

3 February 2015		ITEM: 6
Corporate Overview and Scrutiny Committee		
Shaping the Council and Budget Progress Update		
Wards and communities affected: All	Key Decision: Yes	
Report of: Councillor John Kent, Leader of the Council		
Accountable Head of Service: Sean Clark, Head of Corporate Finance and Section 151 Officer; Karen Wheeler, Head of Strategy & Communications		
Accountable Director: Graham Farrant, Chief Executive		
This report is Public		

Executive Summary

There have been a number of reports presented to Cabinet since July 2014 on the budget pressures and progress in meeting those pressures covering the financial years 2015/16 through to 2017/18.

The report considered by Cabinet on 17 December 2014 reported a balanced budget for 2015/16 but a budget gap of £9.5m for the period 2016/17 – 2017/18. These forecasts were based on all proposals being accepted, a Council Tax increase and assumptions around government grant being correct.

This report provides an update on those factors, especially in terms of the draft government finance settlement, and revised budget forecasts.

1. Recommendation(s):

That Corporate Overview and Scrutiny Committee note and comment on the report, including the recommendations set out below agreed by Cabinet on 14 January 2015.

1.1 That the Cabinet note the impact of the Local Government Draft Finance Settlement and the subsequent budget forecasts;

1.2 That the Cabinet agree to the funding recommendations as follows:

1.2.1 As explained in the report, the government top slices New Homes Bonus (NHB) funding from the overall pot available for local government finance. The amount taken is always in excess of the amount

distributed and is distributed in a later announcement. Considering past allocations, it is recommended to budget for an additional grant of £0.200m;

- 1.2.2 **Further to paragraph 2.5, the remaining £0.800m of brought forward pressures be utilised;**
- 1.2.3 **As stated in previous reports, there remains a £0.500m contingency in 2015/16 for demographic pressures. The balance of £0.168m should be met from this sum; and**
- 1.2.4 **That officers be instructed to identify those savings required for the remainder of the Medium Term Financial Strategy (MTFS) and implement as many as possible in 2015/16 to increase resilience.**

2 Introduction and Background

- 2.1 Cabinet have considered detailed reports at each of its meetings in this municipal year that have followed on from the Council budget report in February 2014.
- 2.2 Each report has tracked changes from that budget report explaining changes to assumptions, identifying further pressures and offsetting the deficit by a number of savings proposals.
- 2.3 The report to Cabinet in December 2014 recommended an approach that, subject to all proposals being accepted and assumptions around grant funding being correct, would deliver a balanced budget for 2015/16.
- 2.4 However, at that meeting, Cabinet did agree to remove the targeted saving in 2015/16 of £0.2m relating to the Thameside Theatre. The impact was to defer the saving into 2016/17.
- 2.5 This created an additional pressure in 2015/16. Cabinet will recall that to add resilience to this unprecedented savings challenge, pressures from 2017/18 were brought forward to 2015/16 artificially increasing the budget gap for that year. The report in December 2014 used a significant element of this to balance the budget for 2015/16 but left a balance of £1m. A further £0.2m of this will now be used and forecasts are revised as follows:

	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
As per December Cabinet Report	-	8.185	1.343	9.528
Deferment of Thameside proposal	0.200	(0.200)	-	-
Use of brought forward pressures	(0.200)	0.200	-	-
Revised Total	-	8.185	1.343	9.528

3 Draft Local Government Finance Settlement

- 3.1 The draft Local Government Finance Settlement (LGFS) was announced on 18 December 2014.
- 3.2 The government has, in recent years, used the term 'Spending Power' to headline this announcement. Spending Power brings together a number of figures relating to various grants as well as assumptions for both business rate and Council Tax income.
- 3.3 The headline, nationally, is that there is a 1.8% reduction in spending power. The headline for Thurrock Council was a 2.2% reduction. There are a number of problems with this approach though, that mask the real impact on the amount available to finance traditional local authority services:
- The amounts included for both Council Tax and business rates are notional and not truly reflective of Thurrock's position;
 - Specific grants and services included within the spending power analysis and Revenue Support Grant (RSG) specifically, change annually and, although changes are made to the comparative year do influence the percentage change;
 - Some of these amounts are ring fenced for specific and often new services to be delivered by local authorities. With these amounts protected, it means that the amount available for traditional services is less than the headline reduction; and
 - In this settlement, circa £9m of health related funding previously financed by the Thurrock Clinical Commissioning Group (CCG), has been included within the 2015/16 spending power thus increasing the headline amount available for local authority services despite most of this money going to fund NHS services locally, rather than being available to the council.
- 3.4 Due to the above issues, Thurrock's officers have reported on the actual reduction in grant available for non-ring fenced services. The following paragraphs and table set out that impact for 2015/16 and compare this to the MTFs assumptions that lead to the budget gap forecasts set out in paragraph 2.5.
- 3.5 Comparing like with like, Thurrock Council received £40.650m to finance traditional services and to provide support to schools. The MTFs assumed a reduction of £9.009m to a total of £31.641m.
- 3.6 Considering the grants with the exclusion of the Education Support Grant (ESG), the table below shows a reduction of £9.662m, £0.653m worse than budgeted. Although there is an increase in New Homes Bonus (NHB), the increase was not as high as expected and Cabinet should be aware that any increased funding for NHB nationally reduces the overall amounts to be distributed through the RSG.

- 3.7 The ESG has reduced by a further £0.515m and this reflects the amount of schools transferring to Academy status. This funding is to carry out the Council's statutory responsibilities in terms of schools' performance and improvement. Although some responsibility goes with an Academy transfer, a certain level of responsibility remains despite the funding being removed.
- 3.8 These responsibilities fall within the Children's service and the various support services, all of which are already making reductions to their service budgets to reflect this and other grant reductions. When considering this further reduction in funding (35%) it brings the overall reduction in funding to £10.177m, a reduction of 25% overall.
- 3.9 With a budgeted reduction of £9.009m within the MTFs, this has added a further pressure to 2015/16 of £1.168m.

	2014/15 Settlement £000s	2015/16 Settlement £000s	(Reduction) / increase £000s	MTFS Assumption £000s	MTFS Variance worse / (better) £000s
General Use Funding					
Revenue Support	35,846	25,635	(10,211)	25,809	174
New Homes Bonus	2,067	2,796	729	3,200	404
Other Central grants					
- HB Admin	1,036	968	(68)	1,036	68
- Council Tax burdens	105	37	(68)	0	(37)
- Community right to bid	9	0	(9)	9	9
- Community right to challenge	8	0	(8)	8	8
- Local Authority Reform and community voices	115	88	(27)	115	27
Total General use funding	39,186	29,524	(9,662)	30,177	653
Other Service Specific Grants					
Education Support Grant	1,464	949	(515)	1,464	515
"Above the line" funding	40,650	30,473	(10,177)	31,641	1,168

- 3.10 As previously stated, 2015/16 had been in a balanced position based on the original assumptions but the LGFS has now created a budget gap of £1.168m.
- 3.11 At this stage it is not practicable to budget for additional savings to be made. As such, the following approach is recommended to maintain the balanced budget position for 2015/16:
- 3.11.1 As stated above, the government top slices NHB funding from the overall pot available for local government finance. The amount taken is always in excess of the amount distributed and is distributed in a later announcement. Considering past allocations, it is recommended to budget for an additional grant of £0.200m;

- 3.11.2 Further to paragraph 2.5, the remaining £0.800m of brought forward pressures be utilised;
- 3.11.3 As stated in previous reports, there remains a £0.500m contingency in 2015/16 for demographic pressures. The balance of £0.168m should be met from this sum; and
- 3.11.4 That officers be instructed to identify those savings required for the remainder of the MTFs and implement as many as possible in 2015/16 to increase resilience.
- 3.12 The above has the following impact on the forecast set out in the table at paragraph 2.5:

	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
	-	8.185	1.343	9.528
Unbudgeted reduction in grant	1.168	-	-	1.168
Estimated redistribution of grant	(0.200)	-	-	(0.200)
Use of brought forward pressures	(0.800)	0.800	-	-
Use of demographic contingency	(0.168)	-	-	(0.168)
Revised Totals	-	8.985	1.343	10.328

4 Council Tax

- 4.1 At the time of the LGFS, the government also announces the referendum limit for Council Tax increases. This has been set at 2% for 2015/16. In other words, any increase above 2% would trigger a referendum in May 2015 that, if lost, would require the Council to set a lower budget and rebill all residents for the 2015/16 Council Tax.
- 4.2 The MTFs currently assumes a 1.99% increase although Cabinet should note that the government has, once again, offered a Council Tax freeze grant equivalent to 1%.
- 4.3 As the amount for Council Tax was originally set on a lower Council Tax base and the freeze grant is calculated on notional figures, if the Council was to accept the freeze grant the MTFs for 2015/16 would worsen by £0.195m. However, due to the increased base, maintaining a 1.99% increase would actually improve the position by £0.261m.

5 Issues, Options and Analysis of Options

- 5.1 The main issues remain around finalising the remaining savings proposals and the final approval of the Council Tax levels.
- 5.2 There have been a number of proposals considered since July 2014 through the various Overview and Scrutiny Committees and interested parties, the responses of which are fed into final decisions through the Cabinet.

- 5.3 There are still a handful of proposals still to be agreed and others not yet delivered – these remain a risk.

6 Reasons for Recommendation

- 6.1 The Council has a legal obligation to ensure that any budget set can be met from the combination of Council Tax, business rates, grants, other income and reserves. Maintaining a Medium Term Financial Strategy is the foundation of this requirement to ensure that Members and officers are aware of the Council's financial position to be able to manage it accordingly.
- 6.2 The reduction in funding to the Council is unprecedented at a time when demand on services is growing, requiring a fundamental change in the way the Council approaches addressing the budget gap and in considering the future shape of the Council going forward.

7 Consultation (including Overview and Scrutiny, if applicable)

- 7.1 The Leader, Portfolio Holders and Directors Board have been consulted on developing the savings proposals. Group Leaders have been offered a presentation on the budget and MTFs for their groups to understand the overall financial position.
- 7.2 Savings proposals have and will continue to be subject to consultation through Overview and Scrutiny Committees and more widely with the public.
- 7.3 The outcomes of the remaining consultations will feed into the final proposals put forward for decision making at the earliest opportunity as part of a rolling timetable followed by implementation.
- 7.4 Internal consultation with staff on specific proposals, particularly where there is a restructure, will be in line with HR policy and guidelines. Discussions have commenced with Trade Unions.

8 Impact on corporate policies, priorities, performance and community impact

- 8.1 The issues and proposals set out in this report have wide ranging implications for the Council, the way it works and the services it provides. Some of these may actually improve the way the Council does business and the service provided to residents by making them more targeted and efficient, however the cumulative impact of such a significant reduction in budget and the implementation of savings proposals will reduce service delivery levels and our ability to meet statutory requirements and therefore impact on the community and staff. The potential impact of the savings proposals on the Council's ability to safeguard children and adults will be kept carefully under review and mitigating actions taken where required.
- 8.2 The Council has commenced a voluntary redundancy process with staff. The outcomes from the process and full impact of the savings proposals on staff

will be known over the next few months feeding into the implementation of management actions and decision making for savings proposals.

9 Implications

9.1 Section 151 Comment

Implications verified by: **Sean Clark**

Head of Corporate Finance/S151 Officer

Members will be aware that I have a statutory obligation to complete a statement on the robustness of the estimates when you consider the budget at the February budget meetings. Cabinet have already considered a number of savings and I note significant risk in the delivery of some of these proposals, especially where they relate to demand led services and where savings are dependent on other organisations agreeing or delivering savings. The past four years have demonstrated strong financial management within the Council and this provides me with some comfort that these will be delivered. However, I need to strongly advise that the balance of savings is focussed primarily on where the delivery is within the control of the Council. This will undoubtedly make decisions for Members more difficult as they are more likely to impact on services that affect residents to a greater degree or conflict with political ambition and narrative.

9.2 Financial

Implications verified by: **Sean Clark**
Head of Corporate Finance/S151 Officer

The financial implications are set out in the body of this report. Detailed financial implications will be provided in business cases for each of the proposals.

Council officers have a legal responsibility to ensure that the Council can contain spend within its available resources. This must also include a consideration of the risk in achieving that budget and so robust monitoring of accepted proposals will be essential throughout the coming years.

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.

9.3 Legal

Implications verified by: **Fiona Taylor**
Head of Legal and Democratic Services

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.

There are no specific legal implications as a result of this report, however, any implications of specific savings proposals will be set out in individual business cases to inform consultation and final decision making.

9.4 **Diversity and Equality**

Implications verified by: **Natalie Warren**
Community Development and Equalities
Manager

Each savings proposal with changes to the service which requires public consultation will have a detailed business case setting out how the savings will be achieved including the level of service reduction and mitigating actions. As part of developing the business case a comprehensive Community and Equality Impact Assessment (CEIA) will be completed and informed by any consultation outcomes. Directorates are required to complete a cumulative impact assessment. An assessment of the cumulative impact from all Directorates has been completed by the Community Development and Equalities team to inform final decision making on the savings for 2015/16 and beyond.

It is recognised that there is likely to be a cumulative impact on the voluntary and community sector due to proposals to both reduce core grants and specific grants currently provided by services across the Council, as well as reductions to commissioned services. In December 2014, Cabinet agreed changes to the savings proposals impacting the sector in order to mitigate this.

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

Any other significant implications are being identified in each savings proposal business case to inform the consultation process and final decision making.

10 **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):

- Budget working papers including previous MTFS
- Budget savings proposals working papers and business cases

- Cabinet reports - 2013/14 Draft Outturn and MTFS Update and Shaping the Council 2015/16 and Beyond, July, August, September, November and December 2014
- The Local Government Finance Settlement

11 Appendices to the report

- There are no appendices to this report.

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