

<b>MEETING:</b>	<b>General Overview and Scrutiny Committee</b>
<b>MEETING DATE:</b>	<b>24 November 2014</b>
<b>TITLE OF REPORT:</b>	<b>Budget 2015/16 and Medium Term Financial Strategy (MTFS)</b>
<b>REPORT BY:</b>	<b>Chief Financial Officer</b>

## **Classification**

Open

## **Key Decision**

This is not an executive decision.

## **Wards Affected**

Countywide

## **Purpose**

To seek the views of the overview and scrutiny committees on the budget proposals to be presented to Cabinet on 15 January 2015.

## **Recommendation(s)**

**THAT:**

- (a) **the Committee comments on the budget proposals.**

# Alternative Options

- 1 There are no alternative options as Cabinet is required to seek the views of the relevant overview and scrutiny committee on budget and policy framework item

# Reasons for Recommendations

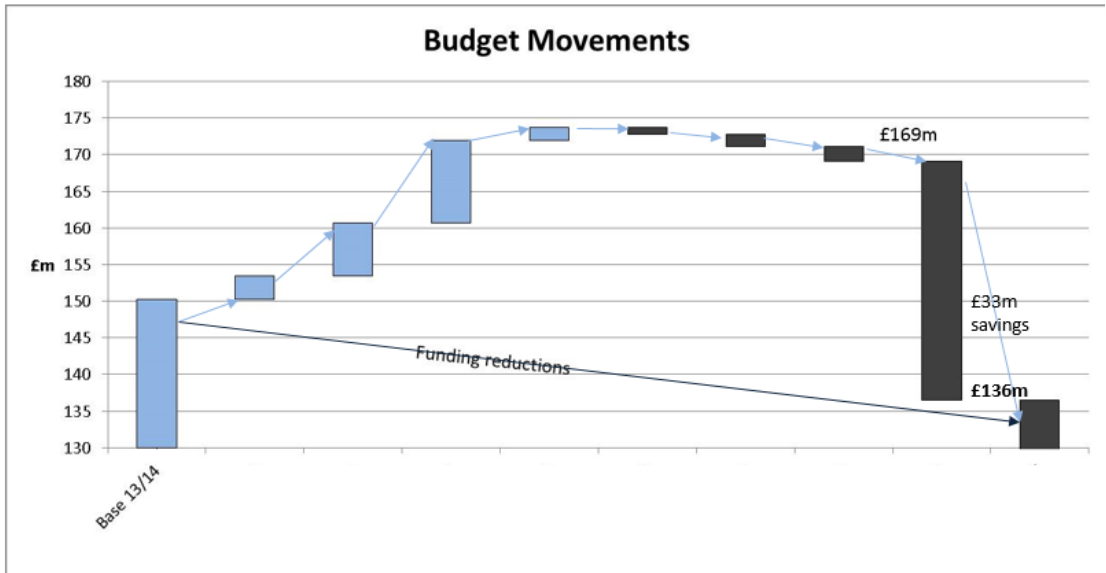
- 2 To meet the requirements of the constitution and ensure that Cabinet has all relevant information available to inform its decision-making.

# Key Considerations

- 3 The medium term financial strategy (MTFS) has been updated to reflect current spending, reviewed savings plans, contingencies and demographic pressures and assumes a 1.9% increase in council tax. Central government funding for 2015/16 will be announced on 17 December, this report is based on the indicative funding settlement announced last year. Initial proposals are being discussed by both Health and Social Care Overview and Scrutiny Committee and General Overview and Scrutiny Committee on 24 November.
- 4 Although on target to deliver within the overall budget in 2014/15 there is slippage in some savings and additional pressures in both 2015/16 and 2016/17.
- 5 Council will approve the 2015/16 budget on 6 February 2015. It will also approve the MTFS to 2016/17 although this will be refreshed with the new administration between June and October 2015 to cover the period 2016/17 to 2018/19.

## Current savings plan 2014/15 – 2016/17

- 6 The MTFS agreed by Council in February 2014 set out the estimated £33.7m funding gap arising from increased costs and reduced funding.



£15.4m or 45% of these savings were targeted to be delivered in the current financial year, with an additional £18.3m to be delivered in 2015/16 and 2016/17. This is in

addition to the £33m of savings delivered 2011/12 – 2013/14. Of the overall savings required in the period 2011/12 – 2016/17, £67m, approximately £50m has been delivered.

	2014/15 £000	2015/16 £000	2016/17 £000	Total £000
Adult and wellbeing* (AWB)	5,490	3,935	3,646	13,071
Children's wellbeing (CWB)	2,500	1,132	1,736	6,368
Economy, communities and corporate (ECC)	7,407	3,602	4,269	15,278
<b>Savings identified</b>	<b>15,397</b>	<b>8,669</b>	<b>9,651</b>	<b>33,717</b>

\* Public Health responsibility including savings transferred to adult and wellbeing for 2015/16 and 2016/17.

### Base budget 2015/16

- 7 A draft of directorate base budgets for 2015/16 is set out below and in detail in appendix 1. This reflects increases in inflation and pensions, pressures, savings and other adjustments.

#### Draft Revenue Budget Summary 2015/16

	Base net Budget 2014/15 £'000	Net changes £'000	Draft Net Budget 2015/16 £'000
Adults Wellbeing	54,923	(1,561)	53,362
Children's Wellbeing	21,242	777	22,019
Economies, Communities & Corporate	53,065	(2,836)	50,229
<b>Directorate Total</b>	<b>129,230</b>	<b>(3,620)</b>	<b>125,610</b>
Capital financing - debt repayments			9,587
Capital financing - interest			6,197
Change Management (One-off)			3,418
Government grants			(4,388)
Other central budgets			1,390
Reserve top up			500
<b>Total net spend</b>			<b>142,314</b>
<b>Financed by:</b>			
Formula grant			25,935
Council tax			83,323
Retained NNDR			24,600
Business rates top up			6,871
Reserves – funding of one off change management costs			1,585
			<b>142,314</b>

#### Review of savings plans – Slippage/(additional) savings

- 8 Savings have been reviewed as part of the budget process and revisions made, these are attached as appendix 2 and are summarised in the table below. The review has

highlighted net slippage or a shortfall against the target of £3.6m over the two years. 2016/17 slippage is significant, over 50% of savings have now been removed from the savings plans, this is after some savings having been replaced with new ones. The end columns show the difference between the updates and those agreed by Council in February 2014.

	Revised Savings Plans			Slippage/(additional)		
	2015-16 £'000	2016-17 £'000	Total £'000	2015-16 £'000	2016-17 £'000	Total £'000
Adults	4,300	1,863	6,163	(365)	1,783	<b>1,418</b>
Children's	1,129	1,220	2,349	3	516	<b>519</b>
ECC & Central	3,754	2,310	6,064	(152)	1,959	<b>1,807</b>
<b>Total</b>	<b>9,183</b>	<b>5,393</b>	<b>14,576</b>	<b>(514)</b>	<b>4,258</b>	<b>3,744</b>

9 The reasons for the differences are set out by directorate below:

- Adults – pressures within the health system have had a direct negative impact on the planned demand management savings during 2014/15. From March 2015 a proportion of the budget within adult social care will be through the Better Care Fund pooled arrangements with the Herefordshire Clinical Commissioning Group (CCG). These funds are only paid to the council via the CCG, on the basis of performance in a reduction of admissions to residential and nursing care and a reduction in emergency admissions to hospital. It is therefore important to recognise that any decisions about additional savings on areas in this pool will have to be negotiated with the NHS locally and nationally. However, the pool does incentivise the CCG and the acute and primary care providers to manage effectively the part of the system that is placing the greatest strain on the adult social care demand management approaches. Collaborative working with public health has been accelerated following integration within the adult and wellbeing directorate, meaning £0.5m planned for delivery in 2016/17 will be delivered a year early.
- Children's – removal of the target for delivering £0.5m of savings in 2016/17 from the introduction of a social impact bond. Other savings have been replaced with new ones but require one-off investment of £0.8m to be repaid from additional savings in 2017/18.
- ECC – re-profiling of estimated £60m in capital receipts planned to replace borrowing will mean £2.5m of revenue savings will not be delivered until 2017/18. This has partially been mitigated by additional support savings, namely Hoople and ICT of £0.5m, £0.8m over the two years.

10 Detailed analysis of proposed savings plans and stress testing (adult wellbeing has had an external assurance stress test) is currently been undertaken and alternative schemes have been identified where possible. Further work will be undertaken with directors to ensure remaining plans are robust, though some savings are proving

difficult to deliver. Where there are shortfalls identified, these need to be replaced. With little discretionary budget remaining across the authority this will be challenging.

### New pressures affecting budget planning

	2015/16 £000's	2016/17 £000's	Total £000's
<b>Children's</b>			
Baseline placements (in year)	762		762
Child sexual exploitation prevention	100		100
	<b>862</b>	-	<b>862</b>
<b>Adults</b>			
New / additional demographic pressures	114	146	260
Transitions - ongoing impact of 2014/15 growth	900		900
Transitions - expected growth in placements 2015/16	200	100	300
	<b>1,214</b>	<b>246</b>	<b>1,460</b>
<b>ECC</b>			
Grass cutting	400		400
Rockfield car park		30	30
Valuations		41	41
	<b>400</b>	<b>71</b>	<b>471</b>
<b>Corporate</b>			
Insurance premiums	200		200
Grant reduction assumption 7%		873	873
Cost of funding new capital investment need	100	300	400
Safeguarding board	100		100
	<b>400</b>	<b>1,173</b>	<b>1,573</b>
<b>Total</b>	<b>2,876</b>	<b>1,490</b>	<b>4,366</b>

### Pressure management

- 11 Additional contingency was allowed in the MTFs to provide for slippage/optimism of future savings and unforeseen pressures. In addition, provision set aside for increases in the cost of the waste disposal contract and inflation have not all been required. These total £2.1m in 2015/16 with an additional £3.5m in 2016/17.
- 12 Children's wellbeing and adults & wellbeing senior management reviewing changes in policy and investigating options to partially mitigate the transitions pressure identified above. A new approach will need to be developed and embedded over the next 12 months otherwise the budgetary pressure will rise in excess of the figures currently assumed due to the numbers currently in school who will require adult social care support in the next few years.
- 13 Applying these against the net difference in savings and pressures will bring the 2015/16 budget into balance, although a significant savings gap of £2.2m in 2016/17 will require additional savings to be identified over the coming weeks.

- 14 There is an additional significant, at least £3m, of unbudgeted risks not provided for in the budget.

### Summary

- 15 The table below sets out the net changes to the overall budget expectations on 2015/16 and 2016/17.

	2015/16 £000	2016/17 £000	Total £000
Slippage/(additional)savings	(514)	4,258	3,744
Pressures	2,876	1,490	4,366
Pressure management	(2,106)	(3,499)	(5,605)
<b>Net</b>	<b>256</b>	<b>2,249</b>	<b>2,505</b>

- Current savings plans are going through a process of additional scrutiny and challenge to ensure they are deliverable and sustainable.
- All pressures have been challenged and assurance is required that the council is not funding other bodies responsibilities. In addition the adults & wellbeing budgets relating to adult social care have gone through an external assurance and stress test process and amendments have been reflected where improvements were identified as needing to be made.
- Demand management in social care continues to be a key issue, against a backdrop of a demographic of older people that is rising faster than the national average and some specific areas of inequalities amongst families and young people. Focusing public health commissioning and strategy on growth management through disease prevention and behaviour change in communities is critical for medium term change.
- Additional savings of £2.2m need to be identified in 2016/17 and commissioning and policy decisions must be made over the coming months to enable the change management to take place for these savings to be delivered in 2016/17.
- Key areas of focus include, sustaining the current focus on a new relationship with citizens and communities, managing the price paid where the council is the commissioner and/or where this is taking place with partners with a specific reference to health, improvements in commercial interface including contract management, using technology to enable new ways of working including significant channel shift around self-service and automated business process improvement and a subsequent headcount reduction.

### Community Impact

- 16 The MTFs and budget demonstrate how the council is using its financial resources to deliver the priorities within the agreed corporate plan.

## **Equality and Human Rights**

- 17 The Public Sector Equality Duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying “due regard” in our decision making in the design of polices and in the delivery of services.
- 18 We are currently carrying out a number of service specific equality impact assessments for the service specific budget proposals to assess the impact on the protected characteristic as set out in the Equality Act 2010.
- 19 The duty means that the potential impact of a decision on people with different protected characteristics is always taken into account when these assessments have been completed then we will consider mitigating against any adverse impact identified.

## **Financial Implications**

- 20 As set out in the report.

## **Legal Implications**

- 21 The Committee is asked to consider and scrutinise the proposed budget to enable a recommendation to full Council whose responsibility it is to set the budget.
- 22 The key statute for the budget making process is the Local Government Finance Act 1992. The Council is required to set a balanced budget. To do this the council must prepare a budget that covers not only the expenditure but also the funding to meet the proposed budget. The budget has to be fully funded and the income from all sources must meet the expenditure.
- 23 An intention to set a deficit budget is not permitted under Local Government legislation

## **Risk Management**

- 24 Section 25 of the Local Government Act 2003 requires the chief finance officer to report to Council when it is setting the budget and precept (council tax). Council is required to take this report into account when making its budget and precept decision. The report must deal with the robustness of the estimates included in the budget and the adequacy of reserves.
- 25 The budget has been updated using the best available information, current spending, anticipated pressures and an assessment of the grant settlement.
- 26 The areas below have not been included in the budget as pressures with compensating savings. The risks are covered by the corporate revenue contingency of £0.7m and general reserves of £3m above the £4.5m minimum balance. These

would address any issues arising in 2015/16 but would need to be addressed within the budget in 2016/17 and beyond.

<b>Risks</b>	<b>2015/16 £000</b>	<b>2016/17 £000</b>	<b>Total £000</b>
Care Bill	600	1,700	2,300
Council tax capped at 1%	750		750
Welfare reform		150	150
Council tax reduction increase doesn't get approved	160	230	390
	<b>1,510</b>	<b>2,080</b>	<b>3,590</b>

- The government has indicated that the costs of the Care Act implementation are sufficiently funded through the Better Care Fund and some additional grant. The final guidance has reduced some pressure and delayed implementation of some key elements but the internal review would indicate a different view and reflects the position of the majority of West Midlands councils. This view has been supported by all political parties. The Local Government Association and Association of Directors of Adult Social Services continue to lobby for additional funding and a continuing and unexpected increase of activity relating to the Mental Capacity Act is also continuing with all councils urgently lobbying government to allocate additional funds immediately. Locally additional investment has already been made, but substantial waiting lists have now been built up and present a significant risk as these are statutory safeguarding responsibilities. All councils are reporting a similar position.
- Government may also reduce the council tax cap to 1%, this would require an additional £750k of savings in 2015/16
- Welfare reform cost will not be funded by the government from March 2015, however some indications are that lobbying on this issue may mean a change in approach.
- The increase in council tax reduction from 16% to 30% in the period can be reduced to a 24% increase to reach the budget target met, however if not agreed by Council in December 2014 would need compensating savings.

## Consultees

### Shaping our priorities

- 27 This year's budget consultation was conducted slightly differently to previous years, in that we used an online budget simulator which invited residents to balance the council's budget.
- 28 This provided a slightly more complex consultation, which didn't just involve offering opinions. However, these results will not be used in isolation, as they will be added to



the results from our previous consultations, which have and will continue to help us shape our priorities.

### **Quality of Life survey**

- 29 In 2011 and 2012, we undertook Quality of Life surveys with local residents. A random sample of 4,125 households was surveyed and asked a range of questions about public services and the quality of local people's lives. The results are available online at <http://factsandfigures.herefordshire.gov.uk/2056.aspx>.

### **Your Community - Your Say**

- 30 We also held a series of conversations with local people across the county discussing their concerns and priorities in their communities.
- 31 The results of the Your Community - Your Say events are available online at <http://factsandfigures.herefordshire.gov.uk/2323.aspx>.
- 32 We considered the views of residents identified through these two projects when agreeing our corporate plan and setting the budget priorities for 2013/14.

### **Consultation on the 2014/15 budget**

- 33 In proposing the budget for 2014/15, we started with what we understood were local people's priorities based on the results of the Quality of Life survey and the Your Community - Your Say project.
- 34 We focused the budget on a small number of priorities, which were in line with priorities of local people and consulted on these in the budget proposal.
- 35 The full details of this consultation and results are available online at [www.herefordshire.gov.uk/government-citizens-and-rights/democracy/council-finances/budget-consultation/our-priorities](http://www.herefordshire.gov.uk/government-citizens-and-rights/democracy/council-finances/budget-consultation/our-priorities).

### **Proposing the budget for 2015/16**

- 36 In preparing the budget for 2015/16, we started with the priorities that local people had previously identified and which we had focused upon in the 2014/15 budget.
- 37 Our public consultation was on a budget that we felt, given the constraints of increased demand and reducing income, invested in the key priorities for the county and the council. This was based on a good understanding of the priorities of local people built up over a number of years of research and consultation.
- 38 Alongside the main online budget simulator, we also engaged with the public through six face to face consultation events in Bromyard, Hereford, Kington, Ledbury, Leominster and Ross-on-Wye and two parish council events in July and October. We also held four live question and answers sessions on the council's Twitter and Facebook accounts.
- 39 The details of this consultation and results are available online at [www.herefordshire.gov.uk/budgetconsultation2015](http://www.herefordshire.gov.uk/budgetconsultation2015)

## Key messages from the consultation

- For **adult social care**, while some responses chose to decrease the budget most respondents chose to keep the budget the same (71 per cent) with 29 per cent opting to increase it.
- For **children and young people**, after responses that decreased the budget were excluded, the same pattern emerged with 71 per cent choosing to keep the budget the same and 29 per cent opting to increase it.
- For **unavoidable fixed costs**, after responses that decreased the budget were excluded, the same pattern emerged with 72 per cent choosing to keep the budget the same and 28 per cent opting to increase it.
- For **investing in improving roads and transport**, most respondents chose to keep the budget the same (38 per cent) with a third opting to increase it and 29 per cent opting to decrease it.
- For **building new homes and creating jobs**, opinion was divided with a third of responses opting to decrease, increase or not change the budget. A similar pattern emerged for **strategic and neighbourhood planning** and **grass cutting**.
- Responses for **regulatory services, environment, cultural and customer services** and **waste management** showed a similar pattern of about 44 percent opting to increase the budget with about a third opting to decrease the budget.
- Nearly 80 per cent of responses chose to decrease the budget for **council back office functions**; this was the highest average decrease amount.
- On average the results indicated a reduction in the council tax increase to 0.9% from 1.9%.

## Appendices

Appendix 1 – Directorate base budgets 2015/16

Appendix 2 – Breakdown of updated savings plans by directorate

Appendix 3 – Results on the 2014/15 budget

## Background Papers

- None identified.