

Report To: County Council

Date of Meeting: 31st January 2017

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

Report Author: Richard Weigh, Head of Finance

Title: Budget 2017/18 – Final Proposals

1. What is the report about?

The report sets out the implications of the Local Government Settlement 2017/18 and proposals to finalise the budget for 2017/18.

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 Local Government Settlement and to consider proposals to set the budget for 2017/18, including the level of Council Tax.

3. What are the Recommendations?

To note the impact of the Local Government Settlement 2017/18.

That Council approves the proposals outlined in Appendix 1, which are in line with the assumptions presented to members at the budget workshop held on 1st November 2016 in order to finalise the 2017/18 budget.

That Council approves the resulting average Council Tax rise of 2.75% required to support the budget proposals.

4. Report details

The Final Local Government Settlement for 2017/18 8 was received on 21st December and provided a cash increase of 0.6%. The Provisional Settlement provided an increase of 0.5%. The change between the two is as a result of 'new responsibilities' around homelessness prevention (+£156k) and tax base adjustments of (-£31k) giving a net change between Provisional and Final Settlements of +£125k. Although the Settlement provides for a cash increase, in real terms it is a cut as it takes no account of inflation or service demand pressures. For the funding position to have been neutral, the Settlement would have needed to be around +4%.

The Welsh Government approved its budget on 20th December and included a number of announcements which may benefit councils financially but, with the exception of the new responsibilities for homeless prevention outlined above, are not part of the financial settlement to councils and therefore do not impact on the budget for 2017/18. These announcements included an additional £10m of revenue for social services (likely to be in the form of a grant) and £10m to support high street retailers with business rates. In addition, a number of areas of additional capital expenditure were announced, including funding for affordable homes (£53.4m), regeneration (£50m), energy efficiency (£40m) and flood alleviation (£33m). Again, none of these are reflected in the funding settlement to councils though ultimately there may be a benefit through individual capital schemes.

The average increase to local government in Wales for 2017/18 is +0.2%. The council's increase of +0.6% allows for a number of factors through various formulae but also reflects movement in indicators such as the benefit claimant count aged over 65 and the number of children in out of work families. The range of settlement values across Wales is +1.1% (Gwynedd) to -0.5% (Powys, Wrexham and Merthyr Tydfil).

The final position is better than earlier planning forecasts had suggested but once again, this is a one-year financial settlement and no reliable forward planning figures have been provided for future years. It is hoped that this will be addressed early in 2017 as the lack of reliable multi-year financial settlement data hinders the council's financial planning and budgetary processes.

The council's budget proposals are set out in the Medium Term Financial Plan extract attached as **Appendix 1**. The narrative below sets out some of the key issues. The following points remain as presented to members at the November budget workshop:

- Since 2011 there has been a ministerial pledge to financially '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 council has always met this pledge and has actually exceeded the requirement over the period. The current settlement makes no reference to this pledge, however the council's budget proposals include additional funding of £1.9m for schools in 2017/18. Schools then have to absorb all inflationary pressures.
- The council's budget proposals also recognise the continuing financial pressures facing social care and as such, a pressure of £750k has been funded in 2017/18 with further increases assumed in future years.
- A budget pressure of £300k has been included to fund the council's school transport policy.
- Pay and pension cost increases – including the impact of the National Living Wage and the Apprenticeship Levy amount to £1.9m.
- As the funding for the Council Tax Reduction Scheme has been frozen for several years, the council has to fund the cost of Council Tax increases, estimated at £350k.
- The proposals allow for £200k of new investment in priorities.

At the November workshop, a number of uncertainties remained and have since been confirmed. These include the following:

- Fire Service Levy – 3.68% increase which results in £161k
- Energy inflation – latest forecasts show an expected 29% average increase in 2017/18 resulting in an additional £145k pressure
- Insurance premiums – have increased by £25k as a consequence of the increase in tax announced in the Autumn Statement

The savings proposed remain as forecast with £902k delivered as efficiency savings across all services and £1.355m of PFI/capital financing savings.

The budget also proposes the use of £2.122m of cash balances and reserves. This is sustainable in the short-term and forms part of the strategy to deliver the 2017/18 and 2018/19 budgets but is not a long-term solution. The use of cash has to be recovered over future years but can be used to smooth the impact of funding reductions in a planned way.

The level of Council Tax increase proposed is 2.75%. This is in line with assumptions around inflation for the coming year and is likely to be below the average level of increase in Wales. At the start of this council term, Denbighshire had the third highest level of Council Tax in Wales. Four consecutive years of below average increases has changed that position to now being the seventh highest in Wales and possibly the eighth by 2017/18. At the budget workshop in November, there was some debate around the level of Council Tax rise and the subsequent impact on the budget of higher or lower levels of increase.

Given the range of pressures the council faces, particularly the continuing pressures on social care budgets and the trajectory of general inflation, a rise of 2.75% is thought to be prudent and sustainable. At the November workshop, there was some discussion of a 2.5% increase being possible, with the difference being funded by using more cash in 2017/18. While the lower rate of 2.5% is deliverable it has two notable impacts:

- A permanent loss of funding of £112k to the council's base position, so increases the budget gap in 2018/19 by the same amount, while at the same time social care and other pressures continue to grow and
- Less cash available (£112k) to support the 2018/19 budget

Further analysis of the impact of various council tax rises is included 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?

No further savings are required from services beyond those already agreed as a consequence of these proposals.

7. What are the main conclusions of the Well-being Impact Assessment (WBIA) undertaken on the decision?

A Wellbeing Assessment has been completed for the efficiency savings element of the budget proposals and is attached to this report. The Assessment concludes that the efficiency proposals are either positive or neutral when assessed against the seven wellbeing goals.

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

The budget process is a standing item for the Corporate Governance Committee, Cabinet Briefing and CET. Budget workshops with members have been held in July and November. The trade unions have been kept informed via the Corporate Joint Meetings. The Cutting Our Cloth Task & Finish group reviews savings and assesses their impact on the public. The proposals in this report have been considered by the Cabinet and are recommended to Council for approval.

9. Chief Finance Officer Statement

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 2017/18 is better than the council had been led to believe it would be and this is clearly welcomed, there is still a lack of meaningful financial planning indications for the future.

It is likely that real terms 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.

Social care budget pressures are forecast to continue into the medium term and will present a challenge to the delivery of future budgets.

The budget proposals include the use of cash. This is sustainable in the short-term but is not a long-term solution. It merely buys time for the council to smooth the impact of funding reductions.

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.