

Meeting:	Adults and wellbeing scrutiny committee
Meeting date:	Tuesday 27 November 2018
Title of report:	Setting the 2019/20 budget, capital investment and updating the medium term financial strategy (A&C)
Report by:	Leader of the Council

Classification

Open

Decision type

Budget and policy framework.

Wards affected

All wards.

Purpose and summary

To seek the views of the adults and wellbeing scrutiny committee on the budget proposals for 2019/20 as they relate to the remit of the committee. The draft medium term financial strategy (MTFS), attached at appendix 1, has been extended to 2021/22 based on current assumptions on future funding and service requirements.

The draft proposals show an increase in the proposed base revenue budget for adults and communities for 2019/20, rising from £52,087k in 2018/19 to £56,675k in 2019/20, this includes the recent budget announcement of additional social care grant funding at £2.4m. The proposed budget follows a base budget exercise reviewing the expected service demand. Savings of £0.7m will be required in 2019/20 to deliver a balanced budget.

Additional capital investment budget requests of £1.5m have been identified, attached at appendix 3, supported by the business cases attached at appendix 4.

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 and the budget consultation responses, attached at appendix 5, the committee determine any recommendation it wishes to make to Cabinet in relation to proposals specifically affecting adults and communities:**
- **the draft MTFS 2019/2022 at appendix 1;**
 - **the draft revenue budget at appendix 2;**
 - **the draft capital investment budget at appendix 3; and**
 - **the capital request business cases at appendix 4.**

Alternative options

1. There are no alternatives to the recommendations; Cabinet is responsible for developing budget proposals for council consideration and it is a function of this committee to make reports or recommendations to the executive with respect to the discharge of any functions which are the responsibility of the executive. The council's budget and policy framework rules require Cabinet to consult with scrutiny committees on budget proposals in order that the scrutiny committee members may inform and support the process for making Cabinet proposals to Council.
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 draft medium term financial strategy (MTFS), attached at appendix 1, has been updated to reflect current spending, a review of savings plans, contingencies and pressures. The MTFS reflects the current financial strategy and will continue to be updated as the financial settlement for 2019/20 is confirmed and further announcements on funding reform are received. The term of the MTFS coincides with central governments fair funding review and redesign of business rates retention. Local judgement has been applied to provide a basis for longer term financial planning and work will continue on this until the final version is approved by Council in February 2019.
4. The MTFS has been extended by one further year, 2021/22. The current comprehensive spending review ends in 2019/20, post 2019/20 councils are to become funded from local resources, council tax and 75% local business rate retention. This fundamental funding change coupled with fair funding (the allocation of national resources to the local level) and baseline need (the national assessment of minimum local resource need) reviews currently underway leads to uncertainty on future funding and responsibilities. The MTFS has been modelled on current understandings, however further announcements are expected over the coming months.
5. For 2019/20 it is assumed that council tax will increase by 4.9% in total, 2.9% general

increase in council tax plus an increase of 2% in relation to the adult care precept. The 2% adult social precept will generate additional income of £2m. This is ring-fenced to fund the base budget increase proposed in this report.

6. Going forward a 4.5% annual council tax uplift has been assumed. Herefordshire accepted the four year funding settlement in 2016/17 this forms the funding assumptions for 2019/20. The four year settlement included the following for 2019/20:-

	2019/20
	£000
Revenue Support Grant	620
Rural Services Delivery Grant	4,093
Total	4,713

7. Council will be asked to approve the 2019/20 budget on 15 February 2019; this will follow confirmation of the final financial settlement for 2019/20 which is expected on 6 December. Council will also be asked to approve the updated MTFS to 2021/22 and the associated treasury management strategy and the capital strategy. The capital strategy is a new document required under the CIPFA Prudential Code (December 2017). The purpose of the capital strategy is to state the council's capital investment ambition in the context of the sustainable, long term delivery of services.
8. The Herefordshire Council Corporate Plan 2016 – 2020 was adopted by Council in February 2016. This identified four priorities:
- Keep children and young people safe and give them a great start in life
 - Support the growth of our economy;
 - Enable residents to live safe, healthy and independent lives; and
 - Secure better services, quality of life and value for money
9. The communications strategy was 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.' builds upon our four key priorities and has helped to inform the development of our 2019/20 budget and medium term financial strategy.

Base budget proposed and savings plan

10. A base budget exercise was completed ahead of proposing the draft 2019/20 budget, this review involved:-
- a. Costing the service based on the current requirement of the service, not rolling over previous budgets.
 - b. Income budgets to reflect income receivable.
 - c. Pay budgets to reflect actual establishment, deleting vacant posts without budget or not planned to be filled.
 - d. Performance in 2018/19

- e. Projected population pressures
- f. 2018/19 policy changes
- g. Scorecard target attainment

11. The base budget review identified £20.0m of pressures over the MTFS period, £10.3m in adults and communities. This represents funding pressures in placement costs, demographic growth and pay costs. For 2019/20 additional base budget is proposed for adults and communities pressures as shown below:-

2019/20 funded adults and communities budget pressures	£000
Fee uplift	1,000
Delayed transfer of care and market support (actual grant conditions yet to be confirmed)	2,380
Pay inflation	329
Deprivation of liberties and Safeguarding (DOLS) and restructure impact	609
Demographic growth	945
Support the autism strategy	25
Total funded base budget pressures	5,288

12. The current savings plans require £8.0m of savings over the MTFS period, £1.8m for adults and communities. The saving requirement represents the funding gap arising from increased cost pressures and funding assumptions. In 2018/19 the service is forecasting to spend above budget due to the increasing cost of meeting service demand. The current forecast outturn for 2018/19 totals £52.6m. The base budget for 2019/20 has been uplifted to reflect the expectation that this service demand will continue to increase.

13. For 2019/20 the savings required from adults and communities is £0.7m to be realised from service delivery savings and maximising income generation from client services. Services will only be charged for following individual financial assessments in accordance with Care Act 2014.

14. Before the base budget review the savings for adults and communities for 2019/20 totalled £1.5m, following the base budget review the savings required from income disregard have been removed as these are considered not currently achievable.

15. The proposed budget for 2019-20 is set out below and detailed for adults and communities in appendix 2. The base budget below shows the net budget position; the gross budget will include the dedicated school grant (£125m), improved better care fund (£5.7m) and public health grant (£9.0m).

	2018/19 revised base	Funded pressures & other movements	Savings	2019/20 draft base budget
	£'000	£'000	£'000	£'000
Adults and communities	52,087	5,288	(700)	56,675

Children and families	23,958	3,427	(200)	27,185
Economy and place	34,046	1,417	(2,453)	33,010
Corporate services	9,424	146	(379)	9,191
Sub Total	119,515	10,278	(3,732)	126,061
Centrally held budgets	24,609	(1,483)	(200)	22,926
Total	144,124	8,795	(3,932)	148,987
Financed by				
Revenue support grant	5,370			620
Business rates	33,256			35,457
Council tax	98,445			103,908
New homes bonus	2,540			2,029
Rural sparsity delivery grant	4,093			4,093
Collection fund surplus (one off)	420			500
Adult social care grant (one off)				2,380
Total	144,124			148,987

Financing

16. The 2019/20 net budget requirement is financed by retained funding from council tax (£104m) and business rates (£35m) as shown in the table above. Assumptions include a 4.9% increase in council tax (2.9% general increase and 2% adult social care precept) and business rate reliefs being funded via a central government grant. Central government funding is included as accepted in the four year funding settlement. The recent budget announcement of additional social care grant funding is also included at £2.4m.
17. If the settlement expected on 6 December provides additional monies to the draft base budget shown above, unless the use of those funds is specified by government, these will be added to strategic reserves to assist with smoothing future pressures, and access to those reserves will be subject to further governance.

Capital Budget

18. Attached at appendix 3 is the proposed capital investment budget requests for adults and communities, £1.5m. These represent investment required at two care sites – Hillside and Waverley, both investments are requested to enable improvements in service delivery. Both these schemes have provision in the current capital programme of £2m (£1.5m Hillside and £0.5m Waverley House) this request is to increase the budget by £1.0m for Hillside and £0.5m for Waverley, approval of increasing the budget for schemes is reserved to Council, the committee is asked to determine any recommendation it wishes to make in relation to approving these proposals.
19. The redesign of Hillside into a nursing care facility for people with high level needs (dementia). There is not enough current capacity to meet the high demand for nursing/EMI (elderly mental infirm) placements. The risk of not undertaking the redesign of Hillside will exacerbate the current situation by putting a greater strain on the Adults budget and will not plan effectively for the expected increase in future demand. Lack of capacity of nursing beds is an identified risk on the corporate risk register.

20. Waverley House was built in 2006/07 and forms part of a 30 year block contractual agreement with Shaw Healthcare Ltd for a number of facilities, including residential and nursing homes and extra care properties, across the county. The purpose of the scheme is to use capital funding to remodel Waverley House to develop 11 additional nursing beds in the county within a six month build period upon funding approval. This is expected to deliver £0.1m savings each year which have already been identified within the MTFs.

Budget setting timetable

21. Below is a summary of the 2019/20 budget setting timetable.

Date	Meeting	Purpose
27 November 2018	Adults and wellbeing scrutiny committee	To consider adults and communities revenue and capital budget proposals and updated medium term financial strategy and agree any recommendations to be made to Cabinet
29 November 2018	Children and young people scrutiny committee	To consider children and families revenue and capital budget proposals and updated medium term financial strategy and agree any recommendations to be made to Cabinet
30 November 2018	General scrutiny committee	To consider the overall revenue and capital budget proposals and updated medium term financial strategy, treasury management strategy and capital strategy and agree any recommendations to be made to Cabinet
31 January 2019	Cabinet	To agree the draft revenue and capital budget 2019/20, treasury management strategy, capital strategy and medium term financial strategy for recommendation to Council
15 February 2019 9.30am	Council	Deadline for Members intending to propose an amended motion (as per Section 1 paragraph 4.1.105 and 4.1.106 of Constitution)
15 February 2019	Council	To agree the council's revenue and capital budget for 2019/20, treasury management strategy, capital strategy and medium term financial strategy

Community impact

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

23. The council is committed to delivering continued improvement, positive change and outcomes in delivering our key priorities.
24. 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

25. 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.
26. 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.
 27. 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

28. 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 and will be detailed in separate governance decision reports as appropriate.

Legal implications

29. 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.
30. 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.
31. 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.

32. 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.
33. 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.
34. 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 through the budget setting timetable.
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. The risks and mitigating action is shown in Appendix 4 of the MTFS, copied below:-

	Key Financial Risks	Likelihood	Impact	Mitigating Actions
1	Unexpected events or emergencies By its nature, the financial risk is uncertain	Low	High	<ul style="list-style-type: none"> Council maintains a Strategic Reserve at level of between 3% and 5% of its revenue budget for emergency purposes Level of reserve is currently £7.9m (5% of budget)
2	Increasing demand for Adult Social Care Demand for services continue to increase as the population gets older	High	Medium	<ul style="list-style-type: none"> Demand led pressures provided for within our spending plans Activity indicators have been developed and will be reported quarterly alongside budget monitoring
3	Potential Overspend and Council does not deliver required level of savings to balance spending plans Challenging savings have been identified within our spending plans.	Medium	Medium	<ul style="list-style-type: none"> High risk budget areas have been identified and financial support is targeted towards these areas Regular progress reports on delivery of savings to Management Board and Cabinet Budget monitoring arrangements for forecasting year end position in place and forecast balanced Plan to review level of cover available from General reserves in place
4	Potential overspend on Special Education Needs the duty to secure provision identified in Education, Health and Care plans means an overspend may occur	Medium	Medium	<ul style="list-style-type: none"> This is a national issue with lobbying to increase central government funding A review of the application of the matrix is underway
5	Increase in Pension Liabilities Our contributions are influenced by market investment returns and increasing life expectancy.	Medium	Low	<ul style="list-style-type: none"> Spending plans reflect the level of pension contribution required as identified by the Pension Fund's Actuary in 2016 for the next three years
6	Failure to provide safeguarding and placements for children There is an increasing requirement to provide sufficient school places There is a rising number of children requiring specific support	Medium	High	<ul style="list-style-type: none"> Provision has been made in the capital programme to increase school places Directorate plans in place to manage and mitigate demand Ongoing reviews of children already under care of council
7	Volatility in future funding streams in Government funding streams and Business Rates Retention	High	Medium	<ul style="list-style-type: none"> Prudent assumptions made in budget Ongoing review of developing business rate changes Business case to support future investment decisions
8	Brexit Impact of EU exit may lead to increased volatility in economic stability and reduced access to funds	Medium	Medium	<ul style="list-style-type: none"> Reduced reliance on grant funding in all directorates Increased local economic and social investment to increase core income

41. We retain the risk of on-going litigation claims which may result in one off costs falling

due; a risk mitigation reserve of £3.6m has been set aside to fund this.

Consultees

42. The council's 2019/20 budget consultation took place from 5 July 2018 until 21 September 2018. A short survey was developed to seek views on a variety of proposals, including should the council increase its borrowing to enable more investment across the county and a 4.9% total increase in council tax. The consultation was open to all, including parish councils, health partners, the schools forum, business ratepayers, council taxpayers, the trade unions, political groups on the council and the scrutiny committees. Meetings were specifically held with businesses, parish councils and representatives from the voluntary sector to promote the consultation and information was also sent to partner bodies.
43. There were a total of 227 responses to the consultation, 225 responses to the standard questionnaire and 2 responses as emails. Although as self-selecting, these respondents are not statistically representative of the general population, their views are an important element of the wider evidence base against which the budget proposals must be considered. The consultation report is attached at appendix 3. Key outcomes of the consultation include:-
- a. 51% of respondents thought the council's proposal to increase Council Tax by 4.9% was about right or not enough;
 - b. 37% of respondents supported the council increasing its borrowing requirement by £22.3m to increase the level of investment in the county, and 15% supported borrowing more;
 - c. 78% of respondents agreed that funding should support employing more children's social workers and to support more help for children, young people and families at an early stage;
 - d. 56% of respondents stated they did not agree with the allocation of Council Tax spend between services as set out in the consultation, however there was no consensus on alternative ways of allocating resources.
 - e. 49% of respondents supported 'keeping the maximum discount of 84%' for the low income households Council Tax discount.
 - f. 44% supported to 'continue to award the same level of business rate discount'.
44. In response the proposed budget:-
- g. Includes a 4.9% proposed council tax increase.
 - h. Council borrowing for capital investment will be maintained as proposed.
 - i. The council's local council tax reduction scheme and business rate discounts will be maintained with the same parameters in 2019/20.
 - j. £1.6m will be used to employ more children's social workers and to support more help for children, young people and families at an early stage. Cabinet proactively recognised the need to invest in this important area of the council's business. When Ofsted inspected this service area in June 2018 they acknowledged this investment and highlighted the need to increase capacity of social workers and managers to cope with the need for services and the volume of social worker caseloads.

Appendices

Appendix 1 - draft MTFS 2019/20 – 2021/22

Appendix 2 - detail of draft adults and communities 2019/20 revenue budget

Appendix 3 - detail of adults and communities capital investment budget requests

Appendix 4 – capital investment budget request business cases

Appendix 5 - summary of 2019/20 budget consultation responses

Background papers

None identified.