



COUNCIL: 21 July 2021

Report of: Head of Finance, Procurement and Commercial Services

Relevant Portfolio Holder: Councillor Adam Yates

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SUBJECT: Medium Term Financial Forecast 22/23 to 24/25

Wards affected: Borough Wide

1.0 PURPOSE OF THE REPORT

- 1.1 To present to members the updated Medium-Term Financial Forecast and savings proposals for consideration.
- 1.2 To present to members the savings proposals, to close the budget gap for 21/22 and 22/23 for consideration.
- 1.3 To inform members of the latest Council reserves position.

2.0 RECOMMENDATIONS

- 2.1 That the revised Medium-Term Financial Forecast (GRA) shown in **Appendix A** be approved.
 - 2.2 That the savings proposals in **Appendix B** are approved.
 - 2.3 That the reserves position be noted.
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3.0 BACKGROUND

3.1 The budget report presented to Council on 24th February 2021 set out the Council's budget requirement for the 21/22 financial year and provided details on the Council's reserves position. This process is in accordance with statutory requirements and proper accounting practices.

3.2 The GRA Budget Update report to December 2020 Council included a projected outturn position of a £0.563m overspend. An update on this position is included as a separate report, with further explanation on key areas on the positive movement of the position, however, the final out-turn position has now been confirmed to be an underspend of £270k on the General Fund representing 2% of the net budget of £13,430,140. The key reasons for this positive £833k movement on the revenue position are:

- The retrospective application of, and maximisation of the use of available COMF Funding to eligible areas of spend, approximately £0.7m of £1.4m received was applied in 20/21, with the remaining £0.7m available in 21/22 to address Covid related pressures. This very positive outcome is a direct consequence of the work undertaken by officers to ensure that the grant has been fully deployed in key priority areas.
- The successful application and receipt of funding for loss of Sales, Fees and Charges income of £900k and the timing of this.
- In the Autumn of 2020, and as a measure towards closing the budget gap, the corporate management team agreed to implement additional budgetary control measures across non-essential areas of spending in all service areas.

3.3 The report to Council in February 2021 identified a budget gap to £1.2m. A key element of this pressure was the projected £586k overspend in relation to Leisure Services largely as a direct consequence of the pandemic. The Leisure position is under on-going review by officers, however, the receipt of funding from the LRF (Leisure Recovery Fund) in the current financial year will impact positively on this position in the region of £250k.

4.0 MEDIUM TERM FINANCIAL FORECAST (MTFF)

4.1 The purpose of the Medium-Term Financial Forecast is to provide the strategic framework and a forward-looking approach to achieving long term financial sustainability. It is central to the delivery of priority outcomes in the Council's strategy and plans in an affordable way over the next three years to 2024/25. It aids robust and methodical planning as it forecasts the Council's financial position, considering known pressures, major issues affecting the Council's finances, including national and regional influences as well as local priorities and factors.

4.2 Planning over the medium term helps the Council to respond in a considered manner, to pressures and changes because of many internal and external influences. This is particularly important during a period where the Council is facing unprecedented changes and challenges. The impact of the pandemic and the changes in National funding are examples of this. The MTFF recognises the

key role that financial resources play in the future delivery of outcomes and in enabling the effective planning, management and delivery of services that contribute towards the delivery of the Council's Strategic Plan.

- 4.3 The MTFF model provides the framework within which decisions relating to future service provision can be made. The detailed budget, taking account of constantly changing circumstances is regularly reviewed and the Council will be provided with updated budget monitoring reports as things progress.
- 4.4 The Council's Sustainable Organisational Review Process (SORP), agreed in February 2018 set the objective of the Council becoming financially sustainable by 2023. Since this, the pandemic has had a significant impact on the Council's financial position and consequently further efficiency savings and income generation measures are required to balance the budget and to enable reserve balances to be increased.
- 4.5 The SORP review identified a savings requirement of £1.9m, approximately £1m of which related to staff reductions and the recognition of the need to re-structure the Council to meet its future priorities and ambitions. This target has been fully achieved and a new organisational structure implemented during 2019 and 2020. SORP savings identified in relation to increased income generation have, however, been adversely impacted upon by the pandemic and the prevailing economic climate. Despite this, good progress has been made against Treasury Management targets and work is underway to look at alternative investments to further improve this performance going forward.
- 4.6 The Government has introduced a one-year funding settlement for 2021/22. This settlement did not provide any significant changes in funding to that predicted. There is however significant uncertainty from 2022/23 onward, where it is expected that a new funding formula will be introduced together with a new business rates retention system. Consequently, the medium-term financial forecast will be reviewed in the light of this information as soon as it has become available.
- 4.7 Included within the forecast are two new revenue streams anticipated from the new town centre development at Skelmersdale and from the Councils development company; Tawd Valley Developments. In relation to the former, amounts of £150k in 23/24 and 24/25 have been included in the forecast reflecting the net impact of rental income received and associated costs. There is a net cost, however, in 22/23 of £150k during the contractually agreed rent free periods. Similarly, the return of profits from the development company (TVD) have been included at £250k a year over the three-year MTFF period. These assumptions are believed by officers to be prudent based upon the consideration of the following:
 - Strong performance in Phase 1 for the delivery of 81 new Council houses, funded by the HRA set out in the Company's Business Plan; all scheme's on target to be completed within the agreed timescales and budget. In addition to this, clear milestones have been achieved with regard to Phase 2 schemes and a developed pipeline to achieve Phase 3, which will be a mixture of new Council homes and homes for market sale;

- Phase 1 will generate a net profit of £1.1m. After taxation, a sum of £250k per year from 22/23 is therefore a prudent sum to include in the forecast; and
- Where profits exceed that set out in the forecast, the Council would have the flexibility to take an increased level of dividend beyond the £250k.

These income streams are therefore critical factors in the Council's strategy to reduce the budget gap moving forward and to generate returns that will enable reserve balances to be bolstered. The revised MTFF is attached as **Appendix A**.

- 4.8 Despite the national picture of a significant reduction in funding in real terms to Local Government over the past decade, the Council has continued to make significant progress in the achievement of its ambitious plans and priorities and has continued to invest in key projects through its capital programme and to support its communities and local business. The successful development of the Skelmersdale town centre is a prime example of this investment in infrastructure.
- 4.9 In addition to this, since April 2020 the Council has been successful in the delivery of 15 separate grant schemes with total spend in business grants to date being a substantial £39.7 million. The Council has supported over 2000 individual businesses across a wide range of sectors.
- 4.10 During 2020, the commercial property portfolio has continued to perform well and is indicative of our investment in the estate. Occupancy rates have remained high despite the pandemic and rental income has performed well and has enabled us to invest in our other priorities. Demand for rental of small and medium sized commercial units remains strong and is under consideration in future investments decisions to achieve new sustainable income streams.

5.0 RESERVES AND BALANCES

- 5.1 In accordance with statutory regulations and CIPFA guidance, the levels of balances and reserves have been reviewed during the budget process to ensure that they are currently sufficient, and that they will remain adequate over the medium term.
- 5.2 The Council's medium-term financial approach involves using reserves to support the budget position while savings are being realised. The assumption made at budget setting was that £1.2m of reserves would be required in 21/22 to support this approach and consequently, to enable the Council to achieve a balanced budget. In addition to the savings already achieved through SORP, officers identified the need for further savings and income generation measures to bring stability over the medium term and to enable reserve balances to be increased.
- 5.3 It should be noted that in line with the agreed MTFF in 20/21, £780k of reserves were anticipated to be utilised to balance the budget. The improved revenue out-turn position for 20/21 of a £270k underspend allows for a reduction in the reserves required to £510k.
- 5.4 **Appendix C** shows that the un-ringfenced reserve balances now sit at £2.7m. The reserves would be increased by £270k to approx. £3m following the 2021 favourable out-turn position. The clear expectation is that this position will be further improved through the continuing work to implement the Council's

Commercial Investment Strategy to generate sustainable revenue streams for the Council into the future.

5.5 It is clear, that further savings and efficiencies will therefore be required in 21/22 and 22/23 to reduce the draw on reserves and stabilise the Council's finances over the medium term. Budget scrutiny sessions have been held with all key budget holders throughout April and May to identify opportunities for both efficiencies and potential additional income generation. Significant progress has been made against the quarterly savings target set by the corporate management team of £250k. this target has been achieved for quarter 1 and is substantially on track to meet the Q2 target. The savings identified in **Appendix B** are those that officers believe can be made without having a negative or direct impact on front line service delivery. These amount to £428k in total and would reduce the use of reserves to approx. £780k if fully implemented and assist in the reduction of the budget gap.

5.6 Additional proposals for savings and income generation have been identified, however these will require further work by officers and discussion prior to them being considered fully by members. A further report will be brought back to members to the 13th October Council Meeting setting out these proposals to fully bridge the budget gap. Further discussions will be held with members from July to set out these proposals.

6.0 MEDIUM TERM BUDGET PROSPECTS

6.1 The Government has introduced a one-year funding settlement for 2021/22. This settlement did not involve any significant changes in funding. There is however uncertainty from 2022/23 onward, where it is expected that a new funding formula will be introduced together with a new business rates retention system. Consequently, the medium-term financial forecast will be revised in the once this information has become available to establish the Council's financial position going forward.

7.0 SUSTAINABILITY IMPLICATIONS

7.1 There are no significant sustainability impacts associated with this report and no significant impact on crime and disorder.

8.0 RISK ASSESSMENT

8.1 The update of the Medium-Term Financial Forecast forms an important part of the overall budgetary management and control framework that is designed to minimise the financial risks facing the Council.

8.2 The challenging financial position facing local authorities has been evaluated and assessed as being a key risk, and consequently is included on the Council's key risk register. Robust plans and targets are in place to address the budget issue and to manage performance and efficiency.

9.0 HEALTH AND WELLBEING IMPLICATIONS

9.1 The health and wellbeing implications arising from this report will be dependent on the budget proposals put forward at the Council meeting. Details of any significant implications will be provided at the Council meeting if required.

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 direct impact on members of the public, employees, elected members and / or stakeholders is dependent on the proposals to be put forward at the Council meeting. Therefore, no Equality Impact Assessment has been produced at this time.

Appendices

Appendix A – Update to the Medium-Term Financial Forecast (MTFF)

Appendix B – Savings Proposals 2021/2022 to 2023/2024

Appendix C – Reserve Position