

Report To: County Council

Date of Meeting: 2nd December 2015

Lead Member / Officer: Councillor Julian Thompson-Hill/ Richard Weigh

Report Author: Richard Weigh, Chief Finance Officer

Title: Budget 2016/17 Update

1. What is the report about?

The report gives provides the latest position with regard to the delivery of the 2016/17 revenue budget and highlights the measures being taken as part of Phase 5 of the current two-year budget process. The report also highlights the investment that the council has made in crucial infrastructure and improvements throughout the county over a continuing period of funding reductions. The report also outlines how the council's budget strategy has protected key services whilst managing a challenging financial position.

2. What is the reason for making this report?

To provide an overview of the budget process and achievements to date and to update on the latest position. To reflect on the significant level of investment in major capital projects and protection of key services during a challenging financial period.

3. What are the Recommendations?

To note the progress made in the delivery of the 2016/17 budget and the proposed steps to finalise the process.

To note the bulk of the savings made to date in this two year budget process have not imposed cuts to services or increases in charges.

To note the capital investment of almost £200m on completed and planned projects across the county from 2012 rolled out to 2019.

4. Report details

In April 2014, the council's budget strategy had identified a possible budget gap of up to £18m over the coming two financial years. This was primarily driven by indications that the council's funding settlement would reduce alongside estimated unavoidable cost pressures. The Local Government Settlement for 2015/16 provided a cash reduction to the council's budget of 3.6% which equated to £5.3m. With cost pressures the council had to fund, such as pay, pensions and energy increases, the budget gap for 2015/16 was £8.3m and using the same methodology, is now estimated to be approximately £7.4m in 2016/17, so £15.7m in total.

At the same time as dealing with a funding cut, the council set priorities to protect and invest in important service areas such as schools, social care and the roads and has continued to achieve this throughout the budget process.

The process to identify the savings required to deliver the budgets over the two years is called Freedoms & Flexibilities. It has involved a review of every service and activity and an analysis of the council's revenue budget. The process incorporated a series of budget workshops with elected members where the council's entire revenue budget was presented on a line-by-line basis, along with saving proposals from each service. So far, there have been fifteen workshops with a sixteenth final workshop scheduled for 14th December.

A summary of the budget position to date is shown in Table 1 below

Table 1 Summary Budget Position

| Summary Position Phases 1 -5 | | |
|-------------------------------------|----------------|----------------|
| | 2015/16 | 2016/17 |
| | £'000 | £'000 |
| Budget Gap | 8,259 | 7,433 |
| Proposals | | |
| Phase 1 | 3,715 | 870 |
| Phase 2 | 3,571 | 1,785 |
| Phase 3 | 473 | - |
| Phase 4 | | 1,290 |
| Phase 5 | | 1,273 |
| Total Proposals | 7,759 | 5,218 |
| Balances | 500 | |
| Tax Base Adjustment | | 250 |
| Gap | 0 | 1,965 |

Phases 1-4 have approved proposals totalling £4m, with a further £1.2m included in Phase 5 (details attached to this report). An analysis of the savings achieved in the process is provided in Table 2 below:

Table 2 Analysis of Savings to Date

| Category of Saving Delivered by Freedoms & Flexibilities | 2015/16 | 2016/17 | Total |
|---|----------------|----------------|--------------|
| | £'000 | £'000 | % |
| Alternative commissioning / procurement / service delivery | 520 | 1,253 | 14% |
| Change to service level received by public | 867 | 331 | 9% |
| Efficiency & Modernisation | 2,820 | 2,151 | 38% |
| Increase in Fees & Charges or additional external revenue | 665 | 128 | 6% |
| Service Reduction/withdrawal | 140 | 240 | 3% |
| Technical Budget Adjustments - matching budget to spend | 2,747 | 1,115 | 30% |
| Total | 7,759 | 5,218 | |

The vast majority (82%) of the savings made so far have been efficiency or other measures which have not negatively impacted services to the public. Council Tax was increased by just 2.75% in 2015/16 which was one of the lowest increases in Wales and this level of increase is the working assumption for 2016/17.

The budget gap is calculated by applying a number of planning assumptions, including the level of Council Tax rise and inflation over pay and other areas. The key ingredient however is the level of revenue funding provided by Welsh Government as this provides almost three-quarters of the council's net revenue funding. The budget gap assumes a -4% cash reduction to the level of the council's funding provided through the settlement from Welsh Government. This level of reduction is consistent with other Welsh councils as a planning assumption and is based on indications (but not firm indicative settlements) that the settlement for 2016/17 would be worse than 2015/16, which was 3.6% for Denbighshire. Each percentage reduction in the revenue settlement equates to approximately £1.4m.

The basis for such significant reductions is unclear as analysis of the UK Summer Budget suggests that the impact of deferring achievement of a national budget surplus by a year, taken with the Barnett consequential impact of policies to protect health budgets at a UK level, would provide a positive cash settlement to Wales. If this is the case, the analysis suggests that there could be sufficient headroom to provide the same level of protection to health in Wales as in England without making such significant cuts to local government funding. One scenario suggests the average reduction to local government could be less than 1% next year, rather than the much more severe cuts being trailed.

The bulk of council budgets in Wales are spent providing education and social care. With fixed budgets, such as repayment of debt, there is less than 1/5th covering other budgets. Therefore, if cuts of 3-4% were to be applied in the medium term, the scale of the reduction would mean it is inevitable that some of the impact would have to fall on schools and social care, which would seem contrary to national priorities to protect these budgets.

The Welsh Government is scheduled to publish its budget on the 8th December with the Provisional Local Government Settlement following on the 9th December. This will make the funding position for 2016/17 clearer. The Provisional Settlement announcement will include a headline figure but the impact of changes to revenue grant funding streams (of which the council receives approximately £30m) may not be published at the same time.

Given the level of uncertainty about the revenue settlement, recent member budget workshops have focussed on a range of proposals that may or may not be required to be implemented for 2016/17. In order to maintain momentum and limit risks at the end of the process, it has been explained that a set of measures would be presented to council for information in December so that the impact on the budget can be noted. These have all been discussed at budget workshops or presented at other member forums and are items

delegated to officers, including management restructures, modernisation and efficiencies, alternative funding models and adjusting budgets to match expenditure or risk. The details are presented in **Appendix 1** and in total contribute £1.2m to the budget gap. Taken with amended planning and funding assumptions, Phase 5 measures reduce the budget gap by £2.093m. Where appropriate, impact assessments have been completed and can be accessed by members in the members' library section of the Modern.gov system.

There is no clear steer yet as to whether there will be directives to protect schools and other budgets. There has been a ministerial pledge since 2011 to protect schools budgets in Wales by '1% above the Block Grant to Wales'. Assuming the Block Grant is broadly flat, as highlighted above, this pledge can be fulfilled by not removing pupil demography adjustments from the quantum of school budgets and providing further additional resources to build new schools throughout the county.

To comply with the pledge to 'protect' schools budgets, the council should have increased schools funding by £3.4m over the last four years. In fact, schools funding in Denbighshire has increased by £6.3m. This is detailed in **Appendix 2**. Schools will have to absorb all cost pressures arising in 2016/17 which are estimated to be £2.5m and have been modelling indicative budgets on that basis. Social care budgets have also been protected and have achieved positive revenue positions allowing further investment in services and service modernisation over the last two years.

As well as delivering a balanced budget through a detailed and challenging process, the council has also continued to invest in vitally important improvements and infrastructure. It is worth reflecting on the scale of this investment and the benefits delivered throughout the county. These are detailed in **Appendix 3** and show that from 2012/13 to 2019/10, actual and planned capital investment will amount to almost £200m during a period of sustained reductions to the council's revenue budget.

| Summary Capital Investment 2012-2020 | £m |
|---|--------------|
| Schools | 96.8 |
| Roads | 18.4 |
| Social Care | 21.5 |
| Floods & Coastal Defence | 16.1 |
| Economic Development/ Regeneration | 26.8 |
| Leisure & Libraries | 6.7 |
| Other | 9.3 |
| Total | 195.6 |

The late announcement of the Provisional Local Government Settlement will mean that the budget timetable may 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. Depending on the level of Provisional Settlement, it is probable that an

extra meeting of the full council will be required to finalise the budget in February.

The Final Local Government Settlement will not be published until 2nd March 2016. Assurances have been provided that there should be no negative movement between the Provisional and Final Settlement values. Usually, there are minor data changes between the two but assurances have been provided that these will have been factored into the Provisional. Therefore, the council's final budget and Council Tax will have to be set based on the Provisional Settlement. Initial legal advice suggests that this is acceptable as long as the Final Settlement is not significantly different from the Provisional. The final Welsh Government budget will not be put before the Senedd until 8th March.

Appendix 4 is a letter from Welsh Government/WLGA outlining the national budget timetable.

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?

Depending on the level of financial settlement, it is estimated that savings of £7.4m are required. The budget gap on the basis that it is -4% is currently £1.9m. Further proposals will come forward to address the budget gap once the settlement is known.

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

An EqIA has been completed for all relevant proposals.

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, including workshops, scrutiny committees, Corporate Governance Committee, task and finish groups, Joint Consultative Committee and a public engagement exercise last year. The engagement exercise completed last year, called 'Cutting our Cloth' included proposals covering the two financial years and yielded 822 survey responses and over 5,179 website hits. The detailed report of responses to the engagement exercise was presented to council last year and is available on the Modern.gov system. A member task and finish group has been established to assess the impact of savings proposals that have been implemented as part of this budget process. Since the conclusion of the second phase of the two-year budget process, proposals to address the budget gap have focussed on efficiency and not measures that would have an impact on the public and therefore further engagement on such proposals would not be worthwhile.

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 process and scrutiny of the process is crucial.

The aim of the budget process is to ensure that the council delivers a balanced budget. The uncertainty over the level financial 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 financial settlements will continue in the medium term. The late notification this year poses some risks but these are currently thought to be manageable.

It is likely that funding reductions to local authorities in Wales will continue in the medium term and while the council will always endeavour to be more efficient to save money, this in itself may not be sufficient in future years. Budget decisions will get harder and will probably have a longer lead-in time to deliver.

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

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. 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.