

<b>MEETING:</b>	<b>General overview and scrutiny committee</b>
<b>MEETING DATE:</b>	<b>13 December 2016</b>
<b>TITLE OF REPORT:</b>	<b>Draft 2017/18 budget and medium term financial strategy (MTFS) update</b>
<b>REPORT BY:</b>	<b>Interim director of resources</b>

## **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 (at appendix 2) or the updated draft MTFS (at appendix 3), 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

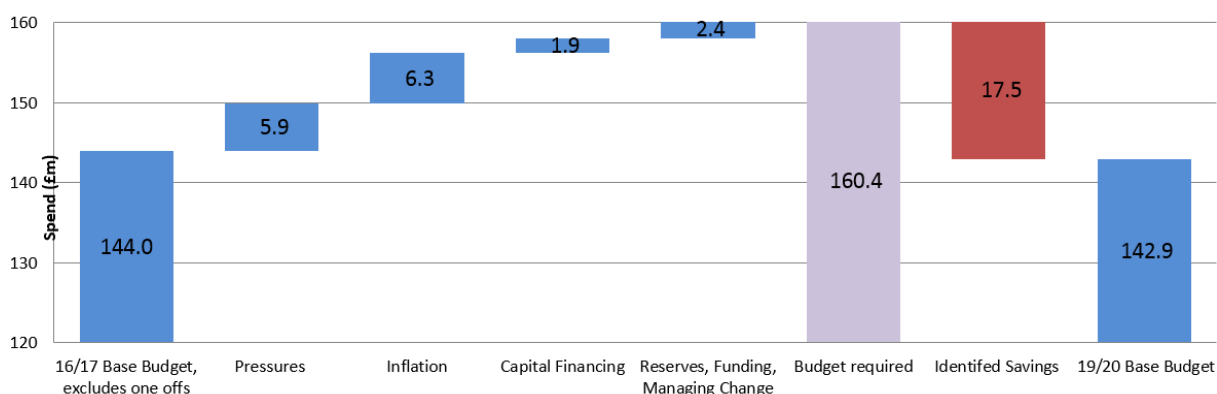
- 2 The council's budget and policy framework rules require that cabinet have regard to the views of overview and scrutiny in developing their recommendations to Council on budget and policy framework items.

## Key considerations

- 3 The MTFS has been updated to reflect current spending, a review of proposed 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 accepted in the four year funding settlement. This report provides an update to the report shared considered by the committee on 14 November.
- 4 The autumn statement did not provide any fundamental changes to our previous budget and MTFS assumptions. Confirmation of capital budget implications are expected to be shared over the coming weeks.
- 5 Cabinet will consider the draft 2017/18 budget, MTFS and the treasury management strategy on 19 January for recommendation to full Council on 3 February 2017.

### Current savings plan 2017/18 to 2019/20

- 6 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.



- 7 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.

- 8 Savings have been reviewed as part of the budget setting process, these are attached as appendix 1 and are summarised in the table below.

	2017/18 £m	2018/19 £m	2019/20 £m	Total 2017- 2020 £m
Adults and wellbeing	2,400	1,950	1,500	5,850
Children's wellbeing	1,159	1,572	1,050	3,781

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

Economy, communities and corporate	3,291	2,300	2,260	7,851
<b>Total</b>	<b>6,850</b>	<b>5,822</b>	<b>4,810</b>	<b>17,482</b>

- 9 The implementation of individual savings proposals may require further approvals that will include specific consultation as necessary prior to their implementation.

### Draft budget 2017/18

- 10 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.

<b>Directorate</b>	<b>Current base budget 2016/17 £000</b>	<b>Net changes £000</b>	<b>Proposed base budget 2017/18 £000</b>
Adults and wellbeing	51,243	(85)	51,158
Children's wellbeing	20,875	278	21,153
Economies, communities and corporate	46,540	(1,800)	44,740
<b>Total directorates net budget</b>	<b>118,658</b>	<b>(1,607)</b>	<b>117,051</b>
Centralised pension deficit and housing benefits costs			6,458
Capital financing - debt repayments			11,074
Capital financing - interest			6,785
Other central budgets			1,050
One off funding			2,600
<b>Total net spend (budget requirement)</b>			<b>145,018</b>
<b>Financed by</b>			
Council tax			92,861
Locally retained business rates			22,415
Business rates top up & S31 grant			10,197
Revenue support grant			10,090
New homes bonus			4,651
Rural services delivery grant			4,093
Transitional grant			576
Reserves			135
			<b>145,018</b>

### Financing

- 11 The 2017/18 net budget requirement is financed by retained funding from council tax (£93m) and business rates (£22m). Assumptions include a 3.9% 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.
- 12 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 directorate income and grant allocations.

### Gross budget

- 13 In addition to the net budget the council receives and distributes grant income in accordance with the funding conditions alongside receipts from fees and charges. Inclusion of these income streams provides the councils gross budget, this is currently expected to be as shown below. Confirmation of the grant amounts is expected in the financial settlement.

	<b>Current gross budget £000</b>	<b>Income £000</b>	<b>Current base budget £000</b>
Adults and wellbeing	79,529	(28,371)	51,158
Children's wellbeing (includes DSG)	141,576	(120,423)	21,153
Economies, communities and corporate	51,135	(6,395)	44,740
<b>Total directorates budget</b>	<b>272,240</b>	<b>(155,189)</b>	<b>117,051</b>
Corporate	75,598	(50,231)	25,367
One off funding	2,600	-	2,600
<b>Total budget</b>	<b>350,438</b>	<b>(205,420)</b>	<b>145,018</b>

### Reserves and balances

- 14 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.
- 15 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.
- 16 The council's also holds earmarked reserves 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. Total reserves going forward are estimated to be as follows:

<b>Balance as at</b>	<b>Strategic Reserve</b>	<b>General Reserve</b>	<b>School Balances</b>	<b>Earmarked Reserves</b>	<b>Total Reserves</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
31 March 2016	7.2	0.1	9.4	19.1	35.8
31 March 2017	7.3	3.6	7.2	18.0	36.1
31 March 2018	7.1	4.0	7.2	16.0	34.3
31 March 2019	6.8	-	7.2	14.0	28.0
31 March 2020	6.8	-	7.2	14.0	28.0

## Budget setting timetable

- 17 The draft budget will be updated and reported as follows:

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

## Community impact

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

## Equality duty

- 19 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.
- 20 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 characteristic as set out in the Equality Act 2010.
- 21 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

- 22 As set out in the report.

## Legal implications

- 23 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.
- 24 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.
- 25 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.

- 26 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.
- 27 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.
- 28 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.
- 29 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**

- 30 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.
- 31 The budget has been updated using the best available information, current spending, anticipated pressures and the four year grant settlement.

- 32 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.
- 33 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.
- 34 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.
- 35 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.

## **Consultees**

- 36 Consultation on the budget proposals commenced on 29 July and completed on 7 October, with the public responses being shared at the meeting held on 14 November.

## **Appendices**

Appendix 1 - breakdown of savings plans by directorate

Appendix 2 - detail of draft budget

Appendix 3 – draft medium term financial strategy

## **Background papers**

- None identified.