

MEETING:	General overview and scrutiny committee
MEETING DATE:	14 November 2016
TITLE OF REPORT:	Draft 2017/18 budget and medium term financial strategy (MTFS) update
REPORT BY:	Interim director of resources

Classification

Open

Key decision

This is not an executive decision.

Wards affected

County-wide

Purpose

To seek the committee's views on the budget proposals for 2017-18 and updated medium term financial strategy (MTFS).

Recommendation

THAT: the committee determines if it wishes to make any additional recommendations or recommend consideration of any alternative options in relation to the draft 2017-18 budget proposals and updated MTFS, to inform the cabinet's recommendations to full Council.

Alternative options

- 1 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.

Reasons for recommendations

- 2 The council's budget and policy framework rules require that cabinet has regard to the views of overview and scrutiny in developing their recommendations to Council on budget and policy framework items.

Key considerations

- 3 The MTFS has been updated to reflect current spending, a review of savings plans, treasury management costs, contingencies and demographic pressures. It assumes a 1.9% general increase in council tax plus an increase of 2% in relation to the adult care precept, a total increase of 3.9%. Central government funding is included as proposed in the four year funding settlement. This draft is being shared ahead of the autumn statement that will be delivered on 23 November, any impact of this will be reflected in the updated report to cabinet in January.
- 4 Herefordshire has accepted the four year funding settlement, this forms the basis of the MTFS update, summarised below. The draft budget is proposed in recognition of managing need and the council's relationship with communities.

Funding	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Revenue Support Grant	17,470	10,090	5,370	620
Rural Services Delivery Grant	5,069	4,093	3,149	4,093
Transitional Grant	572	576	0	0
Total	23,111	14,759	8,519	4,713

- 5 Council will be asked to approve the 2017-18 budget on 3 February 2017. It will also be invited to approve the MTFS and the treasury management strategy.

Adult care precept

- 6 The council has a number of cost pressures in adult social care, including cost pressures in the adult social care market. Therefore it is proposed that the 2% adult social care levy will be applied to council tax charges in 2017/18. This funding will be specifically ring-fenced to support existing and anticipated cost pressures within services for vulnerable adults and older people, including increasing demand. The precept will raise £1.8m and will be 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. Increases in the adults and wellbeing budget are shown below:

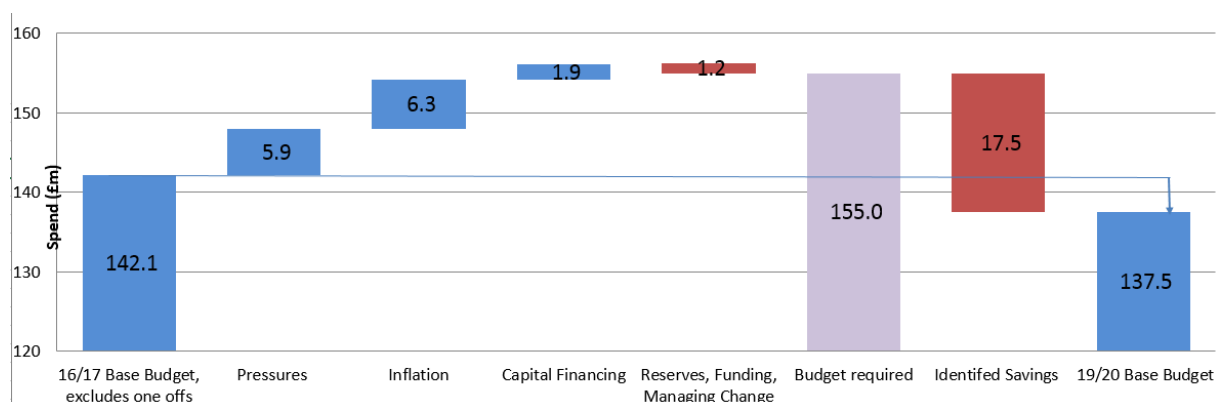
Adults and wellbeing pressures and inflation	2017/18 £000
Demographic growth	874
Legislative changes	618

Inflation and apprenticeship levy	679
Total	2,171

- 7 The 2% will increase a band D council tax charge by a further £26.50 per annum and provide £1.8m of additional funding in 2017/18 as a contribution to the £2.2m of additional costs set out above and will become part of the base budget for future years.

Current savings plan 2017-18 to 2019-20

- 8 The current savings plans require £17.5m of savings in the period from 1 April 2017 to 31 March 2020, this represents the funding gap arising from increased costs and reduced funding, as shown below.



- 9 The council delivered £59m of savings in the financial years 2010-11 to 2015-16, with an additional £10.9m required in the current financial year, 2016-17. Looking forward an additional £17.5m of savings in the financial period 2017-18 to 2019-20 is needed. This gives total savings for the financial period 2010-11 to 2019-20 of £87m.
- 10 Savings have been reviewed as part of the budget setting process, these are attached as appendix 1 and are summarised in the table below. The ongoing review has highlighted some savings will be delayed, where this has occurred replacement savings have been identified. Work continues on ensuring the deliverability of the savings plan.

Directorate	2017-18 £m	2018-19 £m	2019-20 £m	Total 17-20 £m
Adults and wellbeing	2.4	1.8	1.7	5.9
Children's wellbeing	1.3	1.4	1.0	3.7
Economy, communities and corporate	3.3	2.3	2.3	7.9
Total	7.0	5.5	5.0	17.5

- 11 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 will follow further consultation and be subject to specific consultation as necessary, prior to their implementation.

Base budget 2017-18

- 12 The draft budget for 2017-18 is set out below and detailed in appendix 2. This reflects increases in inflation, pressures, savings and other adjustments.

Draft revenue budget summary 2017-18

Directorate	Current net budget 2016/17 £000	Net changes £000	Draft net budget 2017/18 £000
Adults and wellbeing	51,243	(251)	50,992
Children's wellbeing	20,875	293	21,168
Economies, communities and corporate (ECC)	46,540	(1,800)	44,740
Total directorate net budget	118,658	(1,758)	116,900
Centralised corporate costs			5,849
Capital financing - debt repayments			11,074
Capital financing - interest			6,785
Government grants			(5,323)
Other central budgets			1,810
One off funding			2,600
Total net spend (budget requirement)			139,695
Financed by			
Council tax			92,861
Locally retained business rates			20,279
Revenue support grant			10,090
Business rates top up grant			7,010
New homes bonus			4,651
Rural services delivery grant			4,093
Transitional grant			576
Reserves			135
			139,695

Financing

- 13 The 2017-18 net budget requirement is financed by retained funding from council tax (£93m) and business rates (£20m). Assumptions include a 3.9% increase in council tax and business rate reliefs being funded via a central government grant (£3m). Central government funding is included as accepted in the four year funding settlement.
- 14 Future year funding assumptions are also based on a 3.9% council tax increase, 1.5% inflationary increase in business rates and the central government four year funding settlement. The net budget requirement excludes specific grant allocations.

Better Care Fund

- 15 The draft budget currently assumes the level of protection for adults social care from the Better Care Fund (BCF) in 2016/17 continues unchanged for 2017/18 (being £4.5m and £0.5m Care Act funding). Internal planning on the allocation of the protection of social care funding for 2017/18 has started. BCF planning guidance for 2017/18 is due to be published by NHS England in November ahead of the financial settlement details that are expected in December. 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 plan shares the pathway for the full integration of health and social care by 2020.

2016/17 budget monitoring

- 16 The draft budget for 2017/18 has been updated in recognition of spending to September 2016. It is anticipated that the council will spend within its overall 2016/17 budget, however, there are continuing pressures being faced in adults and wellbeing and children's wellbeing directorates. These directorates are currently projecting an overspend of £1.2m, mitigated by underspend in ECC, corporate budgets and contingency. This is detailed in the budget monitoring report to cabinet (<http://hc-modgov:9070/documents/s50041520/End%20of%20September%20corporate%20performance%20and%20budget%20report.pdf>)

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Current pressures included in MTFS

- 17 The MTFS approved in February 2016 included funding the following pressures:

Pressure	2017-18 £000	2018-19 £000	2019-20 £000	Total 17-20 £000
Legislative changes	618	492	540	1,650
Adults demographic pressures	850	926	945	2,721
Adults preventative measures	(600)			(600)
Contract and pay inflation and other pressures	1,891	2,154	2,277	6,322
Apprenticeship levy	200			200
Total pressures	2,959	3,572	3,762	10,293

New pressures included in draft budget

- 18 Additional pressures have been identified that were not anticipated in the MTFS approved in February 2016, these are set out below:

	2017-18 £000	2018-19 £000	2019-20 £000	Total 17-20 £000
Unaccompanied asylum seeking children	100			100
Childrens services pressures	425			425
Adults contractual inflation	356	508	529	1,393
TOTAL	881	508	529	1,918

- 19 A new pressure for funding unaccompanied asylum seeking children anticipated costs has been included following Cabinet approval on 28 July.
- 20 Children's services pressures reflect anticipated reductions in the education support grant in 2017/18, alongside the review of service delivery pressures.
- 21 Adults contractual inflation pressures represent spot purchases in residential and domiciliary care uplifts, new contracts, adjusted for living wage and preventative measures. A three year settlement with providers is being explored with profiled, capped increases to reach an average uplift in year three.

Reserves and balances

- 22 The projected general fund working balance is as follows, currently being 5% of net budget, increased by the one off additional rural grant funding which is currently providing a one off contingency fund for slippage in savings plans over the term of the MTFS. These funds are expected to be applied in 2018/19 when the rural sparsity delivery grant decreases.

Year ending	£m
31 March 15	7.1
31 March 16	7.3
31 March 17 estimate	10.9
31 March 18 estimate	11.1
31 March 19 estimate	6.8

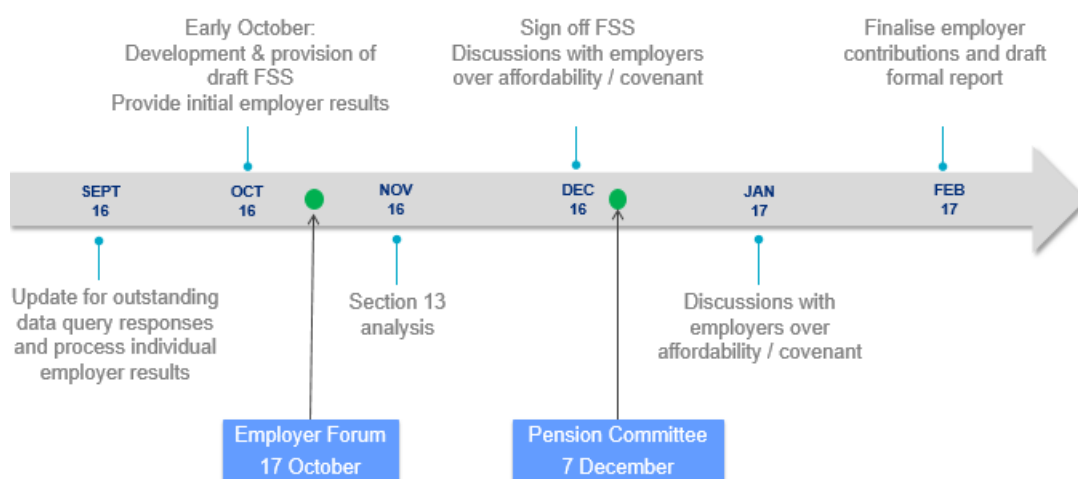
- 23 In addition the council has a number of revenue reserves which are earmarked for specific purposes, for example specific grant funding and ring-fenced school balances. Including these reserves total reserves going forward are estimated to be as follows:

Balance as at:	General fund £m	Specific reserves		Total £m
		Schools	Other	
31 March 15	7.1	6.2	20.5	33.8
31 March 16	7.3	9.4	19.1	35.8
31 March 17 estimate	10.9	7.2	18.0	36.1

- 24 The level of general fund reserves retained increase is in recognition of the possibility of increased difficulty in achieving the savings plans going forward and provides the ability to fund one-off investment costs to pump prime invest to save initiatives in addition to providing a more prudent level of contingency for risks.

Pension deficit

- 25 The pension fund is being revalued as at 31 March 2016. Early indications are that the total fund revaluation has had a minimal overall impact on existing budget modelling. There has been a reduction in the pension deficit but this liability reduction is negated by changes in demographic and underlying financial assumptions, the impact resulting in an increase in the future, in service, contribution rate. The indicative timetable for finalising the Herefordshire pension fund assumptions is shown below.



Budget setting timetable

26 The draft budget will be updated and reported as follows:

Date	Action
1 December	Cabinet to review capital programme proposals
16 December	Council to approve 2017/18 capital programme
19 January	Cabinet to review updated budget, MTFS and treasury management strategy
3 February	Council to approve 2017/18 budget, updated MTFS and treasury management strategy
3 March	Council to approve council tax amounts for 2017/18

Community impact

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

Equality duty

28 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.

29 We are currently carrying out a number of service specific equality impact assessments for the service specific budget proposals to assess the impact on the protected characteristics as set out in the Equality Act 2010.

30 The duty means that the potential impact of a decision on people with different protected characteristics is always taken into account. When these assessments have been completed then we will consider mitigating against any adverse impact identified.

Financial implications

31 As set out in the report.

Legal implications

- 32 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.
- 33 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.
- 34 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.
- 35 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.
- 36 Local government legislation requires an authority's S151 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 S151 statutory report. If they do not they must provide clear reasons for not following the professional advice put forward by the S151 officer.
- 37 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.

- 38 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.

Risk management

- 39 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.
- 40 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.
- 41 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.
- 42 There are additional risks to delivery of future budgets including government policy changes and unplanned pressures. We are maintaining a general fund reserve balance above the minimum requirement and an annual contingency budget to manage these risks.
- 43 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 demand management through disease prevention and behaviour change 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.
- 44 There are on-going difficulties in achieving reductions in children's safeguarding costs, Herefordshire is high spending compared to statistical neighbours and methods of reducing this cost are progressing, however, some delays have been experienced.
- 45 There is a continued risk from 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

- 46 Consultation on the budget proposals commenced on 29 July and was completed on 7 October. The consultation sought people's views to help us set future budgets and also to understand what residents might be able to do to help support their local communities. Last year the consultation included the four year period that this year's consultation continues to refer to.

- 47 There were a total of 280 standard responses to the consultation, 241 of which were submitted online and 39 were paper copies. These respondents may not necessarily represent the views of the general population, as they were self-selecting and wanted to be consulted. During this consultation period, a number of other budget related consultations have been taking place which have helped to inform our overall thinking on the 2017/18 budget and MTFS. The fact that there have been over 4,300 responses to these service specific consultations demonstrates the clear strength of feeling in these areas. These consultations included: Bus and Community Transport Review, Customer Services and Libraries, Help to Live @ Home (Users), Help to Live @ Home (Providers), Local Plan Traveller Sites and South Wye Transport Package.
- 48 Initial analysis of budget consultation responses shows the following:
- 61 per cent of responses supported an increase in charges for council services above the level of inflation.
 - 53 per cent of responses supported Herefordshire Council in making a further increase in council tax above 3.9 per cent.
 - A number of activities were highlighted by respondents as being suitable for parish councils to carry out and charge for (including maintaining communal areas, grass / hedge cutting, road / footpath maintenance, litter / dog fouling enforcement, winter services).
 - 51 per cent of respondents currently volunteer in Herefordshire.
 - Improve infrastructure and access to funding and business support were highlighted as what the council could do to improve the attractiveness of Herefordshire to businesses.
- 49 Further information on responses is available within the summary of budget consultation attached at appendix 3.
- 50 This year, the main method for people to give their views was via an online form, with paper copies also made available at libraries and customer service centres. People were also able to print off paper copies from our website. In addition, the communications team published social media updates throughout the consultation period.
- 51 Stakeholder groups were targeted for promotion via email and budget consultation meetings were held with the following stakeholders: parish councils, voluntary and community sector, top 25 businesses. The consultation was also promoted at a number of different events, including: South Wye Transport Package consultation, Business Expo and the Making it Real Board.

Appendices

Appendix 1 - breakdown of savings plans by directorate

Appendix 2 - detail of draft budget

Appendix 3 - summary of budget consultation

Background papers

- None identified.

Further information on the subject of this report is available from
Josie Rushgrove, head of corporate finance on tel (01432) 261867