2013. This included some key messages to Local Government. These include:

- a) A further 1.1% reduction to public sector expenditure for 2014/15 and 2015/16 but Local Government would be excluded from these reductions.
- b) Government will cap the RPI increase in Business Rates at 2% for 2014/15 only. Government announced that Councils will be fully refunded for the loss in revenue for this and other Business Rate changes via a specific grant.
- c) Government will carry out an evaluation of New Homes Bonus in 2014 and consult on measures to improve the incentive provided by New Homes Bonus.
- d) Government will make funding available to offer every pupil attending a state funded school at infant level a free school lunch from September 2014 (note: additional funding has only actually been provided for pupils who didn't previously receive free school meals).

5.0 BUDGET 2014

5.1 The 2014 Budget was delivered by The Chancellor of the Exchequer to Parliament on 19th March 2014. This included some key messages to Local Government and to Halton in particular. These include:

- a) £200m of additional funding for pothole repairs
- b) Extension of free early education for two year olds
- c) £50m funding for early years pupil premium
- d) Approval of funding for the Mersey Gateway bridge

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

- 6.1 On 25th July 2013 DCLG opened a technical consultation on the Local Government Financial Settlement for 2014-15 and 2015-16.
- 6.2 DCLG provided exemplifications of funding for 2014/15 and 2015/16 for all local authorities. This suggested 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 the CSR 2013.
- 6.3 The difference in the level of cuts between the 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.
- 6.4 Halton responded to the consultation, as did SIGOMA and the Liverpool City Region, and made DCLG aware of the unfairness of increasing funding cuts, so soon after the publication of the CSR 2013.

7.0 TECHNICAL CONSULTATION – LOCAL GOVERNMENT FINANCE SETTLEMENT 2015/16

- 7.1 On 22nd July 2014 DCLG opened a technical consultation on the Local Government Financial Settlement for 2015-16. This stated Government proposals and sought responses as to whether these were deemed acceptable. These included:
- a) The Business Rates cap of 2% introduced in the Autumn Statement 2013 should continue to operate with compensation being paid to Councils as a separate grant. It was proposed that compensation for the cap should be paid on the basis of the reduction to retained business rates income adjusted to account for lower tariffs and top-ups, as in 2014/15.
 - b) Rolling the 2014-15 Council Tax Freeze grant into Revenue Support grant and combining it with the 2013-14 Council Tax Freeze funding.
 - c) Reduce funding to authorities which have fallen below the threshold for participation in the Carbon Reduction Commitment Scheme. It is estimated that this would result in a loss of approximately £94,000 in Halton's Settlement Funding Assessment.

- 7.2 Halton have contributed to responses provided by SIGOMA and the Liverpool City Region to the consultation. These responses highlighted concerns that high tax-base authorities are being rewarded at the expense of low tax-base authorities such as Halton.

8.0 LOCALISING COUNCIL TAX SUPPORT

- 8.1 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 support, to cover the shortfall in the Government grant funding for Halton.
- 8.2 Funding for the local scheme is now provided through Revenue Support Grant (RSG) from Government. In 2013/14 the level of grant awarded was shown separately, but from 2014/15 the grant is no longer separately identifiable. It is therefore assumed that the level of funding will reduce in line with the annual reduction in Halton's RSG.
- 8.3 The MTFS 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.
- 8.4 As Council Tax Support is now provided via a local scheme, councils have the discretion to pass over a proportion of the Council Tax Support Grant to their Parish Councils. This would be intended to offset any reduction in Parish precept which they may have experienced as a result of the introduction of the local scheme. It is estimated that for 2015/16 the amount of grant would be £8,600 in total for Halton's Parishes.
- 8.5 In practice since 2013/14 the Parish councils have adjusted their precepts to reflect the impact of the introduction of the Council Tax Support Scheme. It is therefore recommended not to pass a share of the 2015/16 Council Tax Support Grant over to Halton's Parish Councils.

9.0 BUSINESS RATE RETENTION SCHEME

- 9.1 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 2014/15 finance settlement the Government issued Halton with a retained (local share) business rates baseline of £24.8m. The

intention is that if Halton increases its local share of business rates above the baseline, the increase is retained in full by the Council.

- 9.2 An estimate of business rates was prepared at the start of the current financial year and it is forecast that the business rates which the Council will generate during 2014/15 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.

10.0 SOCIAL CARE ACT

- 10.1 The Social Care Act represents the most significant reform of care and support in more than 60 years, putting people and their carer's in control of their care and support. For the first time, the Act will put a limit on the amount anyone will have to pay towards the costs of their care. The cap on care costs will be, at present, £72,000 after which the state will pay the costs.
- 10.2 In addition to the care cap the Government has increased the means testing level, so that Government help begins earlier than before, meaning people with modest wealth will be eligible for state help towards the cap. This will mean 35,000 more older people will get help with their care costs nationally when the system comes into force from April 2016. By 2024/2025 up to 100,000 more people will benefit financially as a result of the reforms.
- 10.3 Under the Act every Council will have to offer a deferred payment scheme, as no one should be forced to sell their home during their lifetime in order to pay for their residential care. Although a deferred payment scheme is currently available in Halton resources will have to be employed further in this area to accommodate the potential increase in demand.
- 10.4 The Act gives carers new rights and puts them on the same footing as the people they care for. In the current system councils aren't required to provide support to carers, however, that will change. All carers will be entitled to an assessment and if eligible they will have a legal right to receive support for their needs, just like the people they care for.
- 10.5 Government has announced £3.8 billion in the Spending Review settlement to bring together health and social care budgets and ensure a smooth integrated service between the NHS and care and support in the community. This will go towards funding the changes in the Social Care Act, however, it is unclear at present whether this will be sufficient to meet the increased costs or whether further funding will be made available.
- 10.6 The MTFs includes an additional £1.1m from 2016/17 onwards in anticipation of these additional pressures.

11.0 EXTERNAL SUPPORT

Settlement Funding Assessment

- 11.1 In 2014/15 (the second year of the business rates retention scheme) DCLG allocated Halton a settlement funding assessment of £71.14m. This was made up of £38.99m Revenue Support Grant and £32.15m business rates baseline funding. The business rates baseline funding includes £24.84m as the business rates baseline and £7.31m 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.
- 11.2 Indicative funding assessments for 2015/16 have been received from DCLG as part of the technical consultation. The indicative funding assessment inflation had been estimated at 2.76% for business rates baseline funding and top-up grant. The actual increase to business rates for 2015/16 is based on the RPI index for September 2014, this was 2.3% and will result in a reduction in the Council's business rates baseline funding and top-up grant of approximately £150,000, as set out in table 2.

Table 2 –Halton's Funding Assessment

	14/15 £'000	15/16 £'000	16/17 £'000	% change from 14/15 to 16/17
Revenue Support Grant	38,988	27,834	21,103	-45.9%
Baseline Funding Level consisting of:				
Business Rates Baseline	24,845	25,416	25,924	4.3%
Top Up	7,309	7,477	7,626	4.3%
Total Baseline Funding Level	32,154	32,893	33,550	4.3%
Funding Assessment	71,142	60,727	54,635	-23.2%

- 11.3 There have been no spending reviews for 2016/17 onwards and therefore the above figures for that year are an estimated reduction to Revenue Support Grant, extrapolated on the basis of the previous two years.
- 11.4 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.

Specific Grants

- 11.5 The level of specific grants received by Halton in 2014/15 is £111m, including the Dedicated School Grant of £79.6m.
- 11.6 Halton was allocated a New Homes Bonus grant of £1.725m for 2014/15 which was used to balance the budget. Halton will receive additional allocations in each year of the scheme, based upon the number of new homes entering the council tax register in each year, although the allocation for 2015/16 has not yet been announced.
- 11.7 Education Services Grant (ESG) was introduced in April 2013 as a means of passing funding to academy schools to fund central education services previously the responsibility of the Council but now the responsibility of academy schools.
- 11.8 ESG funding for 2013/14 and 2014/15 came from a top-slice of councils' formula funding. ESG allocations for 2013/14 were then allocated to local authorities and academy schools on a simple per pupil basis, according to the number of pupils for which maintained schools, special maintained schools, pupil referral units and academy schools are responsible for. In addition there is an element for retained duties covering all pupils which is payable to the Council.
- 11.9 The CSR 2013 confirmed that funding for ESG would be cut by £200m in 2015/16, equivalent to an overall 20% funding cut (or a 25% cut if excluding academies). A consultation on the funding cut commenced in March 2014 with Government issuing a response to the consultation in July 2014. The outcome of the response revealed there would be a 23% cut to the largest part of the grant which related to the funding element for pupils in maintained schools, although full protection will be applied to the rate for retained services. The impact of the Government response results in an estimated loss of funding of £0.360m for the 2015/16 Children & Enterprise budget.
- 11.10 The Local Welfare Provision was transferred from the Department for Work and Pensions on 1st April 2013. This had previously been called the Discretionary Social Fund. This provides funding for residents in hardship to purchase food vouchers etc. On 10th October 2014 a consultation was issued on the future funding for Local Welfare Provision. This is the result of Government agreeing to reconsider its decision to cease funding. As no final decision has yet been made the MTFs assumes that there will a funding gap from 2015/16 onwards.
- 11.11 Government have given no indication of cuts to funding for 2016/17 and 2017/18, however, the MTFs assumes a cut of 10% to the Council's Settlement Funding Assessment. Each 1% cut to the

Council's Settlement Funding Assessment in 2016/17 and 2017/18 equates to a loss of Government grant of £0.6m and £0.5m respectively.

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

Table 3 – Reduction in Grant 2015/16 to 2017/18

	2015/16 £000's	2016/17 £000's	2017/18 £000's
Reduction in Settlement Funding Assessment	-10,415	-6,092	-5,465
2011/12 New Homes Bonus Funding Dropping Out	-	-	-347
Local Welfare Provision Grant Ceasing	-	-775	-
In Year Reduction	-10,415	-6,867	-5,812
Cumulative Reduction	-10,415	-17,282	-23,094

11.13 The table shows over the next three years Halton will lose £22m in formula grant allocations, which represents a 31% reduction in the settlement funding assessment received in 2014/15. In addition there will be a reduction of £1.1m in specific grants over the period.

12.0 COUNCIL TAX FORECAST

12.1 For 2014/15 the Council Tax for a Band D property in Halton is £1,181.56 (excluding police, fire and parish precepts), which will generate income of £37.1m. Each additional 1% increase to Council Tax will generate £0.371m.

12.2 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 for 2014/15,
- Halton's 2014/15 Council Tax is £62.15 (4.2%) below the average Council Tax set by councils in England.

- Inflation - the Consumer Price Index (CPI) as at September 2014 is 1.2% and the Retail Price Index (RPI) is 2.3%.
 - 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.
- 12.3 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 the Government set a rate of 2% and any council tax rises above this were subject to a referendum. A decision is still yet to be made on the referendum limit for 2015/16.
- 12.4 The Government announced a council tax freeze scheme for 2014/15 and 2015/16. The scheme offered councils who froze or reduced council tax in 2014/15, permanent grant funding equivalent to 1% of their council tax requirement before the deduction for Council Tax Support. The Council opted not to accept this freeze grant. The Government have also offered a permanent council tax freeze grant of 1% before the deduction for Council Tax Support for 2015/16.
- 12.5 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 2015/16 to 2017/18

Projected Increases in Council Tax Income (£'000)	2015/16 £'000	2016/17 £'000	2017/18 £'000	Total £'000
0%	-	-	-	-
1%	371	375	378	1,124
2%	742	757	772	2,271
Council Tax Freeze Grant	435	0	0	435

13.0 SPENDING FORECAST

- 13.1 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.
- 13.2 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 17.

- 13.3 The forecast includes the budgetary consequences of previous budget decisions, including one-off savings used to balance the 2014/15 budget; this adds £4.4m to the forecast for 2015/16.
- 13.4 Pay and price inflation is the biggest uncertainty and the single most costly factor in the spending forecast. As part of the CSR13 it was announced that public sector pay awards would be 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.
- 13.5 Inflation has decreased since this time last year, currently the Consumer Price Index (CPI) – the index by which the Government measures inflation - stands at 1.2% which is below 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.
- 13.6 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 £0.062m in 2015/16, followed by an increase of £0.201m in 2016/17 and a reduction £0.307m in 2017/18.
- 13.7 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 established the Mersey Gateway Crossings Board. The cost of operating the Board will also be met from future toll revenues and DfT grant.
- 13.8 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.
- 13.9 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. However, the cost and timescale for this is not yet known and is therefore not included in the forecast.

- 13.10 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.
- 13.11 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.
- 13.12 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 at an estimated cost of £1.3m.
- 13.13 A key assumption that has been used in constructing the MTFs is that total spending in 2014/15 is kept within the overall budget. In particular it can be difficult to control 'demand led' budgets such as childrens and adult social care. 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 £1m in 2015/16, £1m in 2016/17 and £1.5m in 2017/18.
- 13.14 The terms and condition saving relating to four days unpaid leave per employee resulted in a saving of approximately £800,000 over three financial years, up to and including 2014/15. Negotiations are currently underway with the Unions regarding continuation of this arrangement. However, at this stage this cost has been added back into the forecast in 2015/16.
- 13.15 As discussed in section 10 above, the Social Care Act will bring about new responsibilities and budget pressures for councils. Provision for these has been included in the forecast from 2016/17 onwards.
- 13.16 Table 6 summarises the Spending Forecast, which highlights likely increases in the net budget of £8.5m in 2015/16, £5.7m in 2016/17 and £3.8m in 2017/18.

Table 6 – General Fund Medium Term Standstill Spending Forecast

Increase in spending required to maintain existing policies and services	Year on year change (£'000)		
	2015/16	2016/17	2017/18
Full Year Effect of Previous Year Budget	4,439	-	-
Capital Programme	-62	201	-307
Pay and Price Inflation	1,714	1,695	1,750
Annual Pay Increments	400	400	400
Superannuation	250	250	250
Single Tier State Pension	0	1,300	0
Contingency	1,000	1,000	1,500
Removal of Terms & Conditions Savings	800	0	0
Social Care Act	0	900	200
TOTAL INCREASE	8,541	5,746	3,793

14.0 THE FUNDING GAP

14.1 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, including if the Council Tax Freeze Grant were accepted.

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

Council Tax Increase of:	2015/16 £'000	2016/17 £'000	2017/18 £'000
0%	18,957	12,594	9,605
1%	18,586	12,219	9,227
2%	18,215	11,837	8,833
Council Tax Freeze Grant	18,522	12,594	9,605

14.2 The table shows that savings of nearly £19m are forecast to be needed to balance next year's budget with further savings of £13m in 2016/17 and £10m in 2017/18, before any increase to Council Tax. The total funding gap is over £41m and represents 22% of the Council's gross expenditure budget.

14.3 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.

15.0 CAPITAL PROGRAMME

15.1 The Council's capital programme is updated regularly throughout the year. Table 8 summarises the fully funded capital programme, which includes the Council's contribution to the Mersey Gateway Bridge project.

Table 8 – Capital Programme

	2015/16 (£'000)	2016/17 (£'000)	2017/18 (£'000)
Spending	23,509	77,807	286
Funding:			
Prudential Borrowing	11,539	72,924	-
Grants	9,801	3,014	286
Revenue Financing	300	-	-
Capital Receipts	1,869	1,869	-
Total Funding	23,509	77,807	286

15.2 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

15.3 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.

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

15.5 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.

16.0 RESERVES AND BALANCES

16.1 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.

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

17.0 SCHOOLS BUDGET

17.1 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.

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

17.3 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.

17.4 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.

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

17.6 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.

18.0 PARTNERSHIPS

18.1 In 2015/16 the Government will introduce a £3.8 billion pooled budget for health and social care services, shared between the NHS and local authorities, to deliver better outcomes and greater efficiencies through more integrated services for older and disabled people. The NHS will also make available a further £200 million on 2014/15 to accelerate the transformation.

18.2 Halton Borough Council is the host body in a Complex Care Pooled budget which from 1st April 2015 will include the Better Care Fund, working jointly with Halton Clinical Commissioning Group (HCCG). An

additional £10.5m will be transferred from Health to the Council. This will improve outcomes for the public, provide better value for money and be more sustainable by working closely together to meet individual's needs.

- 18.3 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.

19.0 EFFICIENCY STRATEGY

- 19.1 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 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.
- 19.2 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.
- 19.3 Through the Efficiency Programme the Council has achieved savings of over £12m to date, including Procurement savings.
- 19.4 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.
- 19.5 An e-tendering system, "the Chest", is used 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.
- 19.6 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.

20.0 MONITORING

20.1 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.

21.0 SUMMARY

21.1 As a result of the CSR 2013 and the technical consultations regarding the Finance Settlements for 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 and localisation of Council Tax Support 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.

21.2 As a consequence there is a requirement to make significant budget savings. There are also spending pressures, such as upon demand led budgets, which are not included in the spending forecast, but which will result in the need for further savings.

21.3 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.

21.4 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.

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. Going into financial year 2014/15 the level of the general reserve stood at £8.6m which is considered prudent and a reasonable level.

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 £3.2m.

Council Tax / Business Rates (NNDR)

- 3.4 Bad debt provisions are made in respect of Council Tax and National Non Domestic Rate (NNDR) debts. The bad debt provisions in respect of Council Tax and NNDR debtors currently total £5.2m.
- 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. At 31st March 2014 the Insurance Reserve stood at £3.8m.

5.0 CAPITAL RESERVE

- 5.1 The Council holds a Capital Reserve to support the financing of the Council's capital programme and is based upon current capital funding needs.

6.0 EQUAL PAY RESERVE

- 6.1 The Council has set-aside funds totalling £3.4m to assist with meeting the costs of equal pay claims. The likely cost of equal pay claims is as yet unknown and whilst the level of reserves are sufficient to meet current claims, a balance will need to be retained to meet future claims. In setting the revenue budget for 2014/15 the Council agreed to release £0.5m from the equal pay reserve over a number of years.

7.0 INVEST TO SAVE FUND

- 7.1 The Council has an Invest to Save Fund which at 31st March 2014 stood at £1.4m. This is 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.

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. At 31st March 2014 the fund's balance stood at £2.2m. This is considered reasonable for the financial challenges facing the Council over the coming years.