

Meeting:	Cabinet
Meeting date:	Friday 12 January 2018
Title of report:	Setting the 2018/19 budget and updating the medium term financial strategy
Report by:	Cabinet member finance, housing and corporate services

Classification

Open

Decision type

Budget and policy framework

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

(All Wards);

Purpose and summary

To agree the draft 2018/19 budget and medium term financial strategy (MTFS) for recommendation to Council on 26 January 2018.

The proposed budget reflects the provisional local government settlement announced on 19 December and previously agreed MTFS has been updated to take account of the latest financial data in relation to service pressures and available funding. To deliver a balanced budget there is a need for significant savings to be achieved in 2018/19 as well as a need to increase council tax. This is in response to reduced central government funding alongside increasing budget pressures for statutory services such as looked after children and adult social care. The budget proposed includes a 4.9% total council tax increase to deliver a balanced budget.

The MTFS has also been rolled forward one year, to 2020/21. The report provides information about the recent government announcements re local government funding and reports the outcome of the budget consultation process.

Recommendation(s)

That:

the following be recommended to Full Council:

- i. the council tax base of 68,177.57 Band D equivalents;
- ii. an increase in core council tax in 2018/19 of 1.9%
- iii. an additional precept in respect of adult social care costs of 3% applied to council tax in 2018/19 resulting in a total council tax increase of 4.9%; increasing the band D charge from £1,376.50 to £1,443.95 for Herefordshire Council in 2018/19;
- iv. the balanced 2018/19 revenue budget proposal of £144.1m subject to any amendments approved at the meeting specifically.
 - a. The net spending limits for each directorate as at Appendix 3
 - b. The gross revenue budget of £241.2m
 - c. Delegates to the section 151 officer the power to make necessary changes to the budget arising from any variations in central government funding allocations via general reserves;
- v. the treasury management strategy at appendix 5 be approved;
- vi. the medium term financial strategy (MTFS) at appendix 1 be approved.

Alternative options

1. It is open to Cabinet to recommend alternative spending proposals or strategies; however given the legal requirement to set a balanced budget should additional expenditure be proposed compensatory savings proposals must also be identified.
2. Cabinet can propose that the intended total council tax uplift of 4.9% is achieved through a core council tax uplift of 2.9% and an adult social care precept of 2% (as opposed to 1.9% and 3% as included in the recommendations above).
3. Following the government's provisional settlement announcement on 19 December 2017, which raised the referendum principle, it is now open to Cabinet to propose that the core council tax uplift is increased by 1% to 2.9%, bringing the total council tax increase for 2018/19 to 5.9%. This would increase the budget by £0.9m.
4. Cabinet can propose a council tax increase above the referendum principle levels. This is not recommended as doing so would require the increase to be subject to a local referendum, incurring additional costs to the council.

Key considerations

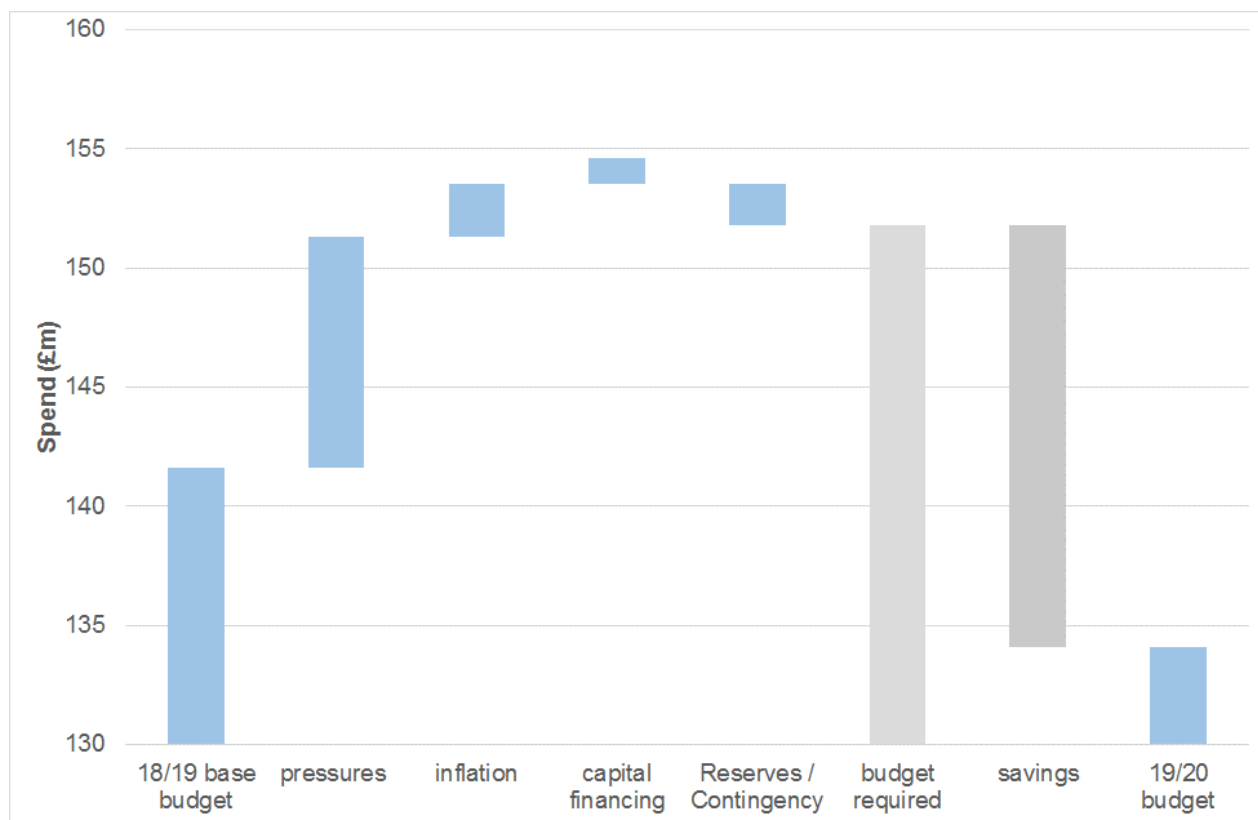
5. The impact of continuing reductions in central government funding to councils means that Herefordshire Council is required to make further savings to balance its budget for 2018/19 and in the years to come.

6. The council continues to direct its resources to deliver the key services required by residents while reducing overall costs to demonstrate efficiency and ensure good use of scarce resources.
7. A balanced, deliverable budget is proposed which, subject to any approved amendments, is recommended to full council for approval.
8. The MTFs, attached at appendix 1, has been updated to reflect current spending, a review of savings plans, contingencies and demographic pressures. There is less certainty around the 2020/21 estimates as government has yet to determine future local government funding arrangements beyond 2019/20. The Government is currently consulting on its fair funding review, which closes on the on 12 March 2018. The current comprehensive spending review ends in 2019/20.
9. The 2018/19 budget assumes a 1.9% increase in the core council tax plus an increase of 3% in 2018/19 (1% in 2019/20) in relation to the adult care precept, a total council tax increase of 4.9% in 2018/19. The core council tax increase is restricted by council tax referendum principles, prior to the provisional local government financial settlement announced on 19 December this was restricted to an uplift of 2%. An uplift in excess of this would be excessive and require a successful local referendum to be implemented. On the 19 December the government issued draft regulations that describe an excessive amount of council tax as 6%. In addition to the core council tax increase councils have been permitted to levy an adult social care precept in recognition of the financial pressures faced in providing adult social care services, the income raised this way is ring-fenced.
10. The Chancellor of the Exchequer's autumn statement was issued on 22 November and the provisional local government funding settlement announced on 19 December 2017. The consultation on the provisional settlement closes on 16 January 2018 with the final settlement expected to be announced shortly thereafter. Herefordshire will play an active part in responses to the provisional settlement through the Rural Services Network and the Society of County Treasurers. The provisional settlement included the following:-
 - a. Increasing the rural services delivery grant funding for Herefordshire by £1m in 2018/19 to remain at the level of funding, being £4.1m, in 2017/18 and 2019/20.
 - b. Confirmation that Herefordshire will not be a business rate pilot in 2018/19, Herefordshire Council applied to be a joint pilot area for 100% business rate retention in 2018/19 in a pooling arrangement with Shropshire Council and Telford and Wrekin Council which, if successful, would have seen additional funding in 2018/19.
 - c. Business rate income expected to be retained locally at 75% (not 100%) from 2020/21.
 - d. The ability to increase the core Council Tax requirement by an additional 1%
11. Herefordshire accepted the four year funding settlement in 2016/17 this forms the basis of the MTFs to 2019/20 and an estimate for 2020/21.
12. The Herefordshire Council Corporate Plan 2016 – 2020 was adopted by Council in February 2016. This identified four priorities and was the subject of an extensive consultation exercise. The following vision for Herefordshire Council was developed as part of the Communications Strategy 2016 – 2020 adopted by cabinet in September 2016: 'People, organisations and businesses working together to bring sustainable prosperity and well-being for all, in the outstanding natural environment of Herefordshire.'

This vision builds upon our four key priorities and has helped to inform the development of our 2018/19 budget and medium term financial strategy.

Current savings plan 2018-19 to 2019-20

13. The current savings plans require £17.8m of savings, this represents the funding gap arising from increased costs and reduced funding, as shown below.



14. The council has delivered £70m of savings in the financial years 2010-11 to 2016-17, with an additional £7m required in the current financial year, 2017/18. Looking forward an additional £19.2m of savings or additional income in the financial period 2018-19 to 2020/21 is needed. This gives total savings for the financial period 2010-11 to 2020/21 of £96.2m.
15. A base budget exercise for 2018-19 has identified additional pressures in both adults and children's of £7.6m, additional savings have been identified in recognition of the additional pressures. Savings have been reviewed as part of the budget setting process and directorate challenge sessions were held to validate viability of savings. The budget presentation is shown in appendix 6. These savings plans are attached as appendix 2 and are summarised in the table below.

	2018-19 £m	2019-20 £m	Total 18-20 £m
Adults and wellbeing	5.4	1.5	6.9
Children's wellbeing	2.2	1.1	3.3
Economy, communities and corporate	3.9	2.0	5.9
Treasury management	1.5	0.2	1.7
Total	13	4.8	17.8

16. The majority of savings relate to continued efficiency improvements and changes to service delivery and have been referred to in the public budget consultation. The implementation of individual savings proposals may require further consultation and will be subject to specific governance as necessary, prior to their implementation.

Base budget 2018-19

17. The draft budget for 2018-19 is set out below and detailed in appendix 3. This reflects increases in inflation, pressures, savings and other adjustments.

Draft revenue budget summary 2018-19

Directorate	Current base budget 2017/18 £000	Net budget increases £000	Budget savings £000	Proposed base budget 2018/19 £000
Adults and wellbeing	51,243	6,081	(5,395)	51,929
Children's wellbeing	21,153	4,481	(2,232)	23,402
Economies, communities and corporate (ECC)	44,740	1,083	(3,862)	41,961
Total directorates net budget	117,136	11,645	(11,489)	117,292
Centralised corporate costs				4,722
Capital financing - debt repayments				7,827
Capital financing - interest				6,053
Other central budgets				4,430
MRP saving contribution to reserves				3,800
Total net spend (budget requirement)				144,124
Financed by				
Council tax				98,445
Business rates				33,256
Revenue support grant				5,370
New homes bonus				2,540
Collection fund surplus				420
Rural services delivery grant				4,093
				144,124

Financing

18. The 2018-19 net budget requirement is financed by retained funding from council tax (£98m) and business rates (£33m) as shown in the table above. Assumptions include a 4.9% increase in council tax and business rate reliefs being funded via a central government grant. Central government funding is included as accepted in the four year funding settlement and the increased rural services delivery grant funding announced in the provisional settlement on 19 December 2017.

Better Care Fund

19. The current Better Care Fund (BCF) plan is for two financial years- 2017/18 and 2018/19. As such the draft budget assumes the level of protection for adults social care in 2018/19 from the Better Care Fund is in line with the current plan (being £4.56m and £0.46m Care Act funding). Internal planning on the allocation of the protection of social care funding for 2018/19 has started based on the BCF plan. Herefordshire is working closely with the health sector in developing the sustainability and transformation plan with the aims of improving the health and wellbeing of the local population, improving the quality and safety of care delivery, and securing ongoing financial sustainability.
20. The BCF plan also includes the Improved Better Care Funding announced in the final 2017/18 financial settlement. This is non-recurrent grant funding paid directly to Herefordshire that must be included within the BCF plan. The funding for 2018/19 is £4.7m. The grant conditions require that the grant funding may be used only for the purposes of meeting adult social care needs; reducing pressures on the NHS, including supporting more people to be discharged from hospital when they are ready; and ensuring that the local social care provider market is supported. Herefordshire is working closely with health commissioners and providers, and social care providers to develop plans for allocation of the grant funding. The detail of this will be subject to a further decision report.

New pressures included in draft budget

21. Additional pressures have been identified that were not anticipated in the MTFS approved in February 2017, these are summarised below and detailed in the revised MTFS, appendix 1 :

	2018-19
	£000's
Adult services pressures	3,583
Children's services pressures	3,970
ECC pressures	90
TOTAL	<u>7,643</u>

The adult services additional pressures of £3.6m are in excess of the proposed 3% adult social care precept charge for 2018/19 which will generate new annual income of £2.8m. Revenue support grant has reduced by £4.7m, therefore savings are still required as set out at the table in paragraph 17 above.

Reserves and balances

22. The council's revenue reserves are split between general reserves and earmarked reserves that are held for certain purposes.
23. Part of the council's general reserve is held as a strategic reserve to cover emergency events such as unforeseen financial liabilities or natural disasters. This reserve is maintained at a minimum level of between 3% and 5% of the council's net revenue budget.
24. The remainder of the council's general reserve is to support one-off and limited on-going revenue spending and, in line with the four year settlement, for smoothing the impact of the late delivery of savings plans.
25. The council's earmarked reserves, which include school balances, are held to meet identified spending commitments. These reserves will only be used for the purpose for which they were created and will be reviewed annually. If they are no longer required they will be transferred to the general reserve. The predicted general reserve includes a new reserve for the setting aside of savings in minimum reserve provision (MRP) charges following the approval of a revised MRP policy.
26. The projected reserve balances are as follows:

Balance as at	Strategic Reserve	General Reserve	School Balances	Earmarked Reserves	Total Reserves
	£m	£m	£m	£m	£m
31 March 2017	7.3	0.6	7.4	37.3	52.6
31 March 2018	7.1	4.0	7.2	29.3	47.6
31 March 2019	6.8	7.8	7.2	28.5	50.3
31 March 2020	6.8	11.4	7.2	25.6	51.0

The estimated breakdown of earmarked reserves is shown below:

Earmarked reserve	31/03/2017	31/03/2018	31/03/2019	31/03/2020
	£m	£m	£m	£m
Settlement monies	8.0	8.0	4.0	-
Waste Disposal	5.8	4.0	4.0	4.0
Unused grants carried forward	5.0	2.0	2.0	2.0
Rural Services Delivery Grant	4.5	6.4	7.3	7.3
Risk mitigation	3.6	2.6	2.6	2.6
Business Rate smoothing	3.2	3.1	5.4	6.8
Severe Weather Fund	1.3	1.3	1.3	1.3
ICT	0.8	-	-	-
Whitecross School PFI	0.8	0.8	0.8	0.8
ECC	0.6	-	-	-
Other small reserves	0.6	-	-	-
Industrial Estates	0.4	0.4	0.4	0.4
Library/Communities	0.4	-	-	-
Schools' sickness	0.4	0.4	0.4	0.4
Hereford Futures Ltd	0.3	-	-	-
Herefordshire Relief Road	0.3	-	-	-

Earmarked reserve	31/03/2017	31/03/2018	31/03/2019	31/03/2020
	£m	£m	£m	£m
Insurance	0.3	0.3	0.3	-
Short Breaks	0.3	-	-	-
Colwall Mobiles	0.2	-	-	-
Herefordshire Local Plan	0.2	-	-	-
Economic Development	0.1	-	-	-
Property Development Vehicle	0.1	-	-	-
Special Educational Needs	0.1	-	-	-
Total	37.3	29.3	28.5	25.6

Pension deficit

27. Herefordshire Council is a member of the Worcestershire County Council Pension Fund. The pension fund is revalued every three years and was last revalued as at 31 March 2016 when the actuary reviewed mortality rates, salary levels, inflation and asset growth. Herefordshire's proportion of the net deficit on the Worcestershire County Council Pension Fund as at 31 March 2017 was £247m. This represents the shortfall between the estimated value of obligations and the assets held in the pension fund as at the year end. A summary of how this obligation has fluctuated annually is shown below:-

	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m
Present value of liabilities	(423)	(420)	(500)	(486)	(602)
Value of Scheme assets	235	260	289	282	355
Surplus/(Deficit)	(187)	(159)	(211)	(204)	(247)

28. This proportionate level of deficit is normal for council pension funds and relates to falling returns on investments and employees living significantly longer than anticipated when the scheme was initially set-up. Herefordshire council's deficit funding level was 70% on revaluation, nationally funding levels range from 0% to 140%.
29. The council ensures that funding is set aside by the time the benefits come to be paid with revised contribution rates bringing the fund into balance over a period of 18 years. Although the benefits will not actually be payable until employees retire, the council has a commitment to make deficit and in service contributions which are included in the budget proposals. In 2018/19 the council will pay £5m towards the deficit as agreed with the pensions fund's actuaries and the in service contribution rate will be 15.6%.

Capital programme and Treasury Management Strategy

30. The MTFs at appendix 1 includes the proposed capital investment programme presented elsewhere on the cabinet agenda today.
31. Appendix 5 provides the detail of the associated Treasury Management Strategy for 2018/19 in line with this report and the MTFs.

Community impact

32. The MTFs and budget demonstrate how the council is using its financial resources to deliver the priorities within the agreed corporate plan, health and safety obligations and corporate parenting responsibilities.
33. Over the past three years the council has delivered improvement, achievement, positive change and outcomes along the way to deliver our key priorities, including:

Supporting the growth of our economy

- Delivered major public realm improvements to Hereford's centre;
- Opening of the Hereford Greenway and new cycle bridge over the River Wye completing another key link in the city cycle network;
- 368 miles of road resurfaced in the last 3 years - 19% of the entire highway network;
- Filled over 200,000 pot-holes;
- Continued rolled out of "Fastershire" broadband to over 83% of residents and businesses in the county;
- Enterprise zone established and developed.

Keeping children and young people safe and giving them a great start in life

- Developed New Horizons to enable young adults with learning disabilities to stay in build their independence in Herefordshire rather than out of county;
- Increased the number of local foster carers by 9%, against a national backdrop of reducing numbers;
- Introduction of first Multi Agency Safeguarding Hub in West Mercia;
- Development of new approach to provide housing for vulnerable young adults;
- Development of family based short breaks for children with a disability to give parents more choice.

Enabling residents to live safe, healthy and independent lives

- Restructuring social work teams to provide a clearer service pathway, ensuring rapid assessment for routine cases, along with expert capacity for complex cases, dramatically increasing the proportion of clients reviewed each year;
- Reviewing all contracts and securing cost reductions of 30%-50%, while still maintaining quality and impact in key areas;
- Securing approval of a new housing strategy and housing allocations policy, in a context of major national system change.

Secure better services and quality of life and value of money

- Achieve cost savings as detailed in appendix 2 and continue to directly deliver services where we are the best organisation to do so.

Equality duty

34. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to -

- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
 - (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
 - (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
35. We will carry out 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.
36. 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.

Resource implications

37. The financial implications are as set out in the report. The ongoing operational costs including, HR, IT and property resource requirements are included in the draft budget.

Legal implications

38. 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.
39. 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.
40. Section 106 of the Local Government Finance Act 1992 precludes a councillor from voting on the Council's budget if he or she has an outstanding council tax debt of over two months. If a councillor is present at any meeting at which relevant matters are discussed, he or she must disclose that section 106 applies and may not vote. Failure to comply is a criminal offence
41. 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.

42. The council must decide every year how much they are going to raise from council tax. The decision is based on a budget that sets out estimates of what is planned to be spent on services. Because the level of council tax is set before the year begins and cannot be increased during the year, risks and uncertainties have to be considered, that might force higher spending more on the services than planned. Allowance is made for these risks by: making prudent allowance in the estimates for services; and ensuring that there are adequate reserves to draw on if the service estimates turn out to be insufficient. A referendum is only required if the council tax is, as currently drafted in regulations, 6% or more (comprising 3% for expenditure on adult social care and 3% or more for other expenditure).
43. Local government legislation requires the council's S151 officer to make a report to the full council meeting 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 S151 statutory report.
44. The council's budget and policy framework rules require that budget consultees should include parish councils, health partners, the schools forum, business ratepayers, council taxpayers, the trade unions, political groups on the council, the scrutiny committees and such other organisations and persons as the leader shall determine. This has been completed as set out in the consultee section below.

Risk management

45. Section 25 of the Local Government Act 2003 requires the s151 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 Council report must deal with the robustness of the estimates included in the budget and the adequacy of reserves as detailed in the draft MTFS at appendix 1.
46. The budget has been updated using the best available information, current spending, anticipated pressures and the four year grant settlement. This draft will be updated following the autumn statement.
47. The most substantial risks have been assessed as part of 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.
48. There are additional risks to delivery of future budgets including the delivery of new homes, Brexit, government policy changes including changes to business rates and unplanned pressures. We are maintaining a general fund reserve balance above the minimum requirement and an annual contingency budget to manage these risks.
49. 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. In addition re-setting our relationship with communities focussing services on areas of greatest professional need will support the MTFS.

50. Difficulty in achieving reductions in children's safeguarding costs, we are high spending compared to statistical neighbours and methods of reducing this cost are progressing however some delays have been experienced, progress on this will be reported as part of the quarterly performance reporting to Cabinet.
51. We retain the risk of on-going litigation claims which may result in one off costs falling due, a risk mitigation reserve of £3.9m has been set aside to fund this.

Consultees

52. The council's budget consultation took place over a 13 week period from 29 June 2017 until 30 September 2017. A short survey was developed to seek views on which services are important to people and so that people could help shape the way we set our annual budget across our four priority areas.
53. There were a total of 514 standard responses to the consultation, 510 of which were submitted online and 4 were paper copies. This was an increase in the number of responses compared to previous years Note that these respondents may not necessarily represent the views of the general population, as they were self-selecting and wanted to be consulted. The responses are detailed in appendix 4, The most common areas that the majority of respondents felt that the council should do more within its priorities are; roads, transport and travel, older people and vulnerable people and environment. Further information on responses is available within the summary of budget consultation (appendix 4).
54. During this consultation period, a number of other consultations have been taking place which have helped to inform our overall thinking on the 2018/19 budget and medium term financial strategy. These consultations included: Children centre buildings, Bromyard children centre services, Pharmacy survey, Public Spaces Protection Order (PSPO) alcohol restrictions and School travel.
55. The budget proposed supports the public consultation responses, including the continued use of the Public Health grant through commissioning the priority services supported as detailed in separate decision reports.
56. The survey was made available on the council's website and promoted via social media. The budget consultation was also promoted to a wide range of key stakeholders and groups including: political groups on the council, elected members, parish councils, Chamber of Commerce Hereford networking breakfast, Care homes forum, Home care forum, Making It Real service user group, Herefordshire Community Safety Partnership, Spotlight on Children, Herefordshire Schools Forum, Herefordshire Association of Secondary Headteachers, and Herefordshire Primary Headteachers' Forum.
57. The draft budget was presented to the general scrutiny committee on 13 December. The committee made comments regarding presentational issues and performance monitoring but made no recommendations to alter or amend the draft proposals. Their comments and responses are provided in Appendix 6.

Appendices

Appendix 1 - Draft Medium Term Financial Strategy

Appendix 2 - Breakdown of savings plans by directorate

Appendix 3 - Detail of draft 2018/19 budget

Appendix 4 - Summary of budget consultation

Appendix 5 – Treasury Management Strategy 2018/19

Appendix 6 – General Scrutiny Committee consultation

Appendix 7 – Car park income

Background papers

None identified.