

<b>Report to:</b>	Cabinet	<b>Date of Meeting:</b>	7 November 2019
<b>Subject:</b>	Revenue and Capital Budget Update – Medium Term Financial Plan 2020/21 to 2022/23		
<b>Report of:</b>	Head of Corporate Resources	<b>Wards Affected:</b>	(All Wards);
<b>Portfolio:</b>	Cabinet Member - Regulatory, Compliance and Corporate Services		
<b>Is this a Key Decision:</b>	Yes	<b>Included in Forward Plan:</b>	Yes
<b>Exempt / Confidential Report:</b>	No		

### Summary:

To inform **Cabinet** of: -

- 1) The latest position with regard to Government funding announcements for 2020/21;
- 2) The update to the Medium Term Financial Plan (MTFP) for 2020/21 to 2022/23 taking account of all currently available information; and,
- 3) The funding issues being faced by High Needs and Secondary Schools.

### Recommendation(s):

**Cabinet** is recommended to: -

- 1) Approve the updated Medium Term Financial Plan for 2020/21 to 2022/23 and any assumptions made;
- 2) Note the funding pressures being faced by the Council within High Needs and Secondary Schools and the actions being taken to address these;
- 3) Note the Council's position in relation to its financial resilience; and,
- 4) Approve a full review of reserves and balances, the outcome of which will be reported to Cabinet in December 2019.

### Reasons for the Recommendation(s):

In March 2017 Council approved a three-year budget plan to March 2020. The final year of this plan was revised in February 2019 as part of the process of setting the 2019/20 budget. As part of this report, an indicative budget gap of £45m for 2020/21 to 2022/23 was reported. The MTFP for this period has subsequently been updated to reflect the latest information available. In approving the recommendations laid out in this report, the Council will continue to ensure resources are well managed and reflect the key priorities of the residents of Sefton.

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

N/A

**What will it cost and how will it be financed?**

**(A) Revenue Costs**

The report indicates that a total budget gap of £23.309m is currently forecast for the period 2020/21 to 2022/23, prior to decisions about Council Tax and budget savings being made.

**(B) Capital Costs**

N/A

**Implications of the Proposals:**

The following implications of this proposal have been considered and where there are specific implications, these are set out as follows:

<b>Resource Implications (Financial, IT, Staffing and Assets):</b> None
<b>Legal Implications:</b> None
<b>Equality Implications:</b> None

**Contribution to the Council's Core Purpose:**

Effective Financial Management and the development and delivery of sustainable annual budgets support each theme of the Councils Core Purpose.

<b><u>Protect the most vulnerable:</u></b> See comment above
<b><u>Facilitate confident and resilient communities:</u></b> See comment above
<b><u>Commission, broker and provide core services:</u></b> See comment above
<b><u>Place – leadership and influencer:</u></b> See comment above
<b><u>Drivers of change and reform:</u></b> See comment above
<b><u>Facilitate sustainable economic prosperity:</u></b>

See comment above
<b><u>Greater income for social investment:</u></b> See comment above
<b><u>Cleaner Greener:</u></b> See comment above

**What consultations have taken place on the proposals and when?**

**(A) Internal Consultations**

The Head of Corporate Resources is the author of the report (FD 5830/19)

The Chief Legal and Democratic Officer has been consulted and has no comments on the report (LD 4064/19).

**(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.

## 1. **Introduction**

- 1.1 In March 2017, Council approved a three-year budget plan for the period 2017/18 to 2019/20. As would be expected, the final year of this plan was revised in February 2019 in order to inform the Council setting the 2019/20 budget. The forecast revenue outturn position for 2019/20, including the delivery of savings included in the 2019/20 budget, are being reported to Cabinet each month as a key element of effective financial management and ensuring that informed decision making can take place within such a severe financial environment.
- 1.2 The budget report presented to Cabinet on 14 February 2019 and Council on 28 February 2019 outlined that the Council would look to develop a further three-year Budget Plan covering 2020/21 to 2022/23. An initial estimate of the potential budget gap for the three-year period was £45m. However, the report indicated that this initial estimate could vary considerably given the high level of uncertainty, particularly around Government funding.
- 1.3 This report provides a further update on the Medium Term Financial Plan (MTFP) for 2020/21 to 2022/23. This takes account of the announcements made in the Spending Review 2019, published at the beginning of September 2019, as well as other issues / spending pressures facing the Council.

## 2 **Initial Development of the Medium Term Financial Plan for 2020/21 and beyond**

- 2.1 The Budget Report considered by Cabinet and Council in February 2019 indicated that an initial forecast of the budget gap for 2020/21 to 2022/23 was £45m. This was considered to be the Council's best estimate and included the following assumptions:
  - a) A reduction in general Government funding for the Council in line with 2019/20;
  - b) Reductions in some specific Government grants (Public Health Grant and New Homes Bonus Funding).
  - c) Resources to fund pay awards, increases in the pension future service rate, specific contracts and potential price increases from care providers.
  - d) No increases in costs relating to demand led services.
  - e) No increases in Council Tax.
- 2.2 The report indicated that the initial estimate of £45m could vary considerably given the high level of uncertainty, particularly around Government funding. 2019/20 was the final year of the Government's four-year fixed settlement period for local authorities, as well as the last year covered by the Spending Review period. This, coupled with the number of short term additional funding announcements over the past two years, meant that much was unknown regarding medium and long-term core funding from central government beyond 2019/20.
- 2.3 The Spending Review 2019, published on 4 September 2019, contained a number of announcements relating to local government (see Section 3). However, the Review only covered 2020/21 and a further Spending Review will be required in 2020 to cover future years. In addition, there were two significant changes to local government funding that were expected to be introduced from April 2020 relating to

a Fair Funding Review and the introduction of 75% Business Rates Retention for all local authorities which have not progressed as intended and as a result will not be in place for 2020/21. Based on government advice these will be developed for 2021/22 and beyond and will therefore have an impact on years two and three of this Medium Term Financial Plan. These are explained below:

Fair Funding Review:

- 2.4 The Government is currently undertaking a funding review to determine the means of allocating funding across local authorities. Funding allocations for local authorities, as determined in the local government finance settlement, are based on an assessment of local authorities' relative needs and resources. The methodology behind the relative needs assessment was introduced over ten years ago, and data used in the formulae has not been updated since the introduction of the 50% business rates retention system in 2013/14.
- 2.5 The Government wants to introduce a simpler and more transparent methodology reflecting a small number of cost drivers. One key cost driver, as previously, will be population. Sefton's relative population has declined compared to England as a whole since the methodology was last updated. Therefore, this element is likely to have a negative impact on the Council's overall funding position.
- 2.6 The Government has continued to consult with local authorities as well as be influenced by discussions within a number of joint working groups between the Ministry of Housing, Communities and Local Government and the Local Government Association. Sefton has, and will continue to, respond to any consultations to try to influence the final methodology.

Business Rates Retention:

- 2.7 Sefton's Business Rates baseline was last set in 2013/14. Sefton's retained rates income is forecast to be above its funding baseline for 2019/20, so the Council is expecting to achieve a gain from Business Rate retention. As part of the Liverpool City Region 100% Business Rates Pilot Agreement the Council has retained a 99% share of growth in Business Rates since April 2017.
- 2.8 As part of the Fair Funding Review, the Business Rates baseline will be re-assessed and changed. Therefore, the benefit of these gains is expected to be lost going forward.
- 2.9 Also, nationally the proportion of Business Rates retained by local authorities will increase from 50% to 75%. It is expected that pilot authorities will also move to 75% retention so a lower proportion (74%) of any future growth will be retained by the Council.
- 2.10 As stated these two changes, in addition to the comprehensive Spending Review, have now been deferred to April 2021 at the earliest. Whilst this will allow time for the remaining decisions over the design of the reforms to be made, it means more uncertainty about the future funding arrangements for the Council beyond 2020/21. In addition, the eagerly awaited publication of the Adult Social Care Green Paper, which was to be published "at the first opportunity in 2019" has still not materialised and there is no indication of when it will be, although this was referenced in the recent Queens Speech.

- 2.11 This scenario means that medium term financial planning for the next three years is incredibly difficult and does not support sustainable financial management nor service planning. The 2019 Spending Review provides some guidance as to the funding that will be available in the next financial year, but due to the apparent one off nature of this funding (a number of large one off grants underpinning the Council's most critical services continue to be received as opposed to sustainable funding), no visibility or understanding of the changes that will come through the spending review, fair funding review or review of business rates retention and the significant political uncertainty and impact of Brexit on the nation's economy, developing a reasonable estimate of the Council's financial envelope for the latter two years of this MTFP isn't possible.
- 2.12 As previously referenced, the implications of this on the Council cannot be underestimated. The Council has an excellent record with regard to financial management over the last 10 years that has required it to meet a budget shortfall of £233m. This has been predicated on medium term financial planning and setting multi-year budgets that enable effective planning of service delivery and the inevitable transformation activity. The approach by central government to local government finances due to the national political agenda, Brexit and the lack of progress on key financial reforms leaves local government and Sefton in a vulnerable position as this medium-term planning is not possible.
- 2.13 This position is reflected in the Chancellor of the Exchequer stating publicly in September 2019 that a new 'economic decade' is now upon us and that services will be resourced appropriately on the back of a new fiscal agenda and set of rules. On face value this should be encouraging for local government with the end of the decade long austerity programme and the potential for real term increases to government funding being experienced. This view however is tempered by a number of commentators stating that the economic forecast under a range of scenarios, and taking into account Brexit, will result in less scope for investment in public services and the likelihood that further cuts to funding are inevitable. This together with the impact of a widely predicted General Election further increases the uncertainty.
- 2.14 As a result of these factors, it will be important that the Council continues to engage in the reforms of local government finance both individually and as part of the Liverpool City Region. This will help the assumptions in this MTFP to be continually refined over the next 12 months and inform the budget proposals that will come through between 2020/21 and 2022/23.

### **3 Government Funding Impact**

- 3.1 The Spending Review 2019 made a number of announcements relating to the financing of local government in 2020/21. It should be noted that the impact of these on individual councils won't be known for certain until the Provisional Local Government Finance Settlement is published in December 2019. The announcements related to:

#### Social Care Grants

- 3.2 In 2019/20, the Government provided £410m of Social Care Grant funding which was distributed using the Adult Social Care Relative Needs Formula. Sefton's

allocation was £2.605m. In addition, the Government provided £240m through a Winter Pressures Grant, with Sefton receiving £1.525m. As outlined in paragraph 2.2, it was unknown whether these were just short term additional funding. The Spending Review confirmed that this funding would continue to be paid in 2020/21 (although the Winter Pressures Grant would be rolled into the Improved Better Care Fund).

- 3.3 The Spending Review announced that an additional £1,000m of Social Care Grant would be paid to local authorities in 2020/21. Of this, the Government proposes to distribute £850m using the Adult Social Care Relative Needs Formula, with the remaining £150m being distributed on a different basis aimed at providing more funding to those authorities with lower council tax bases who cannot raise as much through the Adult Social Care Precept. Sefton's allocation is estimated to be **£6.710m**.
- 3.4 In addition, local authorities will be given the power to raise Council Tax by a further 2% on top of the core principle as an Adult Social Care Precept. This could raise a further £500m nationally. This is discussed further in section 9.
- 3.5 Also, the NHS contribution to adult social care through the Better Care Fund will increase by 3.4 per cent in real terms. It is estimated that this will increase the contribution to Sefton by about **£0.600m**.

#### Public Health Grant

- 3.6 The Spending Review announced a real terms increase in the Public Health Grant. It is estimated that this will increase Sefton's grant by about **£0.550m**. It should be noted that Sefton's grant has reduced by nearly £3.6m since 2015/16.

#### New Homes Bonus

- 3.7 The Government will continue to make payments of New Homes Bonus in 2020/21. This will relate to legacy payments relating to allocations in the previous three years plus new one-off allocations for 2020/21. Sefton's legacy payments from previous years will reduce by **£0.750m** as our 2016/17 allocation drops out. It is currently assumed that Sefton will only receive an allocation in 2020/21 relating to affordable homes, in line with the last three years (**£0.040m**). Indications are that Sefton will achieve the current baseline for growth so may receive further New Homes Bonus in 2020/21 – however, the Government has indicated it may need to increase the baseline if allocations are higher than the funding available, which would mean additional grant would be unlikely.

#### Business Rate Retention - Levy Account Surplus

- 3.8 In 2019/20 the Government distributed £180m of the Levy Account surplus back to local authorities. Sefton's allocation was **£0.980m**. This was one-off funding that isn't being made available in 2020/21.

#### Housing Benefit / Council Tax Admin Subsidy

- 3.9 In recent years the amount of subsidy received by the Council to help fund the administration costs of Housing Benefits and the Council Tax Reduction Scheme has been reducing year on year. It is anticipated that this will continue in future years with an estimated reduction of **£0.100m** a year.

### Settlement Funding Assessment / Business Rates Baseline

- 3.10 The Settlement Funding Assessment / Business Rates Baseline should increase in line with the increase in the Business Rates multiplier. It is estimated that this will result in **£0.315m** of additional funding in 2020/21 (net of required increases in bad debt provisions) with a further increase of **£1.291m** in 2021/22.

### Implications for 2021/22 and 2022/23

- 3.11 Given the outcome of the Spending Review 2019, and the central government narrative around a 'new economic decade', it is assumed that nationally there will be no reductions in local government funding in 2021/22 or 2022/23 as there is no further information to base this estimate on. As a result, it is therefore assumed that all grants will continue into future years. However, as mentioned in paragraphs 2.4 to 2.10, there are major reviews of the way local government is financed that could have a significant impact on the funding of the Council. Given Sefton's relative decline in population, even if the funding envelope for local government is maintained at current levels, the Council may see a reduction in funding of £9.000m. Whilst it would be hoped that protections are put in place, and the Local Government Association has called for no Council to see a reduction in funding, it is considered prudent to assume this **£9.000m** reduction will take place across the two years, however this estimate will inevitably change with the position potentially being much better or more adverse. This is the key estimate that will influence the funding available to the Council and as further information becomes available, Members will be updated immediately.

### Schools and High Needs Funding

- 3.12 Nationally, the schools budget will rise by £2.6 billion in 2020/21, £4.8 billion in 2021/22 and £7.1 billion in 2022/23, compared to 2019/20 funding levels. Separate to this, each year the government will provide almost £1.5 billion of funding to compensate schools for the increased cost of employer pensions contributions.
- 3.13 In addition, the government announced over £700m more in 2020/21 compared to 2019/20 funding levels to support children and young people with special educational needs.
- 3.14 The funding of Sefton schools and High Needs are discussed further in sections 12 and 13.

## **4 Key MTFP Updated Assumptions**

- 4.1 Within this MTFP, there are a number of key assumptions that will impact upon the funding gap facing the Council in the period 2020/21 to 2022/23 as well as a number of other budget changes. These are set out as follows:

### Resources to fund pay awards, increases in the pension future service rate, specific contracts and potential price increases from care providers

- 4.2 In line with previous MTFPs, the Council makes provision for the estimated costs of annual increases in pay, pensions etc. Provisions for these items total **£6.500m** per year.

#### Levy Increases

- 4.3 The Council is required to pay levies to various bodies, the largest two of which are the Liverpool City Region Combined Authority (for Transport) and the Merseyside Recycling and Waste Authority. A provision has been included for the potential costs of increases in these levies in each of the three years (**£0.700m**). Sefton should receive notification of provisional figures for 2020/21 in December 2019.

#### Existing Service Budget Pressures

- 4.4 The current Budget Monitoring reports for 2019/20 are indicating significant ongoing budget pressures in two service areas:

- Children's Social Care – current forecast of **£1.000m** relating to the costs of Looked After Children (excluding one-off costs in 2019/20).
- Education Excellence – current forecast of **£0.200m** relating to Home to School Transport.

In addition, the increase in pay budgets due to pay awards and pension increases, after allowing for fees and charges increases for traded services, is **£0.400m** greater than the provision built into the 2019/20 budget. The net surplus budget for Housing Benefits also needs to be reduced due to the reduction in the amounts paid by the Council and the associated loss of subsidy (**£0.250m**).

- 4.5 It is considered prudent to build these costs into the 2020/21 budget as these pressures will continue into future years.

#### Non-Delivery of 2019/20 Budget Savings

- 4.6 The 2019/20 Budget included £9.803m of savings from Public Sector Reform (PSR) projects. Current forecasts are that £8.853m of savings will be deliverable in the year (90%). An analysis of the overall savings for 2019/20 are shown in the summary below:

	<b>Total Saving 2019/20</b>	<b>Forecast - Achieved In 2019/20</b>	<b>Forecast – Not Achieved 2019/20</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
PSR1 - Acute Wrap Around	0.230	0.000	0.230
PSR2 – Locality Teams	4.408	4.408	0.000
PSR4 - All Age Pathway	0.089	0.089	0.000
PSR6 - Commercialisation	0.405	0.405	0.000
PSR8 – Asset Maximisation	0.512	0.512	0.000
PSR9 – ICT & Digital Inclusion	3.439	3.439	0.000
PSR10 - Commissioning	0.720	0.000	0.720
<b>Total PSR Projects</b>	<b>9.803</b>	<b>8.853</b>	<b>0.950</b>

- PSR1 – Acute Wrap Around - as reported, the Children's Social Care budget is under significant pressure – It is therefore not possible to achieve the savings on the Looked After Children budget. The Service is currently the subject to a Major Service Review.
- PSR10 – Commissioning - A number of reviews of procurement activity have not identified suitable opportunities to generate the savings assumed. Any

future savings on procurement activity will be brought forward as savings options.

- 4.7 It is considered prudent to delete these savings from the 2020/21 budget as they will not be achieved in future years and these sums will need to be reflected in the next MTFP.

#### Other Changes

- 4.8 A number of other changes have been built into the MTFP for 2020/21, including the estimated additional costs of replacing part of the fleet of vehicles used for Cleansing and reflecting the increased net costs of holding elections following the cessation of a grant previously received to support the service.

### **5 Non-Recurring Savings**

- 5.1 A number of savings built into the 2019/20 budget were only achievable for a limited period and so need to be removed from the budget going forward (**£4.379m** in total). These include:
- Treasury Management savings following the review of policy – reduction of £1.000m in 2020/21 with further reductions of £0.200m in 2021/22 and 2022/23.
  - Highways Maintenance – additional capitalisation of £1.283m.
  - Council Tax Surplus of £0.996m.

### **6 Updated MTFP 2020/21 to 2022/23**

- 6.1 Based upon the revisions relating to Government funding and the updated MTFP assumptions it is now estimated that the funding shortfall between 2020/21 and 2022/23 will be **£31.103m**, before any Council Tax decisions are made and any additional service delivery options are considered. A detailed analysis is shown below:

	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
	<b>£'m</b>	<b>£'m</b>	<b>£'m</b>
<b>Government Funding:</b>			
- Social Care Grant	-6.710	0.000	0.000
- NHS Contribution to BCF	-0.600	0.000	0.000
- Public Health Grant	-0.550	0.000	0.000
- New Homes Bonus	0.710	0.000	0.000
- Business Rate Retention - Levy Account Surplus	0.980	0.000	0.000
- Housing Benefit / Council Tax Admin Subsidy	0.100	0.100	0.100
- Settlement Funding Assessment / Business Rates Baseline	-0.315	-1.291	0.000
- General Government Funding	0.000	4.500	4.500
	<b>-6.385</b>	<b>3.309</b>	<b>4.600</b>
<b>Key MTFP updated assumptions:</b>			
- Provision for Pay Inflation	3.800	3.800	3.800
- Provision for Pension Increases	0.600	0.600	0.600
- Provision for Inflation on Contracts	0.100	0.100	0.100

- Assumed increase in Care Provider costs re. Adult Social Care	2.000	2.000	2.000
- Levy increases	0.700	0.700	0.700
- Existing service budget pressures	1.850	0.000	0.000
- Non-Delivery of 2019/20 budget savings	0.950	0.000	0.000
- Other Changes	0.800	0.000	0.000
	<b>10.800</b>	<b>7.200</b>	<b>7.200</b>
<b>Non-Recurring Savings</b>	<b>3.979</b>	<b>0.200</b>	<b>0.200</b>
<b>Revised MTFP Funding Gap</b>	<b>8.394</b>	<b>10.709</b>	<b>12.000</b>
<b>Total MTFP Funding Gap</b>			<b>31.103</b>

## 7 Potential Budget Options

7.1 A number of options have been identified that can be used to mitigate part of the MTFP Funding Gap:

### 2020 Local Government Pension Scheme Valuation

7.2 Merseyside Pension Fund and their actuaries are currently finalising the valuation of the Fund that will impact on contributions that the Council will need to pay for the 2020/21 to 2022/23 period. Indications are that the financial position of the Fund has significantly improved since the previous valuation. Officers from the Council have been engaged with the Pension Fund over the last two years to ensure this will result in a significant saving, with payments relating to the deficit on Sefton's element of the Fund forecast to reduce dramatically compared to previous years. The current estimate is that the saving to the Council will be **£7.700m** across the three years.

### Provision for Pay Inflation and Pension Increases

7.3 The MTFP includes provision for pay awards in future years as well as the increase in the employer pension contribution rate for the Local Government Pension Scheme. The figures provided for include all Council staff. However, a number of staff are within services that either trade or generate significant levels of external income. Therefore, as in 2019/20, pay inflation and pension increases within these services will be funded from income generated rather than through the Council's central provisions. This will reduce the central provision requirement by **£0.550m** per year.

### Service options agreed by Budget Council in February 2019

7.4 Service Budget Options agreed at last year's Budget Council delivered £2.269m of savings in 2019/20. Some of the savings were only for a part year. The full year effect of these will deliver an additional **£0.444m** in 2020/21 and 2021/22.

## **8 Potential Additions to the Budget**

### Contingency Provision for Growth in Children's Social Care

- 8.1 As stated in paragraph 4.4, the pressure on the Children's Social Care budget from increases in the number of Looked After Children remains significant. Whilst the service is currently undertaking a Major Service Review, it is considered prudent to build in a provision of **£1.000m**, to only be made available if costs increase above the current service budget.

### Adult Social Care Budget Increase

- 8.2 As outlined in paragraph 3.5, the NHS contribution to adult social care through the Better Care Fund will increase by 3.4 per cent in real terms. It is estimated that this will increase the contribution to Sefton by about -£0.600m. It is proposed to passport any increase to Adult Social Care (**£0.600m**).

### Public Health Budget Increase

- 8.3 As outlined in paragraph 3.6, the Spending Review announced a real terms increase in the Public Health Grant. It is estimated that this will increase Sefton's grant by about £0.550m. It is proposed to passport any increase to Public Health to offset any increases in costs and new burdens (**£0.550m**).

### High Needs and Secondary Schools

- 8.4 Sections 12 and 13 discuss the current financial pressures being experienced in the High Needs budget and Secondary Schools. Given these pressures, and the potential to be left with negative reserves and balances, it is considered prudent to make a one-off contribution to a reserve to be utilised if no long-term solution is found (**£1.500m**).

### Risk relating to Local Government Finance Settlement 2020/21

- 8.5 As mentioned in paragraph 3.1, the provisional settlement will not be announced until December 2019. The Government has issued a technical consultation on some aspects of the Settlement, which as usual the Council will respond to. In addition, some of the announcement in the Spending Review have yet to be exemplified for individual local authorities. Therefore, there is a risk that the funding forecasts in Section 3 will be worse than assumed. It is therefore considered prudent at this stage to include a provision for potential reductions in funding in 2020/21 (**£1.000m**). Once figures are confirmed this provision will be revised.

## **9 Potential Additional Funding**

### Council Tax Increases

- 9.1 The Spending Review assumes a 2% Core Referendum Principle for illustrative purposes. As is customary, the government will consult on Council Tax Referendum Principles later this year as part of the Local Government Finance Settlement. A 1.99% increase for Sefton (to ensure the Council wouldn't breach the principle) would generate £2.627m in 2020/21.
- 9.2 As mentioned in paragraph 3.4, local authorities will be given the power to raise Council Tax by a further 2% on top of the core principle as an Adult Social Care Precept. This would generate an additional £2.640m in 2020/21.

9.3 A decision on the level of Council Tax is made by Budget Council each year. The 2019/20 Band C Council Tax is £1,395.82. It should be noted that as part of the Settlement the Government assumes local authorities raise Council Tax by the maximum amount when calculating an individual authority's Spending Power and this will directly influence future years funding allocations.

Council Tax Base / Empty Homes Discounts and Premiums

9.4 The Council Tax Base is set by Council in January each year. It reflects changes in the number of properties and the value of exemptions and discounts. For forecasting purposes, it is assumed that there will be growth in the Tax Base for additional properties that would generate **£0.500m** per year. This equates to approximately 280 Band C properties per year.

9.5 The Council is currently consulting on proposals to reduce discounts on empty homes from April 2020. In addition, the Council has previously consulted on increasing the premium on long term empty homes in future years. Recommendations on potentially changing these discounts and premiums will be made as part of the Council Tax Base report to Council in January 2020. If approved, these changes could generate an additional **£0.650m** from 2020/21.

**10 Updated Budget Plan 2020/21 to 2022/23**

10.1 Based upon the potential budget options, additions and funding it is now estimated that the funding shortfall between 2020/21 and 2022/23 will be **£23.309m**, before any Council Tax decisions are made and any further service delivery options are considered. A detailed analysis is shown below:

	2020/21	2021/22	2022/23
	£'m	£'m	£'m
<b>Revised MTFP Funding Gap</b>	<b>8.394</b>	<b>10.709</b>	<b>12.000</b>
<b>Potential Budget Options:</b>			
- 2020 Local Government Pension Scheme Valuation	-5.500	-0.600	-0.600
- Provision for Pay Inflation and Pension Increases	-0.550	-0.550	-0.550
- Service options agreed by Budget Council in February 2019	-0.368	-0.076	0.000
	<b>-6.418</b>	<b>-1.226</b>	<b>-1.150</b>
<b>Potential Additions to the Budget:</b>			
- Contingency Provision for Growth in Children's Social Care	1.000	0.000	0.000
- ASC Budget Increase	0.600	0.000	0.000
- Public Health Budget Increase	0.550	0.000	0.000
- Additional provision to reflect potential financial pressures re. High Needs and Schools	1.500	-1.500	0.000
- Additional risk re. funding uncertainty pending final settlement	1.000	0.000	0.000
	<b>4.650</b>	<b>-1.500</b>	<b>0.000</b>

<b>Potential Additional Funding:</b>			
Council Tax – Core increase	TBC	TBC	TBC
Adult Social Care Precept	TBC	TBC	TBC
Council Tax Base	-0.500	-0.500	-0.500
Empty Homes Discounts / Premiums	-0.650	0.000	0.000
	<b>-1.150</b>	<b>-0.500</b>	<b>-0.500</b>
<b>Revised MTFP Funding Gap – excluding Council Tax</b>	<b>5.476</b>	<b>7.483</b>	<b>10.350</b>
<b>Total MTFP Funding Gap</b>			<b>23.309</b>

## **11 Proposed approach to meeting budget gaps**

11.1 The Budget Report for 2019/20 identified that the Council would extend its Framework for Change programme into 2020/21 and beyond and in addition to being the vehicle that is used to deliver the Council's core purpose would also provide the structure through which budget proposals are developed and subsequently reviewed. Work is continuing to develop this programme, the output of which will be reported in the Budget report in February 2020.

11.2 It can be seen from the Table at 10.1 that the budget gap for 2020/21, excluding any increase in Council Tax, has reduced significantly compared to the original forecast, however the uncertainty around years two and three of this Plan cannot be underestimated in addition to the pressure coming through from demand for core services at this point. The Framework for Change programme will therefore need to reflect both this potential financial scenario and service led demand and this will be detailed in the Budget report that will be considered by Council, Cabinet and Overview and Scrutiny in February 2020.

## **12 High Needs Funding**

12.1 Nationally, High Needs budgets have come under increasing pressure since the Government's 2014 reforms to the system for supporting young people with special educational needs and disabilities (SEND). Funding increases have not kept pace with the rise in demand, resulting in over 80% of local authorities overspending their High Needs budget in 2017/18, with a total net overspend of £282m. This pressure has been reported nationally together with the impact on those in receipt of these key services.

12.2 The financial position in Sefton reflects the national picture with the High Needs budget, which is funded through the Dedicated Schools Grant (DSG), coming under increasing significant pressure. The in-year pressure on this budget in 2019/20 is estimated to be £3.400m. Various mitigating actions are currently being developed that have the potential to reduce the overspend to around £1.7m-£2.0m.

12.3 These pressures will, as would be expected, continue into 2020/21. However, as mentioned in paragraph 3.4, the Government has announced additional funding of £700m nationally which will help reduce this overspend. This additional support is welcomed but is not sufficient in order to fully mitigate the financial pressure being

faced. Work will therefore need to continue, in conjunction with Schools' Forum, to develop proposals that will reduce the budget pressure further. At this stage, it is anticipated that a residual funding gap of £0.400m will remain, increasing the overall deficit to around £2.5m by the end of 2020/21.

- 12.4 It is not known how the Government will address the High Needs funding gap going forward, as well as the issue of cumulative deficits. The Council is awaiting guidance from the Department for Education and the Chartered Institute of Public Finance and Accountancy on how to treat year-end DSG deficit balances. This could have an impact on the Council's Value for Money audit (conducted as part of the year end process) and so a funding strategy will be needed to provide for the potential that the Council is required to underwrite the deficit balance. The Council's External Auditor has advised that the Council will require a robust three-year financial forecast with agreed actions and a funding strategy for any deficit balances. The transfer to reserves proposed in paragraph 8.5 would go part way to meeting this deficit. The Council is in the process of producing that funding strategy and this will be reported as part of the Budget Report in February 2020.

### **13 Secondary Schools' Funding**

- 13.1 The six secondary schools in Sefton have been experiencing increasing financial pressures over the last 3-5 years from a combination of factors, including funding not increasing in line with inflation, reducing pupil numbers in some schools, etc. The Government has announced that schools funding will increase by £7.1 billion by 2022/23. Whilst the increases in funding are welcome, by 2022/2023 funding per pupil will only return to the same level as 2009/2010, once inflation is taken into account. This effectively means that there will have been 13 years of significant pressures on school budgets that have not been addressed despite the additional funding.
- 13.2 It is currently estimated that the cumulative deficit balance on these six secondary schools at the end of 2019/20 will be £1.4m, with this position expected to rise further in 2020/21. As a result of this, the Council is engaged with all schools to develop proposals whereby they set annual budgets within the funding available to them by 2020/21 and from that point start to repay any deficit that exists. This will help deliver financial sustainability for individual schools and reduce the financial risk for the Council that could arise from a school closure or transfer to academy status. The Council operates a process whereby schools who cannot set an annual budget within the approved allocation must apply for a licensed deficit- the approach set out in this paragraph will be used as the frameworks for any approved short-term deficits and a further detailed report on this issue will be included in the Council Budget Report of February 2020.

### **14 Financial Resilience**

- 14.1 Nationally, the financial resilience of councils is something that has recently gained a higher profile than it had previously. Despite this national backdrop, the continued uncertainty around Local Government funding and the pressures particularly around Adult Social Care and Children's Social Care, the Council remains confident in its management of its own financial resilience and has received positive reports from its independent external auditor and the recent LGA peer review that confirm this position.

- 14.2 The Council has a very strong record of sound financial management and has continued to deliver budget savings each year throughout this period of austerity. These have ensured that it has been able to protect core service provision and remain in a strong position financially.
- 14.3 Planning ahead for the medium term, by considering a three-year MTFP and budget plan, enables the Council to make strategic and well considered decisions in relation to its finances and service provision. As referenced in this report there is considerable uncertainty about the future funding levels for the Council therefore given this uncertainty, it is more important than ever for the Council to have a long-term budget plan.
- 14.4 The Council closely monitors its finances with routine reports being considered by Cabinet on a monthly basis and remedial action being taken whenever required to offset emerging budget pressures. All savings proposals are also regularly reviewed for deliverability and are risk assessed by officers throughout the year. These reports are also considered by the Overview and Scrutiny Committee - Regulatory, Compliance and Corporate Services.
- 14.5 The Council also ensures that it has sufficient resources in both general and earmarked reserves to fund costs that will arise as a result of existing plans and commitments, to fund future investments and to safeguard against unforeseen circumstances. These reserves are not relied upon to fund routine council expenditure.
- 14.6 The Chartered Institute of Public Finance and Accountancy (CIPFA) recently consulted on a range of indicators that could measure the financial resilience of councils, in recognition of the unprecedented challenges that Local Government has faced in recent years. The consultation was subject to significant debate and the proposed index is being updated as a result. The Council will consider the revised suite of indicators in due course and these will be reflected in the forthcoming reports that will be considered by Cabinet and Budget Council.

## **15 Reserves and Balances**

- 15.1 As part of its financial management process the Council ensures it has set aside resources in reserves to fund costs that will arise as a result of existing plans and commitments, to fund future investments and to safeguard against unforeseen circumstances. The Council's approach to managing these reserves and provisions was set out in the Robustness Report approved by Council in February 2019.
- 15.2 As part of this budget setting process the Council will review all of its reserves and balances with due regard being given to the impact of any emerging issues and any other strategic financial decisions that will be made over the next three years. The outcome of this review will be presented to Cabinet in December 2019. An assessment of the Council's overall levels and reserves and balances will be included in the Robustness Report to be considered in February 2020.