

Report To: Corporate Governance Committee

Date of Meeting: 27th January 2016

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 was presented to a member budget workshop on 14th December – the third in a series of autumn budget workshops and the sixteenth as part of Freedoms & Flexibilities.

The workshops considered a range of savings proposals and at each one, an assessment of the latest financial planning assumptions and wider context was presented. As has been highlighted throughout the budget process, the level of financial settlement the council receives from Welsh Government is the most significant element of the council's net funding and therefore small percentage changes to the level of settlement have a significant financial impact.

The draft Welsh Government budget and therefore the Provisional Settlement to local government were both announced later than usual this year as a consequence of the timing of the UK Government's Autumn Spending Review. This was factored into the budget planning process and resulted in the package of proposals being taken for approval in December (ahead of the Provisional Settlement announcement). Importantly, the package (totalling £1.2m) contained efficiency savings and technical adjustments but did not include any proposals to cut services or increase charges.

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.

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.

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. These were explained in detail at the budget workshop with members on 14th December and summarised below:

	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. 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. The table below summarises the budget planning position for future years which assume a 3% settlement reduction and a Council Tax increase of 2.75%. This scenario results in a budget gap 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.

The Final Local Government Settlement will not be published until 2nd March 2015. Assurances have been provided that there should be no negative movement between the Provisional Draft and Final Settlement values. The final Welsh Government budget will be put before the Senedd on 8th March.

The Freedoms & Flexibilities process ends with the setting of the 2016/17 budget and will have delivered what it set out to do – deliver two years' budgets. Monitoring of budget performance will continue to be reported monthly to cabinet as usual and the Cutting Our Cloth Task & Finish Group is in place to monitor the impact of budget decisions taken as part of the process.

A new budget process will be developed for 2017/18.

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.

9. Chief Finance Officer Statement

This report presents the final phase of the two-year Freedoms & Flexibilities budget process. 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 of 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 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 require 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.

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.