

Report To: Cabinet

Date of Meeting: 12th January 2016

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

Report Author: Richard Weigh, Chief Finance Officer

Title: Budget 2016/17 (Final Proposals – Phase 6)

1. What is the report about?

The report sets out the implications of the Draft Local Government Settlement 2016/17 and proposals to finalise the budget for 2016/17.

2. What is the reason for making this report?

The Council is legally required to set a balanced and deliverable budget before the start of each financial year and to set the resulting level of Council Tax to allow bills to be sent to residents.

To provide an overview of the budget process and the impact of the Provisional Local Government Settlement and to consider proposals for Cabinet to recommend to the full Council to set the budget for 2016/17, including the level of Council Tax.

3. What are the Recommendations?

To note the impact of the Provisional Local Government Settlement and that no further savings beyond the £5.2m already approved are required from services for 2016/17.

That cabinet supports the following proposals and accordingly recommends them to the full Council in order to finalise the 2016/17 budget:

1. To increase funding to schools to meet the national level of protection of +1.85%
2. To set aside a one-year budget delivery contingency of £480k for 2016/17 to mitigate the risks to the delivery of the budget set out in this report
3. To recommend to Council the resulting average increase in Council Tax of 1.5%.

4. Report details

The Local Government Settlement for 2015/16 provided a cash reduction to the council's budget of 3.6% which equated to £5.3m. Indications were that the Settlement for 2016/17 would be worse and accordingly, the council planned for

a reduction of -4% (equating to a reduction of £5.6m approximately). With inflationary cost pressures the council has to fund and allowing for an estimate of budget protection for schools, the budget gap for 2016/17 was calculated as £8.0m.

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

The draft Welsh Government budget and therefore the Provisional Settlement to local government were announced later than usual this year as a consequence of the timing of the UK Government's Autumn Spending Review. The draft Welsh Government budget announced on the 8th December showed growth in cash terms from £15.6bn to £15.9bn, an increase of £351m, or 2.3% in total. Nearly two-thirds of the increase £230m (15.8% uplift) applied to capital budgets and £121m (0.85%) to revenue. The budget provided an additional £278m to the NHS, including a £30m increase to the Intermediate Care Fund, which should have benefits for local government.

Since 2011 there has been a ministerial pledge to 'protect' school budgets. The mechanism for this has been to suggest that local authorities uplift school budgets by 1% more than the revenue 'block grant' to Wales. The revenue funding to Wales has increased by 0.85% and so to comply with the required protection policy, the council would need to increase school budgets by 1.85% in total. This level of protection is double what had been assumed (which was based on last year's figure) and results in a cash increase to schools, before adjusting for pupil numbers, of £1.173m.

The Settlement announced on 9th December was much better than expected with an overall cash reduction to local government of -1.4% and a reduction to Denbighshire of -1.2%. The range of reductions across Welsh councils varied from -0.1% (Cardiff) to -4.1% (Powys) with the impact generally worse for rural counties. Previous funding floor mechanisms have been removed from the Settlement which is why the range is relatively wide.

Approximately three-quarters of the council's net funding comes via the Settlement so the impact of small percentage changes to it is always significant. The council's funding settlement of -1.2% means the resulting headline funding reduction is £3.9m less than had been anticipated with a -4% reduction.

The process to identify the savings required to deliver the budgets over the last two years is called Freedoms & Flexibilities and has identified savings of £7.7m in 2015/16 and £5.2m in 2016/17. 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. The process has delivered sixteen budget workshops with members with the final session held on 14th December.

The Freedoms & Flexibilities process ends with the setting of the 2016/17 budget and a new budget process will be developed for 2017/18.

In December, a report to full council set out the latest budget position and assumptions, which indicated a remaining budget gap of £2m. This gap was calculated with a number of assumptions which have changed as a consequence of the Provisional Settlement. Appendix 1 sets these out in detail but a summary is shown in the table below. These were explained in detail at the budget workshop with members on 14th December:

	Pre Settlement	Post Settlement	Impact '000
Funding Settlement	-4%	-1.20%	£3,884
Council Tax	2.75%	1.50%	-£551
Total			£3,333
Existing Budget Gap	£2,000k	0	£2,000
Additional School Protection	0	£1,173k	£1,173
Pupil Demography Reduction	-£320k	0	-£320
Total			£2,853
Funding Position			£480

The changes to the Settlement value allow for a proposal to lower the level of proposed Council Tax rise from 2.75% to an average of 1.5%. This will reduce council funding by £551k but will mean that some of the benefits of the Settlement are passed directly onto Council Tax payers. Despite several years of low increases, Denbighshire's Council Tax is relatively high compared to others in Wales and the proposed lower level increase will help to redress this position. The impact of the proposal to increase Council Tax by 1.5% is set out in detail in Appendix 2 and the council's relative position compared to others in Wales in 2015/16 is shown in Appendix 3. At the budget workshop in December, there was a consensus among members that the level of Council Tax rise should be no lower than 1.5%.

The proposals set out above require no further savings from services in 2016/17. Savings of £5.2m have already been identified in previous phases of the two-year process.

Applying the assumptions above results in a positive funding position of £480k. However, this must be considered in the context of the likelihood of further reductions in future years. The Settlement for 2016/17 is better than expected but it is a one-year settlement with no indications about future years. It is hoped that post the Welsh Government elections in May, reliable multi-year settlements will be provided but until then, there are no firm planning guidelines. Appendix 1 shows that budgets for future years (assuming a 3% reduction and

Council Tax of 2.75%) have gaps of almost £6m each year. Even if the budget was 'cash flat' in 17/18, pressures of over £3m would need to be funded. Therefore, the council should not commit the funding available in 2016/17 to any long-term proposals that would have to be cut in 2017/18. The table below summarises the position:

	2016/17 £'000	2017/18 £'000	2018/19 £'000
FUNDING			
Total Funding	185,056	182,104	179,312
EXPENDITURE			
Base Budget carried forward	184,756	184,576	187,939
PRESSURES:			
Inflation (excluding Schools)	2,899	1,969	1,969
Schools Protection	1,173	1,194	1,217
Investment in Priorities	250	200	
Transfers into/out of Settlement	1,036		
SAVINGS / ADJUSTMENTS:			
Phases 1-5	(5,218)		
Net Schools Demography Adjustment	(320)		
Total Expenditure	184,576	187,939	191,125
Funding Shortfall / (Available)	(480)	5,835	11,813

There are also a number of risks remaining within the current Settlement. These include a number of revenue grants that have not yet been confirmed and that there may be further direction to financially 'protect' social care but this is not yet defined. Most importantly however, all councils are having to set budgets and Council Tax based on a provisional settlement. Whilst there is a legal provision to allow this, there is a risk that if, for example, revenue grant streams are transferred into the Revenue Support Grant between the provisional and final settlements, there could be a financial adjustment to the final settlement and it is therefore prudent to have a buffer to be able to absorb this without affecting the tax base. Ongoing national discussions about the range of settlement values between councils could also affect the final position. The Final Local Government Settlement will not be published until 2nd March 2016 and the final Welsh Government budget will not be put before the Senedd until 8th March. Changes to the tax base at this stage would pose a risk in meeting the requirement to set the Council Tax before the required date of 11th March.

It is also prudent, given the level of savings made over recent years to have a financial contingency against non-delivery or slippage in the delivery of savings already agreed. Whilst the council's track record is excellent in delivery of savings, some of the items agreed for 16/17 may require a longer lead-in time to deliver.

It is therefore recommended that surplus in-year resources are set aside as a budget delivery contingency for 2016/17. This can be reviewed during 2016/17 and decisions taken about the best use of any remaining resource during the year if the budget risks are removed. The contingency should then be released as part of the savings required for 2017/18 and should therefore not be committed to funding any ongoing revenue expenditure.

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?

No further savings are required from services as a consequence of these proposals. The proposals include additional net funding for schools of £853k.

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 report presents the final phase of the two-year Freedoms & Flexibilities budget process which will have successfully achieved what it set out to do – deliver two budgets. It has been a difficult process at times and some tough decisions have had to be made. However, the vast majority of savings – over 80% - been efficiency or modernisation savings and the impact on services to the public has therefore not been significant.

The aim of the budget process is to ensure that the council delivers a balanced budget. The uncertainty over the level financial settlements in recent years has made financial planning in already difficult circumstances even more challenging. Whilst the revenue settlement for 2016/17 is better than the council had been led to believe it would be and this is clearly welcomed, there is still a lack of any meaningful financial planning indications for the future. It is hoped that this will be addressed following the elections in May 2016 because the uncertainty and variations from year to year that have been the norm since 2013 pose a significant risk to the delivery of future budgets.

Although the precise levels are not known 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.

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.