

Report to:	Cabinet	Date of Meeting:	27 July 2017
Subject:	Medium Term Financial Plan 2017/18 - 2019/20		
Report of:	Head of Corporate Resources	Wards Affected:	(All Wards);
Portfolio:	Cabinet Member, Regulatory, Compliance and Corporate Services		
Is this a Key Decision:	Yes	Included in Forward Plan:	Yes.
Exempt / Confidential Report:	No		

Summary:

This Medium Term Financial Plan (MTFP) provides Members with an update on the overall financial position of the Council. In doing so it takes account of the financial environment that the Council will operate in over the next 3 years, the key financial challenges that will be faced and provides an update on the financial assumptions and savings proposals that were considered at Budget Council in March 2017.

Recommendation(s):

Cabinet are recommended to:-

1. Receive the Medium Term Financial Plan for the period 2017/18-2019/20;
2. Agree to the current financial assumptions contained within the Plan and confirm that no material changes need to be made to the funding shortfall previously reported to Members at Budget Council in March 2017;
3. Note the value of the current budget proposals for 2017/18 to 2019/20 and the current variations to those that are reported at paragraph 4.17;
4. Note the continued pressure on all services as a result of the funding shortfall and in particular the increased financial demand on Adult Social Care and Children's Social Care which has led to an overall pressure within the budget of £6.4m over the next 3 years; and
5. Agree that all funding assumptions and savings proposals be continually monitored and updated with appropriate reporting, including remedial action plans, being presented to Members during the financial year. This will ensure that financial sustainability is maintained and a balanced budget is delivered in 2018/19 and 2019/20.

Reasons for the Recommendation(s):

The recommendations will ensure that the overall financial health and sustainability of the Council is maintained and that appropriate decision making can be undertaken.

Alternative Options Considered and Rejected: (including any Risk Implications)

The production of an annual Medium Term Financial Plan is a key element in ensuring that effective financial management is undertaken within Councils. There is therefore no alternative.

What will it cost and how will it be financed?

(A) Revenue Costs- All revenue implications are detailed within the report

(B) Capital Costs- All capital implications are detailed within the report

Implications of the Proposals:

Resource Implications (Financial, IT, Staffing and Assets):
All issues are considered within the report
Legal Implications:
All issues are considered within the report
Equality Implications:
There are no equality implications

Contribution to the Council's Core Purpose:

Effective financial management underpinned by a robust Medium Term Financial Plan will enable the delivery of each of the following core objectives of the Council

Protect the most vulnerable:
Facilitate confident and resilient communities:
Commission, broker and provide core services:
Place – leadership and influencer:
Drivers of change and reform:
Facilitate sustainable economic prosperity:
Greater income for social investment:
Cleaner Greener

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Head of Corporate Resources (FD 4759/17) is the author of the report. Head of Regulation and Compliance (LD4043/17) have been consulted and any comments have been incorporated into the report.

(B) External Consultations

n/a

Implementation Date for the Decision

Following the expiry of the “call-in” period for the Minutes of the Cabinet Meeting

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Appendices:

There are no appendices to this report

Background Papers:

There are no background papers available for inspection.

Recommendations

1 Introduction

- 1.1 The Medium Term Financial Plan (MTFP) is presented to Members each year with a view to outlining the strategic approach that the Council will take to managing its financial matters. As with previous years, this plan will need to take account of the significant change that is being experienced within local government both in terms of the manner and level of funding that is made available to Councils and also the roles and responsibilities that it is required to fulfil.
- 1.2 This report will therefore set out the specific financial challenges facing the Authority over the next three years and how it plans to meet these and will build upon the Budget Report that was presented to Council in March 2017.

2 Financial Context

- 2.1 The Council has a history of excellent financial management during the period of austerity that has been in place within local government since 2010. Taking into account the approved savings within the 2017/18 budget, the Council will have addressed a funding gap of £202m since 2010.
- 2.2 At its budget meeting in March 2017, the Council agreed a further £31m of savings for the years 2018/19 and 2019/20, thus bringing the total value of savings over a 10 year period to £233m. This value should be considered against the Councils current net budget of £204.3m
- 2.3 During 2016/17, the Council was presented with 2 opportunities with regard to its future financial arrangements. Firstly, like all Councils, Sefton was offered the opportunity to agree a 4 year financial settlement with Central Government that aimed to provide certainty as to the level of funding that would be received by the Council up until 2020. Whilst this offer was welcomed as it provided some degree of certainty as to future resource allocations, it merely confirmed the level of future reductions and the severity of these reductions to Councils such as Sefton.
- 2.4 Secondly, the Council alongside its City region partners, agreed to participate in a 100% Business Rates retention pilot exercise. This opportunity was designed in order that the city region could engage with central government on the design and implementation of the scheme which would see the most significant transformation of local government funding in recent times.
- 2.5 It is against this backdrop of decreased funding from Central Government and an increased reliance on local funding streams that the Council, in March 2017, set out a three year budget package to deliver its key priorities whilst remaining within the reduced funding envelope.
- 2.6 This Medium Term Financial Plan will therefore provide an update on the financial environment within which the Council will operate between now and 2019/20, any

key drivers and financial assumptions that are in need of review and any emerging budget pressures that have been identified.

3 Financial Environment 2017/18-2019/20

- 3.1 The financial environment that local government and Sefton in particular, operates within continues to present a number of challenges. In addition to the severe funding reductions that will continue up until 2020, the demand pressures facing the council across a range of services continue to increase with no long term sustainable funding solutions being offered by central government. This is particularly important in respect of the demand upon Adult Social Care services and the unpredictability of demand in Children's Social Care.
- 3.2 As stated previously, prior to the General Election the Government sought to transform the manner and method by which local government would be financed through the introduction of the 100% Business Rates retention scheme. This scheme would mean that the local government sector would retain 100% of the business rates collected and although an element of redistribution would take place between councils based upon 'need', it was widely recognised that this proposal would see continued pressure being placed on local government budgets in the long term.
- 3.3 In recognition of this, the Council was keen to take part in a pilot project with its city region partners in order to influence the future design of the scheme. This pilot started in April 2017.
- 3.4 Following the General Election of June 2017, however, it is unclear as to whether this programme and new method of funding for local government will progress. Ministers and civil servants have pointed out that the legislative changes that are required to facilitate the introduction of this scheme in 2020 have not been included within the recent Queens Speech. As a result there is currently uncertainty around the future of the proposal.
- 3.5 Such a scenario should not present the Council with an adverse financial position up to and including 2019/20 as it has signed up to a 4 year financial settlement, however, this uncertainty will not help long term sustainable financial planning beyond this point.
- 3.6 Similarly, a key feature of the recent general election was the political debate around austerity and the impact that this was having across the whole of the public sector (local government, NHS, prison service and civil service). Following the formation of a new government, there has as yet been no notification of any change to this policy, although there is some debate currently surrounding removing the restrictions around public sector pay. This again means that the council's major current financial assumptions that reflect a significant reduction in resources will not change between now and 2019/20 or indeed for the period thereafter. Continued financial pressures on all councils services is therefore likely to continue.

- 3.7 Perhaps the most high profile discussion within the election surrounded the long term funding of Adult Social Care. Members will recall that following significant debate in the lead up to the Chancellors Budget in March 2017, the government announced some short term, one off grant funding to support this area of the Councils business. This funding whilst welcome does not meet the funding requirement of the Council between now and 2019/20 nor does it offer a long term sustainable solution for the Council, meaning an inherent risk continues to be faced. Whilst this issue was debated during the election campaign, at present there is no visibility on how this will be addressed in the long term. The demand and cost pressure facing the Council and the resulting market risk will therefore continue to be key issues that will need to be managed over the period of this Medium Term Financial Plan.
- 3.8 Alongside the formation of the new government, the United Kingdom has now commenced its formal Brexit negotiations. The agenda for these negotiations is not clear, however it is acknowledged that there will be an economic impact depending upon the final terms that are agreed. Alongside any changes to policy in relation to local government funding, as details of the potential impact of Brexit are known, they will be the subject of additional and separate reports to Members.
- 3.9 It is within this financial environment that the Council agreed a 3 year budget package in March 2017 for the financial years 2017/18 to 2019/20 and this budget package reflected the Council's Framework for Change programme that would be the vehicle to deliver the proposals contained.

4 Financial Challenge 2017/18-2019/20

- 4.1 In March 2017, it was reported that the Council faced an overall funding shortfall of £64.4m over the 3 year period 2017/18 to 2019-20. Following the review of the planning assumptions made, e.g. in respect of non-contract inflation this reduced to £58.6m
- 4.2 At that same meeting, Council agreed a package of budget proposals that alongside central government assumptions in respect of future council tax increases would mean that this financial target would be met over the 3 years.
- 4.3 This programme of activity, the scale of the financial challenge facing the Council over the 3 years and the level of transformation required (as set out in the Framework for Change) means that the Council will need to effectively manage the risks presented from both a service delivery and financial sustainability point of view. It is therefore acknowledged that the programme and its financial assumptions would have to be updated regularly to reflect funding assumptions, demand led pressures, feedback from consultation processes and the overall progress in the transformation programme.
- 4.4 In developing this Medium Term Financial Plan the Council has sought to update this overall financial position based upon the latest information available. Central to this exercise has been a review of all assumptions underpinning the funding

shortfall including all funding streams – both centrally allocated and locally generated, and all inflationary and demand led cost pressures.

- 4.5 As with any financial forecast the assumptions contained within it will be continually updated as additional information becomes available or certain assumptions are confirmed and these will be communicated to Members. This will be particularly important in respect of local government proposals on the long term funding of Adult Social Care and Schools.

Medium Term Financial Plan- financial target

- 4.6 At the budget meeting in March, Members were advised of the following budget shortfall for the forthcoming 3 years as set out

Table 1: Financial Shortfall facing the Council 2017-18 to 2019-20

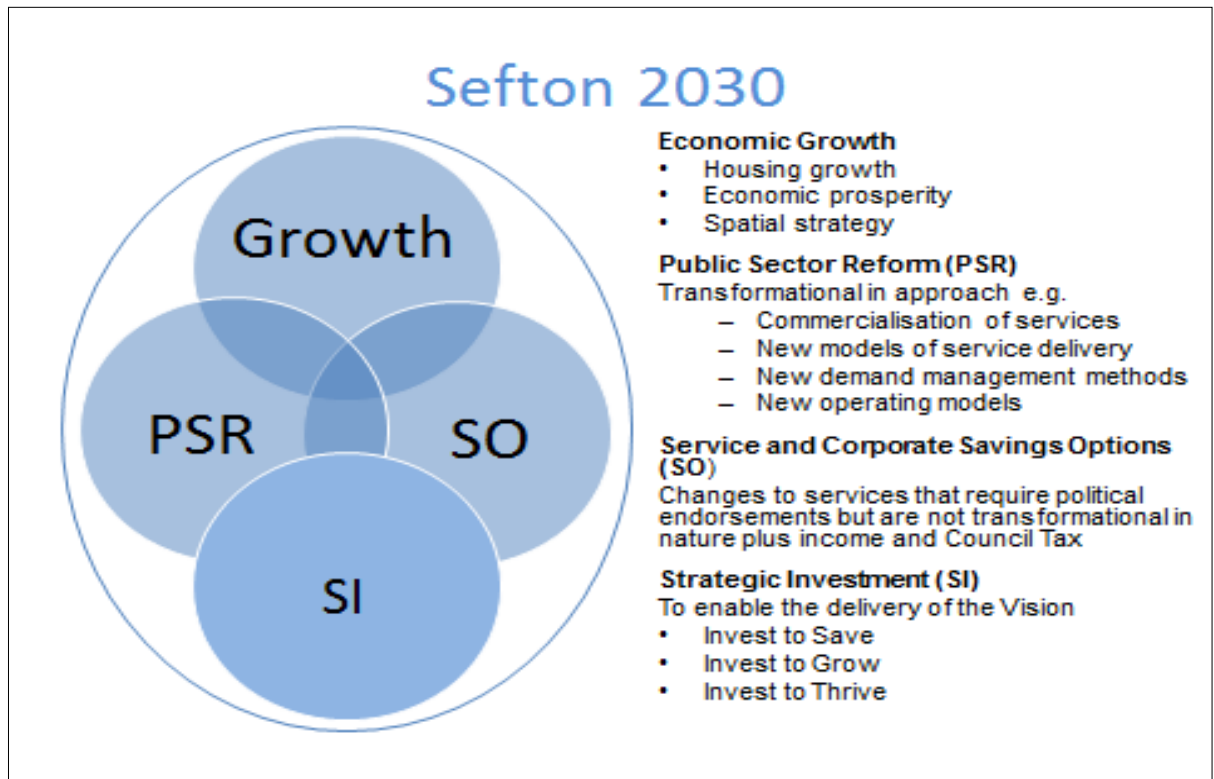
Year	2017/18 £'m	2018/19 £'m	2019/20 £'m	Total £'m
Funding Gap	24.922	19.762	13.923	58.607

- 4.7 It has been discussed that the Council has taken up the offer of a 4 year financial settlement up to 2019/20; therefore there is certainty around a large element of the funding that the Council will receive during this period
- 4.8 As part of this MTFP, in addition to this core funding assumption, the following have been the subject of review:-
- Expected levels of Council tax Income;
 - Expected levels of New Homes Bonus;
 - Inflation assumptions;
 - Pay assumptions (incl. local government pension scheme);
 - Expect levy costs (Merseyside Recycling & Waste Authority and Merseytravel); and
 - Contract Costs- non Adult Social Care
- 4.9 Based upon the work undertaken in June 2017, it is not considered at this stage that any amendments are required to these assumptions; therefore the overall financial target for the council remains the same at this point in time. Having carried out this work however, it is acknowledged that there are risks that will need to be managed and monitored, for example the levy payments that the Council may have to make in respect of Merseytravel and the MRWA. Early dialogue has commenced with both of these organisations as to future financial arrangements and as these discussions progress and implications are identified these will be reported to Members and the MTFP will be updated accordingly.
- 4.10 Members will also be aware that there has been recent coverage around the potential lifting of the public sector pay restriction. At the time of developing this report, there has been no indication that this policy will be revised hence the

current assumption will be maintained. In the event that the Council is notified of any change the MTFP will be updated accordingly.

Review of Budget proposals 2017/18 to 2019/20

4.11 As Members will recall, the Councils Framework for Change programme has been developed in order to support the delivery of the MTFP and has the following key components



4.12 As a result, at Budget Council in March 2017, the following budget proposals were identified from this programme in order to meet the Councils financial target

Table 2: Budget proposals 2017/18 to 2019/20

Budget Proposals	2017/18 £'m	2018/19 £'m	2019/20 £'m	Total £'m
Public Sector Reform Projects	-4.573	-14.699	-9.850	-29.122
Service Options	-8.758	-6.160	-1.539	-16.457
Phasing Proposal	-6.000	7.000	0.000	1.000
Remaining Funding Gap	5.591	5.903	2.534	14.028
Agreed Council Tax Increase	-5.591	0.000	0.000	-5.591
Balance to be identified	0.000	5.903	2.534	8.437

- 4.13 The above table excludes any impact of Council Tax increases in 2018/19 and 2019/20, however should the Council increase Council Tax by the levels assumed by Central Government then this residual gap would be met.
- 4.14 It can be seen from Table 2 that due to the transformational nature of the budget proposals, most of the savings due will come through in years 2 and 3 of the Medium Term Financial Plan. The phasing of the savings, whilst ensuring that the Council can deliver financial sustainability would also allow the programme to be managed effectively in terms of the development of long term solutions and delivery models, risk and to take account of the required consultation with both communities and staff as required.
- 4.15 This approach would be particularly pertinent with regard to those proposals that carry significant savings and which have the greatest impact on local communities eg The Early Intervention and Prevention programme.
- 4.16 In developing this Medium Term Financial Plan a full review of the proposals set out in the budget report have been undertaken to determine progress in delivery and any material financial impact. In carrying out this exercise it is noted that this has taken place only 3 months after the budget was set and at a very early point in the financial year 2017/18. Likewise Members will recall that, it was acknowledged that as the programme developed the financial assumptions would be updated over the course of the 3 year programme whilst ensuring that maintaining financial sustainability remains at the centre of the programme.
- 4.17 At this stage it is anticipated that around £2.8m of financial pressure is being experienced within the programme over the 3 years. This is due to a reduction in the estimated savings associated with Assets and property maximisation (£0.5m) and commissioning and shared services (£2.3m) projects.
- 4.18 As would be expected with a programme of this size which spans 3 financial years, the actual financial savings to be derived will vary as plans develop, appropriate consultation is taken place and final delivery models are agreed. These proposals will come through the appropriate Member forums for decision throughout the programme (and by October 2017 for any proposals that impact upon 2018/19) together with details of the financial impact and it is inevitable that variations in proposed savings will be identified during that process.
- 4.19 Due to the profile and phasing of the savings required over the 3 years, £14.7m of savings are due to be saved via the PSR programme in 2018/19. The tracking of individual projects progress and a clear understanding of the deliverability of savings will be a key feature of financial management within the Council during the next 6 months.
- 4.20 In addition to the review of previously approved budget proposals, a review of all other council budgets has been undertaken, with particular emphasis on those demand led budgets that historically have seen the largest budget variations.

- 4.21 As has been discussed earlier within this report, the most significant issue to arise from this review has been the continued pressure on Adult Social Care. Sefton along with most other local authorities is continuing to experience exceptional additional demand for its adult social care services, in addition to significantly increased costs. This is placing unprecedented demand on the service and the overall market. In 2017/18 the Adult Social Care budget is £88.4m and represents 43% of the councils overall net budget.
- 4.22 This issue has been and continues to be the subject of extensive local and national debate and was a key feature of the recent general election. Despite this a long term sustainable solution has not been identified by Central Government. As a result local authorities and local communities continue to be faced with a situation both from a service and financial point of view that that is not sustainable.
- 4.23 This is reflected in the manner in which Central Government is currently providing 'additional' financial support to Council's, through the ability to raise Council Tax by an additional 1% and through a one off allocation of 'Adult Social Care Grant'. As stated, whilst welcome, these one off sums are neither sustainable nor sufficient to meet the forecast shortfall in this area during the period of this Medium Term Financial Plan.
- 4.24 This funding is one-off in nature and decreases significantly over the next 3 years thus as the funding reductions take place, the Council will need to identify alternative solutions to maintain services at the current level. This financial impact of this is shown as follows.

Table 3: Additional Adult Social Care pressure 2017/18-2019/20

ASC pressure	2017/18 £'m	2018/19 £'m	2019/20 £'m	Total £'m
Total	0.0 (1)	1.3	1.6	2.9

(1)-in year budget pressure met by one-off adult social care grant and does not take account of any increased demand that maybe experienced

- 4.25 As a result of the factors discussed in this section, the following financial pressure has been identified, which will mean that in order to achieve financial sustainability over the 3 year period, compensating savings or income will need to be identified

Budget Pressure	2017/18 £'m	2018/19 £'m	2019/20 £'m	Total £'m
Previously approved Budget Proposals	1.8	0.2	0.8	2.8
Adult Social Care	0.0	1.3	1.6	2.9
Children Social Care	0.0	0.7	0.0	0.7
Total	1.8	2.2	2.4	6.4

- 4.26 In considering this overall position, Members will be aware that in addition to the demand led pressures that exist in Adults and Children's Social Care, all budgets

within the Council continue to be under extreme pressure. The most difficult evaluation of priorities therefore continues to exist, for example in balancing the demand in relation to supporting the most vulnerable, street cleansing and maintenance or supporting the growth agenda.

- 4.27 In order to deliver financial sustainability the budget proposals contained in the Framework for Change will continue to be updated during this financial year. In the event that it is confirmed that remedial action or additional proposals are required in order to develop a balanced budget in advance of March 2018, these will be presented to Members in due course.

5 Capital

- 5.1 Within the Councils budget report in March 2017, Members approved an indicative 3 year capital programme for those areas that continue to receive grant funding (Schools and Transport) and schemes that are externally funded.
- 5.2 Also at that meeting a revised Capital Strategy was approved. This document has great importance for the Council as it underpins the traditional aspects of the capital programme and more importantly the growth and strategic investment pillars of the Framework for Change.
- 5.3 This was reflected in the Councils recent purchase of the Strand Shopping Centre, Bootle, that took place in April 2017. Within the Councils Framework for Change it is recognised and indeed is explicit that to support growth and generate new income streams that the Council will need to act, facilitate and directly support growth and investment across a number and range of activities eg major transport schemes, town centre regeneration activities and a housing company.
- 5.4 A works programme that brings together the pillars of Strategic Investment and Growth is currently being developed. As each project within this programme progresses it will be the subject of an individual business case and gateway process in order to inform cost of delivery, potential financial benefits to the Council and the wider community and funding requirements.
- 5.5 Members will be aware that traditional capital resources to support such a programme, no longer exist due to a reduction in government grants and the decisions taken locally in respect of capital funding eg to direct grant funding to the appropriate services and to restrict the generation of capital receipts. In order to support this programme, therefore, the Council will need to identify and develop a robust funding strategy for these range of projects that align with the Framework for Change and allows it to respond to the opportunities that become available, whether that be to provide match funding for transport schemes or provide large scale investment to Council led projects.
- 5.6 Such investment and the identification of appropriate funding solutions will be a key feature of this MTFP period.

- 5.7 Within the Framework for Change it is detailed that these schemes will need to not only be financially affordable and viable but also generate either a direct or indirect financial return to the Council or the wider Borough. This will support the development of resilient communities, and/or allow the council to utilise income streams to support the delivery of front line services to residents and communities.
- 5.8 At present the Medium Term Financial Plan does not take account of any such cash receipts that maybe due to it from these schemes , for example the Strand and Sefton New Directions, however during this financial year, these 2 options in particular will be reviewed to determine potential contributions to the Councils overall financial position.

6 Conclusion

- 6.1 This updated Medium Term Financial Plan provides Members with a detailed view of the financial outlook for the Council. From this exercise it can be seen that at this point, there are no material changes to the funding streams or levels of income that are forecast to be received over the next 3 years, however there continues to be great uncertainty over the future and levels of local government funding and this risk will need to be managed on a continual basis.
- 6.2 Whilst the Council has greater certainty over the level of Government Resources there remains a great deal of uncertainty around the financial implications of Government Policy and the overall cost of running our services. These uncertainties include
- The local impact of any Brexit process including external funding, investment income and business rates
 - The general level of inflation and the funding of any relaxation in the public sector pay cap
 - The funding of Adult Social Care pressures as this service continues to be faced with unprecedented demand and increased costs. As yet, Central Government still has not identified a long term sustainable solution for this issue which is recognised across the whole country.
 - Government policy on funding schools and the acadamisation programme
- 6.3 On a more positive note the Council has made significant progress with its programme of developing new and improved income streams. The net income generated from the purchase of the Strand and the prospects of a significant dividend payment from Sefton New Directions are important ingredients in our strategy to be more resilient against Government cuts.
- 6.4 As a result of this pressure and an updated position with regard to those projects within the Framework for Change programme, there is budget pressure across the 3 years of this MTFP that will need to be addressed of approximately £6.4m.

6.5 This updated position will be managed and refined within the Framework for Change programme on a continual basis with remedial actions and proposals identified as appropriate in advance of Budget Council in March 2018.