

COUNCIL
9 FEBRUARY 2017**REPORT OF CABINET – MATTERS WHICH REQUIRE A
DECISION BY COUNCIL**

2016-17 Budget and Council Tax**Recommendation****1. The Leader and Cabinet recommend that:**

- a) the conclusions set out in the report concerning revenue budget monitoring up to 30 November 2016 be endorsed;
- b) the virement and transfers to Earmarked Reserves in paragraph 20 of the report to Cabinet on 2 February 2017 be endorsed;
- c) the budget requirement for 2017/18 be approved at £318.478 million including a transfer from earmarked reserves of £5.185 million;
- d) the Council Tax band D equivalent for 2017/18 be set at £1,155.31 which includes £44.05 relating to the ring-fenced Adult Social Care precept, and the Council Tax Requirement be set at £236.204 million;
- e) consistent with the provisional Local Government Finance Settlement that revenue cash limits be set for each Directorate:

	£m
Adult Services	130.999
Public Health*	0.101
Children, Families and Communities	82.766
Economy and Infrastructure	67.018
Commercial and Change / Finance	42.779
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	323.663

*Public Health services are funded by a £0.1 million budget as above plus a £29.9 million specific grant.

- f) the Council's Pay Policy Statement is recommended for approval as set out in Appendix 8;
- g) the conclusions set out in the report concerning capital budget monitoring up to 30 November 2016 be endorsed;
- h) the Capital Programme as set out in Appendix 9 be approved;

- i) **that £10 million be added to the Capital Programme to support the overall A4440 Worcester Southern Link Road improvements;**
- j) **the Medium Term Financial Plan as set out in Appendix 10 be approved;**
- k) **the Treasury Management Strategy set out in Appendix 11 be approved; and**
- l) **the Statement of Prudential Indicators and Minimum Revenue Statement as set out in Appendix 12 be approved.**

[NB Appendices referred to are those presented to 2 February 2017 Cabinet]

2. All Councillors will have a copy of or access to the full report and Appendices considered by the Cabinet on 2 February 2017 and are referred to that report and requested to bring it to Council to inform Council's decision and allow full consideration of all the issues.

Cabinet Report – 2 February 2017

3. The Cabinet considered the report of the Cabinet Member with Responsibility for Finance which included details of:

- those decisions made by the Cabinet on the draft budget 2017/18 at its meeting on 15 December 2016
- details of the budget 2017/18 consultation and engagement. The Council had engaged with a wide range of individuals and organisations through various channels. The draft budget proposals were also considered by the Overview and Scrutiny Performance Board and its response had been before the Cabinet
- confirmation of areas of investment in the Corporate Plan priorities of Open for Business, Children and Families, Health & Well-being and The Environment in 2017/18 and across the Medium Term Financial Plan (MTFP)
- revenue budget monitoring for 2016/17. The outturn forecast at Month 8 indicated a cost pressure of £1 million against authorised cash limits, 0.3% of the overall budget. It was anticipated that this variance would be reduced by mitigation plans through to the end of the financial year so that the County Council delivered services within its cash limited budget alongside further potential flexibility in the County Council's financing transactions budget as interest rates remained at historic lows. The Adult Social Care budget was facing significant pressures in 2016/17 and the latest forecast cost pressure was £2.2 million after taking into account the planned use of earmarked reserves. The County Council had experienced significant growth in recent years on both the numbers of Looked after Children and the associated expenditure. Whilst there were signs that the financial recovery plan, overseen by the Director of Children, Families and Communities was beginning to gain traction with regard to Placement costs, there remained a risk that the plans did not deliver the required improvements in outcomes and reductions in costs as envisaged over the MTFP
- A Virement and transfer to earmarked reserves from the Financing Transactions budget of £0.6 million with regard to continuing the Councillors' Divisional Fund

scheme by a further year to the end of 2018/19 had been recommended by Cabinet. This proposal did not require alteration of the net cash limits approved by Full Council

- The work needed to close the forecast financial planning gap. The December 2016 Cabinet report set out a budget requirement of £319.7 million against funding from Central Government and Council Tax of £316.8 million leaving a forecast financial planning gap of £2.9 million. The report included details of the Leader's response to central Government's Provisional Settlement in January 2017. It was expected that Central Government would confirm the outcome of the consultation on the Provisional Local Government Finance Settlement during the first week of February 2017
- Council Tax. Following careful consideration, balancing the needs of Adult Social Care with the ability for residents to support a larger increase in Council Tax for 2017/18, Cabinet had recommended the approach outlined within the December 2016 Draft Budget and therefore were not proposing any further increase in Precept. Therefore, the proposed increase of 2.94% in Council Tax Precept, consistent with the Draft Budget was recommended to provide a total forecast income of approximately £236 million. This increase represented: 0.94% to provide financial support for the delivery of outcomes in line with Corporate Plan, resident and business communities' priorities; and 2% Adult Social Care Precept ring-fenced for Adult Social Care services in order to contribute to existing cost pressures due to demographic changes and an increased demand for more complex services
- District Councils had confirmed during January 2017 increases to the Council Tax base of £4.5 million (2%) for 2017/18. In addition District Councils had declared an overall surplus in their Collection Funds of £2.5 million. The one off Collection Fund Surplus was proposed to be utilised in the following ways: £1.5 million Worcester A4440 Southern Link Road Phase 4 enabling works; £0.5 million in support of Council Tax Reduction Scheme shortfalls; £0.3 million addition to the Transformation Fund; and £0.2 million to support general services for one year only in 2017/18
- Approximately £60 million of the County Council's funding for 2017/18 would be received through the Business Rates Retention system
- For 2016/17 Specific Revenue Grants was estimated at £93.8 million. At the time of drafting this report, Central Government had confirmed around 83% or £77 million of Specific Grants for 2017/18. The Local Government Finance Settlement included a new Specific Grant for one year only, the Adult Social Care Support Grant. Whilst not included in the preceding Autumn Statement, Central Government had utilised some further savings from its reforms to the New Homes Bonus in providing a Specific Grant of £2.4 million to the County Council for 2017/18. The reduction for the County Council in New Homes Bonus was £0.2 million. In addition the reduction across Worcestershire's District Councils of £0.75 million was more significant and presented a potential challenge for delivering services in 2017/18. The Adult Services Support Grant, together with other funding streams had resulted in an increase in spending power of £9.0 million in the Adult Social Care Directorate for 2017/18

- The County Council renews its Section 75 partnership arrangements with Health for the Commissioning of Services on an annual basis. The total Better Care Fund revenue budget for 2017/18 was expected to be £33.9 million. The County Council was still awaiting confirmation of the Disabled Facilities Grant
- A further £2.6 million of Service Reforms and Budget Adjustments had developed since publication of the Draft Budget in support of delivering a balanced budget for 2017/18
- In overall terms the indicative Dedicated School Grant (DSG) allocation for Worcestershire is £386.2 million. The County Council's allocation from this amount would be confirmed by the Education Funding Agency at a later date to reflect the up to date position of the number of academies and free schools
- It has been confirmed that the Education Services Grant (ESG) Retained Duties rate per pupil of £15 cash equivalent per pupil for all state funded schools had been transferred into the Schools Block DSG. The current ESG General Duties rate per pupil £77 per pupil or place for maintained schools, £288.75 per Pupil Referral Units and £327.75 for special schools would be withdrawn completely from September 2017. This was a direct reduction in funding for Councils without a reduction in duties. An increase in base budget was needed to be funded locally to take account of a reduction in grant funding for general statutory duties relating to maintained schools. Whilst there was a transitional protection available to cover the period April – August 2017, this was not at the current rate and as a result the pressure from the withdrawal was estimated to be £2.1 million in 2017/18 and £1.0 million in 2018/19
- The Department for Education deducted ESG from the County Council when an academy converts and passes this funding directly to the academy. There would be a review of all spend currently funded by ESG against the statutory regulations, when they are published. The provisional allocation to Worcestershire in 2017/18 is £1.2 million. This would change depending on the number of in year conversions
- Public Health Ring-fenced Grant. The specific grant for 2017/18 was £29.9 million, a reduction of £0.8 million from £30.7 million received in 2016/17. Public Health England indicated that further budget reductions and efficiencies would be phased in at 2.6% and flat cash in 2020/21. The County Council had discussed and consulted in some detail with partners plans for 2017/18 as the grant received is in line with expectations. Further reform targets of £1 million in 2017/18 and £0.5 million in 2018/19 had been agreed and work was continuing to identify areas of County Council base budget expenditure where public health impact could be maximised through the use of the Grant
- Independent Living Fund. The County Council received £3.1 million in grant in 2016/17 but there was expected to be an attrition rate applied of approximately 5% in 2017/18 with an estimated grant settlement of £2.9 million. The reduction in funding would need to be managed within the overall 2017/18 Adult Services budget
- New Homes Bonus. The key outcome of the consultation was that Central Government would implement a reduction in the length of the bonus payments

from the current six years to five years in 2017/18 and to four years in 2018/19. Additionally, despite over 80% of respondents rejecting the proposal, Central Government had introduced a growth baseline for 2017/18 of 0.4% beneath which no bonus would be paid, and reserves the right to change the baseline in future years. The bonus would also continue to be paid to Counties and Districts on the existing 20/80 ratio. The consultation response confirmed the amount of New Homes Bonus funding for 2017/18 at £3.2 million which would support the existing allocations of investments set out in previous budget reports. At this stage an estimate could be made of future income based on predicted house building growth across Worcestershire. After taking account of existing commitments this could deliver new funding of over £2 million per year until 2019/20. However this was a reduction from the previous scheme that delivered around £3 million per year

- Capital Programme Financial Position 2016/17 to 2017/18 and the medium term. The approved Capital Programme for 2016/17 was £157.2 million, which reflected new additions and revised cash flow forecasts approved since October 2016. The Capital Programme 2017/18 had been updated to reflect additions from the December 2016 Cabinet and the latest forecast for existing approved schemes. The major areas of capital expenditure related to Schools, the Local Transport Plan and other Economy and Infrastructure Directorate activities. A further addition to the capital programme of £1 million to support system improvements was proposed
- Cabinet has recommended the inclusion of the following schemes in the Capital Programme that were set out in the December Draft Budget Report: £2m Town Centre Improvements; £5m Capital Investment Fund for Cutting Congestion; and £6m Capital Investment Fund to support investment into Footpaths and Pavements
- The County Council received notification from the Department for Transport on 13 January 2017 of capital allocations to be spent in 2017/18 in relation to the following: £13.341 million - Confirmation of the Highways Maintenance Needs Block; £1.169 million - A new Pothole Action Fund; and £2.743 million - A new National Productivity Investment Fund. It was further proposed that £10 million was allocated in the Capital Programme to support the overall A4440 Worcester Southern Link improvements over the life of the Medium Term Financial Plan
- The approved capital programme already included an allocation for minor works and other lifecycle replacement for 2017/18 and a review would be undertaken to propose the extent of these allocations for future years
- The accumulated surpluses from investment in schemes through the Revolving Investment Fund over a 10 year period were forecast to be c. £10 million and it was proposed to ring-fence these, as part of the revised capital programme, for cash backed, rather than investment based on borrowing, future income generating investments

- The Medium Term Financial Plan (MTFP)

Indicative Medium Term Financial Plan

£m	2017/18	2018/19	2019/20	2020/21
Total Funding Available	354.8	357.9	367.5	381.0
Service costs based on provisional 2017/18 budget	(381.3)	(389.8)	(389.2)	(403.0)
Sub-Total	(26.5)	(31.9)	(21.7)	(22.0)
Withdrawal from Earmarked Reserves	5.2	-	-	-
Reform plans developed	21.3	12.7	2.6	0.6
Funding Gap	-	19.2	19.1	21.4
Cumulative Funding Gap	-	19.2	38.3	59.7

The above table confirmed that £37.2 million reform plans had been identified across the MTFP planning period and were currently being progressed. The cumulative funding gap over the MTFP period was £59.7 million and would be challenging for the County Council to address. In addition to changes in Central Government funding streams, the MTFP contained the following: precept assumptions beyond 2017/18 include the 2% Adult Social Care Precept and a 0.94% increase for the non-Adult Social Care Precept; increases in Council Tax yield due to forecast growth in house-building; planning assumptions had been made on the extent to which the Improved Better Care Funding would be available; and planning contingencies had been reviewed.

- Risks and sensitivities over the medium term that might have a significant impact on the MTFP had remained consistent since a year ago taking account of future significant changes proposed by Central Government for funding over the medium term. The areas under review were Central Government Funding; Demographic Growth and demand pressures; Safeguarding Improvement Plan and Financial Recovery Plan – Children's Services; Medium Term implications of the Care Act; Inflation; Brexit; the current Business Rates Retention Scheme; and Reform to the Business Rates Retention Scheme
- the Council's Treasury Management Strategy for 2017/18 and the Prudential Code for Capital Finance in Local Authorities Statement for 2017/18
- the Council's statutory duties when setting the budget and precept
- Scrutiny of the 2017/18 budget proposals was undertaken by the Budget Scrutiny Task Group which met with key senior officers, the Chief Executive and Leader of the Council to complement the work already being undertaken by individual scrutiny panels. The key messages from that scrutiny had been reported through the Overview and Scrutiny Performance Board
- the County Council's Public Sector Equality Duty in relation to setting the budget. An overarching strategic equality relevance assessment has been undertaken in respect of budget proposals for key transformational change programmes. As

many programmes were as yet at an early stage of development it was not yet possible to carry out more detailed equality impact analysis. Where necessary equality analysis would be undertaken and findings reported to Cabinet where key decisions were required.

4. Appendix 17 details specific feedback on the budget proposals that have arisen during the normal consultation engagement process since the agenda papers for Cabinet meeting on 2 February were despatched.

Mr S E Geraghty
Chairman

Note – members are reminded that all votes on the budget will be recorded in accordance with legislation

Supporting Information

Appendix 1	Key messages from Overview and Scrutiny Performance Board
Appendix 2	Local Government Finance Settlement 2017/18 consultation response
Appendix 3	Specific Revenue Grants 2017/18
Appendix 4a	Council Tax calculation
Appendix 4b	Council Tax Precept
Appendix 5	Revenue Budget 2017/18
Appendix 6	Analysis of budget variations
Appendix 7	Future Fit budget reductions, efficiencies and income generation opportunities
Appendix 8	Pay Policy statement
Appendix 9	Capital Programme
Appendix 10	Medium Term Financial Plan
Appendix 11	Treasury Management Strategy
Appendix 12	Statement of Prudential Indicators and Minimum Revenue Provision
Appendix 13	Assessment of the County Council's Equalities Duty
Appendix 14	Directorate Revenue Budgets 2017/18
Appendix 15	General Balances Risk Review
Appendix 16	Dedicated Schools Grant
Appendix 17	Budget consultation feedback (Attached)

Contact Points

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Background Papers

In the opinion of the proper officer (in this case the Head of Legal and Democratic Services) the following are the background papers relating to the subject matter of this report:

Agenda and background papers for the meetings of the Cabinet held on 2 February 2017.