

20 September 2016		ITEM: 6
Corporate Overview & Scrutiny Committee		
Council Spending Review Update		
Wards and communities affected: All	Key Decision: Key	
Report of: Councillor Shane Hebb, Portfolio Holder for Finance & Central Services		
Accountable Head of Service: Sean Clark, Director of Finance and IT		
Accountable Director: Sean Clark, Director of Finance and IT		
This report is public		

Executive Summary

This report summarises the main changes to the MTFS for the period 2017/18 through to 2019/20.

The report also sets out the governance structure for the Council Spending Review and Transformation Programme, including the budget planning table enabling agreement of the budget in February 2017.

1 Recommendations

- 1.1 That Corporate Overview and Scrutiny Committee note the revised MTFS position, including any adjustments for an increase to the General Fund Balance;**
- 1.2 That Corporate Overview and Scrutiny Committee note the Council Spending Review approach and timetable.**

2 Introduction and Background

- 2.1 The MTFS presented to Council in February 2016 shows the budget gap over the 3 years 2017/18 to 2019/20 as £18.443m. This already assumes delivery of £2.534m savings previously agreed for 2017/18 (see Appendix 1) and assumes a Council Tax increase of 3.99% in each year.**

3 Issues, Options and Analysis of Options

Medium Term Financial Strategy (MTFS)

- 3.1 As part of the ongoing budget planning process, the MTFS has been updated to reflect latest assumptions. The table below sets out the movements from the previous position and revised budget gap.

	2017/18	2018/19	2019/20	Total
February 2016	7.378	6.098	4.967	18.443
Business Rates	0.399	0.663	(0.463)	0.599
Inflation	(0.285)	(0.071)	(0.071)	(0.427)
Capital Financing	-	(0.042)	0.591	0.549
Government Grant	-	-	1.785	1.785
Revised Budget Gap	7.492	6.648	6.809	20.949

- 3.2 The key movements include:

- The position for 2017/18 and 2018/19 reflects a reduction in the provision for inflation but, adversely, also the possible impact of a significant category of business rate appeals that have been lodged;
- The majority of the increase is expected in 2019/20 and is largely as a result of further analysis on the four year funding settlement. It is prudent, at this stage, to reduce down the level of grant and business rate support in light of discussions on the removal or reduction of New Homes Bonus and further comments on grant levels; and
- The increase in Capital Financing reflects the likely interest rate increases towards the end of the MTFS period. This increased cost has been offset with significant savings in 2016/17 and smaller reductions over the following two years as a result of pushing back the impact in light of current economic forecasts.

- 3.3 One off funding has been identified to meet the costs of a Clean It, Cut It, Fill It pilot. The results of this pilot will be used to determine whether growth is required in the budget for a permanent increase to the Environment and Place budgets and this will be reported once known.

- 3.4 The position above includes the assumption of a 3.99% increase in council tax each year – 1.99% general increase and 2% adult social care precept. The table below sets out how any reductions to this assumption will increase the deficits set out in paragraph 3.2.2:

An increase of:	Increases the budget gap by (£m)			
	2017/18	2018/19	2019/20	Total
3.99%	0.000	0.000	0.000	0.000
3.00%	0.570	0.585	0.605	1.760
2.00%	1.140	1.170	1.210	3.520
1.00%	1.710	1.755	1.815	5.280
0.00%	2.280	2.340	2.420	7.040

Council Spending Review Process and Timetable

- 3.5 Given the level of saving previously delivered across the council, the pressures identified in 2016/17 and that there are minimal reserves to call upon, it is essential that there is a clear strategy to close the budget gap set out in the MTFs. As a result, the focus will be on 3 key areas:
- Income generation – including increasing the Council’s commercial trading base. Council Tax increases also fall under this category;
 - Achieving more / same for less – including further transformational projects, contract reviews, spend to save initiatives and alternative delivery models; and
 - Demand management / early intervention. Examples include the Local Area Co-ordinators and Community Hubs.
- 3.6 However, where the budget gap cannot be fully closed through the above, the likely solution will be reductions to, or full cessation of, service provision.
- 3.7 Crossing through all of these areas is the need to adapt our workforce and change our culture to be an organisation which is more entrepreneurial, digitally-minded and commercially-aware.
- 3.8 The Council Spending Review will be underpinned by the following principles.
- Becoming financially self-sustainable;
 - A minimum of 15-20% efficiencies in each service;
 - A review of all services by March 2019 using common design principles (customer / demand management, commercial, ICT / digital, people, procurement, property and process);
 - Non-statutory income generating services should be cost neutral; and
 - Outcome focused including consideration of prevention and early intervention.
- 3.9 The transformation framework for achieving this is set out in the governance structure in Appendix 2. The officer Transformation Board will oversee a number of Strategic Boards each with a specific focus and cross cutting membership. Each Strategic Board will be sponsored by a member of Directors Board and guided by the principles outlined above and strategic policy direction set by Members. The governance structure also includes the cross-party Council Spending Review Panel.

Growth	Performance
Customer Service & Demand Management	Commercial
ICT / Digital	People
Procurement	Property
Service Review	

3.10 The Council Spending Review timetable (Appendix 3) has been prepared to achieve agreement of the budget by Cabinet and Council in February 2017. The main milestones are summarised below:

- July/August 2016 – Officer boards identify proposals and estimated savings for consultation with Cabinet Members;
- 7th September 2016 – Cabinet consider Q1 budget update including budget planning timetable and governance;
- September 2016 – Council Spending Review Panel (cross-party with Group Leaders and Deputies) consider savings options ahead of consultation;
- October/November 2016 – O&Ss consider proposals and public consultation where required;
- January 2017 – Cabinet agree proposals for implementation informed by O&S recommendations and draft budget referred to Corporate O&S; and
- February 2017 – Cabinet and Council budget setting.

General Fund Balance

3.11 The Council's S151 officer (Director of Finance and IT) has a responsibility to report to the Council annually the robustness of the Council's budget and adequacy of reserves.

3.12 A thorough review was carried out in 2010 and a level of £8m was recommended to Council and agreed at that level. Each year that amount has been reviewed at a high level with the Council agreeing the recommendation to maintain the £8m balance.

3.13 The review has been updated during the Summer and has considered the following risks:

- Contract Failure – in the last 12 months the Council, and nationally, has experienced failures in domiciliary care, children's centre provision and waste disposal;
- Interest Rate Increases – since the debt restructuring exercise, the Council has managed its cash flow through short term variable debt. The fact that this is unlikely in the current climate has been reflected in the probability linked to this risk;
- Significant Overspends not able to be mitigated, including a provision for unachieved savings – the Council has a proven track record of meeting various budget pressures in recent years with mitigating actions. However, this is becoming increasingly more difficult and the size of pressures with Children's and Adults' services in recent months have been challenging;
- Business Rates – the recent history of the impact of appeals from businesses to the Valuation office has had a significant impact on the

Council's resources. Whilst there has recently been good news in terms of new business in the area, there has equally been a postponement of a major scheme as well;

- Council Tax – recognising the loss of income should projected house building not take place;
- Government Grants – although the core grants have been reflected in the MTFs, there are still a number of service specific grants that have been reducing annually; and
- Other factors considered: litigation, pay awards higher than budgeted; inflationary impacts; adult social care winter pressures; and civil emergency costs.

3.14 Having considered the above and used probability and impact factors, the balance recommended is an increase of £1.26m to £9.26m. The Council's S151 officer would, considering the existing pressures within the MTFs, recommend an annual increase of £0.42m over the next three years to achieve this balance.

4. Reasons for Recommendation

4.1 The Council has a statutory requirement to set a balanced budget annually and to review its adequacy of reserves. This report sets out the budget pressures in 2016/17 along with actions to mitigate these pressures and deliver a breakeven position. The report also outlines the budget gap over the next three years as per the MTFs and the approach and timetable to manage the position.

5. Consultation (including Overview and Scrutiny, if applicable)

5.1 The budget planning governance structure includes involvement and consultation with Officers, Portfolio Holders and Members. The timetable allocates October and November for Overview and Scrutiny committees to consider proposals and public consultation where required. The process also includes the Council Spending Review Panel, made up of cross-party Group Leaders and Deputies who will meet regularly during the budget planning period and ahead of key decision points.

6. Impact on corporate policies, priorities, performance and community impact

6.1 The implementation of previous savings proposals has already reduced service delivery levels and our ability to meet statutory requirements, impacting on the community and staff. There is a risk that some agreed savings may result in increased demand for more costly interventions if needs escalate particularly in social care. The potential impact on the Council's ability to safeguard children and adults will be kept carefully under review and mitigating actions taken where required.

6.2 The scale of future budget reductions as set out in this report are such that work is underway to follow a transformational approach to tackle the challenge.

7. Implications

7.1 Financial

Implications verified by: **Carl Tomlinson**
Finance Manager

The financial implications are set out in the body of this report.

Council officers have a legal responsibility to ensure that the Council can contain spend within its available resources. Regular budget monitoring reports will continue to come to Cabinet and be considered by the Directors Board and management teams in order to maintain effective controls on expenditure during this period of enhanced risk. Austerity measures in place are continually reinforced across the Council in order to reduce ancillary spend and to ensure that everyone is aware of the importance and value of every pound of the taxpayers money that is spent by the Council.

7.2 Legal

Implications verified by: **David Lawson**
Deputy Head of Law & Governance

There are no direct legal implications arising from this report.

There are statutory requirements of the Council's Section 151 Officer in relation to setting a balanced budget. The Local Government Finance Act 1988 (Section 114) prescribes that the responsible financial officer "must make a report if he considers that a decision has been made or is about to be made involving expenditure which is unlawful or which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency to the authority". This includes an unbalanced budget.

7.3 Diversity and Equality

Implications verified by: **Becky Price**
Community Development and Equalities

There are no specific diversity and equalities implications as part of this report.

A comprehensive Community and Equality Impact Assessment (CEIA) will be completed for any specific savings proposals developed to address future savings requirements and informed by consultation outcomes to feed into final decision making. The cumulative impact will also be closely monitored and reported to Members.

7.4 **Other implications** (where significant) – i.e. Staff, Health, Sustainability, Crime and Disorder)

Any other significant implications will be identified in any individual savings proposal business case to inform the consultation process where applicable and final decision making.

8. **Background papers used in preparing the report** (including their location on the Council's website or identification whether any are exempt or protected by copyright):

- None

9. **Appendices to the report**

- Appendix 1 – 2017/18 Savings Tracker
- Appendix 2 – Council Spending Review Governance Structure
- Appendix 3 – Budget Planning Timetable

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