

<b>Report to:</b>	Cabinet	<b>Date of Meeting:</b>	1 October 2020
<b>Subject:</b>	Financial Management 2020/21 to 2023/24 and Framework for Change 2020 – Medium Term Financial Plan 2021/22 to 2023/24		
<b>Report of:</b>	Executive Director of Corporate Resources and Customer Services	<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 2021/22;
2. The update to the Medium-Term Financial Plan (MTFP) for 2021/22 to 2023/24 taking account of all currently available information.

### Recommendation(s):

**Cabinet** is recommended to: -

- 1) Approve the updated Medium-Term Financial Plan for 2021/22 to 2023/24 and any assumptions made.

### Reasons for the Recommendation(s):

In February 2020 Council approved a one-year budget plan for 2020/21. As part of this report, an indicative budget gap of £19m for 2021/22 to 2022/23 was reported. The MTFP for this period has subsequently been updated to reflect the latest information available and to include extend the MTFP to 2023/24. In approving the recommendation 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 be between **£25.534m** and **£44.234m** is currently forecast for the period 2021/22 to 2023/24, prior to decisions about Council Tax and budget savings being made. However, there is considerable uncertainty around some of the assumptions made, particularly around government funding and any additional support that will be made available for pressures due to COVID-19.

### (B) Capital Costs

None

## Implications of the Proposals:

<b>Resource Implications (Financial, IT, Staffing and Assets):</b> None
<b>Legal Implications:</b> None
<b>Equality Implications:</b> There are no equality implications.

## 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

**Cleaner Greener:**

See comment above

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

**(A) Internal Consultations**

The Executive Director of Corporate Resources and Customer Services is the author of the report (FD 6131/20)

The Chief Legal and Democratic Officer has been consulted and has no comments on the report (LD 4322/20).

**(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 February 2020, Council approved a one-year budget plan for 2020/21. The forecast revenue outturn position for 2020/21, including the potential impact of COVID-19 on the Council's financial position, 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 13 February 2020 and Council on 27 February 2020 outlined an initial forecast for the potential budget gaps for 2021/22 and 2022/23. An initial estimate of the potential budget gap for the two-year period was £19m. 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 an update on the Medium-Term Financial Plan (MTFP) for the three-year period 2021/22 to 2023/24. This takes account of any announcements made by the government, including relating to COVID-19, as well as other issues / spending pressures facing the Council.

## 2. **Initial Development of the Medium-Term Financial Plan for 2021/22 and beyond**

- 2.1 The Budget Report considered by Cabinet and Council in February 2020 indicated that an initial forecast of the budget gap for 2021/22 to 2022/23 was £19m. 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 based on potential changes to the way funding for local authorities is distributed;
  - b) Reductions in some specific Government grants (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; and,
  - e) No increases in Council Tax.
- 2.2 The report indicated that the initial estimate of £19m 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. 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 published in 2020 to cover future years. This, coupled with the number of short-term additional funding announcements over the past three years, meant that much was unknown regarding medium and long-term core funding from central government beyond 2020/21.
- 2.3 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 were not in place for 2020/21. Based on government advice these were to be developed for 2021/22. However, there is now uncertainty as to when these will be implemented. The two changes 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, it is now uncertain when these two changes are to be implemented. These issues in addition to the announced Comprehensive Spending Review, to be announced in late 2020, 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.

2.11 In addition, there are the uncertainties around the impact of COVID-19 on the Council's financial position going forward in terms of:-

- Ongoing costs that may exist as a result of the pandemic; and,
- Whether central government will provide additional support in respect of collection fund losses as they have suggested maybe the case via the spending review.

2.12 Developing next year's budget and a revised Medium-Term Financial Plan therefore remains extremely difficult at this stage, and extensive lobbying is ongoing with central government departments to provide guidance to all councils on what can be expected in order that details proposals can be developed. With the Spending Review planned for Autumn 2020, this is too late to ensure that informed decisions can be made, and that financial sustainability can be maintained.

2.13 Despite this an updated MTFP is being provided in this report for members' approval including details of the proposed approach to budget setting for 2021/22. In addition to the uncertainty of what funding will be received by the Council next year, the scale of the financial challenge facing the Council means that considerable officer and member time will need to be directed to developing transformation and savings proposals at a time when all council services are either continuing to respond to the pandemic in order to support local residents to are seeking to support the recovery programme across the borough. Reviewing the very services that residents, businesses and partners are relying on at this time will make developing a budget package an extremely challenging exercise.

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 refined over the next few months and inform the budget proposals that will come through between 2021/22 and 2023/24.

### **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. The impact of these funding streams beyond 2020/21 is unknown. These funding streams are described below:

#### Social Care Grants

3.2 In 2019/20, the Government provided £410m of Social Care Grant funding. Sefton's allocation was £2.605m. The Spending Review 2019 announced that an additional £1,000m of Social Care Grant would be paid to local authorities in 2020/21. Sefton's allocation was £6.710m. As outlined in paragraph 2.2, it was unknown whether these are just short-term additional funding. It is currently assumed that this funding will continue to be paid in 2021/22 and future years.

3.3 In addition, local authorities have previously been given the power to raise Council Tax by a further amount on top of the core principle as an Adult Social Care Precept. This is discussed further in section 11.

### Public Health Grant

- 3.4 The Council received a real term increase in the Public Health Grant in 2020/21, increasing Sefton's allocation by £0.993m. It is currently assumed that any change in the level of grant in future years will be passported to fund public health services. It should be noted that Sefton's grant has reduced by nearly £3.6m between 2015/16 and 2019/20.

### New Homes Bonus

- 3.5 It is unknown whether the Government will continue to make payments of New Homes Bonus in 2021/22. Payments made in 2020/21 related to legacy payments for allocations in the previous three years plus new allocations for 2020/21, which the government had announced would be one-off. It is assumed that Sefton's payments from previous years will reduce by **£0.268m** as our 2020/21 allocation drops out.

### Housing Benefit / Council Tax Admin Subsidy

- 3.6 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.

### General Government Funding

- 3.7 The implications on potential funding for 2021/22 onwards is considered in Section 9.

## **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 2021/22 to 2023/24 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 2021/22 in December 2020.

## **5 Non-Recurring Items**

- 5.1 A number of items built into the 2020/21 budget were only relevant for a limited period and so need to be removed from the budget going forward (**-£2.808m** in total). These include:

- Treasury Management savings following the review of policy – reduction of £0.200m in 2021/22 with further reductions of £0.200m in 2022/23 and 2023/24;
- Council Tax / Business Rates Net Deficit of £1.158m.
- Contribution to High Needs and Secondary Schools Reserve of £0.750m (after three years of contributions).
- Contribution to General Balances of £1.500m (after three years of contributions).

## **6 Potential Budget Options**

6.1 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

6.2 The 2020 valuation of the Merseyside Pension Fund set contributions that the Council will need to pay for the 2020/21 to 2022/23 period. The financial position of the Fund had significantly improved since the previous valuation. Officers from the Council had been engaged with the Pension Fund to ensure this resulted in a significant saving, with payments relating to the deficit on Sefton's element of the Fund reducing dramatically compared to previous years. The saving to the Council will be £6.840m across the three years, with **£1.200m** relating to 2021/22 and 2022/23.

6.3 In addition, the Merseyside Pension Fund offered the Council the opportunity to prepay (in April 2020) a proportion of the total expected contributions for the three-year valuation period at a discount. After allowing for borrowing costs, the estimated net saving will be **£1.300m** in 2022/23.

### Provision for Pay Inflation and Pension Increases

6.4 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 and 2020/21, 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

6.5 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 £0.368m in 2020/21 and **£0.076m** in 2021/22.

## **7 Updated MTFP 2021/22 to 2023/24**

7.1 Based upon the revisions relating to specific Government funding and the updated MTFP assumptions it is now estimated that the initial funding shortfall between 2021/22 and 2023/24 will be **£15.134m**, before any consideration of general government funding, existing service pressures and COVID-19 pressures. In



addition, it is before any Council Tax decisions are made and any additional service delivery options are considered. A detailed analysis is shown below:

	2021/22	2022/23	2023/24
	£'m	£'m	£'m
<b>Government Funding:</b>			
- New Homes Bonus	0.268	0.000	0.000
- Housing Benefit / Council Tax Admin Subsidy	0.100	0.100	0.100
	<b>0.368</b>	<b>0.100</b>	<b>0.100</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
	<b>7.200</b>	<b>7.200</b>	<b>7.200</b>
<b>Non-Recurring Items</b>	<b>-0.758</b>	<b>0.000</b>	<b>-2.050</b>
<b>Budget Options:</b>			
- 2020 Local Government Pension Scheme Valuation	-0.600	-0.600	0.000
- Prepayment of Pension Contributions	0.000	-1.300	0.000
- Provision for Pay Inflation and Pension Increases	-0.550	-0.550	-0.550
- Service options agreed by Budget Council in February 2019	-0.076	0.000	0.000
	<b>-1.226</b>	<b>-2.450</b>	<b>-0.550</b>
<b>Revised MTFP Funding Gap</b>	<b>5.584</b>	<b>4.850</b>	<b>4.700</b>
<b>Total MTFP Funding Gap</b>			<b>15.134</b>

## 8 Other Potential Changes to the Budget

### Existing Service Budget Pressures

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

<u>Service</u>	<u>Budget Pressure</u>
	£m
Children's Social Care – Placements & Packages	4.100
Communities – Children with Disabilities / PSR2	1.050
Education Excellence – Home to School Transport	0.200
Locality Services – Security Force	0.350
	<b>5.700</b>

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

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

- 8.3 As previously reported, 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 **£2.000m** per year, to only be made available if costs increase above the current service budget.

#### Framework for Change 2020 – Demand Management

- 8.4 The 2020/21 Budget Report presented to Council in February 2020 outlined the workstreams that would be established in order to review demand led budgets. Due to the size, complexity and demand for these services, a continual review would be undertaken to ensure that the cost base for these services reduces, an early intervention and prevention programme is embedded, and residents are supported in 'moving down the system' so as to reduce the demand for Council services and particularly those at the acute end.
- 8.5 From the initial work of the Adult Social Care workstream, savings of **£3.300m** have been identified in 2020/21, which are offsetting some of the service pressures being experienced in 2020/21. These savings are considered to be permanent at this stage but will continue to be reviewed as part of the Demand Management Project.

### **9 Government Funding for 2021/22 to 2023/24**

- 9.1 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 to 2023/24 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 once implemented. 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, although it would be hoped that protections are put in place as has happened previously. In addition, the Local Government Association has called for no Council to see a reduction in funding once the reviews are implemented.
- 9.2 Given the uncertainty around the level of funding available following the Spending Review in 2020, and the impact and timing of the reviews of local government finance, it is considered prudent to assume that reductions **of up to £4.5m per year** could take place across the three years, equivalent to about 5% of the Council's funding. 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.

## 10 Ongoing Financial Impact of COVID-19

10.1 There are the uncertainties around the impact of COVID-19 on the Council's financial position going forward:

### Sales, Fees and Charges Income

10.2 There has been a significant impact on income from sales, fees and charges for a range of services during 2020/21. Whilst some income streams are recovering since lockdown was eased, others are expected to remain impacted whilst measures are still in place for social distancing, etc. It is currently forecast that this could result in a loss of income of **£1.500m** during 2021/22. This forecast will be reviewed as there is more experience of the impact on reopened facilities. It is assumed that no additional government support will be available to contribute to these losses and that income levels will return to normal from 2022/23.

### Repayment of reserves and balances if needed to fund impact of COVID in 2020/21

10.3 Although the government has announced a scheme to contribute to sales, fees and charges income losses in 2020/21, it only covers 75% of losses above a certain level. In addition, losses of certain income streams, e.g. rental income, are not covered by the scheme. It is currently estimated that there could be a shortfall of between £5m and £7m.

10.4 The Council has received emergency funding to cover the additional costs being incurred on the pandemic. The Council can also use the funding to contribute towards income losses. Depending on the amount available, the Council may need to temporarily utilise Earmarked Reserves to cover some of the losses. As these Earmarked Reserves have been set aside for specific purposes, they will need to be paid back. It is assumed they will be paid back over three years at a potential cost of **£1.700m** per year.

### Smoothing of Collection Fund deficit arising from COVID-19

10.5 The Council, in line with all other local authorities, is experiencing significant reductions in income from both Council Tax and Business Rates. This relates to increases in households eligible to claim under the Council Tax Reduction Scheme and increases in Business Rates appeals as well as reductions in collection rates. Current estimates are that the total impact could be up to £13.400m.

10.6 The government have yet to indicate if any support will be provided to offset any of these losses. However, they have announced that regulations will be amended so that any deficit can be transferred to the Council's budget over three years rather than one. It is estimated that the cost to the Council could be between **£1.000m** and **£4.500m** in each of the next three years depending on whether any support is made available and the final level of the deficit.

### Unforeseen pressures from COVID-19

10.7 Given the uncertainty around the pandemic, and the potential for additional costs to be incurred in future years, e.g. on home to school transport, it is considered prudent to include a contingency provision of **£1.000m** to help mitigate these potential costs.



- Framework for Change 2020 – Demand Management	-3.300	-3.300	0.000	0.000	0.000	0.000
	<b>4.400</b>	<b>4.400</b>	<b>2.000</b>	<b>2.000</b>	<b>2.000</b>	<b>2.000</b>
<b>Government Funding:</b>	<b>0.000</b>	<b>4.500</b>	<b>0.000</b>	<b>4.500</b>	<b>0.000</b>	<b>4.500</b>
<b>Ongoing Financial Impact of COVID-19:</b>						
Sales, Fees and Charges Income	1.500	1.500	-1.500	-1.500	0.000	0.000
Repayment of reserves and balances	0.000	1.700	0.000	0.000	0.000	0.000
Smoothing of Collection Fund deficit	1.000	4.500	0.000	0.000	0.000	0.000
Unforeseen pressures from COVID-19	1.000	1.000	0.000	0.000	0.000	0.000
	<b>3.500</b>	<b>8.700</b>	<b>-1.500</b>	<b>-1.500</b>	<b>0.000</b>	<b>0.000</b>
<b>Potential Additional Funding:</b>						
Council Tax – Core increase	TBC	TBC	TBC	TBC	TBC	TBC
Adult Social Care Precept	TBC	TBC	TBC	TBC	TBC	TBC
Council Tax Base	TBC	TBC	TBC	TBC	TBC	TBC
	<b>TBC</b>	<b>TBC</b>	<b>TBC</b>	<b>TBC</b>	<b>TBC</b>	<b>TBC</b>
<b>Revised MTFP Funding Gap – excluding Council Tax</b>	<b>13.484</b>	<b>23.184</b>	<b>5.350</b>	<b>9.850</b>	<b>6.700</b>	<b>11.200</b>
<b>Total MTFP Funding Gap</b>					<b>25.534</b>	<b>44.234</b>

Note :all of these estimates will be the subject of change as the Council moves through the financial year for the reasons set out in this report

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

13.1 The Budget Report for 2020/21 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 has been ongoing to develop this programme described in the Budget Report. The Pillars, Projects and Workstreams that make up Framework for Change 2020 are listed below:

#### Public Sector Reform – Council of 2023

*Workstream 1- Service Inputs and New Operating models*

*Workstream 2- New Ways of Working and Taking Advantage of Technology*

*Workstream 3- Workforce Development*  
*Workstream 4- Organisation design across the Council*

Public Sector Reform – Demand Management

*Workstream 1- Localities - further embedding early intervention and prevention*

*Workstream 2- Children’s Social Care – Delivering the Children’s Plan*

*Workstream 3- Adults’ Social Care*

*Workstream 4- Streetscene*

*Workstream 5- Education Excellence*

*Workstream 6- Special Educational Needs and Disability (SEND)*

Economic Growth

Growth and Strategic Investment

- 13.2 Through the Programme a number of initial budget proposals are being developed to contribute to meeting the budget gaps outlined in Section 12, particularly relating to 2021/22. These proposals will be presented to Cabinet in due course and then and then Council for approval so that they can be in place for 1 April 2021
- 13.3 It can be seen from the Table at 12.1 that the budget gaps (excluding any increase in Council Tax) particularly for 2021/22, has a considerable level of uncertainty which is reflected in the potential range of outcomes. The Framework for Change programme budget options will therefore need to reflect both the potential lower range estimate financial scenario as well as options to meet the higher range estimate.