13 January 2016	ITEM: 10 (Decision 01104338)

Cabinet

Shaping the Council and Budget Update

Wards and communities affected:	**Key Decision:**
All	Key

Report of: Councillor John Kent, Leader of the Council

Accountable Head of Service: Sean Clark, Director of Finance and IT

Accountable Director: Lyn Carpenter, Chief Executive

This report is Public

Executive Summary

There have been a number of reports considered by Cabinet throughout the municipal year on the relevant financial positions for 2015/16, 2016/17 and the medium term.

The previous report updated Cabinet on the latest position whilst also setting out the main elements of the Comprehensive Spending Review (CSR).

This report now sets out the latest position for 2015/16 and presents Cabinet with an update on the provisional grant settlement announced on 17 December 2015 and its impact on the 2016/17 financial position. The report also recommends a draft budget approach for the coming year.

1. Recommendation(s):

1.1 That Cabinet note that there is still a forecast budget deficit of circa £0.3m for 2015/16;

1.2 That Cabinet recommends to Council the approach of capitalising the budget provision for the Minimum Revenue Provision (MRP), starting in the current financial year;

1.3 That Cabinet note the assumption of a 2% Council Tax increase to provide additional funding towards the cost of Adult Social Care;

1.4 That Cabinet note the assumption of a 1.99% Council Tax increase to support the Council's resource base going forward; and

1.5 That Cabinet note this draft budget and ask Corporate Overview and Scrutiny to comment and make recommendations back to Cabinet in February.

2 Shaping the Council

2.1 The Comprehensive Spending Review (CSR) announced on 25 November 2015 and the subsequent grant announcement on 17 December 2015 was very clear on a number of financial points:

a) That, as Thurrock Council has budgeted, the Revenue Support Grant (RSG) will be abolished over the life of this parliament through a continuation of year on year reductions in addition to the £29m lost between 2010/11 and 2015/16;

b) That, as a result of this, Council's will be reliant on raising necessary funding locally through Council Tax, Business Rates and other Income Generation;

c) That Business Rates collected in any one area will still be subject to tariffs and top ups – in other words, for Thurrock Council, the Council will still have to pay a significant proportion of the Business Rates it collects to central government for redistribution; and

d) That, as a result of more Business Rates being available to councils nationally, there will be added obligations for councils to meet. These new duties have not yet been announced and will be subject to consultation over the coming months but it is likely that any increased funding will be absorbed by these new requirements.

2.2 It is clear from the above that councils will have to rely more on local income generation, particularly from Council Tax, to meet a growing range of services going forward. Members will be required to consider difficult challenges throughout 2016, the first being the need to agree Council Tax increases for 2016/17 and these are set out later in this report.

2.3 It will also be essential that 2016/17 includes a budget provision for the preparation that will be required to:

a) Increase income through both existing charges and securing additional income streams;

b) Continue the work on rationalising the Council's assets to reduce costs and maximise income potential;

c) Drive efficiencies through better ways of working;

d) Finance spend to save initiatives;

e) Investigate and implement new Delivery Models; and

f) Finance organisational change where necessary.

2.4 The proposals in this report include a budget for this purpose.

3 Provisional Grant Settlement

3.1 The 2016/17 provisional finance settlement represents the fourth year in which the Business Rates Retention (BRR) scheme is the principal form of local government funding. As in the previous three years, the provisional settlement provides authorities with a combination of provisional grant allocations and their baseline figures within the BRR scheme.

3.2 The provisional figures are expected to be confirmed in late January/early February 2016 (within the final settlement announcement).

3.3 A new methodology for determining authorities' Revenue Support Grant (RSG) allocations has been proposed within the provisional settlement. Rather than applying the same percentage cut to all authorities, the new approach takes into account individual authorities' council tax raising ability and the type of services provide.

3.4 Even considering the above, the reductions to Thurrock Council's grant support are significant and further support the need for change going forward:

Financial Year	£m Reduction
2010/11-2015/16	29.0
2016/17	6.5
2017/18	6.0
2018/19	4.0
2019/20	3.9
	59.4

3.5 In terms of the New Homes Bonus (NHB), it appears that there are no changes to the scheme planned before 2018/19 and the amounts for 2016/17 and 2017/18 would be consistent with authorities receiving allocations as per the current system. However, indications are that there will be reductions in

NHB over the life of this settlement and that the scheme itself could well be scrapped.

3.6 Thurrock Council had planned on £3.31m in 2016/17 increasing to £4.345m in 2019/20. This has proven to be optimistic due to a lower number of properties being brought into use and the MTFS will be adjusted to reflect these reduced amounts.

3.7 Although there are indications that any future reductions in NHB will be redistributed, the basis and mechanism for this is unknown. As such, the revised MTFS to be presented in February will look to phase out the dependency on this funding stream and this is in keeping with the direction towards financial self-sustainability.

3.8 Public Health Grant – There remains some uncertainty over the level of cut in the Public Health Grant (PHG) next year. The Autumn Statement confirmed that the ring fence would continue for a further 2 years – 2016/17 and 2017/18 but then stated that the PHG would be reduced by approximately 4%. It is not clear whether this 4% reduction is in addition to the in-year cut of 6.2% imposed during this financial year or is the final reduction. The Department of Health has also recently consulted on a new formula for distributing the PHG – based more on local need rather than previous PCT expenditure levels. A needs based formula would benefit Thurrock but it is not clear when this will be introduced. A further report on the PHG will be submitted to Health and Well-Being Scrutiny Committee when the position is clearer but in line with the previous policy any reductions in the PHG will have to come out of the services commissioned by the PHG.

3.9 There is no additional Better Care Funding (BCF) in 2016/17. Although the provisional settlement demonstrated growth for the BCF by 2019/20 it should be remembered that the current BCF was formed from existing council and CCG budgets. There has been no clarification as yet as to whether this is new funding or not.

Council Tax

3.10 The grant announcement confirmed that there would no longer be a freeze grant offered to councils. As the MTFS had assumed a grant would be available, this makes the Council's financial position worse by £0.6m.

3.11 The government's spending power calculation for all councils with adult social care responsibility assumes increases of 3.75% representing a general council tax increase of 1.75% per annum over the life of the settlement, in line with CPI, plus the additional 2% Social Care precept. This is a complete reversal from previous government policy on council tax with the settlement assuming increases in Council Tax for both general purposes and for the additional 2% available under the Social Care precept.

3.12 For Thurrock Council, a referendum will be triggered where council tax is increased by 4% or more above the authority's relevant basic amount of council tax for 2015/16. Due to the loss of assumed freeze grant and the low Council Tax level, the lowest in Essex and in the lowest ten unitary councils nationally, **a 3.99% increase is recommended** that will raise some £2.2m in 2016/17 and make some headway towards the more difficult task of balancing 2017/18 and beyond.

3.13 A 3.99% increase in Council Tax equates to £44.87 for a Band D property in Thurrock. Some 70% of properties in Thurrock are Bands A-C where the increase ranges from £29.91 - £39.88 per year or £0.57 - £0.77 per week.

4 Minimum Revenue Provision (MRP)

4.1 Cabinet have already received updates in previous reports about the work on MRP that has reduced the annual MRP budget from £6m to £3.7m per annum. Further work has now identified that this reduced MRP budget can be funded through capital receipts and this approach has been agreed with the external auditors.

4.2 Council would be required to agree a change in the Annual Minimum Revenue Provision Statement and this is being built into the Treasury Management Strategy report to be considered by Council in February. This is simply adding a line allowing capital receipts to be used for this purpose.

4.3 Cabinet also need to be aware of the downsides to this approach. Simply, this means that capital receipts will be used for the write down of debt and not for investment in capital projects and this will lead to further prudential borrowing to replace this funding. Secondly, achieving a constant level of capital receipts to finance MRP through this approach is not sustainable due to both the nature of negotiations and legal requirements as well as supply. As soon as there are insufficient capital receipts for this approach, the budget (and this is a statutory requirement) will have to be financed through revenue thus increasing the pressures within the MTFS.

4.4 As such, it is recommended that the approach is implemented in 2015/16 to meet the exceptional one off cost of the Serco pensions but is not built into future budgets but the opportunity be retained to meet exceptional circumstances going forward.

5 Medium Term Financial Strategy (MTFS)

2015/16

5.1 The previous reports have demonstrated significant in-year operational pressures in excess of £6m and that these have now been mitigated by services as far as is possible with a quarter of the year remaining. However, Members must have regard to the following concerns:

- This balance is on the operational budget as currently projected. There could well be further pressures over the winter months, especially in terms of environment and social care; and

- The Council still has to finance the Serco termination pension surplus. This has previously been estimated at £3m and, although reducing my estimate to £2.5m due to economic factors and time delays in agreeing a settlement figure brought about by the complexity of the calculation, this still has to be financed and we have no further reserves, as previously reported.

5.2 To meet this outstanding balance, it is recommended to use £2.2m of capital receipts towards MRP – this is in line with available capital receipts in 2015/16 and fits with the phased approach as set out above.

5.3 Recent analysis has shown that income generation is higher than previously forecast and DB has recently reinforced the austerity measures. No further non-essential expenditure to be approved. These two areas may well contribute to meeting the remaining balance but this cannot be relied upon at this stage.

5.4 Subject to no further pressures or material difference in the Serco pension estimate, this will result in expenditure largely being contained within the budget envelope for 2015/16 though there remains a balance of circa £300k still to be identified if the use of reserves is to be avoided.

2016/17

5.5 The figures below assume that previously agreed savings of £3.35m will be achieved next year and these have been set out in previous reports. Members should note that some of the savings, previously agreed by Cabinet/Council are not straightforward or easy to delivery.

5.6 The previous budget report increased the outstanding pressure for next year to £4.98m due to the increased growth requests over and above the previous provision. As a reminder, the growth requested by the services for Adults' and Children's social care as follows:

- Adults - £1m – the impact of national Living Wage increases in 2016/17 has been calculated at circa £1.5m. The service is looking to mitigate this impact where possible and is therefore seeking a lower growth sum;
- Adults - £1m – cost of care provision, including growth in areas such as autism and dementia; and
- Children's - £3m – this is a draft request based on a number of the pressures reported previously to Cabinet. Directors' Board will continue to monitor any further pressures.

5.7 As previously reported, the growth bids are still subject to ongoing challenge and they do not include any growth for other services such as Environment or for spend to save initiatives or to finance Shaping the Council activity.

5.8 The CSR has then added to these pressures through the apprentice levy (£260k) and National Insurance changes (£200k), with the loss of the freeze grant adding a further £600k. These raise the pressure to £6.1m.

5.9 The MTFS had assumed an overall net reduction in government support for 2016/17 of £7.5m. Detailed work on the settlement has been carried out and has recognised a reduction of £6.5m but there are a number of issues to still be considered:

a) Not all detail has been released, especially in terms of service specific grants; and

b) That this is still a provisional settlement with a final announcement not expected until the end of January or even February.

5.10 Assuming this to be correct, the outstanding balance reduces to £5.1m.

5.11 The following table sets out the recommended approach to both meeting this outstanding balance whilst creating a contingency for any further grant reductions and a Shaping the Council budget to meet the future challenges:

	£m	
Reduction in Growth	0.500	It is recommended not to allocate growth to a specific service at this time but to create a provision within the base budget of £4.5m, a reduction of £0.5m. This would be under the budgetary control of the Chief Executive and Director of Finance and IT and allocated throughout the year once the net effect of pressures and mitigation are proven
Review of Recharges post Serco termination	0.500	A review of recharges between the general fund, HRA and capital has taken place post Serco transfer and this realises further savings circa £0.5m
Council Tax	1.100	The government's own spending power predictions for all councils include an increase in Council Tax and the referendum limit has been set at 2%. As such, a 1.99% increase is recommended.
ASC Council Tax	1.100	The government was clear that Councils should raise the additional 2% from Council Tax towards the cost of Adult Social Care. This is very much a reversal of policy where the

		recommendation has been to freeze council tax but all government projections assume that this additional funding will be adopted
Gloriana	0.600	The interest differential between what the Council pays the lender and receives from Gloriana is £0.6m in 2016/17
Organisational Change	1.200	Further savings from Serco management costs, savings from the Council's client teams, senior management restructure and Thurrock Online savings from within services previously managed through the Serco contract.
Income Generation	0.500	A review of fees and charges and other opportunities has identified and allocated a further £0.5m to the income target within services.
Alternative Delivery Models	0.200	Target for the Legal Service trading model
	5.700	

5.12 The surplus that these proposals create will be used proactively to action the initiatives set out in 2.3 of this report to meet the future MTFS pressures that the Council faces.

The Medium Term

5.13 As previously reported, the Council faces a further £25.5m over the period 2017/18 to 2019/20, with a pressure of £11.1m in 2017/18 alone.

5.14 Should the above position for 2016/17 be realised, this would provide a reduction to the pressure in 2017/18 and there may well be further changes as a result of the indicative grant settlements for future years that have been issued.

5.15 These will all be set out in a revised MTFS in February 2016 but what is already clear is that a significant reduction to the Council's net expenditure is required.

5.16 It is clear that both revenue and capital investment will be required over the coming months to support the levels of change required to meet these medium term pressures. The contingent sum set out in previous paragraphs along with strong control of growth pressures is essential to achieve this.

6 Issues, Options and Analysis of Options

6.1 The issues and options are set out in the body of this report in the context of the latest MTFS and informed by discussions with the Leader of the Council, Group Leaders and Directors' Board.

7 Reasons for Recommendation

7.1 The Council has a statutory requirement to set a balanced budget annually. This report sets out the budget pressures in 2015/16 and 2016/17 along with actions to mitigate these pressures and create a budget to implement changes required to Reshape the Council.

8 Consultation (including Overview and Scrutiny, if applicable)

8.1 Corporate Overview and Scrutiny Committee considered the summary information from each of the Budget Review Panels and will continue to have a role in overseeing the process.

8.2 This report has been developed in consultation with the Leader, Portfolio Holders and Group Leaders and Directors Board.

8.3 Consultation meetings will take place with the voluntary sector, Community Forum chairs and Business Board in January 2016 to discuss the budget position and savings the Council needs to make in the next few years.

8.4 New webpages have been created, with a link from the home page of the Council's website, setting out the reduction in Government grant since 2010, how the Council is funded and things that residents can do to help reduce costs such as recycle and access services online. These pages will be added to throughout the budget planning process and will provide a basis for other communication activity through to budget setting in February including providing information to every household with the Council Tax bills.

9 Impact on corporate policies, priorities, performance and community impact

9.1 The implementation of savings proposals has already reduced service delivery levels and our ability to meet statutory requirements, impacting on the community and staff. Delivering further savings in addition to those previously agreed is particularly challenging in light of the cumulative impact of such a significant reduction in budget and in the context of a growing population and service demand pressures within children's and adult social care and housing, and legislative changes. As such, a new approach aims to establish sustainable and innovative ways of delivering services in the future to mitigate this impact.

9.2 There is a risk that some agreed savings may result in increased demand for more costly interventions if needs escalate particularly in social care. This will need to be closely monitored. The potential impact on the Council's ability to safeguard children and adults will be kept carefully under review and mitigating actions taken where required.

10 Implications

10.1 Financial

Implications verified by: **Sean Clark**

Director of Finance and IT

The financial implications are set out in the body of this report.

Council officers have a legal responsibility to ensure that the Council can contain spend within its available resources. Regular budget monitoring reports will continue to come to Cabinet and be considered by the Directors Board and management teams in order to maintain effective controls on expenditure during this period of enhanced risk. Austerity measures in place are continually reinforced across the Council in order to reduce ancillary spend and to ensure that everyone is aware of the importance and value of every pound of the taxpayers money that is spent by the Council.

This report does not just set out the actions required to set the budget for 2016/17 but provides a financial framework to facilitate change going forward.

10.2 Legal

Implications verified by: **David Lawson**

Deputy Head of Legal & Governance - Deputy Monitoring Officer

There are no direct legal implications arising from this report.

There are statutory requirements of the Council's Section 151 Officer in relation to setting a balanced budget. The Local Government Finance Act 1988 (Section 114) prescribes that the responsible financial officer "must make a report if he considers that a decision has been made or is about to be made involving expenditure which is unlawful or which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency to the authority". This includes an unbalanced budget.

10.3 Diversity and Equality

Implications verified by: **Natalie Warren**

Community Development and Equalities Manager

There are no specific diversity and equalities implications as part of this report. A comprehensive Community and Equality Impact Assessment (CEIA) will be completed for any specific savings proposals developed from the Panel's discussions and informed by consultation outcomes to feed into final decision making. The cumulative impact will also be closely monitored and reported to Members.

10.4 **Other implications (where significant – i.e. Staff, Health, Sustainability, Crime and Disorder)**

Any other significant implications will be identified in any individual savings proposal business case to inform the consultation process where applicable and final decision making.

11 Background papers used in preparing the report (including their location on the Council's website or identification whether any are exempt or protected by copyright):

- Budget working papers held in Corporate Finance
- Budget Review Panel papers held in Strategy and Communications

12 Appendices to the report

- None

Report Authors:

Sean Clark, Director of Finance and IT, Chief Executive's Office