

Report To: Corporate Governance Committee

Date of Meeting: 28th September 2015

Lead Member / Officer: Councillor Julian Thompson-Hill

Report Author: Richard Weigh, Chief Finance Officer

Title: Budget Process 2016/17

1. What is the report about?

The report gives an update on the process to deliver the revenue budget for 2016/17.

2. What is the reason for making this report?

To provide an update of the latest position.

3. What are the Recommendations?

To consider the latest update and comment as appropriate.

4. Report details

The latest progress with the budget setting process is as follows:

	<u>2015/16</u>	<u>2016/17</u>
	£'000	£'000
Savings Target	8,259	8,853
Proposed		
Phase 1	3,715	870
Phase 2	3,571	1,785
Phase 3	473	-
Phase 4		1,290
Phase 5 (*to date)		4,178
Total Proposals	7,759	8,123

The position shows a potential remaining budget gap of £730k based on the latest planning assumptions in the Medium Term Financial Plan. The key assumptions include the following:

- RSG Cut by 4% (in cash terms)
- Council Tax Rise 2.75%
- Pay (average) 1% increase
- Pensions (current and deficit) 8% approximate increase
- Changes to NI rules approximately 26% increase

A number of the proposals included in Phase 5 do not yet have estimated values attached and are currently being developed. The budget gap as calculated includes some elements of contingency. However, some potential additional pressures are emerging from the social care sector which could negate the positive impact. Proposals submitted by elected members will be included as part of the Phase 5 proposals. So far, four of the six proposals have been assessed by services and finance.

The proposals so far identified in Phase 5 have been categorised into the following:

Analysis by Impact	Number of Items	Value (£000)
Technical Budget Reductions - no effect on service levels	9	964
Efficiency - no negative effect on service levels but will impact on staffing	21	1,219
Increase in Fees & Charges or additional external income contributions	2	320
Change to service level received by public	9	940
Service Reduction/withdrawal	7	667
As yet Unknown	8	68
Grand Total	56	4,178

The budget workshop was held on 5th June and focussed on financial planning and economic forecasts. It set out some of the national considerations that will impact upon the council's budget planning. The session explained that the forecast budget gap for 2016/17 is set at approximately £8.8m and so far (taking account of the package approved by Council on 7th July), proposals totalling £4m have been approved. Explanation of the assumptions applied was given and highlighted that the most significant of these is the level of Settlement to local authorities in the form of Revenue Support Grant. Every percentage change to the Settlement value equates to approximately £1.4m. At this stage, there is no indication of the level of likely Settlement – it could be better or worse than the central planning case of -4%.

The Draft Settlement for Local Government in Wales is usually published early in October. However, there remains a significant level of uncertainty around the level and timing of the Local Government Settlement in Wales. The exact impact of the Summer Budget announcements on devolved administration budgets will not be clear until the publication of the UK Government Spending Review on 25th November. This will determine the level of the Block Grant to Wales. There will then be a period (possibly a month) when the Welsh

Government sets its budget, including the budget settlement to local government. This could mean that the Draft Settlement is not received until early in January.

In terms of the level of Settlement, the Institute of Fiscal Studies has assessed that devolved nation settlements from the UK Government could be broadly flat in cash terms over the next two years, partly as a consequence of 'protected' areas of expenditure forming a significant part of the overall block of funding devolved (mainly health and schools). Therefore, the issue in Wales is the policy at a national level that will inform the distribution of funding between local government and health.

The probable late announcement of the Draft Settlement will mean that the budget timetable will need to be refined. The council has to set its budget in time to allow the production and distribution of Council Tax bills in March. The current timetable is enclosed as Appendix 1. It is probable that an extra meeting of the full council will be required to finalise the budget in February.

The budget timetable still assumes that some proposals will be taken to Council for approval in December. It is assumed that any proposals brought forward for approval in advance of the Settlement announcement will be focussed on efficiency and modernisation, rather than service reduction or increases to fees and charges.

Proposals are being developed and will be presented to budget workshops. Budget workshops are scheduled for 26th October and 14th December but a further date or dates will be proposed in November. It is recommended that the proposals taken to budget workshops are focussed on the areas where there is likely to be the most impact – whether that be in respect of a reduction or change to a front-line service or increases in fees or charges. Proposals that are focussed on efficiency and involve services restructuring should be reported as part of the budget paper to Council – with the proper impact assessments completed – but as decisions that are delegated to heads of service, should not be covered in detail at budget workshops.

The suggestion from the last Corporate Governance Committee meeting of holding additional workshops in September was not endorsed by political group leaders. However, it was agreed that briefings would be provided of significant changes or announcements affecting the budget as necessary.

All proposals are being assessed by Finance to determine the likely budget impact in 2016/17. This is to ensure that any upfront or replacement costs are factored into the calculation and to provide a financial risk assessment as to whether the timescales are reasonable to achieve either full or part year implementation in 2016/17. Finance are also in the process of completing an assessment of a number of themes across all budget areas – not service specific. These assessments will be focussed on the following areas:

- Pay and staff related budgeting – examining consistency across service budget assumptions and detailed analysis of recent announcements regarding living wage and home to work travel time
- Fees and Charges – assessing income budgets and charging policies and where appropriate, benchmarking to other organisations
- Procurement – assessment of supplies and services expenditure
- Grants – assessment of revenue grant streams, risks associated with uncertain funding and data to lobby for greater de-hypothecation of grants into the main Revenue Support Grant
- Financial benchmarking – testing key service cost indicators and explore significant variations to best practice
- Capital Financing Budget – a full review of the budget accounting for the latest assumptions supporting the Corporate Plan, assessment of future borrowing costs and requirements and recent significant transactions (such as the termination of the PFI contract and the buy-out of the Housing Revenue Account subsidy system).

The purpose of these assessments is twofold; to identify potential areas of saving for 2016/17 and 2017/18 and to provide some assurance about the value for money. The analysis will also feed into the next revision of the Medium Term Financial Plan which is currently being drafted.

During September/October, a review of council reserves and provisions will be completed. The purpose of this review is to ascertain whether the financial risks or other reasons for holding these specific amounts is still appropriate. The results will be reported to cabinet in November, as will the potential impact on the council's budget process.

The latest budget process chart is enclosed as Appendix 1 and a revised version enclosed as Appendix 2.

5. How does the decision contribute to the Corporate Priorities?

Effective management of the council's budgets and delivery of the agreed budget strategy underpins activity in all areas, including corporate priorities.

6. What will it cost and how will it affect other services?

The council may need to deliver savings and other measures of approximately £8.8m next financial year.

7. What are the main conclusions of the Equality Impact Assessment (EqIA) undertaken on the decision?

An EqIA will be completed for all relevant proposals as the process develops.

8. What consultations have been carried out with Scrutiny and others?

Previous reports have highlighted in detail the significant consultation process undertaken to deliver the 2015/16 and 2016/17 budgets.

9. Chief Finance Officer Statement

This remains a difficult process with some tough decisions to make along the way. The engagement and support of elected members in the decision making and scrutiny of the process is crucial.

The aim of the budget process is to ensure that the council delivers a balanced budget. Built into the process are a number of review points to ensure that it remains on track and it can be amended if not. The uncertainty over the level and timing of the Settlement means that the budget gap estimated may change for 16/17 but this must be viewed in the context of the likelihood that negative Settlements will continue in the medium term.

10. What risks are there and is there anything we can do to reduce them?

This is the most challenging financial period the council has faced and failure to deliver an effective budget strategy will put further pressure on services in future financial years.

The budget process itself is a risk management measure with the aim of identifying, assessing and agreeing budget proposals in a planned and timely way. The process as outlined includes sufficient scope to review and amend if necessary. The level of proposals identified in June through both consultation with services and proposals submitted by members will inform how the remainder process continues.

Risk management of the budget process is a key consideration of the Corporate Governance Committee and specific risks have been raised in previous reports. As each proposal is identified, the financial and service risks are identified and highlighted at budget workshops as they are being developed.

11. Power to make the Decision

Local authorities are required under Section 151 of the Local Government Act 1972 to make arrangements for the proper administration of their financial affairs.