

| | |
|-------------------------|---|
| Meeting: | General scrutiny committee |
| Meeting date: | Monday 11 December 2017 |
| Title of report: | Setting the 2018/19 budget and updating the medium term financial strategy |
| Report by: | Chief finance officer |

Classification

Open

Decision type

This is not an executive decision.

Wards affected

(All Wards);

Purpose and summary

To seek the views of the general scrutiny committee on the budget proposals for 2018-19 and updated medium term financial strategy (MTFS).

The committee is invited to make recommendations to inform and support the process for making cabinet proposals to Council regarding the adoption of the budget and associated budget framework items, including providing constructive challenge to the cabinet's proposals.

Recommendation(s)

That:

- (a) having regard to the proposals, the evidence of need provided in Understanding Herefordshire (the joint strategic needs assessment) and the consultation responses, the committee determine any recommendations it wishes to make to Cabinet in relation to:**
- **the draft MTFS 2018/2021 at appendix 1;**
 - **the robustness of the savings plans at appendix 2;**
 - **the draft budget 2018/19 at appendix 3; and**

- (b) the committee review the 2017/18 budget book at appendix 5 and determine any recommendations it wishes to make to improve the clarity/transparency of information to be provided in the 2018/19 budget book.**

Alternative options

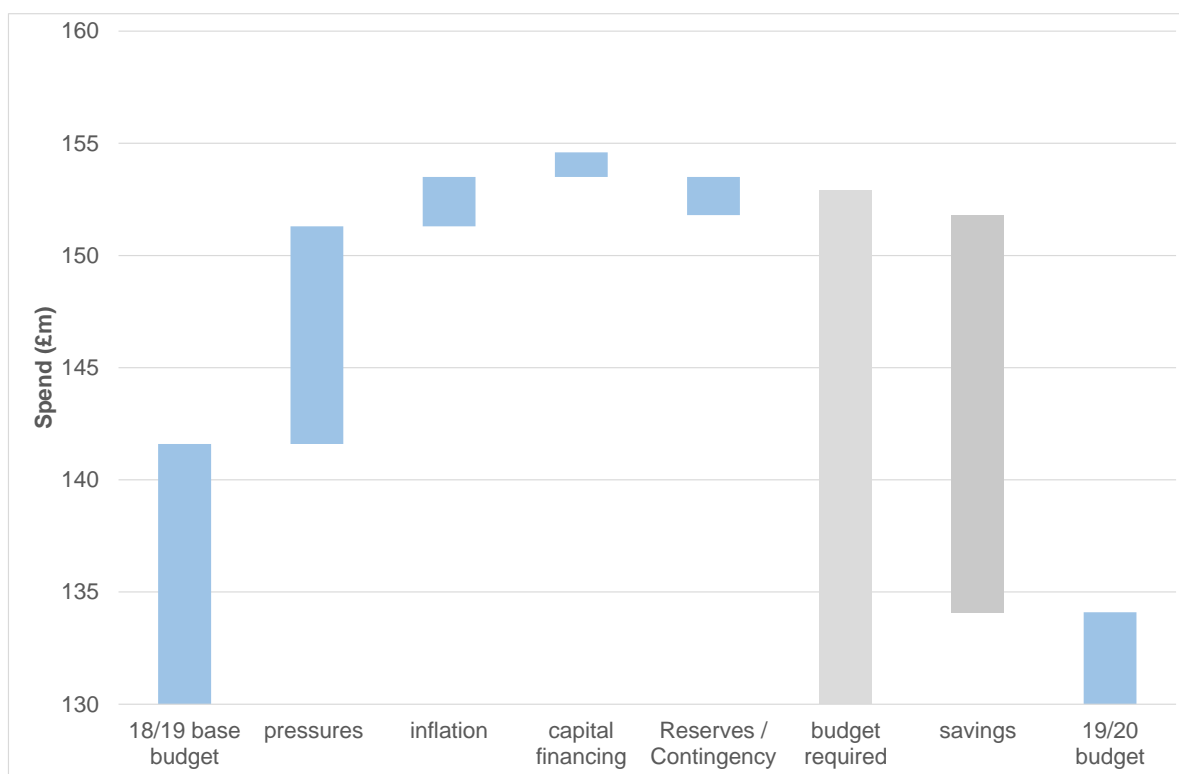
1. There are no alternatives to the recommendations.
2. It is open to the committee to recommend alternative spending proposals or strategies; however given the legal requirement to set a balanced budget should additional expenditure be proposed compensatory savings proposals must also be identified.

Key considerations

3. The MTFS, attached at appendix 1, has been updated to reflect current spending, a review of savings plans, contingencies and demographic pressures. 2020/21 has been included however this is an estimate until the Government confirm the comprehensive spending review. The current comprehensive spending review ends in 2019/20. It assumes a 1.9% general increase in council tax plus an increase of 3% in 2018/19 (1% in 2019/20) in relation to the adult care precept, a total increase of 4.9%. The autumn statement was shared on 22 November and we await confirmation of the settlement which is due in late December.
4. 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. The draft budget for 2018/19 at appendix 3 is proposed in recognition of managing need and the council's relationship with communities.
5. Council will be asked to approve the 2018-19 budget on 26 January 2017. It will also be asked to approve the updated MTFS to 2020-21 and the treasury management strategy.
6. 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

7. The current savings plans require £15.9m of savings, this represents the funding gap arising from increased costs and reduced funding, as shown below.



8. 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. 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.
8. 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 to cover the pressures included in the £19.2m. 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 |

9. 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

10. 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 | Net changes | Proposed base budget |
| | 2017/18 | | 2018/19 |
| | £000 | £000 | £000 |
| Adults and wellbeing | 51,243 | 686 | 51,929 |
| Children's wellbeing | 21,153 | 2,249 | 23,402 |
| Economies, communities and corporate | 44,740 | (2,779) | 41,961 |
| Total directorates net budget | 117,136 | 156 | 117,292 |
| Centralised corporate costs | | | 4,722 |
| Capital financing - debt repayments | | | 7,827 |
| Capital financing - interest | | | 6,053 |
| Other central budgets | | | 2,885 |
| MRP saving contribution to reserves | | | 3,800 |
| Total net spend (budget requirement) | | | 142,579 |
| Financed by | | | |
| Council tax | | | 98,404 |
| Business rates | | | 33,116 |
| Revenue support grant | | | 5,370 |
| New homes bonus | | | 2,540 |
| Rural services delivery grant | | | 3,149 |
| | | | 142,579 |

Financing

11. 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 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.

Better Care Fund

12. 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. The BCF plan shares the pathway for the full integration of health and social care by 2020.

13. The BCF plan also includes funding for the Improved Better Care Fund. 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.

New pressures included in draft budget

14. Additional pressures have been identified that were not anticipated in the MTFs approved in February 2016, these are set out below:

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

Reserves and balances

15. The council's revenue reserves are split between general reserves and earmarked reserves that are held for certain purposes.
16. 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.
17. 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.
18. 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 earmarked reserves includes a new reserve for the setting aside of savings in minimum reserve provision (MRP) charges following the approval of a revised MRP policy.

19. 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 | 4.0 | 7.2 | 32.3 | 50.3 |
| 31 March 2020 | 6.8 | 4.0 | 7.2 | 33.0 | 51.0 |

Pension deficit

20. 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) |

21. 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%.
22. 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%.

Budget setting timetable

| Date | Action |
|------------|---|
| 12 January | Cabinet to consider updated budget, MTFS and treasury management strategy and capital programme for recommendation to Council |
| 26 January | Council to approve 2017/18 budget, updated MTFS and treasury |

| | |
|---------|--|
| | management strategy |
| 9 March | Council to approve council tax amounts for 2017/18 |

Community impact

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

24. 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 "Fasterhire" 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.

25. In accordance with the principles of the code of corporate governance, Herefordshire Council is committed to promoting a positive working culture that accepts, and encourages constructive challenge, and recognises that a culture and structure for scrutiny are key elements for accountable decision making, policy development, and review.

Equality duty

26. 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.
27. 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.
28. 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

27. 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

28. 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.
29. 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.
30. 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.

31. 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.
32. 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.

The council's budget and policy framework rules require that the chairmen of a scrutiny committee shall take steps to ensure that the relevant committee work programmes include any budget and policy framework plan or strategy, to enable scrutiny members to inform and support the process for making cabinet proposals to Council.

Risk management

35. 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 report must deal with the robustness of the estimates included in the budget and the adequacy of reserves.
36. 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.
37. 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.
38. 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.
39. 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.
40. 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.

41. 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

42. 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.
43. 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).
44. 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.
45. 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.

Appendices

Appendix 1 - draft MTFS

Appendix 2 - breakdown of savings plans by directorate

Appendix 3 - detail of draft budget

Appendix 4 - summary of budget consultation

Appendix 5 – Budget book for 2017-18

Appendix 6 – budget presentation

Background papers

None identified.