



AGENDA ITEM:

COUNCIL: 17 October 2018

Report of: Borough Treasurer

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SUBJECT: MEDIUM TERM FINANCIAL FORECAST

Wards affected: Borough wide

1.0 PURPOSE OF THE REPORT

1.1 To consider the challenging financial position facing the Council over the next 3 years.

2.0 RECOMMENDATIONS

- 2.1 That the progress made in delivering the £1.06m package of efficiencies, additional income and savings that has been agreed for the 2018-19 financial year be noted.
- 2.2 That the Medium Term Financial Forecast for 2019-22, including the need to generate further ongoing savings and income of £1.91m per year to maintain the Council's financial health, be noted.
- 2.3 That the adjustments to reserves set out in paragraph 6.3 be approved to ensure that there is sufficient funding available to support the Council's budget position over the next 3 years.
- 2.4 That any future staff restructuring costs arising from the Sustainable Organisation Review or other processes be financed from available capital receipts.

3.0 BACKGROUND

3.1 Since 2009 the Council has been going through an extended period of falling resources primarily as a result of significant reductions in its government grant funding. A series of programmes and initiatives to generate efficiencies, additional income and other savings have been implemented to address this

position including Major Service Reviews and Policy Option processes. This has been a period of unprecedented change and means that it is becoming progressively more difficult to identify further significant savings and income opportunities without it having an impact on the level or nature of services provided and on stakeholders.

4.0 AGREED EFFICIENCIES, SAVINGS AND ADDITIONAL INCOME FOR 2018-19

- 4.1 There was a significant budget gap for the 2018/19 financial year in terms of the spending required to maintain agreed service levels and the resources that were expected to be available. To address this position a series of measures were agreed by the Council through the Policy Options framework and other processes to be implemented in the current year. A full list of these measures, which in total come to £1.06m, is contained in Appendix 1. These measures include efficiency improvements, generating additional income through a more commercial approach and through charging, restructuring and other staff savings, and in certain limited cases the reshaping of services.
- 4.2 This programme is now being implemented and good progress is being made on delivering these measures. It is inevitable with a programme of this size that there will be some variation from budget projections, and consequently it is intended that this area will be closely monitored, and any necessary revisions considered through the budget process for 2019-20. Reports on the Route Optimisation of the Refuse and Recycling rounds and on the Review of Grounds Maintenance and Street Cleansing Services will be brought back to Council in due course.

5.0 MEDIUM TERM FINANCIAL FORECAST 2019-2022

- 5.1 Earlier this year the Government published a Finance Settlement for local authorities setting out details of future funding levels over the medium term. This Settlement has been combined with other information to produce the financial forecast set out in Appendix 2. This forecast shows the estimated budget gap over the next 3 years.
- 5.2 The forecast has been calculated at a high level taking into account government grant funding, forecasts of corporate council tax and business rate income, and service expenditure and income. The projections show that there will be an estimated cumulative budget gap of £1.53m for 2019-20, £1.77m for 2020-21, and £1.91m for 2021-22.
- 5.3 There is a large budget gap in 2019-20, primarily as a result of the temporary use of £0.955m of reserves to help bridge the budget gap in the current year for one year only. In addition there is a projected £0.435m reduction in revenue support grant from the government. In subsequent years the budget gap increases but by a far smaller extent. This reflects the expectation that from 2020 the Government will not be implementing further significant reductions in local authority funding.
- 5.4 In practice there is scope for considerable variation in this type of forecast as many factors cannot be known with certainty at this time and unexpected new developments will occur. However the forecast does give a clear indication of the

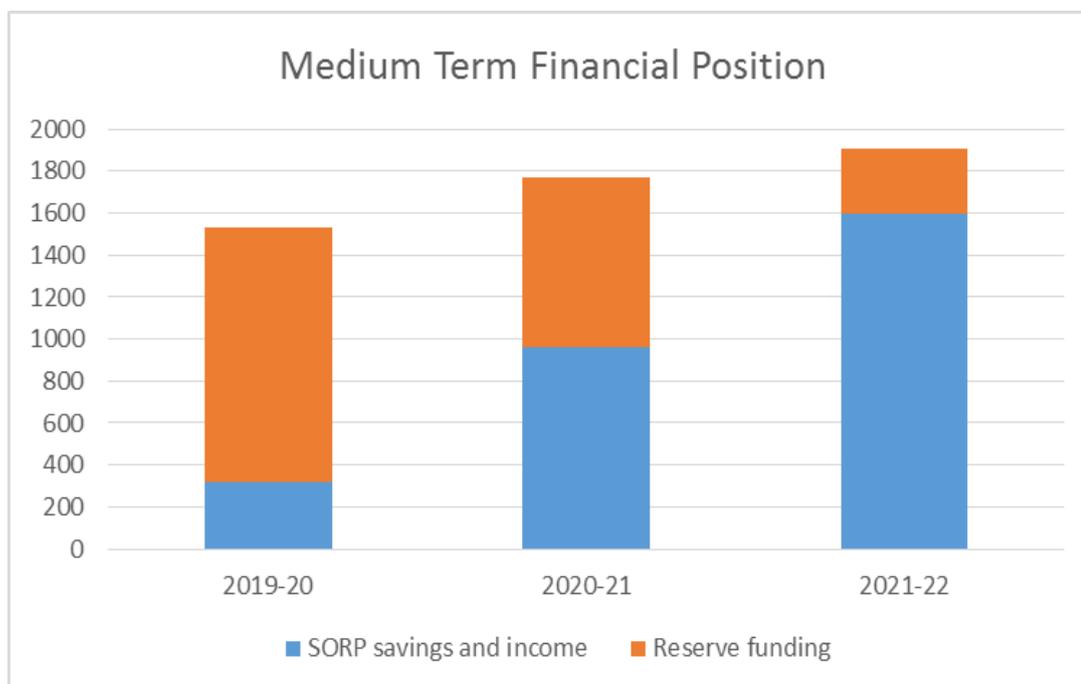
scale of budget reductions that will need to be found over the next 3 years, which would be around 10% of GRA turnover.

6.0 FINANCE AND RESOURCE IMPLICATIONS

6.1 The main mechanism for addressing the budget gap facing the Council will be the Sustainable Organisation Review process (SORP). It is intended that the SORP will start in November 2018 and that a report presenting the results of the SORP will be presented to Council in July 2019. Consequently SORP measures will only start to be implemented part way through 2019-20 and are expected to take a considerable period of time to be fully completed, based on the experience of other authorities that have been through a similar process.

6.2 The table and chart below show the projected budget gap in each year. It also shows an estimated level of SORP savings and income based on the full budget gap being closed on a prudent basis over a 3 year period at an even pace starting half way through 2019-20. On this basis funding from reserves of £2.33m would be required to provide sufficient time for the SORP process to bridge the budget gap.

| | 2019-20 £000 | 2020-21 £000 | 2021-22 £000 | |
|-----------------------------------|-----------------|-----------------|-----------------|-------|
| Projected budget gap | 1,530 | 1,770 | 1,910 | |
| Estimated SORP savings and income | 320 | 960 | 1,600 | |
| Use of reserves | 1,210 | 810 | 310 | |
| Total use of reserves | | | | 2,330 |



- 6.3 To ensure there is sufficient reserve funding available to finance this position a number of transfers to the Budget and Efficiency Savings Reserve are proposed as follows:
- That £0.22m of funding for the capital programme from the capital reserve is replaced with funding from capital receipts (this will not change the schemes to be delivered in the agreed capital programme but how they are financed)
 - That funding of £0.10m is transferred from the Benefits Initiatives Reserve which is no longer required
 - That funding of £0.36m is transferred from the Business Rates Equalisation Reserve to leave a balance on this reserve of £0.32m, which is equivalent to 1% of the net business rates payable in the current year, which based on experience in recent years should be adequate
 - That funding of £0.54m is transferred from the Restructuring Fund and that in future any staff restructuring costs are funded through available capital receipts. This approach is a change to our previous practice but is permissible under capital finance regulations and is used by many other authorities
 - That unallocated funding of £0.63m is transferred from the Strategic Investment Reserve
- 6.4 These measures together with the £0.48m of unallocated funding already in the Budget and Efficiency Savings Reserve will provide the £2.33m required for the medium term financial position set out above. An updated list of reserves reflecting this position is shown in Appendix 3.
- 6.5 The approach set out above is based on the Council agreeing a programme of savings and income at its July 2019 meeting that is sufficient to bridge the projected budget gap. This is vital to ensure the Council's ongoing financial health.

7.0 SUSTAINABILITY IMPLICATIONS

- 7.1 Every effort will be made through the SORP to minimise the impact of budget savings on priority areas. Creating a sustainable budget is a priority for all organisations and the SORP will seek to achieve this.

8.0 RISK ASSESSMENT

- 8.1 The difficult financial position facing the Council and the SORP are both included on the Council's Key Risk Register. The financial scenario facing all local authorities means that "doing nothing" is not an option, and that a large scale package of savings and income needs to be agreed over a medium term period.
- 8.2 In considering the medium term financial forecast, it is important to recognise that these are projections based on the best available information at the current time using prudent assumptions. However there is scope for considerable variation, and the value and scale of issues identified in the forecast may change and new issues may emerge. In particular it is difficult to predict future government funding

changes. Similarly the scale and timing of the savings and income that the SORP will deliver are difficult to forecast at this time.

- 8.3 The risk that the final budget gap may be worse than the forecast, or the pace of SORP savings may be slower than expected, can be managed by taking unallocated funding out of the Strategic Investment Reserve. Conversely if the budget gap is less than the forecast or SORP savings are delivered more quickly, it would enable reserve funding to be transferred back to the Strategic Investment Reserve to support future schemes and projects.

Background Documents

There are no background documents (as defined in Section 100D(5) of the Local Government Act 1972) to this Report.

Equality Impact Assessment

The decision does not have any direct impact on members of the public, employees, elected members and / or stakeholders. Therefore no Equality Impact Assessment is required.

Appendix

Appendix 1 – Efficiencies, Savings and Additional Income for 2018-19

Appendix 2 – Medium Term Financial Forecast 2019-22

Appendix 3 – GRA Reserves