

MEETING:	Cabinet
MEETING DATE:	22 January 2015
TITLE OF REPORT:	Budget and medium term financial strategy (MTFS)
REPORT BY:	Chief financial officer

Classification

Open

Key Decision

This is a key decision because it is likely to result in the council incurring expenditure which is, or the making of savings which are, significant having regard to the council's budget for the service or function to which the decision relates and because it is likely to be significant in terms of its effect on communities living or working in an area comprising one or more wards in the county.

Notice has been served in accordance with Part 3, Section 9 (Publicity in Connection with Key Decisions) of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012.

Wards Affected

County-wide

Purpose

To agree the draft medium term financial strategy for 2015/16 to 2016/17 and the 2015/16 revenue budget for recommendation to Council on 6 February 2015.

Recommendation(s)

THAT:

(a) the following be recommended to Council:

- i. approval of the revenue budget as set out in appendix 2;**
- ii. approval of a council tax increase of 1.9% in 2015/16, therefore rejecting the 2015/16 council tax freeze grant, this will result in a band D council tax level of £1,275.10,**

- iii. **approval of the medium term financial strategy shown in appendix 4 ;**
- iv. **approval of the treasury management strategy for 2015/16 shown in appendix 5; and**

(b) it be noted that the council is projected to spend within its budget for the 2014/15 financial year.

Alternative Options

- 1 It is open to Cabinet to amend the proposals; but any amendments to increase expenditure in one area must be accompanied by compensating savings elsewhere to ensure the budget is balanced.

Reasons for Recommendations

- 2 The council has a legal obligation to set a balanced budget and Cabinet is responsible for developing proposals for recommendation to Council in line with the budget and policy framework rules within the constitution.

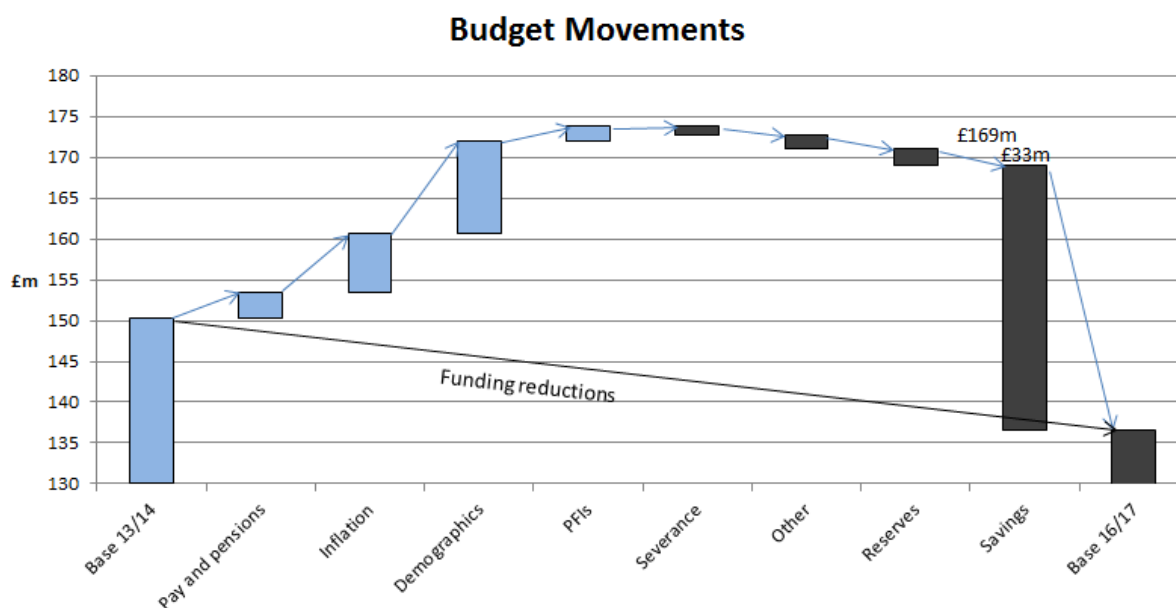
Key Considerations

Summary

- 3 The medium term financial strategy (MTFS) has been updated to reflect the provisional funding settlement, current spending (budget monitoring to the end of November 2014 set out in appendix 3 indicates the council will spend within its overall budget for 2014/15), a review of agreed savings plans, contingencies, demographic pressures and a 1.9% increase in council tax. Confirmation of the final settlement is expected in February. Initial proposals were discussed by both overview and scrutiny committees on 24 November and no alternative options were proposed by either committee.
- 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 that have been mitigated by alternative savings and the use of contingencies.
- 5 Council will be asked to approve the 2015/16 budget on 6 February 2015. It will also approve the MTFS to 2016/17 although this will be refreshed, alongside the corporate plan, with the new administration between June – October 2015 to cover the period 2016/17 – 2019/20.

Current savings plan 2014/15 – 2016/17

- 6 The MTFS agreed at Council in February 2014 set out the estimated £33.7m funding gap arising from increased costs and reduced funding. This is a culmination of unavoidable increases in costs such as inflation and demographic pressures and reductions in government funding. The table below sets this out graphically:



- 7 The council delivered a total of £34m savings in the financial years 2011/12 - 2013/14 followed by a further £15.4m of targeted savings, as part of the £33m, in the current financial year 2014/15. Attached at appendix 3 is the latest 2014/15 forecast outturn showing overall delivery of savings in the current year. Looking forward an additional £18m of savings are required in period 2015/16 - 2016/17, £10m in 2015/16. This gives a total savings plan for the financial period 2011/12- 2016/17 of £67m. The reviewed savings plans are provided in appendix 1, summary by directorate below.

	Revised Savings Plans		
	2015-16 £'000	2016-17 £'000	Total 15-17 £'000
Adults Wellbeing	5,460	2,363	7,823
Children's Wellbeing	1,129	1,720	2,849
Economic Communities and Corporate	3,596	3,530	7,126
	10,185	7,613	17,798

2015/16 Budget

- 8 Proposed directorate budgets for 2015/16 are attached at appendix 2 and summarised below. This reflects increases in inflation and pensions, pressures, savings and other adjustments.

Revenue Budget Summary 2015/16

Directorate	Approved Budget 2014/15 £000	Net changes £000	Proposed Budget 2015/16 £000
Adults Wellbeing	54,923	(1,680)	53,243
Children's Wellbeing	21,242	895	22,137
Economies, Communities and Corporate	53,065	(2,530)	50,535
Total Directorates	129,230	(3,315)	125,915
Capital financing - debt repayments			10,183
Capital financing - interest			6,233
Change management			3,018
Government grants			(5,440)
Other central budgets			1,374
Transfer from general balances			500
Total net spend (budget Requirement)			141,783
Financed by:			
Formula grant			26,461
Locally retained rates			21,784
Business rates top up			6,814
Council tax			83,963
Collection fund surplus			1,251
Reserves			1,510
			141,783

- 9 The provisional settlement for 2015/16 was announced on 18th December 2014 and may change in the final settlement expected in early February 2015 although this is not anticipated to be material enough to effect the budget. The provisional settlement confirmed another year of funding reductions in 2015/16 in line with expectations.
- 10 The provisional settlement allocation included an increase in rural funding, resulting in a net increase in funding compared to budget assumptions of £251k. This will be used to fund transportation costs specifically to improve public transport services for elderly members of the community and support trips to health and social care opportunities in addition to funding further feasibility work in relation to the Rotherwas rail link proposals. Appendix 8 provides further details.

New pressures affecting budget planning

- 11 A contingency was allowed for in the MTFs to provide for slippage / optimism of future savings and unforeseen pressures. This alongside additional savings, a provision set aside for increases in the cost of the waste disposal contract and inflation have not all been required. These have been used to fund additional budget pressures set out below.

	2015-16 £000's	2016-17 £000's	Total £000's
Children's			
Baseline placements (in year)	762		762
Child sexual exploitation prevention	100		100
	862	-	862
Adults Wellbeing			
Savings not achieved in demand management (replaced by new savings)	1,160		1,160
New / additional demographic pressures	114	146	260
Transitions – ongoing impact of growth	700	100	800
	1,974	246	2,220
ECC			
Grass cutting	400		400
Rockfield Road car park closure		30	30
Valuations		41	41
	400	71	471
Corporate			
Insurance premiums	200		200
Grant reduction assumption 7%		873	873
Cost of funding new capital investment need	100	300	400
Joint safeguarding board	100		100
	400	1,173	1,573
TOTAL	3,636	1,490	5,126

- 12 All pressures have been challenged, in addition the adults wellbeing budgets have gone through an external assurance and stress test process and amendments have been reflected where improvements were identified as needing to be made.

Reserves and balances

- 13 The projected general fund working balance is as follows being in excess of the policy requirement to retain a balance of 3% of the net budget (approximately £4.3m);

Year ending	£m
31.3.14	5.1
31.3.15	8.6
31.3.16	7.6

In addition the council has a number of revenue reserves which are earmarked for specific purposes; note the council cannot use schools balances. Including these reserves total reserves going forward are estimated to be as follows:

Further information on the subject of this report is available from Peter Robinson, Chief Financial Officer on Tel (01432) 383519

Year ending	General working balance £m	Earmarked reserves £m	Schools £m	Total £m
31.3.14	5.1	17.6	6.3	29.0
31.3.15	8.6	9.7	6.1	24.4
31.3.16	7.6	9.6	5.0	22.2

- 14 Earmarked reserves include specific grant funding carried forward, for example, the severe weather grant funding of £2m received in March 2014.
- 15 The level of general reserves retained have been increased in recognition of the possibility of increased difficulty in achieving the savings plans going forward in addition to providing a more prudent level of contingency for the additional risks as set out in paragraph 27 below.

Statutory statement by the council's chief finance officer

- 16 The purpose of this statement is to comply with the requirements of the Local Government Act 2003 whereby the chief finance officer must report on the:
- Robustness of the estimates made for the purposes of the budget calculations.
 - Adequacy of the proposed financial reserves.
- 17 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.
- 18 The chief finance officer states that to the best of his knowledge and belief these budget calculations are robust and have full regard to:
- The council's corporate plans and strategies;
 - The council's budget strategy;
 - The need to protect the council's financial standing and manage corporate financial risks;
 - This year's financial performance;
 - The Government's financial policies;
 - The council's medium-term financial planning framework;
 - Capital programme obligations;
 - Treasury management best practice;
 - The strengths of the council's financial control procedures;
 - The extent of the council's balances and reserves; and
 - Prevailing economic climate and future prospects.

Community Impact

- 19 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

- 20 Individual budget proposals have been impact assessed where necessary and a cumulative equality impact assessment is attached at appendix 7 and should be considered with this report.
- 21 Legal challenges to local authority budget setting processes have tended to turn on whether the authority has complied with its obligations under the Equality Act 2010 - the public sector equality duty (PSED). This duty imposes a positive obligation on local authorities to promote equality and to reduce discrimination in relation to any of the nine 'protected characteristics' (age; disability; gender reassignment; pregnancy and maternity; marriage and civil partnership; race; religion or belief; sex; and sexual orientation). In particular, the council must have 'due regard' to the PSED when taking any decisions on service changes. However, the courts also recognise that local authorities have a legal duty to set a balanced budget and that council resources are being reduced by central government.
- 22 Where a decision is likely to result in detrimental impact on any group sharing a protected characteristic it must be justified objectively. This means that attempts to mitigate the harm need to be explored. If the harm cannot be avoided, the decision maker must balance this detrimental impact against the strength of legitimate public need to pursue the service remodelling to deliver savings. The more serious the residual detrimental impact, the greater the financial savings must be to justify the decision. The harm can only be justified if it is proportionate to the financial benefit and if there have been reasonable efforts to mitigate the harm.

Financial Implications

- 23 As set out in the report.

Legal Implications

- 24 When setting the budget it is important that councillors are aware of the legal requirements and obligations. Councillors are required to act prudently when setting the budget and council tax so that they act in a way that considers local taxpayers. This also covers the impact on future taxpayers.
- 25 The Local Government Finance Act 1992 requires a council 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. The act also covers the legal issues around council tax setting.

- 26 Best estimates have to be employed so that all anticipated expenditure and resources are identified. If the budget includes unallocated savings or unidentified income then these have to be carefully handled to demonstrate that these do not create a deficit budget. An intention to set a deficit budget is not permitted under local government legislation.
- 27 Local authorities must decide every year how much they are going to raise from council tax. They base their decision on a budget that sets out estimates of what they plan to spend on services. Because they decide on the council tax before the year begins and can't increase it during the year, they have to consider risks and uncertainties that might force them to spend more on their services than they planned. Allowance is made for these risks by: making prudent allowance in the 37 estimates for services; and ensuring that there are adequate reserves to draw on if the service estimates turn out to be insufficient.
- 28 Local government legislation requires an authority's chief finance officer to make a report to the authority when it is considering its budget and council tax. The report must deal with the robustness of the estimates and the adequacy of the reserves allowed for in the budget proposals (the statement is contained within the risk management section of this report. This is done so that members will have authoritative advice available to them when they make their decisions. As part of the Local Government Act 2003 members have a duty to determine whether they agree with the chief finance officer's statutory report. If they do not they must provide clear reasons for not following the professional advice put forward by the chief finance officer.

Risk Management

- 29 The budget has been updated using the best available information, current spending, anticipated pressures and an assessment of the grant settlement.
- 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.
 - 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.
 - 75% of council funding is provided from council tax and business rates. Both are subject to appeals, collection rates and bad debts. For business rates appeals

can be backdated for up to six years. The council has set-aside a reserve to cover this of £1m, however if a number of significant claims are lost above this amount, the council would have to identify funding to cover this.

30 The most substantial risks have been assessed in the budget process and reasonable mitigation has been made. Risks will be monitored through the year and reported to cabinet as part of the budget monitoring process. The proposed budget includes contingency and reserves that, if required, can be used to manage realised risks in addition to the normal budget virement risk management process.

31 **Substantial reductions to directorate budgets** - £10m of reductions have been identified within the 2015/16 budget proposals. These are in addition to the £49m savings in the previous four financial years, with savings also identified of £8m in 2016/17. Key risks for directorates are set out below;

32 **Economy, Communities and Corporate**

- There is risk to the budget for the emergency costs in response to severe weather conditions, such as flooding or harsh winter conditions. Whilst DCLG assist in the funding of these costs through the Bellwin scheme, the council would have to fund the remainder within current budgets or reserves.
- The current property market may impact on the ability to dispose of current surplus assets when anticipated. This will incur additional running costs and impact on borrowing costs.

33 **Adults Well-Being**

- Demographic pressures have been included within the budget proposals for expected growth, but pressures within Health funding may result in added costs due to earlier hospital discharges.
- Re-commissioning of services is dependent upon successful contract negotiations and an appetite within the marketplace for change and the management of delivering to proposed timescales.
- Reviews of high cost packages run the risk of care packages also increasing in value as well as decreasing in value.
- Increased income expectations are at risk as if successful at preventative and redirection demand initiatives, then this may reduce the ability to increase income generation.
- There is a risk that the national publicity campaign to support the implementation of the Care Act in 2015/16 may give rise to a higher level of additional local activity from carers and self-funders than anticipated which results in increased expenditure above the new burdens funding received.

34 **Children's Wellbeing**

- The care placement strategy step down approach requires children to be identified and the care placements and foster carer's to be available. Demand

pressures have been included in the budget, and the strategy includes prevention however demand is a risk.

- Social work recruitment within children's services remains a risk with a national shortage of social workers. The recruitment and retention strategy of growing our own, maintaining low caseloads, offering retention benefits, managing the quality and cost of agency staff and a review employment models all support a sustainable workforce.

35 The level of reserves planned for are considered adequate to cover the risks outlined above.

Shaping our priorities

36 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.

37 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

38 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

39 We also held a series of conversations with local people across the county discussing their concerns and priorities in their communities.

40 The results of the Your Community - Your Say events are available online at <http://factsandfigures.herefordshire.gov.uk/2323.aspx>.

41 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

42 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.

43 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.

44 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.

Proposing the budget for 2015/16

45 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.

46 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.

47 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.

48 The details of this consultation and results are available online at www.herefordshire.gov.uk/budgetconsultation2015

Key messages

- 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 – Savings plan by directorate

Appendix 2 - 2015/16 detailed base budgets

Appendix 3 – 2014/15 Budget monitoring

Appendix 4 – Medium term financial strategy 2015-17

Appendix 5 – Treasury management strategy 2015/16

Appendix 6 – Budget consultation results

Appendix 7 – Cumulative equality impact assessment

Appendix 8 – Additional Rural Transport Funding

Background Papers

- None identified.