

MEETING:	Cabinet
MEETING DATE:	21 January 2016
TITLE OF REPORT:	2016-17 budget and medium term financial strategy (MTFS)
REPORT BY:	Director of resources

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

This is a key decision 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 2016-17 budget and medium term financial strategy (MTFS) 2016-20 for recommendation to Council on 5 February.

Recommendation(s)

THAT:

- (a) **the following be recommended to Council:**
- i. **approval of a 1.9% increase in council tax in 2016-17;**
 - ii. **subject to meeting the eligibility criteria for levying the adult care precept, approval of an additional 2.0% increase in council tax in 2016-17. This will result in a total council tax increase of 3.9% increasing a total band D charge from £1,275.10 to £1,324.83 for**

- Herefordshire Council in 2016/17;
- iii. approval of the draft 2016-17 revenue budget (at appendix 1 to this report);
 - iv. approval of the draft medium term financial strategy (MTFS) which incorporates the capital programme approved by Council on 18 December (at appendix 2 to this report);
 - v. approval of the draft treasury management strategy (TMS) (at appendix 3 to this report); and
 - vi. in the event of final central government funding allocations being above or below the provisional settlement level and/or the adult care precept eligibility criteria not being met that variation be managed by an adjustment to general reserves.

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 It is open to cabinet to take account of different assumptions regarding adoption of the 2% adult care levy in future years of the medium term financial strategy. This is not recommended because of the known adult care pressures and funding reductions over the strategy period. The assumptions will be reviewed annually to ensure local taxation is at the minimum level necessary to meet local need.

Reasons for recommendations

- 3 The council has a legal obligation to set a balanced budget and Council is responsible for approving a budget following recommendations from cabinet in line with the budget and policy framework rules within the constitution.

Key considerations

Background

- 4 Central government has reiterated its commitment to achieve a budget surplus by 2020, as a result of this Herefordshire Council is having to address challenging financial conditions, entering year seven of a ten year 'austerity period'. The council is on schedule to meet these challenges, delivering savings of £59m by the end of 2015/16.
- 5 Whilst focused on delivering services to residents it has been necessary to reduce the size of the council, demonstrate efficiency and ensure good use of resources by:
 - Reducing the workforce.
 - Rationalising buildings we owned in order to centralise in fewer business centres.
 - Making stronger connections across public sector organisations – making resources go further.
 - Reducing wasted expenditure on paper, and shifting as a first choice to digital, in our offices.
 - Supporting the shift of staff to mobile working, rather than from fixed locations.

- 6 Council will be asked to approve the 2016-17 budget on 5 February 2016. It will also approve the medium term financial strategy and the corporate plan to 2019-20.

Autumn statement

- 7 The Chancellors autumn statement on 25 November included the following specific announcements that impact Herefordshire:
- Support (as yet unquantified) to secure launch funding to create a new university in Hereford, focused on engineering, in 2016.
 - Provision of £250m nationally over the next five years to tackle potholes, details awaited.
 - The introduction of a national funding formula for schools, high needs and early years; detailed consultation will be launched in 2016 and the new formulae will be implemented from 2017/18.
 - Better care fund to increase nationally by £1,500m by 2019-20, starting in 2017/18. This will include increased disabled facilities grant funding and will be funded by reform to the existing new homes bonus scheme. Consultation on the method of redistributing new homes bonus grant funding has begun.
 - The introduction of a new apprenticeship levy at 0.5% of employer wage bill from 2017/18, £200k for Herefordshire plus a further £200k for schools.
 - Reductions to the education support grant by 75%, 10% in 2016/17. Herefordshire receives £1.5m. The local authority role in running schools is expected to be reduced and a number of statutory duties will be removed. However, Herefordshire has already reduced or removed a number of activities covered by the current non-ring fenced grant. Consultation on the policy and funding proposals will start in 2016.
 - The public health grant will remain ring-fenced until 2017/18 but there will be a real terms cut of 3.9% per annum.
 - Higher costs for rural areas to be recognised by quadrupling the current sparsity grant by 2020.

Provisional funding settlement

- 8 The provisional local government settlement 2016/17 – 2019/20 was announced on 17 December 2015 and included additional reductions in revenue support grant (RSG). It was subsequently updated by the department for communities and local government (DCLG) on 23 December 2015 and for Herefordshire:
- Reduces RSG by £25.9m (98%) in 2015/16 to just £0.6m in 2019/20.
 - A standalone sparsity grant of £1.3m in 2016/17 rising to £4.1m in 2019/20.
 - Care act funding (£1.7m in 2015/16) is no longer a grant but included in the reducing RSG.

- 9 RSG reductions have been higher than expected in Herefordshire, due to government re-distribution of overall grant to metropolitan and London authorities.
- 10 The rural delivery services grant has been removed from the revenue support grant (£1m in 2015/16) and allocated as specific grant funding (£1.3m in 2016/17) in recognition of the additional costs incurred when providing services in sparse areas such as Herefordshire.
- 11 Other grant allocations are expected to be announced in January including the better care fund, public health, independent living fund and capital grants.
- 12 The settlement confirmed the council tax referendum threshold at 2%.
- 13 For Herefordshire this means that funding of the net budget requirement for 2016/17 has moved from the 2015/16 position as follows:

Funding changes 2015/16 – 2016/17	£m
Revenue Support Grant (RSG) reduction	(9.0)
New sparsity grant	1.3
1.9% council tax increase	1.6
2% council tax precept	1.7
Overall loss in funding	(4.4)

Settlement funding compared to the November scrutiny report

- 14 The indicative budget considered by the council's scrutiny committees on 17 November 2015 has been updated for the settlement changes as shown in the table below:

Variance compared to November 2015 assumptions	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
November shortfall	-	-	-	4.0
Cumulative net loss	0.5	2.3	3.0	3.2
Revised shortfall	0.5	2.3	3.0	7.2

- 15 The final settlement will be confirmed in February. Although there is not expected to be any significant variation, because this confirmation may not be received before the Council meeting, it is recommended that if final funding allocations are different to those in this report then the changes are managed by a proportionate adjustment to general reserves in 2016/17.

Adult care precept

- 16 Council debated whether it should levy the additional 2% precept at its meeting on 18 December 2015. It resolved that council should strongly consider the 2% precept in respect of adult social care and requires the Executive to consider how this money can

be best used to protect services, continue to further transform our local health and social care system, reduce demand and ensure improved services for some of the most vulnerable citizens now and in the future.

- 17 The council has a number of cost pressures in adult social care, including care act changes from April 2015, and cost pressures in the adult social care market including legislative changes. Therefore it is proposed that the 2% increase will be applied for in 2016/17 and be specifically ring-fenced to support existing and anticipated cost pressures within services for vulnerable adults and older people, including increasing demand. This is not an indication of future year's council tax decisions. Increases in the adults and wellbeing budget are shown below:

Adults and wellbeing pressures and inflation	2016/17 £000
Demographic growth	888
Preventative measures (including Care Act)	800
Other Care Act legislative pressures	190
Legislative changes	610
Children transitioning to adults	100
Inflation	724
Total	3,312

- 18 The 2% will increase a band D council tax charge by a further £25 per annum and provide £1.7m of additional funding in 2016/17 as a contribution to the £3.3m of additional costs set out above and will become part of the base budget for future years.
- 19 The revenue support grant is now deemed to include Care Act funding that was previously provided through a separate grant. The loss of this grant funding, £1.7m in 2015/16, has resulted in net budget pressures of £0.2m to fund ongoing care review and assessment requirements. The budget has been updated to reflect this pressure.
- 20 The council agreed a better care fund (BCF) arrangement with the Herefordshire clinical commissioning group (CCG) in 2015/16 in order to improve integration across health and social care. A key component of this is funding received from the Department of Health to support activities and programmes that are jointly agreed and have joint benefits. Confirmation of 2016/17 funding has not yet been received but is estimated to be approximately £4.5m which has been included within the adult and wellbeing budget.

Base budget 2016-17

- 21 A draft of directorate base budgets for 2016-17 is set out below this is detailed in appendix 1. This reflects increases in inflation and pensions, pressures, savings and other adjustments.

Draft revenue budget summary 2016-17

Directorate	Base budget 2015/16 £000	Net changes £000	Draft budget 2016/17 £000
Adults and wellbeing	53,244	(755)	52,489
Children's wellbeing	22,137	585	22,722
Economies, communities and corporate	50,635	(1,388)	49,247
Total Directorates	126,016	(1,558)	124,458
Capital financing - debt repayments	10,183	140	10,323
Capital financing – interest	6,233	540	6,773
Change management	1,908	(1,180)	728
Government grants	(2,562)	416	(2,146)
Central and one-off budgets	2,658	735	3,393
Transfer to general balances	928	(928)	-
Total net spend (budget requirement)	145,364	(1,835)	143,529
Financed by			
Council tax	83,963	4,632	88,595
Locally retained business rates	23,289	69	23,358
Business rates top up	6,814	56	6,870
Collection fund	(439)	439	-
Revenue support grant	26,461	(8,991)	17,470
New homes bonus	3,591	967	4,558
Sparsity grant	-	1,259	1,259
Reserves	1,685	(266)	1,419
	145,364	(1,835)	143,529

Financing

- 22 The base budget financing includes new homes bonus and the new sparsity grant funding in 2016/17. The new homes bonus grant funding of £3.6m in 2015/16 and in previous years was treated as a government grant, reducing net expenditure. It has now been included as financing, as has the sparsity grant. This revision follows central government guidance setting out their view of core local authority spending power which includes both grants as financing income.

23 Council tax income increases by £4.6m, this reflects the following:

	£m
• Council tax increase	1.6
• Adult care precept	1.7
• Increase in number of properties	0.8
• Improved collection rate	0.3
• Changes to council tax reduction scheme	<u>0.2</u>
Total	4.6

24 The provisional funding settlement has been used to update the expected financing of the net budget requirement over the MTFS period. This excludes specific grant allocations which are expected to be confirmed in January. Financing from reserves is used as one-off funding to pump prime spend to save initiatives.

2015/16 budget monitoring

25 The budget for 2016/17 has been updated in recognition of spending to November 2015. It is anticipated that the council will spend within its overall 2015/16 budget however there are continuing pressures in children's safeguarding, currently a projected overspend of £2.2m, mitigated by underspend in ECC, corporate budgets and contingency. This is set out in appendix 4

2016/17 pressures

26 Pressures have been reviewed as part of the budget process and revisions made, these are summarised in the table below.

	2016-17 £000
Legislative changes	686
Adults demographic pressures	888
Adults preventative measures (including care act)	800
Children's safeguarding	1,000
Contract and pay inflation and other pressures	2,253
Total	5,627

27 The government will introduce a national living wage from April 2016 of £7.20 per hour at age 25 and above, rising annually so that by 2020 it is 60% of median UK earnings per hour which, based on data available, is likely to be around £9.30 per hour, an indicative impact is included in the pressures above.

28 Adult demographic pressures were anticipated in the previous medium term financial strategy (MTFS) and continue to be a pressure being faced from the increasingly older population in Herefordshire and are based on the office for national statistics data.

29 The MTFS approved in February 2015 assumed savings of £1m in children's safeguarding in 2016-17. However this budget is overspending by £2.2m in 2015-16, as such the budget has been re-based and savings reviewed with the safeguarding team up to 2019-20.

Summary

	2016/17
	£m
Loss of funding	4.4
Pressures, including inflation	5.6
NI and pension	2.3
Capital financing	0.7
Reserves and managing change	<u>(2.1)</u>
Total, savings required	10.9

2016/17 savings

- 30 Savings have been reviewed as part of the budget process and revisions made, these are attached as appendix 4 and are summarised in the table below.

Directorate	2016-17
	£m
Adults and wellbeing	4.1
Children's wellbeing	1.6
Economy, communities and corporate (ECC)	5.2
Total	10.9

- 31 For adults and wellbeing the savings plans cover the following areas:

- Re-commissioning care contracts and supported living agreements, implementation of policy and pricing changes for nursing placements, carers respite and transport services.
- Introduction of outcomes based assessments and reviews, focussing on high cost care packages and reductions in domiciliary care hours.
- Increased income from applying the new guidance in the Care Act, including joint assessments and minimum income guarantees.
- Reduction in staffing will be delivered through a review of the commissioning and contracts team and minor changes to the staffing structures within operational locality teams.

- 32 For children's wellbeing the savings plans cover the following areas:

- Managing contract inflation and secure contract efficiencies.
- Re-unifying children with their families or an alternative family based permanent home including adoption where appropriate. 2016/17 increase reflects spending in 2015/16 as well as reductions in spending.
- Developing appropriate housing arrangements and options for 17 year olds to promote independent living which removes the need for young people to be in the care of the local authority.
- Review of allowances paid to families providing homes for other people's children on a permanent basis, including special guardianship, adoption and child arrangements.
- Accessing government grant to focus early help on the most vulnerable families to reduce the need for higher cost services.

- Continuing the social worker recruitment and retention strategy (grow our own, cap agency rates, specific recruitment, overseas recruitment and alternative contracts) to increase the number of permanent social workers and reduce agency staff.
- Reduce numbers of managers, overheads and a reduction in contribution to the Youth Offending Service (YOS) contract.

33 For ECC the savings plans cover the following areas:

- Efficiency savings
- Increased fees in crematoriums and car parks
- Withdrawal of subsidies to Cultural Services partners
- Full year effect of waste and sustainability savings
- Council tax reduction scheme changes
- The council tax reduction scheme funding passed to parish councils is withdrawn in 2016/17. Cabinet on 3 December recommended this to Council for approval and for five parishes: Bromyard and Winslow Town; Kentchurch; Kington Town; Ledbury Town; and Leominster Town parish councils, where the impact of withdrawal would result in an increase in the annual council tax charge of 0.4% or more in any one year the withdrawal be phased over a period of up to three years.

34 The implementation of individual savings proposals will be subject to specific consultation as necessary, prior to their implementation.

2016/17 – 2019/20 medium term financial strategy (MTFS)

35 The MTFS, attached at appendix 2, has been updated to reflect current spending, a review of savings plans, contingencies, demographic pressures and the indicative settlement. This will be reviewed annually as part of the budget setting process. Initial proposals were discussed by both overview and scrutiny committees on 17 November, no alternative options were proposed by either committee.

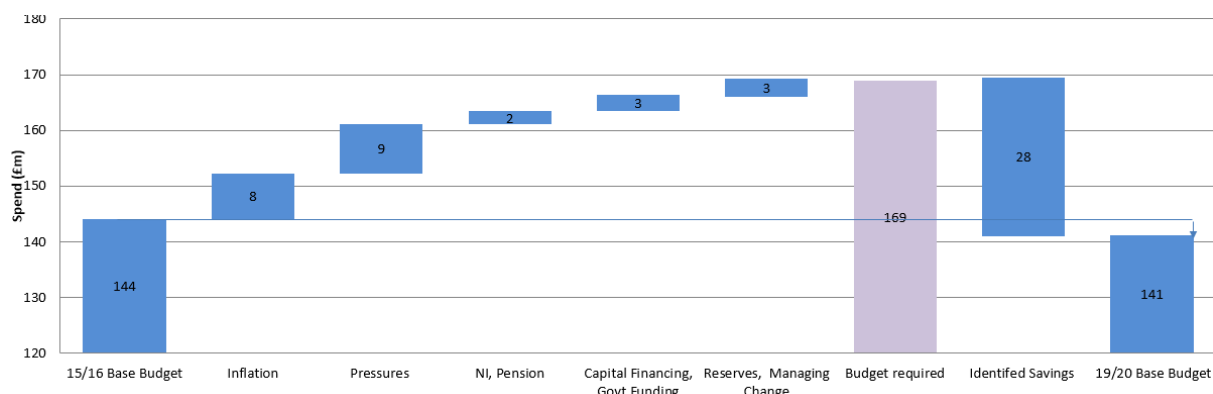
36 Overall changes are summarised in the table below:

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Net funding loss / (gain)	4.4	2.0	1.2	(0.5)	7.1
Pressures	5.6	2.7	3.6	3.8	15.7
Other	0.9	2.3	0.7	1.7	5.6
Total, saving requirement	10.9	7.0	5.5	5.0	28.4

Savings plan 2016-17 to 2019-20

37 The council delivered £59m of savings in the financial years 2010-11 to 2015-16.

38 An additional £28m of savings in the financial period 2016-17 to 2019-20 have been identified. This gives total savings for the financial period 2010-11 to 2019-20 of £87m.



39 Savings have been reviewed as part of the budget process and revisions made, these are attached as appendix 4 and are summarised in the table below.

Directorate	2016-17 £m	2017-18 £m	2018-19 £m	2019-20 £m	Total 16-20 £m
Adults and wellbeing	4.1	2.3	1.8	1.7	9.9
Children's wellbeing	1.6	1.3	1.4	1.0	5.3
Economy, communities and corporate (ECC)	5.2	3.4	2.3	2.3	13.2
Total	10.9	7.0	5.5	5.0	28.4

Pressures included in draft budget

40 Pressures have been reviewed and are set out below:

	2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000	Total £000
Legislative changes	686	618	491	539	2,334
Adults demographic pressures	888	874	926	945	3,633
Adults preventative measures (including care act)	800	(600)			200
Children's safeguarding	1,000				1,000
Contract and pay inflation and other pressures	2,253	1,867	2,154	2,277	8,551
Total	5,627	2,759	3,571	3,761	15,718

41 The government has stated that it will give cash protection to schools based on pupil numbers in the plan period. This means that the pressures effecting the council, pay-awards, national insurance and pension increases and the living wage implementation will have to be within schools cash-limited budgets. This is estimated to result in savings of 15% in schools over the period, the majority of which will have to come from

staffing reductions. These savings will also have an impact in children's wellbeing and council and Hoople services, not only having to provide support to schools in financial difficulties but the knock on impact where schools may reduce what services they purchase from the council. The children's wellbeing directorate, council and Hoople services will also have to reduce spending proportionately for schools that become academies.

Reserves and balances

42 Included in the 2016/17 is one off funding from reserves for the following:

	2016/17 £000
Respite care for children	600
Children's wellbeing getting to good investment	384
Hereford relief road	200
Education support grant - academies reduction	135
Other one-off funding	100
Overall use of reserve funding in 2016/17	1,419

43 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	7.1
31.3.16 (estimate)	6.9
31.3.17 (estimate)	5.5
31.3.18 (estimate)	5.5
31.3.19 (estimate)	5.5
31.3.20 (estimate)	5.5

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

Balance as at:	General fund £m	Specific reserves		Total £m
		Schools	Other	
31.03.14	5.1	6.3	17.6	29.0
31.03.15	7.1	6.2	20.5	33.8
31.03.16 estimate	6.9	5.5	19.5	31.9

45 The level of general reserves has been held at a higher than minimum level in recognition of the possibility of increased difficulty in achieving the savings plans going forward and to provide a more prudent level of contingency for risk.

Pension deficit

- 46 The pension deficit on Herefordshire's fund valued as at 31 March 2015 totalled £211m, representing the shortfall between the estimated value of obligations and the assets held in the pension fund. This proportionate level of deficit, 42%, is normal for local authority pension funds and relates to falling returns on investments and employees living significantly longer than anticipated when the scheme was initially set-up.
- 47 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 21 years. Although the benefits will not actually be payable until employees retire, the council has a commitment to make the payments and this needs to be disclosed at the time the employees earn their future entitlement. In 2016/17 the council will pay £5m to repay the deficit as agreed with the pensions fund's actuaries. This amount will be reviewed after the next full valuation (due 31 March 2016) which is based on assumptions about mortality rates, salary levels, inflation and asset growth. It is currently estimated that the deficit will decrease to between £150m - £200m over the planning period. The schemes deficit history is summarised below and shows the deficit fluctuates and is currently anticipated to return to the position seen previously.

	2010/11	2011/12	2012/13	2013/14	2014/15
	£m	£m	£m	£m	£m
Present value of liabilities	(361.0)	(367.6)	(422.8)	(419.6)	(500.0)
Value of Scheme assets	229.2	208.3	235.4	260.2	288.6
Surplus/(Deficit)	(131.8)	(159.3)	(187.4)	(159.4)	(211.4)

Community impact

- 48 The MTFs and budget demonstrate how the council is using its financial resources to deliver its priorities which are to be reconsidered with the approval of the draft corporate plan.

Equality duty

- 49 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 policies and in the delivery of services.
- 50 A number of service specific equality impact assessments are being completed for the service specific budget proposals to assess the impact on the protected characteristic as set out in the Equality Act 2010. Individual equality impact assessments will be prepared prior to consultation and delivery of each specific saving initiative.
- 51 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. A cumulative equality impact assessment is shown in Appendix 6.

Financial implications

52 As set out in the report.

Legal implications

53 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.

54 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.

55 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.

56 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 estimates for services; and ensuring that there are adequate reserves to draw on if the service estimates turn out to be insufficient.

57 Section 25 of the Local Government Act 2003 requires an authority's chief finance officer (the director of resources) 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.

58 Legal challenges to local authority budget setting processes have tended to turn on whether the authority has complied with its obligations under the Equalities 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.

- 59 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.
- 60 The committee should give careful and reasoned consideration to the results of the consultation as set out in appendix 7 to this report.

Risk management

- 61 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.
- 62 The budget has been updated using the best available information, current spending, anticipated pressures and the draft financial settlement.
- 63 The most substantial risks have been identified, referred to within this report, outlined below and considered as part of the budget process. Reasonable mitigation has been made where possible. Risks will continue to be monitored through the year and reported to cabinet as part of the budget monitoring process.
- 64 There are additional risks to delivery of future budgets including government policy changes and unplanned pressures. A general fund reserve balance above the minimum requirement, a risk mitigation reserve of £4.5m and an annual contingency budget of £0.7m, 0.5% of net budget, has been set aside to manage these risks.
- 65 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.
- 66 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.

- 67 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.
- 68 The inability to dispose of surplus assets when anticipated would incur additional running costs and impact on borrowing costs.
- 69 Herefordshire CCG are projecting a £5m overspend in 2015/16 and are going to have to make savings in 2016/17 which may have an impact on council services and budgets depending on how the CCG intend to bridge the funding gap.
- 70 There is a risk of on-going litigation claims which may result in one off costs falling due.

Care Act

- 71 The previously identified risks associated with the implementation of the Care Act (phase 2) have been significantly reduced as a result of the summer decision to delay the introduction of the care cap and other changes until 2020 but not eliminated completely. There remain financial risks for all local authorities arising from the requirement introduced in the Care Act for local authorities to pay a fair price for care.

Better care fund (BCF)

- 72 The council and CCG pooled more than the minimum requirement for the BCF for 2015-16. The additional pooled funds relate to residential and nursing placements including residential based continuing health care (CHC) placements in the county. The CCG has notified the council of pressures arising from a sharp increase in CHC placements in year. Actions are underway to mitigate and reduce this pressure and re-base the pooled budget in 2016-17.

Independent living fund (ILF)

- 73 Central government closed the ILF and transferred funding for current service users (less 5% attrition factor) in July 2015. Councils have been advised that ongoing funding will be considered as part of the CSR. The annual cost of services transferred is circa £1.3m. The council is reviewing client needs to ensure the correct level of financial support is offered and assessing financial contributions made by clients which is likely to reduce the total cost of the service provision but there remains a material financial pressure if funding is not identified for councils to maintain this support.

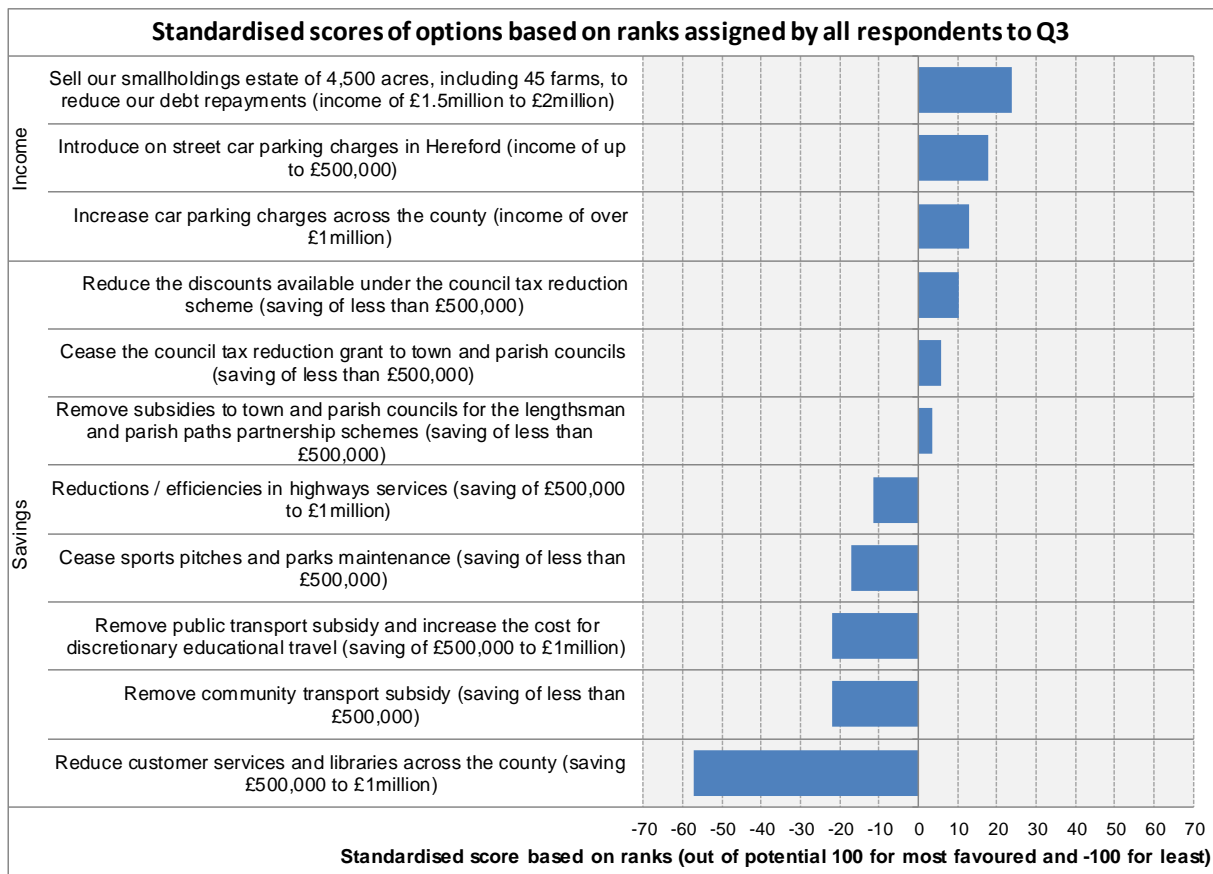
Children's wellbeing

- 74 The care placement strategy step down approach requires children to be identified and the care placements and foster carers to be available. Demand pressures have been included in the budget, and the strategy includes prevention, however, demand is a risk.
- 75 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 of employment models all support a sustainable workforce.

Consultation

- 76 Consultation on the budget proposals commenced on 23 July and ended on 9 October. The consultation sought views on priorities, savings and income proposals and included how we could do things differently. The outcome of the consultation, attached in appendix 7 will inform and guide decisions within a balanced budget.
- 77 The ranking below is based on responses received and analysed. There were a total of 1,979 standard responses to the consultation, of which 784 submitted online and 1,195 completed paper copies. 61% of responses supported a council tax increase above 2% to protect services and defer savings.
- 78 The draft responses show some clear messages, as shown in the diagram below. There was a general preference for savings that would generate income:
- 37 per cent of respondents ranked 'selling our smallholdings estate' as their first or second preference
 - 'Increase car parking charges across the county' received the next highest number of first choices (22 per cent) and was the second choice of a further 10 per cent; but 'introduce on street car parking charges in Hereford' received more first and second choices combined (35 per cent)
 - Altogether, these three options were ranked as most preferred by 70 per cent of respondents and no other option received more first choices than any of them individually.
- 79 There was less preference for the other savings options, with 'reduce customer services and libraries across the county' being by far the least preferred option, ranked as least preferred by over half (52 per cent) of respondents.
- 80 Initial proposals have been reviewed and re-phased following the consultation feedback, particularly areas seen as a higher priority by the public, libraries, community and public transport. The updated proposals are detailed in appendix 4.



Appendices

Appendix 1 – Draft 2016/17 budget

Appendix 2 – 2016/17 – 2019/20 medium term financial strategy (MTFS)

Appendix 3 – 2016/17 treasury management strategy (TMS)

Appendix 4 – 2016/17 – 2019/20 savings plans by directorate

Appendix 5 – 2015/16 budget monitoring

Appendix 6 - Cumulative equality impact assessment

Appendix 7 - Summary of budget consultation

Background Papers

- None identified.