

**CABINET**  
**17 DECEMBER 2015****2016-17 BUDGET AND COUNCIL TAX**

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**Relevant Cabinet Member**

Mr A I Hardman

**Relevant Officer**

Chief Financial Officer

**Recommendation**

1. **The Leader of the Council (and Cabinet Member with Responsibility for Finance) recommends that Cabinet:**
  - (a) **approves for consultation the draft budget set out at Appendix 2, which includes budget reductions that are currently being consulted upon arising from the FutureFit programme set out in Appendix 4, a number of which have already been subject to detailed Cabinet and Scrutiny reports;**
  - (b) **endorses the plan to address a savings requirement of £2 million as a result of updating the Medium Term Financial Plan (MTFP) taking account central government's Spending Review announcement to be presented for approval within the February 2016 Cabinet and Full Council reports;**
  - (c) **endorses an investment of £0.5 million each year for road maintenance and £12 million over two years for the Driving Home highways infrastructure improvement programme following residents feedback on the importance of the County's roads and in support of the Council's Open for Business priority;**
  - (d) **notes that the full detail of the provisional local government Finance Settlement is expected to be released in late December 2015 and that, if required, any significant updates will be presented at the February Cabinet meeting;**
  - (e) **endorses the view that the Council's planning assumptions remain consistent, with a need to plan for annual savings on average over the life of the MTFP of around £25 million per annum, and £24.6 million for 2016/17;**
  - (f) **agrees that it is minded to recommend to Full Council in February 2016 an increase in Council Tax Precept by 3.94% in relation to two parts:-**
    - **1.94% to provide financial support for the increased costs for services for Looked after Children, forecast to be £5.8 million in 2016/17;**
    - **2% ring-fenced for Adult Social Care services as allowed by the Spending Review, in order to contribute to existing cost pressures in 2015/16 that are being presently funded by one off grant income or reserves that will not be available from 2016/17; and**

**(g) recommends Council to approve a £4 million addition to the Capital Programme for Malvern Hills Science Park Phase 5 to be fully funded by the Worcestershire Local Enterprise Partnership Growth Deal grant allocation and the cash limits are updated accordingly.**

2. This report seeks Cabinet approval to consult on the draft budget for next financial year 2016/17. It brings together a number of related financial matters; the results of the Council's strategic financial planning, the detailed budget preparation work taking account of the latest inflation and demographic pressures, the estimated overall funding position from central government and, finally, the overall impact of the MTFP.
3. The Council is five years into a programme to transform itself into an innovative organisation that puts residents' priorities at the heart of the decisions that it makes. New ways of working have been introduced and the Council is now more agile and more responsive to residents' priorities whilst facing the challenges of maintaining a balanced budget.
4. The Council delivers high quality services to its customers at the same time as the Council has delivered more than £105 million in savings in the past 5 years and:
  - Worcestershire has the third fastest growing economy in the country
  - Nine out of ten schools in Worcestershire are rated as good or outstanding by Ofsted
  - More money is being invested in highways and improvement projects in Worcestershire now than at any time in the last three decades.
5. Each year we spend around £330 million which, together with the receipt of non-schools grants, means that we spend more than £1 million every single day to deliver outcomes for our residents.

**Engagement and communication**

6. After the annual Corporate Strategy Planning (CSP) session held in September 2015 the Council initiated an engagement process to inform the budget setting for next financial year 2016/17.
7. Information was sent to elected members and partners such as the District Councils, Voluntary Sector, Police, Fire and Healthcare providers during November 2015 to provide all with an opportunity to review in detail the outputs of CSP and ask questions about specific proposals and the impact of them. Information was also provided through the members' portal and ongoing delivery picked up through individual Cabinet Member with Responsibility briefings.
8. A media briefing was held on 10 November 2015 after the Cabinet papers were published online. This session was attended by the local media; ensuring residents were informed of the CSP work. This year's public roadshows took place during the summer of 2015 to feed into the CSP planning process.
9. In 2015, the Worcestershire Viewpoint and focus groups were run asking residents views and deep diving into areas such as the drivers of satisfaction and what underpins the perception of highways conditions.
10. Local residents have told us that:

- Satisfaction levels in the County Council have increased compared to a year ago (54% compared with 52%);
  - More people in Worcestershire agree that the County Council provides value for money (44% from 38% in 2014); and
  - 82% of residents are satisfied with their area as a place to live.
11. These improvements in satisfaction levels are important but there is still more work to do. For example:
- People are more satisfied this year that we are keeping Worcestershire's roads in a reasonable condition. However, residents continue to tell us that 'road and pavement repairs' and 'the level of traffic congestion' are both areas that still need to be improved.
12. A survey of over 1,200 local businesses conducted in the spring identified that generally businesses are confident that turnover and profitability will improve in the next twelve months.
13. The Council is also listening to its staff through interactive briefing sessions, including a live webcast, which have been taking place throughout November 2015 and December 2015. These happen approximately every six months and give employees the opportunity to learn about key developments taking place across the County Council as well as having the opportunity to ask questions of the Chief Executive and the Leader of the Council.

#### **Budget Consultation**

14. To build on the wider engagement a number of consultation sessions are being held in December 2015 and will be run in January 2016 for parish and town councils, voluntary and community organisations, businesses, school governors, head teachers, partners and staff associations.
15. The outcomes of both the quantitative and qualitative consultation running from November 2015 to January 2016 across all stakeholders will inform the budget setting process.
16. The Council has delivered on a number of its investment commitments outlined in the budget for 2015/16. These are in line with the three priorities identified by the public:
- Maintenance of the highway
  - Protecting vulnerable older people, particularly those with physical, learning and mental health difficulties, and
  - Protecting vulnerable young people, particularly those in or leaving care to ensure they are safe and can make the most of the opportunities they have.
17. The Council and its partners have enabled significant investment to be made in a number of infrastructure schemes which are either nearing completion or well progressed. These include Kidderminster Hoobrook Link Road, Bromsgrove Railway Station Relocation and investment in Malvern Hills Science Park.
18. Further improvements are well underway on the Worcester Southern Link Road which will greatly improve traffic flow and the new Worcester Six development that will lever in more significant investment from the Private Sector and drive business growth and job creation. Work to support the new Worcestershire Parkway Regional Interchange railway station is progressing and remains a vital part of delivering the Strategic Economic Plan for the county area.

19. The Council's Open for Business investments in road and rail infrastructure, and support for business parks are clearly showing signs of contributing to economic growth across the County.
20. The most recent statistics are showing Worcestershire as having the third fastest growing economy in recent years (Office for National Statistics, GVA for Local Enterprise Partnerships, 1997-2013) with business productivity growing by 2.7%, the fastest rate in England (Office for National Statistics, Regional Economic Analysis, Sub-regional productivity, March 2014). The proposed budget seeks to improve on this pace of economic growth and contains a number of initiatives to support the Council's Open for Business ambitions.
21. Central Government's joint Autumn Statement and Spending Review announcement on 25 November 2015 confirms at a headline level however that there will be significant financial reductions in funding from central government for local government over the next four years. Whilst we had already planned for this, the Council faces an extremely difficult challenge to both enable and improve quality services for residents and service users, whilst increasing financial prosperity.
22. One of the most significant financial challenges comes from increasing demand for Council services. Whilst this has for many years revolved around an ageing population, over recent years significant demand pressures have been experienced with the Council's services for Looked after Children (LAC). Nationally, demand pressures within services for LAC remains high with a significant number of local authorities experiencing increasing demand and additional financial pressure in this area. The rate of Looked after Children (number of LAC per 10,000 children) for Worcestershire has increased by 18% since 2011, whilst the costs associated with this have increased by 48% over the same period.
23. The recent Spending Review announcement has confirmed the Council's existing expectations of a continued challenging financial environment over the next four years and the need to plan for around £25 million savings each year.
24. It remains vitally important for the Council to work with communities; partners and suppliers to manage increasing demand and ensure services are provided in the most effective and cost efficient way. Around £3.5 billion is spent across the Worcestershire area on public services and the Council maintains its commitment to work with key partners to ensure that this money is aligned in the best possible way to achieve the best outcomes for residents and service users.
25. Health and Social Care senior managers continue to work together positively and the intention is for the 2016/17 Better Care Fund to be approved by the Health and Well-Being Board early in 2016.
26. Consistently residents tell us that their top priorities are maintaining the highway, and protecting vulnerable adults and younger people. These have been considered in the budget proposals and whilst the Council appreciates the sensitivity within which any increase in Council Tax is viewed, these services are facing significant demand and financial pressures over and above existing cash budgets and it is proposed that additional funding raised through an increase in Council Tax will be used to support these priorities.
27. To support demand pressures in Children's Services a 1.94% increase in Council Tax Precept was made in 2015/16 and it is proposed that this will continue in

2016/17, raising an additional £4 million of funding that will be available to support vulnerable children. This will support the financial recovery plan within this service and secure better outcomes for Children and Families in the future and is in full anticipation of the reform that we have begun to see in Children's social care starting to deliver in 2016 and as a consequence relieve some of this pressure in future years.

28. The Cabinet has considered very carefully central government's announcement in the Spending Review that Local Authorities could consider raising council tax by an additional 2%, ring fenced to support Adult Social Care. The Council has a range of cost pressures in adult social care, including Care Act changes from April 2015, and cost pressures in the adult social care market. These have been met by one off funding in 2015/16 that will not be available recurrently, and by limited use of reserves. Further cost pressures are anticipated from the introduction of the National Living Wage. Therefore it is proposed that the 2% increase will be applied for 2016/17 and be specifically ring-fenced to support existing and anticipated cost pressures within services for vulnerable adults and older people as we forecast increasing demand for these services. This remains subject to consultation and is not an indication of future year's council tax decisions.
29. In response to resident's feedback regarding the importance of the County's roads, an investment of £0.5 million each year for road maintenance and a one off investment of £12 million over two years for the Driving Home highways infrastructure improvement programme is being proposed. This investment supports the Council's Open for Business priority.
30. Looking forward, the Spending Review announcement offers both great opportunities for local government but also sets out significant financial challenges. Whilst there remains much detail to be confirmed, at a headline level this is consistent with our planning assumptions. This draft budget sets out the Council's interpretation of the Spending Review impact on 2016/17 and the medium term. It will take some time to work through all the implications, and most significantly the provisional local government Finance Settlement is not expected to be announced until late December 2015 which will provide further specific detail on the financial impact for the Council.
31. Notwithstanding this, the Council will need to ensure that it can carry on delivering services within an expected tight financial settlement. The requirement for savings and efficiencies has remained stable at around £25 million per year. For 2016/17, £18.1 million of savings has been previously approved, and a further £4.5 million new savings plans were presented as part of the November 2015 Delivering the Corporate Plan Cabinet report. There remains a £2 million planning gap which the Council is working to resolve and the budget consultation through the work of scrutiny, public roadshows and partner briefings would seek views on how this gap could be closed as well as feedback on the budget proposals.
32. The medium term savings and efficiencies requirement is approximately £25 million per year through to the end of the 2019/20 financial year. Over the medium term to the end of 2019/20 the Council has identified savings and efficiencies of approximately £46.3 million. The Council intends to develop plans and address potential budget shortfalls to the end of 2017/18 in 2016 and will consider the savings and efficiencies required in 2018/19 and 2019/20 following consideration of the budget proposals by Full Council in February 2016.

33. The draft budget includes significant plans for revenue and capital investment including the strengthening of adult social care, children's social care and waste disposal budgets.
34. The Council commenced budget consultation and engagement on savings proposals as part of the November 2015 Delivering the Corporate Plan Cabinet report and has included presentations to the members Budget Scrutiny Task group and scrutiny panels, as well as road shows and other consultation events. This draft budget forms part of that consultation and the results of all consultation and engagement work will be presented to the February Cabinet and Full Council meetings in February 2016. Any updates as a result of the provisional local government Finance Settlement will be presented to the January 2016 Cabinet and will be included in the budget consultation.

**A budget that supports the delivery of the County Council's Corporate Plan, FutureFit**

35. The draft budget for 2016/17 provides for a number of initiatives that support the delivery of the Council's Corporate Plan FutureFit priorities within the context of a significant reduction in funding from central government. Set out below is a clear commitment to support investment in key areas of service whilst maintaining a focus on the transformation of the Council to deliver and improve the services that residents have said they value and support.

- **Open for Business**

The MTFP continues to include a new allocation to support the costs of prudential borrowing to fund new capital expenditure to drive the Council's Open for Business priority consistent with the Strategic Economic Plan and supporting the implementation of the Worcestershire's £54 million Local Growth Fund Deal with central government. The Council is providing financial support to enable the on site development of the Worcester Six scheme. These investments will continue to drive and facilitate others to increase the economic prosperity of businesses and residents in Worcestershire.

- **Children and Families**

The budget for Children's Social Care has been strengthened by £5 million to support the increasing number and costs of Looked after Children placements that result from an increased demand in services. The additional £5 million comprises £3 million of recurrent funding to support a more sustainable service with better outcomes for Children and £2 million to support the successful delivery of the financial recovery plan. The recovery plan includes strengthening social care practice with enhanced training, development and clear measures for success alongside targeted interventions to reduce costs. These include the continued development of internal supported living, short breaks units and fostering services at lower unit costs than those in the independent sector, alongside a detailed review of all external residential placements. A further £0.6 million has been provided for Positive Activities as approved at the 15 October Cabinet meeting.

- **Health & Well-being**

The budget for Adult Social Care has been strengthened by £3 million in response to the demographic growth and increasing complexity of supporting

vulnerable older people and adults with disabilities. This is in addition to the 2% Council Tax social care precept.

- The Environment

The Council's budget has been strengthened by £0.5 million to support an increase in the amount of waste disposed of by households whilst the Council still promotes residents to reduce or recycle where they can. A budget increase of £0.5 million is also proposed to support continued investment in road maintenance.

**Outcomes delivered**

36. The Council has demonstrated through its FutureFit programme to date a good track record of delivering better outcomes within a reduced level of budget. Our work so far has led to many creative new approaches.

37. The Council's continued investment, through its open for business priority and supported by the Strategic Economic Plan, will deliver a number of benefits to Worcestershire, including:

- Worcester Six – the Council's investment of £5 million has directly levered in a £15 million investment from an American fund and will deliver the first occupied buildings by the end of 2016. This investment should act as a catalyst for more private sector investment on this site as supporting infrastructure is completed and businesses move onto site;
- Malvern Hills Science Park – the Council's investment of £4 million has been integral in attracting UTC (the world's largest defence contractor) to locate their new facility in Malvern; and
- Hoobrook Link Road – the Council's commitment to the Link Road has been an important factor in Amtek's decision to invest in a new facility in Kidderminster, which will see foundry working return to the town.

**Introduction to the draft budget for consultation and how the indicative financial planning gap for 2016/17 has changed**

38. This report represents the first stage in the formal process to determine the Council's budget and precept level for 2016/17. If approved, this report will form the basis of consultation which will take place during the next few weeks, returning to Cabinet on 4 February 2016 and leading to Council decision on 11 February 2016.

39. The process to review and amend the MTFP is now complete and the financial planning gap for 2016/17 is £2 million.

40. Set out in the table below is a summary of how the February 2015 financial planning gap of £7.0 million has been reduced to £2 million within this draft budget presented to Cabinet.

Table 1: 2016/17 Funding Gap Update

£m	
7.0	<b>Funding gap for 2016/17 as at February 2015</b>
3.5	Forecast change in Revenue Support Grant

£m	
1.3	Forecast change in Business Rates
-1.8	Forecast change in Council Tax buoyancy rate
-2.5	Reduction in pay, national insurance pensions increases
5.0	Children's Social Care Looked after Children
-5.8	Removal of Care Act cost pressure – carried forward to 2020
-1.0	Carry forward planned growth for Energy from Waste PFI contract variation from 2016/17 to 2017/18
1.8	Change in timing of existing savings programme
-1.0	Other adjustments
-4.5	New savings proposals
<b>2.0</b>	<b>Revised funding gap for 2016/17</b>

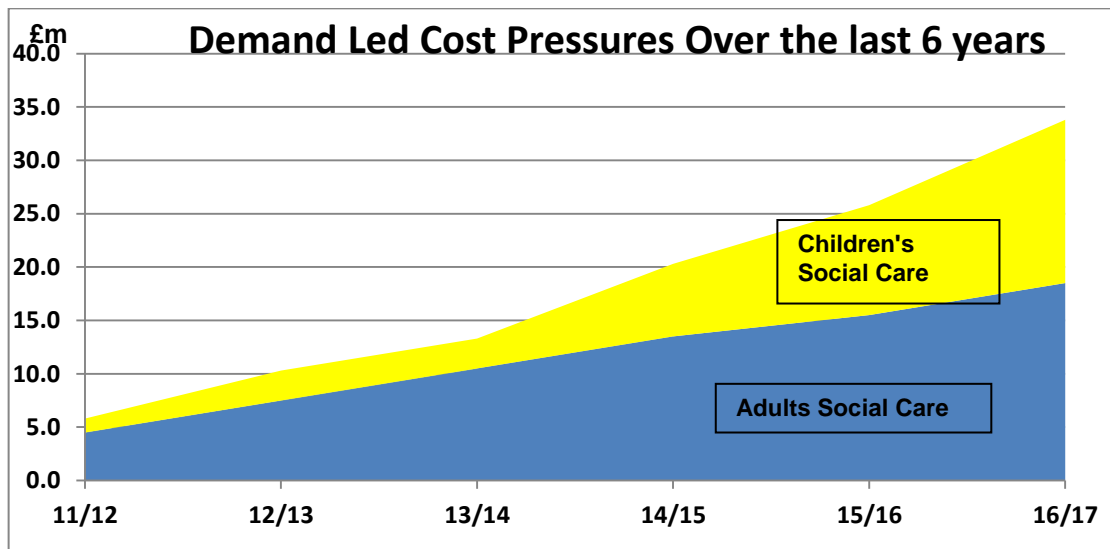
41. This report includes headline interpretations of central government's plans announced as part of the Spending Review on 25 November 2015. The draft budget presented is dependent upon the publication of the provisional local government financial settlement which is expected in late December 2015.
42. The approach to preparing the budget is in accordance with the Budget and Policy Framework Rules and reflects the Council's Corporate Plan (FutureFit) and the MTFP.

**The County Council's need to influence increasing demand in social care**

43. Whilst the Council is keen to set a budget that supports real growth pressures, work is underway to ensure that the increases in demand that are currently being experienced for Council services are understood and, where they can be, managed



Figure 1: The effect of social care demand on Council budgets



44. Included within this draft budget is £8 million of growth resulting from forecast demand increases in social care for 2016/17. For future years this is expected to reduce to around £3 million per year once the financial recovery plan for Looked after Children has been addressed. The Council has planned in the past for the impact of demographic changes in Worcestershire's population and the resulting increase for Adult Social Care services. The most significant addition over recent years however, relates to the budget for Looked after Children. The Council takes great care to ensure that it safeguards the most vulnerable children in Worcestershire and this investment in services will secure a sustainable budget.

**The County Council's starting position: reserves and balances**

- 45. A summary of the Council's reserves is attached at Appendix 1. This represents money that is available to be spent on service delivery and totals £130 million.
- 46. This includes £13 million held as General Balances and less than £5 million for service based risk. The balance is held either on behalf of other organisations or specifically set aside to cover known expenditure commitments and comprises £29.3 million for schools / DSG balances, £20.1 million PFI reserves, £19.4 million grant income where we have carried forward funding in advance of planned cash expenditure, which we will have to return to central government if it is not spent, and £43.5 million held for other specific commitments.
- 47. The 2015/16 budget assumed no change in the level of General Balances.
- 48. The strength of the Council's financial health is often expressed as the amount of retained General Balances in proportion to the budget. The external auditor has used a benchmark minimum of £10 million. The Council's planned level of General Balances based on financial performance to the end of December 2015 indicates that this level of General Balances will remain at £13 million or 3.7% at the end of the financial year.
- 49. It is important to note that, in accordance with the Council's strategy for treasury management, cash from all the reserves is currently used to pay for capital investment since borrowing costs are in the region of 3.5% and surplus cash which is invested earn only around 0.4%. It is estimated that the Council will save around £3 million in 2015/16 by following this strategy. Any use of the balances

will mean that the cash spent will subsequently need to be replaced by borrowing from the money market as and when required.

#### **The County Council's starting position: considering the national context**

50. Since agreeing the MTFP in February 2015, inflationary pressures have continued to ease and are currently lower than the national target of 2%. The latest Consumer Prices Index (CPI) data published for October 2015 reported that CPI was -0.1% compared with 1.3% in October 2014.
51. The rate has been close to zero since early 2015. Nationally it is anticipated that inflation will remain below the 2% target in the near term, rising gradually back to the target over a number of years.
52. The interest on the Council's debt remains fairly constant due to the long-term nature of our borrowings. The average rate for interest on debt is around 4%.
53. Income receipts from the Council's short-term investments are significantly influenced by the interest rates set by the Bank of England. This base interest rate has remained at a historic low of 0.5%. An increase is looking unlikely before the middle of 2016, and thereafter only a gradual rise is expected over the next few years.

#### **The County Council's starting position: financial performance in 2015/16**

54. After seven months of the 2015/16 financial year, the forecast outturn indicates a cost pressure of £2.7 million against authorised cash limits or 0.8% of the overall budget. It is anticipated that this variance is reduced through to the end of the financial year so that the Council delivers services within its cash limited budget.
55. The most significant area of financial risk in common with a number of other local authorities with responsibility for Children's Social Care concerns the Children's Services placement budget which is currently forecast to overspend by around £5.8 million. The overspend position is subject to the successful implementation of an in-year operational action plan totalling £1.8 million, which targets specific children's plans including the reduction in placement costs and moving children through the system quicker.
56. It is expected that most of this demand pressure will continue into next financial year. Whilst the 2016/17 budget proposal includes an increase to support these financial pressures, there remains a need for additional action plans and savings targets in order to restrain rising costs.
57. This adverse variance is largely offset by a forecast reduction in future borrowing costs following careful review of future interest rates which, together with its current strong cash balances, allow a deferral in the need to take external borrowing.

#### **Income review: funding streams**

58. The Council's net revenue budget is funded primarily by Council Tax, Business Rates and Revenue Support Grant (RSG).
59. The following table below illustrates how the proportion of funding is likely to change looking forward; taking account of central government's intentions alluded to in the Spending Review.

Table 2: County Council funding of the Net Revenue Budget

	2016/17 Estimate		2019/20 Estimate	
RSG	£43.5m	13%	£10.9m	3%
Business Rates	£58.9m	18%	£63.0m	20%
Council Tax	£223.4m	69%	£245.6m	77%
Total	£325.8m	100%	£319.5m	100%

60. The above table excludes NHS specific grant funding for social care
61. Table 2 above illustrates the intention of central government to remove RSG by 2020/21. Revenue Support Grant is estimated to reduce evenly over this period and the £10.9 million income for 2019/20 is expected to be reduced to nil for 2020/21.
62. The headline message from the Spending Review is that in overall terms, local government funding will remain broadly the same from 2015/16 to 2019/20 in cash terms. However, this includes a 56% reduction in general and specific grants offset by increases forecast by central government in Council Tax and Business Rates income. There are a number of important points that need much further consideration prior to the finalisation of the budget:
- there appears to be no account taken of increases for the costs of inflation and demographic changes over this period;
  - a number of new responsibilities will transfer to local government but the financial and other consequences still need to be established and new burden funding made adequately available;
  - clarification on central government's assumptions for council tax and business rate income increases over this period; and
  - the local impact for Worcestershire, compared with other parts of local government.
63. Further detail regarding central government's plans to enable 100% local government business rates retention, with support for Councils facing significant reductions in this funding is not yet published. It is expected that some further detail regarding these arrangements will be included as part of the provisional local government Finance Settlement and when this is known the Council will update its MTFP accordingly.
64. Excluding these funding changes, Business Rates are expected to rise in accordance with the increase in the Retail Price Index (RPI) each year but the extent of successful appeals is currently offsetting any growth in business rates income across the county.
65. The Council continues to lobby central government with regard to the impact of successful business rates appeals, especially where central government received the reward of business rate income. For example, the cost to the County and District Councils of appeals relating to back dated payments for purpose built GP surgeries is £6.4 million.

66. For last financial year 2014/15, national business rates income fell by £0.8 billion as a result of successful appeals. This trend looks to continue as central government's own forecasts for business rates has fallen by up to £0.4 billion since their summer estimates, and by 2019/20 expects income to have fallen by 1% from this year's levels. Our challenge in Worcestershire is to defy these predictions through our targeted Open for Business investments.
67. Although central government capped the increase in Business Rates for 2015/16 at 2% and provided funding to local government through a specific grant for the difference between the cap and RPI, at this stage there is no information about this specific grant from 2016/17.
68. Income from Council Tax will gradually fund a greater proportion of the Council's budget in the future excluding any further transfers in business rates income. The increase is influenced by growth in domestic property, local decision making concerning any percentage increase in Council Tax from year to year, and the annually decided percentage by which central government state would trigger a local referendum to agree the increase.
69. The Council collects approximately £67 million from sales, fees and charges. A report to Cabinet in September 2015 agreed charging principles which have been included in this draft budget. Of that total income, around £21 million relates to statutory charges covering areas such as contributions to adult social care costs which are means tested to ensure service users only contribute what is affordable based on their own financial circumstances. This income is specifically excluded from the new charging principles. The remaining income is subject to these principles:
- apply the mandatory fee and charging structure in line with national guidelines;
  - identify legal or statutory reasons permitting or affecting the levy of charges;
  - do not charge where the costs incurred as a result of collecting a charge would be greater than the income generated;
  - conduct Equality Impact Assessments where charging increases may have a disproportionate impact on particular groups of service users;
  - optimise the balance between service provision and revenue, and recover the full cost of services where this is permitted by law;
  - ensure equality of access to residents and service users by deciding when and how much to charge for services;
  - charges to be, at a minimum, reviewed annually as an integral part of the financial planning process, to include a minimum assumption of RPI plus 2%;
  - regularly review new areas to generate income for consideration; and
  - only depart from these principles in exceptional cases to be agreed between the relevant Director and the Chief Financial Officer.

**Income: the financial impact of the provisional local government Finance Settlement on County Council funding**

70. The provisional local government Finance Settlement for 2016/17 will be announced in late December 2015. If possible a verbal update will be provided at the Cabinet meeting on 17 December 2015. Otherwise any further impact will be

communicated within the final budget paper in February 2016 or if the impact is significant then use will be made of a provisional Cabinet meeting currently planned for 7 January 2016.

71. The funding received from central government in cash terms through the RSG and the Business Rates Retention System for the current financial year 2015/16 is £113.4 million, a reduction of £15.2 million or 12% reduction from 2014/15.
72. At this stage the MTFP reflects the headline assumptions arising out of the Spending Review, although given that the Council has yet to receive precise details of funding for future years it is likely that some further refinement will be necessary.
73. It would appear that there are to be significant reductions in specific and general grant (RSG) funding which will largely be offset by central government's forecast for increases in business rates and Council Tax income. Some of this detail will be available later in December 2015 and some will be subject to future consultation.
74. Taking all this into account, the illustrative allocation for 2016/17 already included in the MTFP is £102.4 million, a 10% reduction from 2015/16.

#### **Income: Business Rates Retention Scheme**

75. Approximately £59 million of the Council's funding for 2016/17 will be received from Business Rates.
76. The Council continues through the Hereford and Worcester Treasurers Association to refine forecasts for locally generated business rates. Future growth in income will be reset at 2020 as central government will review levels of income relative to other local authorities at this time and adjust baselines.
77. The Spending Review confirmed previous announcements with regard to a proposed move to 100% local retention of business rates. This will be the subject of a consultation during 2016 which will include proposals regarding the transfer of new responsibilities. It is expected that any transfer in income will be largely offset by a transfer in new responsibilities as the levels of specific grant funding will fall to compensate.

#### **Income: District Council's Council Tax Support Schemes**

78. The Council welcomed and responded positively to the recent proposals for Wyre Forest District Council to review the discretionary elements of their Council Tax Support Scheme and has offered to support the transition through increased support for their Hardship Fund. The Council will continue to work with all districts to establish a model of support to target improvements in the collection rate and anti-fraud initiatives.

#### **Income: specific grants**

79. The Council receives income from a range of specific grants from a number of different spending departments of central government. For 2015/16 this was estimated at £92.3 million. National spending limits and policy dictate the level of specific grants that the Council receives to fund central government initiatives.
80. Details of how this specific grant funding continues will be confirmed in time for their inclusion in the February 2016 Budget Report. It is anticipated that a number of specific grants will be rolled into the system for business rates retention. The

specific grants for 2015/16 are provided in Appendix 8 for information purposes only.

**Revenue expenditure: the net expenditure budget for 2016/17**

81. The net expenditure budget for 2016/17 has been prepared on the basis of reviewing all existing policies prevailing in 2015/16 and making additional provision for demographic, income and price changes.
82. The net expenditure budgets are set out at Appendix 2 and summarised in the following table. This sets out a provisional budget requirement of £327.8 million for 2016/17 against which the Council estimated income through RSG, Business Rates Retention Scheme and Council Tax to be £325.8 million.
83. A variation analysis by Directorate is set out in Appendix 3.

Table 3: Summarised budget setting exercise

Area	£m	£m
<u>Initial Gross Budget Requirement</u>		
2015/16 Budget*	418.4	
- 2015/16 Specific Grants	-92.3	326.1
<u>Add Proposed Inflation</u>		
Pay and pensions	3.8	
Non Pay inflation Increases	3.4	7.2
<u>Add Proposed Growth:</u>		
Children's Social Care	5.0	
Adult Social Care	3.0	
Headroom for Strategic Initiatives	0.7	
Capital Financing	1.4	
Investment in Road Maintenance	0.5	
Investment in Positive Activities	0.6	
Education Services Grant	0.5	
Waste Disposal tonnage growth	0.5	
Other base budget revisions	4.9	17.1
Less Existing FutureFit Savings		-18.1
Less New Proposed Savings		-4.5
2016/17 provisional budget requirement		327.8
- Revenue Support Grant (Forecast)	43.5	
- Business Rates Retention Scheme	58.9	
- Council Tax income	223.4	325.8
Indicative Funding Gap		2.0

\* The 2015/16 budget includes specific grants and Better Care Fund but excludes Dedicated Schools Grant

84. Table 3 shows that the indicative funding gap for 2016/17 is £2.0 million.

85. Included in this are a series of proposals to strengthen the base budget. The most significant areas are explained below:

- £5.0 million – Looked after Children

An increase in the Children's Social Care placements budget due to the costs of services for Looked after Children £3.0 million – Supporting older people and people with disabilities

Increase in the Adult Social Care budget to cater for the increased cost of demographic growth and the increasing complexity of supporting vulnerable older people and adults with disabilities

- £1.0 million – Driving Home Programme

A £1 million increase to the capital financing budget to fund the borrowing costs associated with the £12 million Driving Home highways capital investment programme. An allocation of £2 million from uncommitted New Homes Bonus is also proposed to complete the funding package for this programme of works

- £0.7 million – Strategic Initiatives

Headroom for Strategic Initiatives to be confirmed at the February 2016 Cabinet meeting

- £0.5 million – Education Services Grant

An increase in base budget to take account of the reduction in funding expected to be received by the Council in relation to schools which have converted and those expected to convert to academy during 2016/17. As most of these services involve fixed costs, and the reductions to date have been significantly higher than the amounts the Council spends, the Council cannot reduce expenditure in the majority of these areas. In some cases, following efficiencies and savings generated through FutureFit savings the Council has demonstrated that it currently spends less than central government indicate should be spent on the relevant service and is already, therefore, providing these services more efficiently than central government expects. With the recent announcement indicating the significant reduction in this grant, the amount the Council receives from 2017/18 is expected to be considerably reduced, following a detailed national consultation in 2016. Initial expectations are that this grant will be reduced to the amount required to fulfil its statutory duties only and that Education Support Services will be expected to be procured and / or delivered by schools rather than the Council.

- £0.5 million Waste Disposal

An increase in the costs of waste disposal as more waste is disposed of by Worcestershire households than the previous year

- £0.5 million Road Maintenance

An increase in investment in road maintenance

#### **Addressing the indicative funding gap**

86. Following the December 2015 Cabinet, the impact of the provisional local government Finance Settlement will be worked into the draft budget and presented at the February 2016 Cabinet meeting.

87. Any significant updates will be included in that report, but in the meantime work will be undertaken and consideration given alongside the outcomes of consultation to close the indicative financial planning gap through the following means:

- An assessment of growth in Band D Equivalent properties leading to buoyancy in the Council Tax Base and the use of any surplus or deficit arising on District Councils' collection funds in excess of planning assumptions;
- An assessment of any updates regarding business rates income in excess of planning assumptions;
- A review of any inflation awards that remain at the discretion of the Council;
- An assessment on whether further efficiencies or savings can be found; and
- Consideration of whether funding from the release of Earmarked Reserves no longer required (one year only) or General Balances (one year only) can be provided.

88. The intention is for the indicative financial planning gap will be closed in time for the February 2016 budget approval by Cabinet and Full Council taking full account of consultation responses and any updates regarding the above.

#### **Dedicated Schools Grant and Schools grant funding**

89. The Department for Education (DfE) has announced that the core schools budget will be protected in real terms. For Worcestershire this means that the Guaranteed Unit of Funding (GUF) will be £4,318.28 per pupil, which is a reduction of £2.56 from the 2015/16 GUF, reflecting the consolidation of the allocation for Holy Trinity Free School into our per pupil rate. The DSG allocation is expected to be unchanged before adjustment for pupil numbers. The DSG will be reduced to reflect the individual schools that have converted to become academies. A change in the way the DSG is allocated after 2016/17 is expected as part of the National Fair Funding Formula, consultation on which is expected during 2016. The new formula will be introduced from 2017/18.

90. In addition to DSG, central government has made a number of announcements in relation to other grant funding for schools including that 2016/17 rates for Pupil Premium will be protected at the current rates as shown in the table below.



Table 4: Pupil Premium Rates 2016/17

£	2015/16 and 2016/17
Early Years	300
Primary	1,320
Secondary	935
LAC	1,900
Service children	300

91. The Spending Review announced a doubling of the free childcare entitlement from 15 hours to 30 hours a week for working families with three and four year olds from September 2017, worth up to £5,000 per child. Central government has also committed to a review of the cost of childcare provision and investment to enable an increase the average hourly rate childcare providers receive from 2017/18.
92. The Council awaits further grant based announcements over the next few months and will ensure a full update on all funding for schools is provided in the February 2016 budget report to Cabinet and Full Council.

#### **Health and Social Care Better Care Fund**

93. The Spending Review has announced a £1.5 billion increase from £3.8 billion to £5.3 billion by 2020 in the national funding for the Better Care Fund. This will occur between 2017 and 2020.
94. It is not yet certain at this stage however, the extent of any additional requirements that will have to be met before any increases will apply locally, and further work will be required to understand what opportunities are available. All areas are required to have a plan for integration of health and social care by 2017, to be implemented by 2020.

#### **Public Health**

95. Public Health responsibilities transferred from NHS Worcestershire to the County Council on 1 April 2013. The Council receives a Public Health ring-fenced grant to support delivery of these responsibilities. The grant is required to fund mandated functions (sexual health services, Health Checks, the National Childhood Measurement Programme, health protection and the NHS "Core Offer" of population healthcare support). It also funds a range of non-mandated services including smoking cessation, drugs and alcohol services, school nursing and falls prevention.
96. The grant for 2015/16 is £28 million, a £1.9 million reduction (6.2%) on the 2014/15 level. The grant has already been used to achieve savings by funding prevention and early help services in order to mitigate reductions in the Council's base budget.
97. Early indications regarding 2016/17 public health funding for local authorities are for an average annual reduction of 3.9% over the next five years. This is anticipated to generate a total savings requirement of £9.4 million. Savings of

£7.4 million have been approved by Cabinet, with the remaining £2 million required in 2019/20.

### **Local Welfare Grant**

98. For 2015/16, the Council has agreed to forward £0.9 million grant funding for one year explicitly received from central government to District Councils in order to fund valued Local Welfare Assistance schemes. Of this amount, £0.5 million was received explicitly from central government with the balance of £0.4 million being funded by the County Council. District Councils are able to use this funding across more than one financial year.
99. The Council is currently awaiting details with regard to 2016/17 and therefore is not yet in a position to consider whether central government funding support for this will continue, or whether funding will have been allocated directly to District Councils.

### **Independent Living Fund**

100. The funding and administration of the Independent Living Fund (ILF) was transferred from the Department of Work and Pensions (DWP) to the Council in 2015/16. The ILF makes cash payments to disabled people enabling them to purchase care and support services. There is a wide variation in the level of needs met through the fund and the ILF closed to new applications in 2010.
101. The Council has made payments since 1 July 2015 to those currently eligible for funding. The Council received £2.5 million in grant to match its expenditure for the 9 months covered.
102. Responsibilities for the scheme remain with the Council but we are awaiting confirmation of the 2016/17 allocation.

### **Worcestershire Councillors' Divisional Fund Scheme**

103. The Councillors' Divisional Fund Scheme is currently funded for the 2016/17 financial year. It is proposed that the scheme is once again extended for a further year to 2017/18 with funding to be confirmed in the February 2016 Cabinet report.

### **Capital Programme: Key achievements and approvals in 2015/16**

104. In recent years the Council has spent on average around £80 million on capital annually with a peak in the 2011/12 financial year of just under £99 million excluding the Energy from Waste financing scheme. The majority of this programme has been funded by grants from central government with borrowing, capital receipts and revenue contributions to capital making up the difference.
105. The major areas of capital expenditure relate to Schools, the Local Transport Plan and other Business, Environment and Community Directorate activities. A full analysis of previous capital expenditure by Directorate is set out in Appendix 5.
106. There have been updates approved by Full Council during the 2015/16 financial year, and these are included in the latest Capital Programme shown in Appendix 6. Significant schemes approvals include:
- Kidderminster Hoobrook Link Road;
  - Children's Services Post 16 Supported Living Accommodation;
  - Energy Efficiency Spend to Save schemes;

- Worcester Cathedral Square;
- Kidderminster Railway Station; and
- Additional funding for Bromsgrove Railway Station relocation.

#### **Capital Programme Addition: Malvern Hills Science Park Phase 5**

107. The Council is supporting the development of Malvern Hills Science Park Phase 5 with an additional investment of £4 million for demolition, site clearance of existing building and the subsequent construction of Phase 5. As a Game Changer site, the development of Malvern Hills Science Park is a strategic priority identified through the Strategic Economic Plan (SEP) and Corporate Plan. The project has been promoted in partnership with MHSP Ltd and Worcestershire Local Enterprise Partnership (WLEP) and will be fully funded by the WLEP Growth Deal grant allocation with no impact on the Council's long term borrowing.
108. Full Council is recommended to add this scheme to the Capital Programme and update the cash limits accordingly.

#### **Driving Home Programme**

109. The Council is dedicated to improving the level of condition of the roads across the County. Indeed it believes Worcestershire should maintain its position as a leading Highway Authority with continued commitment to high quality roads and highway asset management. This programme is about improving roads in the communities in and around where people live and work.
110. With this in mind we believe it is vital over the next two years that we provide complimentary additional capital funding over and above the committed Department for Transport funds for the cost effective maintenance and improvement of the Counties Highways network.
111. This will be achieved by investing an additional £12 million of capital monies over the next two years on a blend of rural and urban roads across the county. This project will focus on improving the condition of urban unclassified and local village roads while maintaining the current condition of our A, B and C classification road network. It will be achieved by providing a broad blend of works across the rural and urban network, including full surfacing, patching and surface dressing to improve and extend the lifespan of Worcestershire's highways network. Works will be based on sound asset management planning focused on road condition and proactive preventative maintenance.
112. It is proposed that the £12 million investment will be funded £10 million from prudential borrowing (funded by a £1 million allocation from the Council's Strategic initiatives monies) and a £2 million allocation of existing uncommitted New Homes Bonus monies.

#### **Capital Programme: Future funding overview**

113. The financing of the Capital Programme has been reviewed at a strategic level including the forecast receipt of central government grants, capital receipts and directorate contributions from revenue budgets.
114. As part of rolling forward the MTFP to 2019/20, additional capital expenditure headroom has been provided for in 2018/19. The final stage of the current process to allocate schemes to available headroom is underway. An update will be presented to Cabinet in the form of a revised Capital Programme in the February 2016 Cabinet Report.

### **Capital: Investing our New Homes Bonus**

115. Details of reforms to the New Homes Bonus will be released as part of the provisional local government finance settlement which is expected to include a review of the share of funding between County and District Councils from the current 20/80 ratio which may deliver an opportunity for the Council however this would need to be set against proposals to reduce the length of bonus payments from 6 to 4 years.
116. The Council has prudently considered this income as temporary and therefore not included it in the recurrent budget.
117. To date, the Council has used this funding to support important investments in strategic flood alleviation schemes, to support strategic planning and improvements in the public realm and this budget proposes a £2 million allocation towards the highways Driving Home Programme.

### **The Impact on the MTFP**

118. The MTFP approved at the February 2015 Full Council meeting has been updated. The MTFP has been updated and extended to include the current financial year and the next four financial years. The main increases in pressure relate to service pressures in services for Looked after Children and waste disposal as previously described, with compensating decreases in pay inflation.
119. The economic environment has led the Council to make preparations for a continuation of the financial challenge over the medium term. This has included confirming the existing savings plans which in many cases have already been considered through the Cabinet and Scrutiny process. Plans have also been developed to cater for additional financial pressures and these are now being refined in light of confirmation within the provisional local government Finance Settlement of reductions in funding levels.
120. The MTFP is provisionally set out in the following table with more detail provided within Appendix 7.

Table 5: Indicative MTFP

<b>£m</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
Total Funding Available	325.8	323.9	321.5	319.5
Service costs based on provisional 2016/17 budget	-350.4	-349.2	-347.9	-345.3
Sub-Total	-24.6	-25.3	-26.4	-25.8
Savings and efficiency plans developed	22.6	14.2	7.0	2.5
Remaining gap from shortfall in funding	2.0	11.1	19.4	23.3

121. The County Council's MTFP has been extended by one year to 2019/20 which will cover the period of the Spending Review issued by central government and consequently this will have a significant impact on our Plan. The MTFP forecast for central government funding reductions needs to be treated with considerable

caution as there is only limited information about financial allocations to the County Council from 2017/18 onwards. The current indications suggest a continued need for spending reductions at least to the level of reductions the County Council is dealing with in the current Comprehensive Spending Review period. Particular known areas of uncertainty include:

- The extent of demand for service as a result of the implementation of the Care Act 2014; and
- How the move for increased local retention of business rates income compares with any transfers of new responsibilities and changes to specific grant funding.

122. Areas of uncertainty and risk will be kept under review as more detail becomes available.

123. Table 5 illustrates that over the life of the MTFP there is an overall savings requirement of £102.1 million. Of that, £46.3 million has been identified through the development of savings and efficiency plans with a remaining gap to find of £55.8 million.

124. As would be expected, the indicative funding gap of £2 million for 2016/17 forms a relatively small part of this overall gap as plans are significantly advanced.

#### **Budget calculation – statutory duties**

125. Section 25 of the local government Act 2003 requires the Chief Financial Officer as Section 151 officer to report to the County Council when it is setting the budget and the precept. The report must deal with the robustness of the estimates included in the budget and the adequacy of reserves.

126. The budget currently provides for the financial implications of the County Council's policies to the extent that these are known or can be reasonably assessed. However, there are a number of risks which are beyond the County Council's control and for which it is not possible to be precise:

- The County Council's demand-led services;
- Inflation and interest rate volatility; and
- Unforeseen emergencies, for example flooding.

127. It is for this reason that an adequate level of reserves must be maintained.

#### **Scrutiny**

128. Scrutiny of the 2016/17 budget proposals is being undertaken by the Budget Scrutiny Task Group which is meeting with key senior officers, the Chief Executive and Leader of the Council to complement the work already being undertaken by individual scrutiny panels. The conclusion of this work together with the individual views of the scrutiny panels will inform the Overview and Scrutiny Performance Board which will be meeting on 28 January 2016 to consider what comments it wishes to make to Cabinet as part of the budget consultation.

#### **Fulfilling the Public Sector Equality Duty requirements**

129. The County Council will continue to have due regard to proactively addressing the three elements of the Public Sector Equality Duty in all relevant areas – in particular the planning and delivery of our services. The Council will continue to

assess the equality impact of all relevant transformational change programmes and will ensure that Full Council has sufficient equalities assessment information to enable it to have due regard to the three elements of the Equality Duty when considering the budget for 2016/17. The Council will continue to ensure best practice is followed with regard to these requirements.

### **Guidance on excessive Council Tax increases and Localism Act**

130. The Localism Act gives local communities the power to approve or veto excessive rises in Council Tax. The Secretary of State will determine a limit for Council Tax increase as part of the annual local government Finance Settlement that has to be approved by the House of Commons. If an authority wishes to set a Council Tax above this level then a binding referendum must be held. For 2015/16 this limit was 2%, and the Council is anticipating this be rolled forward for 2016/17.

131. In addition to this, central government announced as part of the Spending Review the ability for local authorities with adult social care responsibilities to raise a 2% Social Care precept, ring fenced to support adult social care costs to help address longer term financial pressures for these services.

### **Supporting Information**

- Appendix 1 – Review of Earmarked Reserves and General Balances
- Appendix 2 – Revenue Budget Summary 2016/17
- Appendix 3 – Analysis of Variations 2015/16 to 2016/17
- Appendix 4 – FutureFit programme list of new proposed projects
- Appendix 5 – Capital Expenditure previous years
- Appendix 6 – Capital Programme 2015/16 to 2018/19 onwards
- Appendix 7 – Provisional MTFP
- Appendix 8 – 2015/16 Estimated Specific Grants

### **Contact Points**

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## **Background Papers**

In the opinion of the proper officer (in this case the Chief Financial Officer) the following are the background papers relating to the subject matter of this report:

Agenda and background papers for the meetings of Cabinet held on 24 September 2015, 15 October 2015 and 19 November 2015