

**PART A – MEDIUM TERM FINANCIAL PLAN - FINANCIAL LANDSCAPES AND
FORECASTS 2018/19 TO 2022/23 (UPDATE FOLLOWING 2017 AUTUMN
BUDGET)**

Report of the Deputy Chief Executive and Borough Treasurer

1. INTRODUCTION AND PURPOSE OF REPORT

- 1.1 The purpose of the report is to update the Council's 2018/19 to 2022/23 Medium Term Financial Plan (MTFP) forecasts and assumptions taking account of local and national changes including the Government's 2017 Autumn Budget announcements since the completion of the Summer Review.
- 1.2 Whilst the Summer Review identified available resources to support the MTFP, the significant risks and volatility within the assumptions and forecasts meant it wasn't considered prudent to adjust the Council's savings requirement. This is particularly evident given the uncertainty around the reform of the Local Government Financing Regime, ongoing pay inflation negotiations and the complexity of the transformational change needed to move the Council to a self-sufficient funding model by 2019/20.
- 1.3 As a result the Council's forecast savings requirement remains unchanged from the position approved by the Council meeting on 23 February 2017.

Table 1 – 2018/19 to 2022/23 Savings Requirement

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Annual Saving Requirement	18,770	11,531	11,393	9,704	9,529
Cumulative Saving Requirement	18,770	30,301	41,694	51,398	60,927

2 DEVELOPMENTS SINCE THE SUMMER REVIEW

2017 Autumn Budget

- 2.1 The 2017 Autumn Budget was announced to Parliament by the Chancellor of the Exchequer, Phillip Hammond on 22 November 2017. This was the first of the Government Budget announcements to be made in Autumn replacing the usual Spring Budgets. Going forward, the Government's spring statement will now deal with Office for Budget Responsibility economic forecasts.
- 2.2 The following key announcements were made which need to be considered as part of the Council's MTFP update:
 - A number of announcements were made in relation to Business Rates which will see £2.3bn of support being made available over the next 5 years. The Council will be fully compensated through Section 31 Grants for the loss of Business Rates income as a result of these measures.

- Confirmation that 100% Business Rate Retention Pilots will continue (including the Greater Manchester Pilot);
 - The planned switch from RPI to CPI for the calculation of the Business Rates multiplier will be brought forward to 1 April 2018;
 - Continuing for one year (from 1 April 2018) the current relief scheme of up to £1,000 for Pubs with a rateable value up to £100,000 subject to state aid limits; and
 - Increasing the frequency of property revaluations from 5 years to 3 years. Government will consult on the implementation of this change in Spring 2018.
- The National Living Wage will increase from £7.50 to £7.83 with effect from 1 April 2018. There will also be increases in the National Minimum Wage affecting younger people (16 to 24 year olds and apprentices). The MTFP has provided for likely pressures as a result of this, particularly in relation to increased costs of contracts for Adult and Children Social Care Services.
- A number of announcements were made relating to future NHS funding:
 - £2.8bn of additional resource will be made available to NHS England to create an 'NHS Fit for the Future'. The funding is aimed at improving NHS performance on waiting times both in A&E and patient referrals. Detail on the allocation of this money (and to who) hasn't been confirmed but it is assumed Stockport will receive a 0.5% allocation in line with previous allocations;
 - £3.5bn NHS capital investment fund will be made available to fund new capital funding across NHS England; and
 - The Government has given a commitment to fund pay awards as part of any pay deal for NHS staff in order to protect frontline services.
- £42m of additional one-off funding for the Disabled Facilities Grant in 2017/18 increasing the total budget for the year to £473m. Stockport will receive an allocation of £0.213m subject to the completion of a statement to Government confirming the Council's wish to receive the allocation and its commitment to spend the additional funding in 2017/18.
- Government remains committed to ensuring that Public Sector pay award is fair. This is reflected by the Government's intention to move away from the 1% pay increase cap across the Public Sector. However there was no mention in the budget of Local Government pay awards and the funding of these. The Council has forecast for an annual 1% pay award in 2018/19 (in line with the Government pay cap) rising to 2% in 2020/21 within its MTFP. The removal of the Government pay cap is a risk to the Council. At the time of writing National Joint Council (NJC) have made an offer to Trade Unions on behalf of employers of 2% increase from 1 April 2018 and a further 2% increase from 1 April 2019. Although colleagues across Local Government are lobbying Government for the cost of this increase to be funded centrally, the increase cost of this offer has been reflected within the Council's MTFP. It should be noted that the Trade Unions are currently considering this offer which may result in a further increase above 2% subject to further negotiations.

- A number of announcements were made relating to Housing and the 'Housing Challenge':
 - £15.3bn of funding will be made available in the form of capital funding, loans and guarantees over the next 5 years. This brings the total support for Housing to £44bn over this period;
 - There will on average be an additional 300,000 new homes a year by mid 2020's;
 - DCLG will launch a consultation on the Community Infrastructure Levy review proposals regarding housing Developer contributions;
 - The Government will make £1.1bn available for a new Land Assembly Fund to enable Homes England (formerly Housing and Communities Agency) to work alongside Developers to develop strategic sites;
 - The Government will make £630m available to accelerate building development on small sites and support the funding of onsite infrastructure;
 - HRA borrowing caps will be lifted for local authorities in high affordability pressure areas, to enable more council homes to be built. Authorities will be invited to bid for increases in their caps from 2019/20 up to a total of £1bn by 2021/22;
 - Legislation is to be passed to give local authorities the power to charge a 100% Council Tax premium (previously 50%) on empty properties. However there is no detail on when this legislation will be in place and the premium can only be charged against those properties which have been empty for two or more years; and
 - Government is committed to reducing rough sleeping by 50% by 2022, and eliminate it by 2027. As part of this Government will make a £28m investment in three Housing First Pilots in Manchester, Liverpool and the West Midlands. The Pilots will aim to tackle homelessness.

2.3 Within the supporting documents to the Autumn Budget, high level detail was given for the level of Government Departmental Expenditure Limits (DEL) for 2018/19 and 2019/20. Whilst the total DEL (all Government Departments) has increased in 2018/19 (£309.6bn) compared to the figures announced in the Spring 2017 budget (£307.4bn), the DCLG Local Government DEL has decreased by £0.700bn compared to the figures announced in the Spring 2017 budget.

2.4 No further details have been presented within the supporting documents to determine how this might impact on the Council. It is assumed that the decrease is due to funding changes as a result of 100% Business Rates Retention and the set-up of further 100% Retention Pilots in 2018/19. It is expected that further detail will be included in the 2017 Provisional Local Government Finance Settlement (PLGFS) expected to be announced in mid-December 2017.

2.5 It should also be noted that there was no mention of additional funding of significant budget pressures being experienced across Local Government within Children's and Adult Social Care Services. The Council continues to face increasing costs in these areas due to increasing demand and demographics. The Council will need to consider how it will mitigate these pressures over the medium term period.

Provisional Local Government Finance Settlement

- 2.6 The Provisional Local Government Finance Settlement (PLGFS) is expected to be announced by Government in mid-December 2017. Considering the Autumn Budget announcements detailed above and that the Council is entering the third year of the four year settlement agreement, minimal change is expected. The impact of any changes announced within the PLGFS will be considered as part of the 2018/19 budget setting process and further updates of the Council's MTFP.

2017/18 Revenue Outturn Position

- 2.7 As reported in the Quarter 2 Corporate Performance and Resources Report, the Council's 2017/18 forecast outturn position is a surplus of £2.686m. This comprises of a £4.146m deficit on Cash Limit budgets offset by a £6.832m surplus on Non Cash Limit budgets.
- 2.8 It should be noted that the Children and Family Services and Adult Social Care Portfolio budgets continue to face significant pressures as a result of costs linked to increasing demand and demographics. Finance Officers are working with the Service Areas affected to implement financial recovery plans to bring costs back in line with agreed Cash Limit budgets.
- 2.9 However it should be noted that significant risks remain in achieving these plans. Whilst significant work continues to address the budget pressures, it is clear that these Service Areas are likely to require support from contingencies held within Non-Cash Limit budgets on a permanent basis and where appropriate the use of one-off reserves held (where these budget pressures are considered to be non-recurrent). The Quarter 3 Corporate Performance and Resources Report will consider further allocation of contingency budgets on a permanent basis particularly in relation to the Children and Family Service Portfolio.
- 2.10 In line with the Council's Reserves Policy (see paragraph 5.6 to 5.9) it is recommended that the forecast surplus in 2017/18 (subject to any further allocation of contingency budgets in Quarter 3) is viewed in the context of the Policy, the financial volatility and risks inherent in all organisations providing public services, acutely in social care, and the need to continue to support the Council's corporate and strategic priorities over the medium term period. As part of the 2018/19 budget setting process the Borough Treasurer will review the robustness of the Council's reserves to mitigate these risks. This will provide further assurance that if it needed to, the Council could fund these pressures in the short term whilst permanent solutions to bring costs in line with agreed Cash Limit budgets are identified and implemented.

Cash Limit Budget Review

- 2.11 As part of the 2018/19 budget setting process and Portfolio Growth and Reform Plans, Cash Limit budgets have been reviewed for underlying budget surpluses, budget pressures, and approaches to increased income generation. As part of these reviews and linked to the in-year monitoring positions and continuing budget pressures a series of Star Chamber meetings have taken place within

the Children and Family Services and Adult Social Care Portfolios to scrutinise Service Area budgets. The outcome of these reviews have been used to inform the Growth and Reform Plans being developed (see paragraph 3.9 to 3.11).

Stockport Together Pooled Budget

- 2.12 The Stockport Together economic business case was considered by Members in July 2017 and work is underway to implement the new models of care identified. The business case set out that risk and gain share in the pooled budget based on an equal third split across the three main partner organisations (Stockport Council, Stockport Clinical Commissioning Group (CCG), and Stockport Foundation Trust).
- 2.13 Following the finalisation of the business cases the projected best case scenario from the new models of care proposals provided a benefit to the Council of £8.9m. This equates to approximately 53% of the forecast savings requirement for Adult Social Care and Public Health by 2020/21. The modelling was based on a series of assumptions including: increasing demand for health and care; population change; changes to funding for Adult Social Care in the coming years; and, the anticipated impact of the new models of care. This modelling will need ongoing review both to understand any changes in demographic trends but also to reflect the implementation of the new models of care.
- 2.14 A key system design principle within Stockport Together is that it needs to be adaptive, both to the changing needs in each neighbourhood, and in response to all other wider pressures on the local care and health economy. However, given the current demands on services and the scale of transformation it is likely that the benefits expected for 2018/19 will be absorbed by reinvestment requirements supporting the transformation needed and as a result it is expected that the benefits of Stockport Together will be realised in 2019/20. Thus to ensure the Council's budget is robust over the medium term period it will need to act independently of Stockport Together to respond to the significant financial and demand and demographic pressures within Adult Social Care.
- 2.15 The pressures facing the Health and Social Care economy remains one of the greatest risks the Council faces. The benefits from the Stockport Together programme remain modelled benefits and are subject to pressures from both internal and external factors. There is significant risk that the benefits expected in 2018/19 will be less than forecast and will actually be less than the reinvestment requirements thereby resulting in the Partners being required to invest additional resources to support the new models of care as the transformation funding ends. The mobilisation and deployment of the new models of care and benefit realisation plans are being reviewed to assess whether any additional partner investment is required for 2018/19. This would be in line with the outline risk / benefit share model documented in the Stockport Together economic business case i.e. a one third share of risk / benefits to the Council.
- 2.16 Nevertheless the Council continues to align its Adult Social Care and Public Health Portfolio budgets to Stockport Together and to the pooled budget with Stockport CCG. The current pooled budget including the contribution from Stockport CCG is approximately £200m. The Council remains committed to its

ambitious integration plans and the delivery of the transformational change needed to address the demand and demographic pressures. However there are significant risks inherent to the achievement of these plans. These risks are considered as part of the Council's medium term financial planning to ensure the Council MTFP is robust to mitigate the impact of these risks.

Greater Manchester Waste Disposal Authority

- 2.17 During the year there have been ongoing discussions between the Greater Manchester Treasures regarding the future apportionment of the Greater Manchester Waste Authority (GMWDA) Levy. This was previously determined by the Inter Authority Agreement (IAA) which incentivised four bin collection and increased recycling.
- 2.18 The IAA was designed to last for the duration of the Waste Management PFI contract. As the Greater Manchester Authorities have decided to terminate this contract to reduce costs and achieve operational improvements, a new locally agreed levy apportionment method was needed. Following extensive consultation a new Levy Apportionment Methodology Agreement (LAMA) was unanimously agreed and subject to individual Authority approval will be applied from 2018/19.
- 2.19 The Cabinet approved the agreed LAMA basis for the levy apportionment at its meeting on 14 November 2017. As a result the Council's 2018/19 Waste Levy (alongside the other Greater Manchester Authorities) will be set and confirmed by GMWDA using the new apportionment basis in February 2018. Any changes to the Waste Levy forecasts within the MTFP as a result of the new apportionment basis are expected to be contained within the existing levy budgets (including the Transport Levy) and thus have no impact on the Council's forecast savings requirement.
- 2.20 The Council (alongside the other Greater Manchester Authorities) will benefit from the termination of the Waste Management PFI contract as a result of the savings achieved and expected. However it is noted that these savings are against what the Waste Levy would have been if the Waste Management PFI contract had remained in place. These savings were already contained within the Council's MTFP as illustrated by the reduction in the 2021/22 forecast savings requirement by £1.2m for the Waste Levy in the February 2017 budget report.
- 2.21 The forecast 2018/19 Waste Levy is £20.253m and is included with the Council's MTFP.

Greater Manchester and Cheshire Business Rates Pooling and Greater Manchester 100% Business Rates Retention Pilot

- 2.22 The continuation of the Greater Manchester and Cheshire Business Rates Pooling and Greater Manchester 100% Business Rates Retention Pilot is considered in the 2018/19 Council Tax Taxbase and NDR Forecast report elsewhere on the agenda.

3 MEDIUM TERM FINANCIAL PLAN

Updated MTFP Financial Forecasts and Assumptions

- 3.1 Following the Summer Review, the Council's 2018/19 to 2022/23 MTFP forecast savings requirement remains unchanged from the position approved at the Council meeting on 23 February 2017.
- 3.2 The table below shows the Council's savings requirements over the MTFP period as reported to the Cabinet meeting on 3 October 2017.

Table 2 – Council's Savings Requirement 2018/19 to 2022/23

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Annual Saving Requirement	18,770	11,531	11,393	9,704	9,529
Cumulative Saving Requirement	18,770	30,301	41,694	51,398	60,927

- 3.3 The calculation of the future year's savings requirement is based upon a number of assumptions relating to identified expenditure pressures. These pressures relate to expected changes in legislation, Government Policy, economic outlook and local priorities. The potential financial implications of these on the Council are assessed based on knowledge and assumptions made at the time of reporting the MTFP as part of the Summer Review process.
- 3.4 As detailed above, the MTFP forecasts and assumptions have been impacted by local and national changes and announcements since the Summer Review. In addition adjustments have been made to the MTFP forecasts and assumptions based on new information becoming available. The table below shows the changes to the 2018/19 savings requirement since 23 February 2017 and the Summer Review. Appendix 2 details the changes made to the MTFP forecasts and assumptions to arrive at the Council's updated savings requirements across the MTFP period.

Table 3 – Changes to the Council's 2018/19 Savings Requirement

	2018/19 £000
Savings Requirement Approved on 23 February 2017	18,770
<u>MTFP Assumption Changes</u>	
Increase in Pay Inflation – Adverse Adjustment	817
Increase in Council Tax Taxbase – Favourable Adjustment	(556)
<u>Cabinet Proposals – Savings Proposals</u>	
Children and Families Proposals	(1,626)
Adult Social Care Proposals	(2,695)
Place Proposals	(1,500)
Corporate and Support Services Proposals	(1,900)
<u>Cabinet Proposals - Council Tax Proposals</u>	
Council Tax Increase - General 1.99%	(2,826)
Council Tax Increase - Adult Social Care 3%	(4,263)
<u>Cabinet Proposals – Use of One Off Resources</u>	
Use of Improved Better Care Fund	(3,000)
Revised Savings Requirement as at 19 December 2017	1,221

Pay Inflation – Adverse Adjustment

- 3.5 The Council has already forecast for an annual 1% pay award in 2018/19 (in line with the Government pay cap) rising to 2% in 2020/21 within its MTFP. At the time of writing NJC have made an offer to Trade Unions on behalf of employers of 2% increase from 1 April 2018 and a further 2% increase from 1 April 2019.
- 3.6 Although colleagues across Local Government are lobbying Government for the cost of this increase to be funded centrally, the £0.817m 2018/19 (£1.661m 2019/20) increase cost of this offer has been reflected within the Council's MTFP. It should be noted that the Trade Unions are currently considering this offer which may result in a further increase above the 2% offer subject to further negotiations with Trade Unions.

Council Tax Base – Favourable Adjustment

- 3.7 The Cabinet has been asked to approve the setting of the Council's 2018/19 Council Tax Taxbase elsewhere on the agenda. If approved the Council Tax Taxbase will be set at 93,361.2 for budget setting purposes. This is 773.8 Band D equivalent dwellings higher than the 2017/18 Council Tax Base.
- 3.8 As the MTFP already assumed an increase of 408.7 Band D equivalent properties dwellings in 2018/19 this is an increase of 365.1. This results in

additional resources being available to the Council of £0.556m (£0.530m general and £0.026m Adult Social Care Precept).

Cabinet Proposals – 2018/19 Savings Proposals

- 3.9 The Council's Growth and Reform Programme continues to focus on ensuring Stockport is best placed to not simply manage the challenges it is faced with but to enable the Borough and its people to capitalise on the opportunities presented. The Programme will guide the Council to address increasing demand pressures whilst becoming locally self-financing by 2019/20. This will involve working with Partner and local communities to embed the transformational change needed to deliver the development plans and provide sustainable and inclusive growth across the Borough.
- 3.10 Alongside the Council's Growth and Reform Programme, the Council constantly reviews the use of its resources to ensure they are being used as efficiently and effectively as possible. Following these reviews a number of proposals have been presented to Cabinet. As well as delivering savings in 2018/19 these proposals will also provide a foundation for the growth and reform work over the medium term period.
- 3.11 Following consultation and scrutiny £7.721m of savings have been proposed by Cabinet to meet the Council's 2018/19 forecast savings requirement and balance the Council's 2018/19 budget. A number of update reports on the Council's Growth and Reform Programme have been presented to Cabinet meetings during the year which provide further detail on the proposals.

Cabinet Proposals – Council Tax Income

- 3.12 The updated MTFP forecasts assume an increase in Council Tax of 4.99% in 2018/19 (1.99% general and 3% Adult Social Care Precept). No future Council Tax increases post 2018/19 are assumed within the current MTFP. The current maximum increase to the Council Tax level before triggering the referendum limit is 4.99% (1.99% general increase plus 3% Adult Social Care Precept).
- 3.13 Increasing Council Tax income by 4.99% in 2018/19 generates £7.089m of additional income to support the funding of essential Council Services.

Table 4 – Income Generated Through Proposed Council Tax Increase

	2018/19
Assumed Council Tax Base (see paragraph 3.7 to 3.8)	93,361.2
Increase to Band D Equivalent with 1.99% Annual Increase (£)	30.27
Increase to Band D Equivalent with 3.00% Adult Social Care Precept (£)	45.66
Additional Funding - 1.99% Annual Increase (£000s)	2,826
Additional Funding - 3.00% Adult Social Care Precept (£000s)	4,263
Total Additional Council Tax Income Generated (£000s)	7,089

Cabinet Proposals – Use of Improved Better Care Fund

- 3.14 Whilst the benefits of the Council's ambitious plans to integrate and transform Health and Social Care services across the Borough, the Cabinet have proposed the use of the Improved Better Care Fund. This will provide one-off support to the Adult Social Care Portfolio budgets and support the Council to balance its budget in 2018/19.

Greater Manchester 100% Business Rates Pilot

- 3.15 The result of the 2017 General Election and Queens Speech to Parliament has increased the uncertainty around the reform of the Local Government Financing Regime and the Fair Funding Review linked to the 100% of retention of Business Rates by local authorities. Prior to the General Election, the Finance Bill enabling the roll out of the 100% retention of Business Rates income by all local authorities from 2020 (a major element of the reform), was part of Government's agenda. However following the General Election the Government's sole focus is on the negotiations for leaving the European Union (EU) following the EU referendum in June 2016. As a result a number of expected consultations on the reform proposals have been postponed.
- 3.16 It is unlikely that the Finance Bill will now be considered by Government in the foreseeable future. This was confirmed by the absence of the Finance Bill in the Queens Speech which set out the Government's priorities over the next two years. As a result the timeline for the roll out of the 100% retention of Business Rates income by all local authorities by 2020 looks unlikely to be achieved. However the Government has confirmed that it remains committed to the reform of the Local Government Financing Regime over the medium term period including the further retention of Business Rates.
- 3.17 As reported elsewhere on the agenda, the Greater Manchester 100% Business Rates Retention Pilot will continue in 2018/19. Furthermore the Council's MTFP assumes the Pilot will continue, at least until 2020 (as originally agreed with Central Government). It is still considered by the Council and the other Greater Manchester Authorities that being part of this Pilot enables the Authorities and the Greater Manchester region to be influential in the policy decisions being made to support the full roll out of 100% Business Rates Retention. The Council's Medium Term Financial Plan (MTFP) forecasts reflect this assumption.
- 3.18 As a result of the 2018/19 Pilot (as in 2017/18) the Council will not receive Revenue Support Grant or Public Health Grant from Government. Instead the Council will retain 100% of its Business Rates income - 99% Council, 1% Greater Manchester Fire Authority (rather than pay 50% of the income to Government). This will be used to support the funding of Council Services including Public Health. The 'No Detriment' agreement guarantees that the resources that would have been available to the Council under the existing 50% Scheme will be the same under the 100% Pilot.
- 3.19 Business Rates income is a complex and volatile tax, particularly since the 2015 revaluation results were applied from 1 April 2017 and new system of 'check-challenge and appeal' was introduced. As a result it is difficult to give an accurate assessment of likely benefit from the 100% Retention Pilot in the current and

future years. Given the complexity and volatility of Business Rates the Council has prudently only budgeted for the level of resources it would have received under the 50% Scheme within the MTFP. The difference between the expected 50% Scheme resources and the expected 100% Scheme resources (shown in Table 5) can be considered as the expected 100% Retention Pilot benefit.

- 3.20 It is difficult for Finance Officers to accurately budget for the expected benefit at the beginning of the financial year. The above is based on in-year Business Rates monitoring and known/expected changes to the Business Rates Taxbase in 2018/19. However a small change in the gross Business Rates payable in-year as a result of changes in rateable value or increase in appeals by businesses is difficult to predict and could have a significant impact on the actual benefit realised at the end of the financial year. As a result the Council considers it prudent not to budget for 100% Retention Pilot expected benefit within its MTFP. Table 5 shows the calculation of the expected 100% Retention Pilot benefit in 2018/19 (the figure shown is the total expected benefit before any Pilot benefit sharing with GMCA).
- 3.21 The Government has assessed the Council's ability to collect Business Rates income in 2018/19. This has been calculated using the Council's 2018/19 100% Retention Business Rates Baseline plus the Council's Revenue Support Grant and Public Health Grant allocations in line with the Council's agreed four year settlement. The Government compares this to their notional Business Rate Baseline (the amount the Government calculates the Council needs to fund the services it delivers). As a result the Government has assessed that the Council is able to collect more Business Rates income in 2018/19 than it needs to fund Council Services. As a result the Council will be required to make a tariff payment of £9.973m to Government in 2018/19 representing the difference.
- 3.22 It should be noted that the Government baselines used to calculate the 2018/19 tariff were set at the start of the 2017/18 Business Rates Retention Pilot. Thus the baselines and resulting tariff remain provisional and are expected to be confirmed in the PLGFS.
- 3.23 The table below shows the 2018/19 MTFP forecasts to reflect the 100% Business Rates Pilot, demonstrating that the Council will be no worse off as a result of the Pilot and the 'No Detriment' agreement. The MTFP forecasts for Business Rates income in future years have been updated to reflect the 100% Pilot.

Table 5 – MTFP Forecasts to Reflect 100% Business Rates Retention Pilot

	100% Scheme 2018/19 £000	50% Scheme 2018/19 £000	Variance 2018/19 £000
Business Rates - SMBC Share*	82,304	40,736	41,568
Business Rates - Top Up/Tariff	(9,996)	5,551	(15,547)
Grants in lieu of Business Rates	7,178	3,590	3,587
Revenue Support Grant	0	10,240	(10,240)
Public Health Grant	0	15,663	(15,663)
Total	79,485	75,780	3,705
Forecast Expected Pilot Benefit	(3,705)	0	(3,705)
Total Including Forecast Expected Pilot Benefit	75,780	75,780	0

**SMBC share under 100% Pilot adjusted to reflect the Business Rates income expected under the 50% scheme to budget in line with the 'No Detriment' agreement.*

Updated 2018/19 to 2022/23 MTFP Forecasts

3.24 Taking all of the above into account and assuming all proposals are approved, the forecast cumulative savings requirement is £1.221m in 2018/19 rising to £47.101m in 2022/23. This is a reduction in the previously reported 2018/19 forecast savings requirement of £17.549m.

3.25 The updated 2018/19 to 2022/23 MTFP is shown in Appendix 1.

Table 6 – 2018/19 MTFP (Assuming All Proposals Are Approved)

	2018/19 £000
<u>Resources</u>	
Stockport MBC Council Tax	138,234
Adult Social Care Precept	10,930
Business Rates - Stockport MBC Share	78,598
Business Rates - Tariff	(9,996)
Grants in lieu of Business Rates	7,178
Revenue Support Grant - Rolled in to 100% Business Rates Retention	0
Public Health Grant - Rolled in to 100% Business Rates Retention	0
New Homes Bonus Grant	1,475
Better Care Fund Allocation	3,111
	229,530
<u>Expenditure</u>	
Cash Limits	159,857
Pay	1,768
Pensions - Superannuation and Auto Enrolment	1,784
Inflation - Price and National Living Wage	8,615
Demand Pressures	750
Apprenticeship Levy	400
Non-Cash Limits	60,599
	233,773
Cumulative Savings Requirement	4,243
Use of One-Off Resources	(22)
Use of Improved Better Care Fund 2018/19	(3,000)
Revised Cumulative Savings Requirement	1,221

3.26 The MTFP forecasts presented in the table above are based on the best information available at the time of writing this report. The PLGFS is expected to be announced in mid-December 2017. Whilst no significant changes are expected to be announced in the PLGFS as the Council has already agreed a four year Settlement ending in 2019/20, Members need to be aware that any revisions to the Settlement figures will impact on the MTFP forecasts and assumptions presented in this report.

Risk Assessment 2018/19 Forecasts and Assumptions

3.27 The risks and uncertainties with the 2018/19 forecasts and assumptions are set out below:

- **Local Government Financing Regime** – Following the General Election and Queens Speech in June 2017 it is unclear when the Government's reform of the Local Government Financing Regime (including the 100% retention of Business Rates and Fair Funding Review) will be completed. Devising a Local Government funding model which ensures 'transparency, simplicity and fairness' is complex and discussions are ongoing across

Government and Local Government. The Finance Team will continue to monitor this and reflect any changes in the Council's MTFP when details become clearer;

- **End of the Four Year Settlement Agreement** – In October 2016 the Council accepted the Government's four year funding settlement through the submission of its Efficiency Plan. 2018/19 is the third year of the four year settlement, with no indication from Government as to whether a further multi-year settlement will be offered beyond 2019/20. There is a significant amount of uncertainty about how Government intends to fund Local Government (if at all) beyond 2019/20 which is linked to the ongoing discussion around the future of the Local Government Financing Regime (explained above). The Council is using its Growth and Reform Programme to enable the Council to become self-financing from 2019/20, which is reflected within the MTFP (i.e. forecast resources from 2020/21 are expected to be raised entirely from locally raised tax - Council Tax and Business Rates). However there are still many unknowns such as the extent of the Fair Funding Review and likely equalisation of Business Rates income nationally, future partial resets of baseline funding levels set by Government and the transfer of any new responsibilities from Government as a result of 100% Business Rates Retention which will impact on these forecasts. These forecasts are based on the best available information however as the Government's Local Government funding models develop the MTFP forecasts will need to be updated;
- **Capital Financing Costs** – A number of factors could adversely impact on the capital financing cost forecasts within the MTFP. These include future interest rate increases, availability of cash on a short term basis at low interest rates and/or a significant unplanned reduction in the level of the Council's internal balances. The UK saw a 0.25% increase in interest rates in November 2017, returning the bank interest rate to its 'pre Brexit' level of 0.50%. Whilst the indication is that any future interest rises will happen gradually over the medium term period, the Council's Treasury Management Team will be monitoring the position and potential impact on the Council closely;
- **Collection Fund** – The in-year Collection Fund position is monitored to determine the forecast surplus/deficit position to be declared and included in the Council Tax and Business Rates Taxbase report to Cabinet. A deficit position on the Collection Fund will need to be funded by the Council, the MTFP currently assumes a breakeven in-year position on the Collection Fund;
- **100% Business Rates Retention Pilot** – Whilst the Greater Manchester Pilot is expected to remain in place until at least 2020 (as originally agreed by Government) it is unclear how and when the Business Rates Retention Scheme will evolve over the medium term period to move local authorities to self-sufficient funding models. Furthermore it is still unclear how aspects of the 100% retention of Business Rates will work across all local authorities and what the Government intends to transfer as new responsibilities as part of this and what cost will need to be funded going forward;
- **Business Rates Localisation** – The localisation of Business Rates continues to expose a significant proportion of Council resources to additional risks. These include the extent to which the tax base will grow or decline relative to future Government baseline funding level assessments

and the extent to which it is necessary to provide for losses on rateable value appeals;

- **Council Tax** – Future adverse changes to the Council Tax Taxbase will impact on the MTFP forecasts in relation to Council Tax income;
- **Demand and Demographic Led Services** – Continuing increases in demand and demographic costs for demand led services such as Children and Adults Social Care are resulting in significant increases in costs increasing the MTFP forecast expenditure pressures;
- **Devolution** – The Greater Manchester devolution process continues to progress. Devolution plans, such as Health and Social Care, could impact on MTFP forecasts if the Government considers this as an opportunity to deliver further savings at a national level;
- **Education** – The Council depends on a significant proportion of this funding to provide education services as part of its education/schools services. If DSG cannot be retained to fund these going forward additional cash limit pressures could occur;
- **Levies** – future year's levies have yet to be confirmed by the Greater Manchester Combined Authority (GMCA) and GMWDA which could impact on the MTFP forecasts;
- **National Living Wage** – the obligation for the Council to meet the increasing provider costs as a result of the National Living Wage continues to increase MTFP forecast expenditure pressures particularly in relation to Adults and Children and Families Social Care services. Furthermore the Council also needs to consider the implication of the National Living Wage increases on its own workforce and potential costs of this and ensuring existing spinal pay point differentials between different pay grades are maintained. Future reviews of the MTFP will continue to consider the impacts of this and any changes required to the MTFP forecasts as a result;
- **Negotiations for Leaving the European Union (EU)** – Whilst Government focus is on the EU negotiations, there been little clarification on how these negotiations and the resulting UK exit from EU will impact on local authorities. Future reviews of the MTFP will consider the impact of any issues as details of the negotiations become clearer;
- **Non Cash Limit Outturn Surplus** – Deficits against Cash Limit budgets are currently offset by surpluses against Non Cash Limit budgets. Reductions to these budgets as a result of the Summer Review for example will mean using Non Cash Limit surpluses to offset Cash Limit deficits will diminish going forward;
- **Pay Inflation** – At the time of writing NJC have made an offer to Trade Unions on behalf of employers of 2% increase from 1 April 2018 and 2% increase from 1 April 2019. Although colleagues across Local Government are lobbying Government for the cost of this increase to be funded centrally, the £0.817m increase cost of this offer has been reflected within the Council's MTFP. It should be noted that the Trade Unions are currently considering this offer which may result in a further increase above the 2% offer subject to further negotiations and increase this cost further.
- **Pay Spine Changes** – The proposed move to a new pay spine from 1 April 2019 to maintain scale point differentials in line with the National Living Wage may have an impact on the Council's MTFP. Finance and HR Officers will be working on modelling the impact of moving to the new pay spine in order to reflect any additional costs within the MTFP.

- **Pay Inflation and Pay Spine Change Impact on SK Solutions** – The proposed pay inflation and pay spine changes (detailed above) are expected to have a significant impact on Solutions SK due to the lower pay grade of their employees (i.e. caterers and cleaners). The increased costs for SK Solutions will be passed to the Council through contractual price increases. Finance Officers will work with colleagues from SK Solutions to understand the impact of this in order to reflect any additional costs with the MTFP.
- **Price Inflation** – Whilst estimates have been made in the MTFP, forecasts of specific inflation cost pressures remain uncertain and could adversely impact the MTFP if for example inflation rates increase over the medium term period.

4 RESPONDING TO THE FINANCIAL FORECASTS

- 4.1 The 2018/19 savings requirement remaining of £1.221m needs to be addressed in order to present a balanced 2018/19 budget to the Council meeting on 22 February 2018. This can be achieved through one or more of the following actions:
- The identification, approval and delivery of additional permanent spending reductions (savings proposals); and
 - The use of one-off resources or one-off savings.
- 4.2 When considering the presentation of a balanced budget it is recognised that ideally permanent spending reductions or permanent resource increases are considered in the first instance. However as detailed in paragraph 5.5 the Cabinet had previously approved to hold £3.204m of resources in General Balances that are determined as being available for allocation. If applied to the budget on a one off basis this would reduce the Council's savings requirement in 2018/19 but not in future years.
- 4.3 The use of these one-off resources will need to be considered as part of the Borough Treasurer review of the robustness of the Council's reserves and balances to support any unexpected expenditure pressures in 2018/19.
- 4.4 The available resources identified by the Summer Review could also be used to support the Council's MTFP. However, given the significant risks and financial challenge faced by the Council over the medium term period it is still considered prudent not to adjust the MTFP forecast savings requirement until the PLGFS is announced and any further information impacting on the MTFP assumptions and forecasts is made available.
- 4.5 It is recommended that the Cabinet consider its options to finalise the Council's 2018/19 budget to present to the Council meeting on 22 February 2018 for approval. This will result in an updated 2018/19 to 2022/23 MTFP.

Risk Assessment of Budget Proposals

- 4.6 Under Section 25 of the Local Government Act 2003, the Borough Treasurer is required to prepare a statement on the adequacy of proposed financial reserves and the robustness of the budget estimates. Members are reminded that all

budget proposals must first be subject to a risk assessment undertaken by the Borough Treasurer.

Risk Assessment 2018/19 to 2021/22

- 4.7 Members are reminded that there is a great deal of uncertainty with the forecasts and assumptions included in the MTFP particularly given the scale and pace of change around Devolution, Health and Social Care integration and the Local Government finance regime.
- 4.8 The MTFP tries to forecast the main changes anticipated however it is clear that the medium term will bring much more volatility and risk than previously experienced. Forecasting this far ahead remains a challenge due to this volatility and uncertainty impacting on the MTFP forecasts and assumptions. It is likely that updates to the MTFP will be more frequent than has been the case in the past. The Council's Finance Team will continue to monitor these assumptions to ensure they are based on the latest information available. This will include a Summer Review of the Council's MTFP in summer 2018.
- 4.9 Whilst the MTFP forecasts show a reduction to the savings requirement previously reported, the approach to identifying the saving proposals to bridge the forecasted budget gap needs to be developed. The Cabinet is therefore advised to consider the approach to be taken to meet the Council's medium term savings requirement going forward.

5 MITIGATING THE RISKS

Summer Review

- 5.1 The Summer Review identified £1.378m of resources which could be made available in 2018/19 to support the MTFP. This would be achieved by making a number of adjustments (favourable and adverse) to the current MTFP assumptions and forecasts.
- 5.2 Given the significant risks and financial challenge faced by the Council over the medium term period at the time it was considered prudent not to adjust the MTFP forecast savings requirement following the Summer Review. As detailed in paragraph 3.27, the Council continues to face these and more risks and challenges, and needs to consider how best to use any available resources to mitigate these going forward.
- 5.3 Thus it is still considered prudent at this point not to adjust the MTFP assumptions and forecasts identified in the Summer Review until further detail is available on the likely impact on the Council's MTFP if the risks and challenges identified materialise. Particular consideration needs to be given to the continuing budget pressures experienced by Children and Family Services and Adult Social Care Portfolios and consideration of permanent funding going forward. Quarter 3 budget monitoring will provide a better indication of the extent of these pressures and funding requirement. Furthermore potential corporate pressures such as pay inflation and Provisional Local Government Finance Settlement changes need to be considered when detail is made available.

- 5.4 The Finance Team will continue to monitor the MTFP risks and challenges identified and consider any implications as part of the 2018/19 budget setting process and future MTFP updates.

Unallocated General Fund Resources

- 5.5 Members are also reminded that £3.204m (£2.826m 2016/17 and £0.358m 2015/16) of prior year surpluses remain unallocated within the Council's General Fund Balance. Subject to the Borough Treasurers review of the minimum level of General Fund Balance needed in 2018/19, these resources can be used to support the Council's budget in 2018/19 and over the medium term period.

Reserves Policy

- 5.6 The Cabinet approved the 2017/18 Reserves Policy for the Council at its meeting on 13 June 2017. The Policy set out the priority areas linked to the Council's corporate and strategic objectives for which it was recommended reserves should be held.
- 5.7 The Council's Reserves Policy will be continuously reviewed to ensure the priority areas and levels of reserves held remain relevant and in line with the Council's corporate and strategic objectives. This will also be informed by the Council's 2017/18 revenue outturn position and expected future risks which will determine whether there are resources available to increase existing reserves, establish new reserves and/or release reserves for allocation.
- 5.8 A key consideration will be the level of reserves held to mitigate the continuing significant budget pressures relating to Children and Adult Social Care Services over the medium term period. Whilst the use of one-off resources only provides a temporary solution it is important that sufficient one-off resources are available to meet budget pressures in the short-term whilst permanent solutions are identified.
- 5.9 A review of the Council's Reserves Policy will be completed following the confirmation of the 2017/18 outturn position. This review will set the Council's 2018/19 Reserve Policy.

6 CONCLUSIONS

- 6.1 The updated MTFP shows a remaining 2018/19 savings requirement of £1.221m (assuming all proposals are approved). The longer term forecast is the Council's savings requirement will rise to £47.101m in 2022/23.
- 6.2 The Cabinet is recommended to take the necessary steps to propose a final balanced 2018/19 budget to be presented for approval to the Budget Council meeting on 22 February 2018.
- 6.3 The scale of the financial challenge facing the Council in the medium term 2019/20 to 2022/23 remains significant. This is highlighted by the fact that the Council has already delivered significant budget reductions since 2011/12. Furthermore the scale and pace of change in relation to Health and Social Care devolution and the Local Government Finance Regime adds further complexity

and challenge. The Council will need to deliver the transformational change to its service delivery models over the medium term period in order to ensure the Council is able to become self-sufficient in terms of its ongoing funding from 2019/20.

7 RECOMMENDATIONS

7.1 The Cabinet is recommended to:

- Note the details of the report including the announcements made in the Government's 2017 Autumn Budget;
- Note, and comment upon as appropriate, the financial forecasts for 2018/19 to 2022/23, and the key issues to be addressed in formulating a response to the financial challenges facing the Council;
- Note the budget reduction requirement for 2018/19 of £1.221m and the indicative cumulative reduction requirement of £16.556m in 2019/20 rising to £47.101m in 2022/23; and
- Take the final steps necessary to propose a balanced budget for 2018/19 to the Budget Council meeting on 22 February 2018.

BACKGROUND PAPERS

There are none

Anyone wishing to inspect the above background papers or requiring further information should contact Jonathan Davies on Tel: 0161 218 1025 or by email on jonathan.davies@stockport.gov.uk

Appendix 1 – 2018/19 to 2022/23 Medium Term Financial Plan

	2018/19	2019/20	2020/21	2021/22	2022/23
	£000	£000	£000	£000	£000
<u>Resources</u>					
Stockport MBC Council Tax	138,234	139,020	139,545	140,070	140,595
Adult Social Care Precept	10,930	10,992	11,034	11,075	11,117
Business Rates - Stockport MBC Share	78,598	79,852	85,327	85,327	85,327
Business Rates – Tariff Payment	(9,996)	(18,868)	0	0	0
Grants in Lieu of Business Rates	7,178	8,939	0	0	0
Revenue Support Grant - Rolled in to 100% Business Rates Retention	0	0	0	0	0
Public Health Grant - Rolled in to 100% Business Rates Retention	0	0	0	0	0
New Homes Bonus Grant	1,475	1,012	0	0	0
Better Care Fund Allocation	3,111	6,333	0	0	0
	229,530	227,280	235,906	236,472	237,039
<u>Expenditure</u>					
Cash Limits	159,857	160,167	170,503	171,513	172,266
Pay	1,768	3,572	5,516	7,503	9,541
Pensions - Superannuation and Auto Enrolment	1,784	1,962	2,142	2,326	2,513
Inflation - Price and National Living Wage	8,615	13,345	18,175	22,061	25,996
Demand Pressures	750	1,500	2,250	3,000	3,750
Apprenticeship Levy	400	400	400	400	400
Non-Cash Limits	60,599	62,890	64,841	67,268	69,674
	233,773	243,836	263,827	274,071	284,140
Cumulative Savings Requirement	4,243	16,556	27,921	37,599	47,101
Use of One-Off Resources	(22)	0	0	0	0
Use of Improved Better Care Fund 2018/19	(3,000)	0	0	0	0
Revised Cumulative Savings Requirement	1,221	16,556	27,921	37,599	47,101

Appendix 1 (continued) – 2018/19 to 2022/23 Medium Term Financial Plan Underlying Assumptions

<u>Assumptions</u>	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Stockport MBC Council Tax Increase – General	1.99%	0.00%	0.00%	0.00%	0.00%	0.00%
Stockport MBC Council Tax Increase – ASC	3.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Settlement Funding Assessment	-9.08%	-9.55%	0.00%	0.00%	0.00%	0.00%
Pay Award	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Employer's Pension Contribution Prior to GMP Advance Payment	19.50%	19.80%	20.00%	20.30%	20.50%	20.70%
GMWDA Levy	-31.87%	3.48%	1.90%	2.20%	2.20%	2.20%
GMCA Levy	81.64%	1.00%	1.00%	1.00%	1.00%	1.00%

Appendix 2 – Medium Term Financial Plan Changes 23 February 2017 to 19 December 2017

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Savings Requirement Approved on 23 February 2017	18,770	30,301	41,694	51,398	60,927
<u>MTFP Assumption Changes</u>					
Increase in Pay Inflation Budget - Adverse Adjustment	817	1661	1661	1661	1661
Increase in Council Tax Taxbase - Favourable Adjustment	(556)	(556)	(556)	(556)	(556)
<u>Cabinet Proposals – Savings Proposals</u>					
Children and Families Proposals	(1,626)	(1,626)	(1,626)	(1,626)	(1,626)
Adult Social Care Proposals	(2,695)	(2,695)	(2,695)	(2,695)	(2,695)
Place Proposals	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)
Corporate and Support Services Proposals	(1,900)	(1,900)	(1,900)	(1,900)	(1,900)
<u>Cabinet Proposals - Council Tax Proposals</u>					
Council Tax Increase - General 1.99%	(2,826)	(2,842)	(2,853)	(2,864)	(2,874)
Council Tax Increase - Adult Social Care 3%	(4,263)	(4,287)	(4,303)	(4,320)	(4,336)
<u>Cabinet Proposals – Use of One Off Resources</u>					
Use of Improved Better Care Fund	(3,000)	0	0	0	0
Revised Savings Requirement as at 19 December 2017	1,221	16,556	27,921	37,599	47,101

Appendix 3 – 2018/19 to 2019/20 Medium Term Financial Plan – Non Pooled and Pooled Budget Split

	Non Pooled 2018/19 £000	Pooled 2018/19 £000	Total 2018/19 £000	Non Pooled 2019/20 £000	Pooled 2019/20 £000	Total 2019/20 £000
Savings Requirement Approved on 23 February 2017	7,779	10,991	18,770	15,651	14,650	30,301
<u>MTFP Assumption Changes</u>						
Increase in Pay Inflation Budget - Adverse Adjustment	547	270	817	1112.87	548.13	1,661
Increase in Council Tax Taxbase - Favourable Adjustment	(322)	(233)	(556)	(306)	(250)	(556)
<u>Cabinet Proposals – Savings Proposals</u>						
Children and Families Proposals	(1,626)	0	(1,626)	(1,626)	0	(1,626)
Adult Social Care Proposals	0	(2,695)	(2,695)	0	(2,695)	(2,695)
Place Proposals	(1,500)	0	(1,500)	(1,500)	0	(1,500)
Corporate and Support Services Proposals	(1,900)	0	(1,900)	(1,900)	0	(1,900)
<u>Cabinet Proposals - Council Tax Proposals</u>						
Council Tax Increase - General 1.99%	(2,826)	0	(2,826)	(2,842)	0	(2,842)
Council Tax Increase - Adult Social Care 3%	0	(4,263)	(4,263)	0	(4,287)	(4,287)
<u>Cabinet Proposals – Use of One Off Resources</u>						
Use of Improved Better Care Fund	0	(3,000)	(3,000)	0	0	0
Revised Savings Requirement as at 19 December 2017	152	1,069	1,221	8,590	7,966	16,556