REPORT TO:	Executive Board
DATE:	16 November 2017
REPORTING OFFICER:	Operational Director, Finance
PORTFOLIO:	Resources
SUBJECT:	Medium Term Financial Strategy 2018-2021
WARD(S):	Borough-wide

1.0 PURPOSE OF REPORT

1.1 To establish the Medium Term Financial Strategy for the period 2018/19 to 2020/21.

2.0 RECOMMENDATION: That

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

2) **the 2018/19 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 2018/19 remains at the 2017/18 level of 21.55%; and**

6) **the Council's 2018/19 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.

3.2 Although the projections in the Strategy must be treated with a considerable degree of caution, they clearly show there is continued need to make a significant level of savings over the next three years. This is an effect of the projections of public spending through to 2020 resulting from the 2015 Comprehensive Spending Review and uncertainty from 2020 onwards regarding Government plans for public spending and continuity of the austerity programme. The Strategy takes into account the:

- Comprehensive Spending Review 2015 announced by the Chancellor of the Exchequer on 25th November 2015.
- Local Government Finance Settlement 2017/18 dated 21 February 2017
- Budget 2017 announced by the Chancellor of the Exchequer on 08 March 2017.
- Announcement of the Government's final position on the schools national funding formula and high needs formula dated 14 September 2017.

3.3 The Strategy provides initial guidance to the Council on its financial position over the medium term. The Strategy identifies that revenue savings of approximately £5.6m, £13.2m, and £3.3m will be required over the next three years. As a result a total of £22.1m will need to be removed from the Council's budget, by reducing spending or increasing income. This represents 21.4% of the net 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 but continued reductions in Government funding together with increasing service demands, is beginning to have a serious impact upon Council finances. In 2016/17 the Council overspent its approved budget by £0.559m. At 30 September 2017 the Council is forecasting a 2017/18 year-end overspend of approximately £4m.

3.5 The Government's strategy with regard to the future funding of local government is to cease the provision of Government grant funding and for councils to become self-sustaining through the generation of funding from retained business rates and council tax. Councils will therefore benefit directly from their planning and development decisions, through the generation of increased business rates and council tax in order to fund the provision of all council services.

3.6 As at 30 March 2017 the Council had general reserves of £4.8m, earmarked reserves of £37.3m and provisions of £8.4m to meet existing known risks. It would not be considered prudent for general reserves to reduce any further and therefore earmarked reserves and provisions will be continue to be reviewed to release funds for general purposes.

3.7 In their report titled 'The Audit Findings for Halton Borough Council', for the year ended 31March 2017, the External Auditor (Grant Thornton LLP) stated that the Council has:

- Proper arrangements in place in identifying, managing and monitoring financial risk.

3.8 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

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

3.10 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 priority areas.
- To avoid excessive council tax increases.
- To achieve significant cashable efficiency gains.
- To protect front line services and vulnerable members of the community as far as possible.
- To deliver improved procurement.

Budget Strategy

3.11 The MTFS shows that in order to balance the budget over the medium term there is a requirement to make significant cost savings. In making these savings the Council will need to have in mind the objectives of the Medium Term Financial Strategy set out above.

3.12 The Council will identify further savings by:

- 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.
- Progressing the Efficiency Programme.
- Identifying opportunities to generate new or additional sources of income.
- Exploring opportunities for shared services and joint working with partner organisations.
- Offering staff voluntary redundancy or early retirement under the terms of the Staffing Protocol, where there is a clear benefit to the Council.
- 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.
- Utilising cost and performance benchmarking data from comparable authorities, to highlight potential areas where savings might be achieved.

- Considering alternative approaches to address high demand and high cost services.
- Using the Invest to Save Reserve to invest in initiatives which will deliver revenue budget savings through improved efficiency, reduced costs, and/or increased income.
- Continuing to facilitate economic development and regeneration across the Borough, particularly in light of the opportunities provided by the opening of the Mersey Gateway Bridge, in order to deliver new jobs, generate additional business rates income and additional council tax income.
- Reducing or ceasing the delivery of some lower priority services.

Capital Strategy

3.13 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.

3.14 The MTFS shows that there is sufficient resource to cover the cost of the current Capital Programme. However, the scope for the Council to generate capital receipts is limited. Therefore, proposals for new capital schemes will need to include their own funding.

3.15 Prudential borrowing remains an option for funding capital schemes, but the capital financing costs as a result of that borrowing will increase the Council's revenue budget gap and would therefore require greater revenue savings to be found by the relevant Directorate.

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 funding resources 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 funding resources 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 2018/19 to 2020/21.

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 2018/21 will be implemented from 1st April 2018.

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

Document	Place of Inspection	Contact Officer
Local Government Grant Settlement 2017/18	Revenues and Financial Management Division, Kingsway House, Widnes	Steve Baker
Autumn Statement and Spending Review 2015	“ “	“ “
Spring Budget 2017	“ “	“ “

MEDIUM TERM FINANCIAL STRATEGY

2018/19 to 2020/21

Finance Department
October 2017

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 2018/19 to 2020/21. 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 other Strategies.

1.3 There are a number of Government announcements, which in addition to service demands form the basis of the financial forecast, details of which are provided below.

2.0 Spending Review and Autumn Statement 2015

2.1 The 2015 Spending Review and Autumn Statement was announced by the Chancellor of the Exchequer on 25 November 2015. The main points impacting on Local Government finances included:

a) Local Government settlement funding will be cut by approximately 30% over the 4 years of the spending review, cuts will be weighted towards the earlier years. Revenue Support Grant will be gradually phased out over the course of this period.

b) An option for Councils to set a precept over the council tax referendum threshold to help meet the increased needs of Adult Social Care. The option will be made available in each of the 4 years of the spending review.

c) An additional £1.5 billion being made available to local authorities within the Better Care Fund by 2019/20.

d) The ring-fence on Public Health spending will be maintained. Government will make savings in Public Health spending with annual real-term savings of 3.9% over the next five years.

e) There will be a consultation regarding the New Homes Bonus grant. The aim will be to "sharpen" the incentive to reward communities for additional homes whilst reducing the length of payments from 6 years to 4 years.

f) £250m to be provided nationally over the next 5 years to tackle potholes on local roads. In addition the roads maintenance capital budget will increase by £300m nationally.

g) An apprenticeship levy will be applied to larger employers from April 2017, the cost of which will be 0.5% of the employer's wage bill.

h) A national funding formula for schools will be introduced, the intention for which was a start date of April 2017 but has now been pushed back to April 2018.

3.0 Local Government Finance Settlement 2017/18

3.1 Government announced the 2017/18 final Local Government Finance Settlement on 20 February 2017. The Settlement Fund Assessment for the Council was £51.1m a reduction of £4.2m (7.7%) from the previous year.

3.2 Government also issued indicative Settlement Funding Assessment figures for the following two years which show a reduction of £16.7m (30%) over the four year period of the 2015 Spending Review.

3.3 On 15 September 2016, Executive Board approved for the necessary steps to be taken to accept a 4 year settlement offer from Government. This guaranteed the amounts due to the Council under the indicative Settlement Funding Assessment and only under exceptional circumstances would the amounts be subject to change.

3.4 As part of the settlement an announcement was made on a change to the Social Care Precept on Council Tax. This was originally set at 2% per annum increase for the period 2016/17 to 2019/20. The Council is now able to increase the social care precept by up to 6% over the three year period from 2017/18 to 2019/20, with a cap of 3% in any of the three years.

3.5 Government confirmed changes to the New Homes Bonus scheme as part of the settlement announcement. From 2017/18 the number of years the scheme is based on will reduce from 6 years to 5 years with a further reduction to 4 years from 2018/19. The scheme will now also only reward growth in the number of homes of above 0.4% per annum.

3.6 Reductions to the New Homes Bonus Scheme were estimated as £241m for 2017/18 and these funds have been diverted to provide the new Adult Social Care Support Grant. This grant funding was distributed on the adult social care relative needs formula and is only for 2017/18. For Halton the grant awarded was £0.642m.

4.0 Spring Budget 2017

4.1 The Chancellor of the Exchequer presented his 2017 Spring Budget to the House of Commons on 08 March 2017. The areas relevant to local government finances included:

a) An additional £2.0bn of social care funding made available to local authorities over the period 2017/18 to 2019/20. This was announced as "additional" Better Care Funding covering one-off amounts to bridge the gap until the Improved Better Care Fund amounts are allocated for the period 2018/19 and 2019/20.

b) Three business rates related announcements were made, having an estimated national forecast value of £435m, they included:

   i. Discretionary Support Rate Relief – A fund to provide discretionary relief to target individual cases, where bills have increased significantly following the April 2017 Revaluation. The amount payable as a grant is worth £0.285m to Halton over the four year period 2017/18 to 2020/21.
   ii. Targeted Support for Small Business Rate Relief – Increased support for those businesses that lost Small Business Rate Relief entitlement as a result of the April 2017 Revaluation and is in addition to measures provided under the transitional relief scheme. The support will limit increases in bills to the greater of £600 or the real terms transitional relief cap for small businesses each year. Relief will be available over the five years from 2017/18 to 2021/22.
   iii. £1,000 Discount for Smaller Pubs – A one off for 2017/18 only. £1,000 business rate discount for public houses with a rateable value of up to £100,000.

c) An additional £216m will be made available nationally to schools for repair and rebuilding costs.

5.0 Council Tax Support

5.1 Support funding for council tax discounts is funded from Government through a grant included in the settlement funding assessment. Every council is responsible for implementing a local scheme to offer council tax discounts to those residents who may have been eligible to this previously through Council Tax Benefit.

5.2 The Halton scheme uses as a basis the previous regulations relating to Council Tax Benefit, which ensures that support for claimants with disabilities, claimants with children and claimants who are working is maintained. At the end of the existing support calculation, a reduction of 21.55% is made from every non pensioner award of benefit, to cover the shortfall in the Government grant funding for Halton's Scheme.

5.3 In 2013/14 the level of grant awarded was shown separately within the formula for Settlement Funding Assessment but from 2014/15 onwards the grant is no longer separately identifiable. It is assumed the level of funding will therefore reduce in line with the Council's overall Settlement Funding Assessment.

5.4 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. It also assumes that council tax support funding will not be shared with Parish Councils.

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. The Council will only be rewarded if it increases its local share of business rates above a pre-set baseline. Conversely if the local share of business rates collected falls below the baseline position this would be to the Councils detriment.

6.2 The mid-year forecast of cumulative retained business rates as at 30 September 2017, indicates that by year-end there will be a surplus relating to the Council within the Collection Fund. Whilst it is difficult to accurately forecast retained business rates the financial forecast assumes the balance of £3.674m (Council local share) as at 31 March 2017 will be available for distribution. This one-off funding will help achieve a balanced budget position.

6.3 An estimate of the Council's share of retained business rates will be provided to DCLG in January 2018. It is currently forecast that the 2018/19 retained amount will be above the baseline figure. It is difficult to predict the level of business rates for future years due to the unpredictability of the economic climate and the high level of appeals received on the rateable value of properties, but the forecast assumes growth of £2.0m above the baseline position.

6.4 On 05 October 2015 and subsequently confirmed by the Comprehensive Spending Review, the Chancellor of the Exchequer announced local government would gain new powers with regard to the retention of local business rates. He pledged that by the end of the current Parliament, local government will be able to retain 100% of business rates compared to 49% it currently retains.

100% Business Rate Retention – Pilot Scheme

6.5 As part of the Liverpool City Region, the Council has signed up to being a member of a pilot scheme for 100% business rate retention. The pilot scheme has been in operation since April 2017. DCLG have since given confirmation the pilot scheme will continue in 2018/19. No indication is given beyond this point but the forecast assumes the continuation of 100% business rates retention for all three years.

6.6 The pilot scheme results in Halton no longer being in receipt of Revenue Support Grant (RSG) through the Settlement Funding Assessment. RSG will be replaced by the additional business rates retained; in addition the Improved Better Care Fund has been included in the pilot and is funded by the additional business rates retained.

6.7 DCLG has confirmed the operation of the pilot scheme should be at no financial detriment to participating councils. Therefore for as long as the pilot scheme operates Halton will be no worse off financially than it would have been if it is was still operating under 49% rates retention.

6.8 Operation of no financial detriment within the pilot scheme means that any LCR council who report a deficit as a result of the pilot will at first be reimbursed from other LCR pilot councils who report a surplus as a result of the pilot only. Only when any available surplus has been exhausted will Government step in and provide financial support.

6.9 As at 30 August 2017 all LCR councils were forecasting surpluses in terms of the pilot retention scheme by 31 March 2018 and therefore no detriment funding would be required. As mentioned elsewhere in this report, estimating retained business rates is difficult due to a number of factors and therefore at this stage the forecast assumes no additional surplus will be retained by Halton as a result of the pilot scheme.

Settlement Funding Assessment

6.10 In 2017/18 DCLG allocated Halton a Settlement Funding Assessment (SFA) of £51.055m. This was made up of £43.618m business rates baseline funding and £7.437m of top-up grant funding. Top-up grant funding is received as the Council's funding baseline is greater than the business rate baseline i.e. the Council's needs are greater than the business rates it can generate. The business rates baseline and funding level is set in the system until 2020 and uplifted each year by the Retail Price Index (RPI).

6.11 Table 1 shows the expected Settlement Funding Assessment for the next two years based on information provided at the time of the 2017/18 settlement announcement. This forms part of the 4 year grant settlement and included is the assumption 100% rates retention will operate post 2018/19. As Government have yet to publish any public spending plans from 2020/21, SFA for that year has been increased by the Governments inflation target of 2%.

6.12 Calculations show from 2019/20 and under 100% rates retention the Council will no longer be in receipt of top-up funding, as expected business rates retained will then exceed the SFA. This is dependent on no further grants being rolled into and funded from business rates.

6.13 Also included at Table 1 are the forecasts for business rate growth retained for the next three years and the difference between each of the years.

Table 1 – Business Rate Retention

	17/18 £'000	18/19 £'000	19/20 £'000	20/21 £'000
Business Rate Baseline	43,618	44,490	45,380	46,288
Top-Up Funding	7,437	3,393	-2	-2
Total Settlement Funding Assessment	**51,055**	**47,883**	**45,378**	**46,286**
Business Rates Growth Retained	**2,165**	**2,000**	**2,040**	**2,081**
Forecast Business Rates Retained (Incl Top-Up Funding)	**53,220**	**49,883**	**47,418**	**48,367**
Change in Business Rates Retained		**-3,337**	**-2,465**	**949**

7.0 Specific Grants

7.1 The level of specific revenue grants received by Halton in 2017/18 is approximately £166m, including Housing Benefit Subsidy of £49.9m, Dedicated School Grant of £79.4m, Public Health Grant of £10.5m and DfT Support Grant for the Mersey Gateway crossing of £15.5m.

7.2 Halton was allocated a New Homes Bonus grant of £2.333m for 2017/18 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. The allocation for 2018/19 has not been announced although based on changes to how the New Homes Bonus scheme operates it is forecast the Council will lose £0.382m in the first year of the financial forecast.

7.3 Adult Social Care Services receive Section 256 grant funding allocated on an annual basis, which historically has not been built into the base budget. It is assumed for the Strategy that this funding is included in the base budget for 2018/19. This will be treated as one-off funding for the first year only, as the certainty of the grant for future years is unknown at this stage.

7.4 Indicative allocations for the 2018/19 Public Health grant show a reduction of 2.6% to the 2017/18 grant allocation, a loss of £0.272m to the Council. Further reductions of 2.6% are expected to be applied in 2019/20 also. The forecast assumes Public Health grant reductions will be contained within the overall spend for Public Health.

7.5 The forecast change in the level of specific grant funding for Halton is shown in Table 2:

Table 2 – Change in Grant 2018/19 to 2020/21

	2018/19	2019/20	2020/21
	£000's	£000's	£000's
Changes to New Homes Bonus	-382	-41	-112
Change in S256 Funding	1,600	-1,600	0
Total Change	**1,218**	**-1,641**	**-112**

8.0 COUNCIL TAX FORECAST

8.1 For 2017/18 the Council Tax for a Band D property in Halton is £1,312.27 (excluding Police, Fire and Parish precepts), which will generate income of £44.378m.

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 4th lowest Council Tax level in the North West for 2017/18,
- Halton's 2017/18 Council Tax is £42.36 (3.1%) below the average Council Tax set by unitary councils in England.
- Inflation - the Consumer Price Index (CPI) as at September 2017 (latest available) is currently at 3.0% and the Retail Price Index (RPI) is at 3.9%.
- The public spending review, welfare reforms and high needs are all placing pressure upon the Council's funding and demand for the Council's services.

8.3 The consultation on the 2018/19 Local Government finance settlement in September 2017 detailed the Government's proposals for 2018/19 council tax referendum principles. The proposal is for a core referendum principle of less than 2% with a continuation of the Social Care precept of an additional 2% with the flexibility to increase by a further 1% to 3% as long as it does not increase by over 6% for the three year period 2017/18 to 2019/20.

8.4 The 2018/19 Council Tax Base shows an increase of 617 Band D equivalent properties to a total of 34,435 assuming a collection rate of 97%. The increase in the Tax Base will generate an additional £0.810m of council tax income.

8.5 For the purposes of this Strategy it is assumed the Council will apply a council tax increase of approximately 5% in 2018/19 (inclusive of a 3% Social Care precept) and 2% in each of the final two years of the forecast.

8.6 Table 3 below estimates the net amount of council tax income that will be produced for various percentage increases in Halton's Band D Council Tax for the next three years and assumes no change in council tax base beyond 2018/19.

Table 3 – Additional Council Tax Income 2018/19 to 2020/21

Projected Increases in Council Tax Income (£'000)	**2018/19 £'000**	**2019/20 £'000**	**2020/21 £'000**	**Total £'000**
0%	-	-	-	-
1%	452	456	461	1,369
2%	904	922	940	2,766
3%	1,356	1,396	1,438	4,190
4%	1,808	1,880	1,955	5,643
5%	2,259	2,372	2,491	7,122

8.7 Over the past few years the amount of council tax collected has been greater than forecast. As at 31 March 2017 there was a surplus of £2.983m of council tax held as part of the Collection Fund relating to the Council only (excluding Police and Fire). In 2017/18 £1.519m of this was used in balancing the budget. This strategy assumes that an amount of £1.464m will be released in 2018/19 to provide a one-off budget saving.

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 Council Tax.

9.3 The forecast includes the budgetary consequences of previous budget decisions, including one-off savings used to balance the 2017/18 budget. This adds £4.179m to the spending forecast for 2018/19.

9.4 Pay and price inflation is the biggest uncertainty in the spending forecast. As part of the Summer Budget 2015 it was announced that public sector pay awards would be restricted to 1% for four years from 2016/17. No pay rates for 2018/19 have yet been agreed, despite increasing inflation over the past year there has been no indication of the removal of any pay restriction and therefore this forecast assumes pay increases limited to 1%.

9.5 The Consumer Price Index (CPI) for September 2017 – the index by which the Government measures inflation - stands at 3.0% 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 current and estimated future prices.

9.6 The Council has a significant capital programme and the spending forecast includes the financing costs of the existing programme, including the investment of Council cash balances. The net revenue costs associated with the capital programme are included in the forecast at an increase of £0.142m in 2018/19; no change is forecast for the last two years of the forecast. The MTFS assumes that any new capital projects which are approved over the medium term will be self-funded through capital grant, capital receipts or will generate revenue savings to fund the cost of borrowing.

9.7 The construction of the Mersey Gateway crossing was completed in October 2017. The Council has made a contribution towards the construction costs of the bridge funded by prudential borrowing, the financing costs of which will be met from toll revenues and Department for Transport (DfT) grant. The Mersey Gateway Crossing Board will continue to manage the Mersey Gateway, with their costs being met from future toll revenues and DfT grant.

9.8 No surplus toll revenue is included within this forecast. If toll revenue is greater than forecast after all other committed costs have been met at agreed periodic reviews points, it will be shared with the Department for Transport 85/15 in their favour.

9.9 The Council will have costs relating to service vehicles and staff crossing the bridge on Council business. The forecast provides for additional costs of £0.175m to cover this.

9.10 A key assumption that has been used in constructing the MTFS is that total spending in the current year 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 in inflation, interest rates, demand led budgets, impact of spending cuts and loss of income, the spending forecast includes a contingency of £1m in 2018/19, £2.0m in 2019/20 and £2.5m in 2020/21.

9.11 The Children and Families Department is continuing to experience significant budget pressures and for the current financial year is expected to be approximately £5.7m over budget by year-end. There is high demand for a number of services within the Department including residential placements, direct payments, out-of-borough fostering and special guardianship orders. Significant sums have been provided in previous years from contingency budgets and initiatives are in place to help reduce the overspend position. The MTFS includes £3.0m of additional funding in 2018/19 to assist with bringing the Children in Care budget and spending back into a balanced position.

9.12 The Chancellor of the Exchequer stated in his 2015 Summer Budget that a new compulsory National Living Wage (NLW) for over 25 year olds was to be introduced from April 2016. This was set at £7.50 per hour from April 2017 and is expected to rise each financial year until 2020 when it will reach £9.00. The forecast includes an amount of £0.500m to cover contract costs which may increase as a result of care providers having to meet NLW rates.

9.13 Table 4 summarises the Spending Forecast.

Table 4 – General Fund Medium Term Standstill Spending Forecast

Increase in spending required to maintain existing policies and services	Year on year change (£'000)		
	2018/19	**2019/20**	**2020/21**
Full Year Effect of Previous Year Budget	4,179	0	0
Capital Programme	142	0	0
Pay and Price Inflation	3,242	2,410	2,054
Contingency	1,000	2,000	2,500
Mersey Gateway Vehicle Tolling	175	0	0
Children & Families Department Demand Pressures	3,000	0	0
National Living Wage – Contracts	500	500	0
TOTAL INCREASE	**12,238**	**4,910**	**4,554**

10.0 The Funding Gap

10.1 At this level of spending there is a funding gap with the forecast level of resources. Table 5 demonstrates the forecast gap between spending and forecast resources at different levels of Council Tax increase.

Table 5: Funding Gap with a given % increase in Council Tax

	2018/19 £'000	**2019/20 £'000**	**2020/21 £'000**
Increase in Spending Forecast	12,238	4,910	4,554
Change in Business Rates Retained (Incl Top-Up)	3,337	2,465	-949
Change in Grant	-1,218	1,641	112
Increase in Council Tax Base	-810	0	0
Council Tax Surplus	-1,464	1,464	0
Business Rate Surplus	-3,674	3,674	0
Use of Reserves	-500	0	500
Funding Gap Before Council Tax	**7,909**	**14,154**	**4,217**
Funding Gap After Council Tax Increase at Various Levels			
0%	7,909	14,154	4,217
1%	7,457	13,698	3,756
2%	7,005	13,232	3,277
3%	6,553	12,758	2,734
4%	6,101	12,274	2,262
5%	5,650	11,782	1,726

10.2 The table shows that total savings of £5.6m are forecast to be needed to balance next year's budget after the use of one-off surplus council tax and business rate funds, use of reserves and an assumed 5% increase to council tax.

10.3 The use of reserves and surplus council tax and business rate funds add to the deficit position for the following year and are included in the above table under 'Increase in Spending Forecast'

10.4 Further savings of £13.2m in 2019/20 and £3.3m in 2020/21, are required assuming a 2% increase to Council Tax. The total funding gap is approximately £22.1m and represents 21.4% of the Council's 2017/18 net budget.

10.5 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 6 summarises the fully funded capital programme for the next two years.

Table 6 – Capital Programme

	2019/20 (£'000)	2020/21 (£'000)
Spending	**18,919**	**4,803**
Funding:		
Prudential Borrowing	10,545	1,317
Grants	3,193	1,306
Revenue Financing	141	14
Capital Receipts	5,040	2,166
Total Funding	**18,919**	**4,803**

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 and the spending forecast continues this assumption.

11.4 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 revenue budget and this approach will continue.

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 following consultation with schools and academies.

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.

13.4 In September 2017 Government published its final position on how the new national funding formula would work from 2018/19. From April 2018 distribution of school budgets to local authorities from the Department for Education will be provided in line with the new national funding formula. Local authorities will though have the opportunity to undergo a 'soft' implementation of the funding formula for both 2018/19 and 2019/20 by applying their local formula for distributing the amount across schools subject to the national controls on the operation of any local formula.

14.0 Partnership/Joint Working/Shared Services

14.1 In 2015/16 the Government introduced a £3.8 billion fund to support the pooling of budgets for health and social care services, shared between the NHS and local authorities. This was intended to deliver better outcomes and greater efficiencies through more integrated services for older and disabled people. The Better Care Fund (BCF) provides an opportunity to improve the lives of some of the most vulnerable people in our society, to provide them with a better service and better quality of life. The Fund will be an important enabler for integrated care, acting as a significant catalyst for change.

14.2 The Council has been the host body in a Complex Care Pooled budget for a number of years. From 1st April 2015 the Better Care Fund was included within the pooled budget arrangements, working jointly with Halton Clinical Commissioning Group (HCCG). The gross expenditure value of the pooled budget for 2017/18 is approximately £55m.

14.3 The Council will receive a number of different strands of Better Care funding over the first two years of this strategy, this is summarised at Table 6, including details for 2017/18:

Table 6 - Better Care Funding (BCF) 2018/19 to 2019/20

	2017/18 £'000	2018/19 £'000	2019/20 £'000
Original BCF	9,661	Not Known	Not Known
Improved BCF	548	3,045	5,233
Additional BCF	2,974	1,827	904

14.4 Details of the grants are as follows:

- Original BCF
    - Paid as a grant by the Department of Health To Halton CCG.
    - Required to be included within the Complex Care Pool Budget.
- Improved BCF
    - Announced by Government in 2015, payable from April 2017.
    - Paid direct to Local Government, original intention to be paid as a direct grant.
    - From April 2017 included within the LCR Business Rate Retention Pilot Scheme and therefore funded from business rates.
    - Uncertainty to funding from 2020/21.
- Additional BCF
    - Announced by Government as part of the 2017 Spring Budget and not expected to continue beyond 2020.
    - Paper to Executive Board dated 15 June 2017 setting out planned use of funding.

14.5 The Council has established partnerships and shared service arrangements with a number of councils and other organisations over recent years for activities including, Children Services, Adult Social Services, Procurement and ICT Services. The Council is also part of the Liverpool City Region Combined Authority and the agreement with Government regarding devolution of powers and resources to the City Region. These arrangements should provide opportunities to achieve significant on-going savings from alternative ways of working and improved service delivery across the City Region.

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 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 published an Efficiency Plan linked to the four year settlement referred to in section 3.3.

15.3 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.

15.4 The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness. This is 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 The Council's strategy regarding accommodation aims to rationalise the 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 revenue 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 The 2015 Comprehensive Spending Review followed the approach Government have taken since 2010 in implementing the public spending austerity programme. The spending review only published details up to 2019/20 and therefore the final year of the strategy comes with further uncertainty and only assumptions can be made at this point with regards to the direction of travel for public spending. This strategy highlights that considerable savings will be required over the next three years, despite Governments offer of a multi-year settlement there remains great uncertainty to the future funding of services.

17.2 The Business Rates Retention Scheme and localisation of Council Tax Support carry further risk to the funding available to the Council over the medium and longer term. Whilst there may be opportunity to take advantage of growth, there will be circumstances outside of the Council's control such as decline in the national economy which could be at the detriment of business rates and council tax collected.

17.3 Future levels of growth and savings required will be directly influenced by the decisions made concerning council tax increases. Council tax increases will reduce the level of savings required, although the legislative requirements regarding council tax referendums will restrict the Council’s scope to increase council tax.

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 to maintain general balances at a reasonable level, based upon the financial risks and challenges it faces. This is particularly important at the current time given the increasing demand-led pressures upon Children's Services and Adult Social Care. Close monitoring and control of budgets has meant this policy has been successfully achieved. As at 31 March 2017 the balance of the Councils general reserve was £4.8m.

3.0 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 period covering the initial stages of recovery action) 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 at 31 March 2017 totals £2.9m.

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 at 31 March 2017 totals £4.7m.

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.

3.6 The Council is required to hold a provision for NNDR valuation appeal claims. The provision as at 31 March 2017 totals £8.0m. Only 49% of this is attributable to the Council, 50% relates to Central Government with the remaining 1% attributable to Cheshire Fire Service. The treatment and funding of appeals is currently being considered nationally as part of the consultation regarding the implementation of 100% business rates retention from 2020 onwards. Once the outcome of this is known, the implications for future provisions for appeals can be determined.

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 Changes in the insurance market have resulted in insurers seeking significant increases in premium from local authority clients. This consequently incentivises Councils to accept greater levels of self-insurance, in order to avoid increased costs and further pressure on revenue budgets.

4.3 In order to support the approach set out within the Strategy, the Insurance Reserve will 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 31 March 2017 the Insurance Reserve stood at £3.4m.

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 £4.5m and is based upon current capital funding needs.

6.0 INVEST TO SAVE FUND

6.1 The Council has an Invest to Save Fund which at 31 March 2017 stood at £0.6m. 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.

7.0 TRANSFORMATION FUND

7.1 The Council has a Transformation Fund to fund the costs associated with efficiency reviews and structural changes required in order to deliver a balanced budget. At 31 March 2017 the fund's balance stood at £0.5m.