

STOCKTON-ON-TEES BOROUGH COUNCIL

CABINET RECOMMENDATIONS

PROFORMA

Cabinet Meeting21st January 2016

1. Title of Item/Report

MTFP / Big Ticket Update

2. Record of the Decision

Consideration was given to a report that outlined the impact of the 2015 Spending Review and Provisional Local Government Finance Settlement and the impact on the Council's Medium Term Financial Plan (MTFP).

The Provisional Financial Settlement had provided indicative funding allocations for the next four years which outlined further funding reductions which would make the difficult financial position faced by the Council even more challenging.

The Council had a strong track record of prudent financial management and delivering savings early. This had enabled the use of reserves to support a planned and managed approach to addressing the financial challenges and this would continue.

The report also outlined future changes to Local Government Finance, most noticeably the proposal to move to 100% of business rates retained by Local Authorities, and changes to the New Homes Bonus. These were potentially major changes which were likely to have an impact on Council funding. This meant that the position for 2017/18 onwards outlined in the report needed to be treated with some caution.

The Council had seen a significant reduction in level of Government funding in recent years. Between 2010/11 and 2015/16, there had been a reduction of £52m which was a 42% cash reduction or 59% when inflation was taken into account. This meant that the Council's budget overall had reduced by 30% and as a consequence staffing numbers had reduced by approximately 700

The Medium Term Financial Plan (MTFP) report to Council in September 2015 outlined the updated financial position reflecting changing circumstances following the general election in May 2015 and the position surrounding Business Rates. At that time, there was an anticipated further £15m reduction in Government Funding, however the

information that had been received as part of the Provisional Financial Settlement indicated a further £21m. This meant a total reduction by 2019/20 which would equate to a total of £73m, (61% in cash terms).

The Council had recognised for a number of years the financial challenges and the need to prepare well in advance. The approach to financial planning over the long-term had allowed the Council to plan ahead and had meant that there had been a managed approach to delivering savings and wherever possible to protect front-line services. This included opportunities for Invest to Save and exploring alternative models of service delivery.

The Council had a long history of providing value for money and delivering strong financial management which had again been reinforced by the External Auditor in his report to Cabinet in January 2016.

As part of this approach, there was a strong track record of delivering savings and efficiencies and the Council would therefore be well prepared for the challenges ahead.

This approach had enabled a managed and planned approach to delivering savings. The Council had already delivered savings of over £34m. This had been achieved through:

- Freezing budgets and changes to employee terms and conditions
 - A programme of Efficiency, Improvement and Transformation
- Reviews
- Members scrutiny reviews
 - Innovative changes to delivery models
 - Reductions to Members Allowances including fewer Cabinet, Chair and Vice Chair positions, reducing special responsibility allowances and freezing all allowances since 2013/14
 - Use of reserves to allow invest to save schemes
 - A focus on “Big ticket” areas of spend to stem growth and deliver savings

The planned and managed approach to addressing the financial challenges continues with the Big Picture Review Programme which was approved by Council in September 2015. The approach was two-fold. Firstly, there were a series of specific proposals which Council had agreed would be implemented. These could deliver £3.5m by 2018/19.

Further reviews would explore opportunities for using technology and process review methodologies to deliver service transformation and further efficiencies. Details of actual savings would be reported back to Cabinet at a future date. These reviews were expected to deliver £2m by

2018/19.

Given the level of savings required, it was recognised that the Council couldn't continue to provide all of the services at the same level, in the same way and to the same standards. Even with the savings and efficiencies there was an estimated gap of approximately £6.9m and this would require changes in the level of front line services. It was inevitable that the Council would need to provide a differential level of service with fewer universal services and more services targeted to areas of most need. The Report identified the front line services which would be subject to a detailed review. Overall they aimed to deliver the £6.9m required to balance the budget.

Increasingly, as more savings were required there would be a need to target services to areas of most need and in particular to protect the most vulnerable.

Work on delivering the agreed savings proposals would be supported by a communications campaign called "The Big Picture" campaign through which information would be provided about how the Council spends money in the borough as well as updates about the financial position and how the Council was responding to the huge financial challenge.

The updated Medium Term Financial Plan included in the September Cabinet Report including the approved savings was detailed within the report. This included the use of £6.1m reserves to balance the budget in 2016/17.

The Chancellor announced his Autumn Statement/Spending Review on 25 November 2015. That document set out the governments' public expenditure plans for 2016/17 to 2019/20. The Provisional Local Government Finance Settlement, announced on 17th December 2015, provided information on local authority funding for 2016/17, together with an indication of funding for the years to 2019/20. These figures needed to be treated with some caution and were purely indicative. The headlines and the impact for Stockton were detailed within the report.

With regard to Social Care there had been significant lobbying from within the Local Government Sector around pressures relating to Adult Social Care due to increasing costs relating to an ageing population. No funding had been allocated by the Government however they had indicated that the mechanism to support some of these pressures was the flexibility to raise a social care levy, through Council Tax and they had assumed in the Provisional Settlement that Authorities would adopt this levy at 2%. There was a clear requirement that this needed to be set against the context of the increasing cost and demand pressures in Adult Social

Care, which would be exacerbated by the impact of the Government's proposals around Living Wage, to which no reference had been made in the Finance Settlement.

The government had also announced a new Better Care Fund, which they state would amount to £1.5bn nationally by 2019/20. Although indicative allocations had been issued, more detail was awaited.

The Government had announced a reduction in the Settlement Funding Assessment (SFA) of 31.8% for England between 2015/16 and 2019/20. The figure for Stockton over the same period was a reduction of 34.1% and this was higher than the 27% included in the MTFP.

Members were aware of the significant reductions in Government Funding in recent years. Between 2010/11 and 2015/16 the Council had seen a reduction of £52m which represented a 42% cash reduction. Based on the assumptions above, overall Government Funding would reduce by a further £21m by 2019/20 which would equate to a total of £73m, (61% cash terms).

The Government had presented the Settlement information in terms of a new measure, "Core Spending Power" with the headline being that this showed an increased Spending Power for Local Authorities by 2019/20. This consisted of the following elements:

- Settlement Funding Assessment (SFA)
- Council Tax Requirement, excluding parish precepts
- 2% levy for Social Care
- Additional funding for Better Care Fund from 2017/18
- New Homes Bonus

A table within the report, published as part of the Provisional Settlement, demonstrated the Spending Power Calculation between 2015/16 and 2019/20.

It was noted that the position for 2017/18 onward was indicative but the table demonstrated that the Government's headline figure showed:

- Reductions in Settlement Funding Assessment of 34%, a £23m reduction in RSG by 2019/20 as compared to £17m previously estimated. The figure from 2016/17 is a £9m reduction compared to the £7.4m included in the current MTFP.
- Indicative allocations for additional income from the Better Care Fund of £4.9m by 2019/20 but an indicative reduction of £2m in New Homes Bonus (Subject to Consultation – see paragraph 40)

- Assumed Council Tax increase of £13m which is based on a 1.75% increase plus growth. The Government have assumed a notional level of taxbase growth of 2% per year, approximately 1600 properties, which is significantly above the level of growth included in our projections (0.5% per year, 450 properties).
- An assumption that the Council will implement the Social Care levy generating £5.7m by 2019/20.
- Effectively, Government funding reductions are balanced by assumed increases in Council Tax which are extremely optimistic and includes the new Social Care levy.

The indicative MTFP had been rolled forward one year to include 2019/20 and had been updated to reflect the impact of the National Funding reductions identified in the report.

One of the key announcements by the Chancellor in 2015 was the introduction of the National Living Wage. This would increase the minimum wage for an adult from £6.70 per hour in 2015/16 to £7.20 per hour from April 2016 and to £9.20 per hour by 2020/21. At this stage the Council did not have information on how these increases would be profiled beyond April 2016 and therefore for modelling purposes the Council had assumed a straight line effect across the financial years. The increases would impact on staff directly employed by the local authority and for those employed via agencies. There was also expected to be a very significant impact on the fees paid for social care placements as there was a legal requirement to consider the actual costs of care homes in determining the rates paid.

The updated MTFP was set out in a table within the report. It was highlighted that the overall impact of the national Funding and Policy changes is approximately £5m in 2016/17 rising to £13.7m in 2019/20. Once other changes and before the savings programme and Use of Resources are taken into account the budget gap will be £13.5m in 2016/17 and £26.4m by 2019/20.

The current indicative MTFP included the use of reserves earmarked to fund the 2016/17 budget gap and allow time for the savings to be delivered. Once these savings are delivered the remaining gap will be £2.3m in 2016/17 rising to £8.7m by 2019/20.

A paragraph within the report had outlined the mechanism proposed by the government to support social care pressures in the flexibility to apply a levy of 2% per year to be collected through Council Tax. The final

decisions around the levy and the approach to the remaining budget gap will be considered in the report to Council in February alongside any one-off resources available.

The Government announced as part of the Spending Review that there would be a fundamental review of the way in which Councils were funded. The proposal announced by the Chancellor was to move to a system whereby Local Government was funded through 100% business rate retention by the end of the Parliament. The move to 100% Business Rates Retention by the end of Parliament would be accompanied by the phasing out of Revenue Support Grant and the transfer of new responsibilities to local government to be funded from business rates retained. A consultation would be launched in summer 2016. The design of any future scheme was critical and until further information was received a high degree of caution must be taken for the latter years of the MTFP. This represented a very significant change to the funding of local authorities and the design of the new scheme would be crucial in how it impacted on local authorities at a local and regional level.

Alongside the move to 100% retention of Business Rates, and to allow this to happen, the Spending Review included reference to additional responsibilities that would be transferred to local authorities by the end of the Parliament. It was suggested that the government would consider transferring responsibility for funding the administration of housing benefit for pensioners and public health and the Finance Settlement indicated that Attendance Allowances could also be transferred from DWP.

The government had commenced consultation around changes to the system of distributing New Homes Bonus. This was linked to an overall reduction in funding nationally of £800m and the indicative allocation for future years included elsewhere in the report needed to be treated with huge caution. The key issues around the consultation were detailed within the report.

A national funding formula for schools would also be consulted upon in 2016 and introduced from April 2017. The impact on Stockton schools would require to be assessed. The Spending Review also indicated that there would be an expectation of more schools converting to Academy status with a diminishing role for Local Authorities. They had also announced a reduction of £600m in the Education Support Grant (ESG). This sum could be seen as representing around 75% of the national total. Over time this could mean that grant funding of up to £2m is at risk for Stockton.

The Final Local Government Finance Settlement was expected to be announced in late January and any further implications would be included

in the budget report to Cabinet on 18th February 2016. This would subsequently be presented to Council on 24th February 2016. Member briefing sessions would be arranged in advance of the presentation of the report.

RESOLVED that:-

1. The impact of the Provisional Settlement be noted.
2. The updated financial position for 2016/17 to 2019/20 be noted.
3. Reasons for the Decision
To update Members on the MTFP.
4. Alternative Options Considered and Rejected
None.
5. Declared (Cabinet Member) Conflicts of Interest
Councillor Nelson declared a personal non prejudicial interest in respect of agenda item 3 – Medium Term Financial Plan / Big Ticket Update as he was a member of Tristar Board.
6. Details of any Dispensations
N/A
7. Date and Time by which Call In must be executed
Midnight on 29th January 2016.

Proper Officer
25 January 2016