

CABINET ITEM COVERING SHEET PROFORMA

AGENDA ITEM

REPORT TO CABINET

21 JANUARY 2016

**REPORT OF
CORPORATE
MANAGEMENT TEAM**

CABINET DECISION

Leader of the Council – Councillor Cook

MEDIUM TERM FINANCIAL PLAN / BIG TICKET UPDATE

1. Summary

This report outlines 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 has provided indicative funding allocations for the next four years which outlines further funding reductions which will make the difficult financial position faced by the Council even more challenging.

Members will be aware that the Council has a strong track record of prudent financial management and delivering savings early. This has enabled the use of reserves to support a planned and managed approach to addressing the financial challenges and this will continue.

The report also outlines 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 are potentially major changes which are likely to have an impact on council funding. This means that the position for 2017/18 onwards outlined in the report needs to be treated with some caution.

2. Recommendations

1. That the impact of the Provisional Settlement be noted.
2. That the updated financial position for 2016/17 to 2019/20 be noted.

3. Reason for the Recommendations/Decision

To update Members on the MTFP.

4. Members' Interests

Members (including co-opted Members) should consider whether they have a personal interest in any item, as defined in **paragraphs 9 and 11** of the Council's code of conduct and, if so, declare the existence and nature of that interest in accordance with and/or taking account of **paragraphs 12 - 17** of the code.

Where a Member regards him/herself as having a personal interest, as described in **paragraph 16** of the code, in any business of the Council he/she must then, **in accordance with paragraph 18** of the code, consider whether that interest is one which a member of the public, with knowledge of the relevant facts, would reasonably regard as so significant that it is likely to prejudice the Member's judgement of the public interest and the business:-

- affects the members financial position or the financial position of a person or body described in **paragraph 17** of the code, or
- relates to the determining of any approval, consent, licence, permission or registration in relation to the member or any person or body described in **paragraph 17** of the code.

A Member with a personal interest, as described in **paragraph 18** of the code, may attend the meeting but must not take part in the consideration and voting upon the relevant item of business. However, a member with such an interest may make representations, answer questions or give evidence relating to that business before the business is considered or voted on, provided the public are also allowed to attend the meeting for the same purpose whether under a statutory right or otherwise (**paragraph 19** of the code)

Members may participate in any discussion and vote on a matter in which they have an interest, as described in **paragraph 18** of the code, where that interest relates to functions of the Council detailed in **paragraph 20** of the code.

Disclosable Pecuniary Interests

It is a criminal offence for a member to participate in any discussion or vote on a matter in which he/she has a disclosable pecuniary interest (and where an appropriate dispensation has not been granted) **paragraph 21** of the code.

Members are required to comply with any procedural rule adopted by the Council which requires a member to leave the meeting room whilst the meeting is discussing a matter in which that member has a disclosable pecuniary interest (**paragraph 22** of the code).

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RECOMMENDATIONS

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DETAIL

Approach to Financial Management and the Big Picture Programme

1. The Council has seen a significant reduction in Level of Government funding in recent years. Between 2010/11 and 2015/16, there has been a reduction of £52m which is a 42% cash reduction or 59% when inflation is taken into account. This means that the Council's budget overall has reduced by 30% and as a consequence staffing numbers have reduced by approximately 700
2. 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, we were anticipating a further £15m reduction in Government Funding, however the information we have received as part of the Provisional Financial Settlement (discussed further below) indicates a further £21m. This will mean a total reduction by 2019/20 which would equate to a total of £73m, (61% in cash terms).

3. The Council has recognised for a number of years the financial challenges and the need to prepare well in advance. Our approach to financial planning over the long-term has allowed us to plan ahead and has meant that we have been able to operate a managed approach to delivering savings and wherever possible protect front-line services. This includes opportunities for Invest to Save and exploring alternative models of service delivery.
4. The Council has a long history of providing value for money and delivering strong financial management which has again been reinforced by the External Auditor in his report to Cabinet in January 2016 who stated:

“Each year undoubtedly becomes harder and the scope for reducing expenditure without affecting service standards becomes more and more difficult. The Council continues to have a strong approach in considering a range of options, regularly updating and agreeing its plans well ahead of the relevant financial year. As we have seen in recent years, the Council is exploring innovative service redesign solutions to preserve service delivery and financial stability, such as new partnerships, joint ventures and ‘invest to save’ initiatives. When doing so, we have noted that the Council adopts controlled processes to mitigate risks.”

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

Current Medium Term Financial Plan and the Big Picture Programme

5. This approach has enabled a managed and planned approach to delivering savings. The Council has already delivered savings of over £34m. This has been achieved through:
 - Freezing budgets and changes to employee terms and conditions
 - A programme of Efficiency, Improvement and Transformation Reviews, covering all service areas
 - Members scrutiny reviews
 - Innovative changes to delivery models (e.g. Xentrall)
 - 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 such as the Street Lighting replacement programme.
 - A focus on ‘Big Ticket’ areas of spend to stem growth and deliver savings.
6. 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 is two-fold. Firstly, there are a series of specific proposals which Council have agreed will be implemented. These will deliver £3.5m by 2018/19 and include:
 - A review of senior management to reflect different ways of working across the organisation and its inevitable ‘shrinkage’. This has now been completed and will save £800k per annum.
 - Proposes further reduction in processing, organisational support and administration.
 - Proposes reviews in a number of areas further utilising technology to improve service efficiency
 - Budget savings and income generated which will have minimal impact on front line services

7. Further reviews will explore opportunities for using technology and process review methodologies to deliver service transformation and further efficiencies. Details of actual savings will be reported back to Cabinet at a future date. These reviews are expected to deliver £2m by 2018/19.
8. Given the level of savings required, it was recognised that the Council cannot continue to provide all of the services we do at the same level, in the same way and to the same standards. Even with the savings and efficiencies outlined above there is an estimated gap of approximately £6.9m and this will require changes in the level of front line services. It is inevitable that we will 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 will be subject to a detailed review. Overall they will aim to deliver the £6.9m required to balance the budget and they will need to consider:
 - Statutory responsibilities
 - The service specifications, levels and standards
 - Targeting the services to the areas or people in most need
 - The requirement for differential service levels (e.g. this principle has already been agreed by Cabinet for the library service)

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

9. Work on delivering the agreed savings proposals will be supported by a communications campaign called “The Big Picture” campaign through which we will provide information about how the Council spends money in the borough as well as updates about the financial position and how we are responding to the huge financial challenge.
10. The updated Medium Term Financial Plan included in the September Cabinet Report including the approved savings is shown below. This includes the use of £6.1m reserves to balance the budget in 2016/17.

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Income				
RSG (inc LCTS)	23,135	16,674	10,479	9,148
NNDR	40,467	41,619	43,021	44,504
NNDR Appeals	-4,770	-770	-770	-770
Council Tax	72,077	74,227	76,295	78,275
New Homes Bonus	4,662	4,682	4,923	4,781
Social Care Reform	1,051	1,051	1,051	1,051
BCF	4,615	4,615	4,615	4,615
Public Health	14,933	14,933	14,933	14,933
Total Income	156,170	157,031	154,547	156,537
Expenditure				
Service Spend	163,744	164,036	165,436	167,209
Big Ticket Growth Pressure	3,748	4,632	6,210	6,210
Total Expenditure	167,492	168,668	171,646	173,419
Budget Gap	11,322	11,637	17,099	16,882

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Funded By :				
Use of Reserves	-6,100			
<u>Savings Programme</u>				
Approved	-2,640	-3,145	-5,545	-6,135
Target Saving	-1,600	-3,400	-4,700	-4,700
Report back to Cabinet	-900	-5,000	-6,900	-6,900
GAP	82	92	-46	-853

National Funding Position

11. 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 need to be treated with some caution and are purely indicative. The headlines and the impact for Stockton are set out below.

Social Care

12. There has 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 has been allocated by the Government however they have indicated that the mechanism to support some of these pressures is the flexibility to raise a social care levy, through Council Tax and they have assumed in the Provisional Settlement that Authorities will adopt this levy at 2%. There is a clear requirement that this needs to be set against the context of the increasing cost and demand pressures in Adult Social Care, which will be exacerbated by the impact of the Government's proposals around Living Wage, to which no reference has been made in the Finance Settlement.
13. The government have also announced a new Better Care Fund, which they state will amount to £1.5bn nationally by 2019/20. Although indicative allocations have been issued, more detail is awaited.

Core Government Funding – Settlement Funding Assessment (SFA) and Revenue Support Grant (RSG)

14. The Settlement Funding Assessment (SFA) for each local authority is defined as the amount of Revenue Support Grant received plus the Business Rates Baseline. The effect of any reduction to an authority's SFA is to reduce the amount of Revenue Support Grant received.
15. Rather than all local authorities receiving the same percentage reduction in RSG funding, the government now propose to take into account the amount that can be raised locally from Council Tax, thereby increasing the reduction in RSG funding for higher taxbase authorities (in terms of ratio of taxbase income to SFA) and lowering the reduction for lower than average taxbase authorities.
16. The Government 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 is a reduction of 34.1% and this is higher than the 27% included in the MTFP.

17. Members will be aware of the significant reductions in Government Funding in recent years. Between 2010/11 and 2015/16 we have seen a reduction of £52m which represents a 43% 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).

National Measure - Core Spending Power

18. The Government have presented the Settlement information in terms of a new measure, "Core Spending Power" with the headline being that this show an increased Spending Power for Local Authorities by 2019/20. This consists 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

The table below, published as part of the Provisional Settlement, demonstrates the Spending Power Calculation between 2015/16 and 2019/20.

Core Spending Power of Local Government;					
	2015-16 (adjusted)	2016-17	2017-18	2018-19	2019-20
	£ millions	£ millions	£ millions	£ millions	£ millions
Settlement Funding Assessment	67.2	58.3	51.7	48.0	44.3
Council Tax;	69.9	74.0	78.7	83.9	89.5
<i>Council Tax Requirement excluding parish precepts (including base growth and levels increasing by CPI)</i>	69.9	72.6	75.7	79.1	82.8
<i>additional revenue from 2% referendum principle for social care</i>	-	1.4	3.0	4.8	6.7
<i>additional revenue from £5 referendum principle for lower quartile districts Band D Council Tax level</i>	-	-	-	-	-
Improved Better Care Fund	-	-	0.2	2.7	4.9
New Homes Bonus and returned funding	4.0	4.7	4.8	3.0	2.9
Rural Services Delivery Grant	-	-	-	-	-
Core Spending Power	141.0	137.0	135.4	137.5	141.6
Change over the Spending Review period (£ millions)					0.5
Change over the Spending Review period (% change)					0.4%
Please see the Core Spending Power Explanatory note for details of the assumptions underpinning the elements of Core Funding					

19. It should be noted that the position for 2017/18 onward is indicative but the table demonstrates that the Government's headline figure shows:

- 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.

Grants

20. The Education Support Grant (ESG) has been reduced at a national level by around 10%. This means a reduction in grant for Stockton of £200,000 in 2016/17. It is expected that this will further reduce in subsequent years, leaving only a very small income from this source on an ongoing basis. Expenditure on services funded from the Grant will continue to be reviewed.

Public Health

21. The Spending Review highlighted that Public Health would face funding reductions of around 3.9% per annum in real terms in this Parliament. This comes on top of the reductions in funding previously announced for 2015/16 of approximately £1m. No further detail was forthcoming in the Provisional Finance Settlement. It should be noted however that the Government is considering changing the formula which calculates the grant distribution and this could have a significant impact on the Council's allocation, estimated at £2m.

Updates to the MTFP following the Spending Review and LG Finance Settlement

22. The indicative MTFP has been rolled forward one year to include 2019/20 and has been updated to reflect the impact of the National Funding Reductions outlined in paragraphs 11-21, National Policy changes and further updates.
23. The National Funding position includes only indicative allocations and these should therefore be treated with some caution.
24. One of the key announcements by the Chancellor in 2015 was the introduction of the National Living Wage. This will 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 we do not have information on how these increases will be profiled beyond April 2016 and therefore for modelling purposes we have assumed a straight line effect across the financial years. The increases will impact on staff directly employed by the local authority and for those employed via agencies. There is also expected to be a very significant impact on the fees paid for social care placements as there is a legal requirement to consider the actual costs of care homes in determining the rates paid.
25. An Apprenticeship Levy for large employers was announced in the Spending Review. We anticipate that this Levy will be implemented from 2017/18 and that it will amount to 0.5% of the pay bill. At this stage there is no information to suggest that local authorities will be exempted and therefore an anticipated cost of £330,000 per annum has been built into the MTFP.
26. Projections of the Council Tax base and the impact of the Local Council Tax Support Scheme have also been reviewed and projections updated accordingly. This is an area that will require to be kept under regular review as welfare reforms may have a long term impact on this aspect of council tax income. The long term collection rate has also been reviewed and increased from 97% to 98%, reflecting past performance in terms of collection of council tax income relating to prior years.
27. National Non-Domestic Rates – The reports to Cabinet in June and to Council in September 2015 highlighted the significant financial issues arising from the Business

Rate Retention Scheme. At that time the negative impact on the MTFP was projected as being £4,770,000 in 2016/17 and £770,000 per annum thereafter. The position has now been updated to reflect the situation to the end of November 2015 and the updated position is incorporated in the figures below. This confirms the large deficit forecast in the summer. The impact of appeals continues to offset any growth in rateable value and therefore a cautious approach has been taken to projecting income from this source.

28. The MTFP has been updated to reflect the Chancellor's expectation, set out in the Spending Review, that increases to public sector pay would be limited to 1% per annum for the duration of the Parliament. The latest pay offer from the Local Government Employers reflects this position.
29. The MTFP has also been updated to reflect the fact that two service reviews from the EIT programme in Childrens Centres and Tees Active which were expected to slip will now be delivered in line with the original plan.

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Approved MTFP Position Sep 15 - Budget Gap	11,322	11,637	17,099	16,882
<u>National Funding and Policy Changes</u>				
Core Settlement Funding Reduction	1,679	2,872	1,661	5,283
Social Care Reform	1,051	1,051	1,051	1,051
National Living Wage	2,000	4,100	6,400	8,600
Apprentice Levy	0	330	330	330
Public Health Grant Reductions	329	695	1,066	1,428
NHB Reductions	0	0	1,919	1,896
Additional BCF Funding	0	-163	-2,655	-4,923
National Funding and Policy Impact	5,059	8,885	9,772	13,665
<u>Other Changes to MTFP</u>				
Council Tax Collection	-715	-499	-378	-390
NNDR Appeals etc	501	262	430	676
Social Care Reform - uncommitted	-951	-951	-951	-951
Review Savings Delivered Early	-619	0	0	0
Pay Award - Estimate reduced from 2% to 1%	-880	-1,657	-2,445	-3,287
Miscellaneous Expenditure & Income Adjustments	-155	-485	-477	-194
Revised Budget Gap	13,562	17,192	23,050	26,401

Funded By :				
Use of Reserves	-6,100			
<u>Savings Programme</u>				
Sept 15 Report - Approved	-2,640	-3,145	-5,545	-6,135
Sept 15 Report - Report to Cabinet	-900	-5,000	-6,900	-6,900
Big Ticket Savings	-1,600	-3,400	-4,700	-4,700
Gap	2,322	5,647	5,905	8,666

30. Members will see from the table above 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.
31. The current indicative MTFP included the use of reserves earmarked to fund the 2016/17 budget gap and allow time to deliver savings required. A report to Council in September approved a series of savings and reviews and once these savings are delivered the remaining gap will be £2.3m in 2016/17 rising to £8.7m by 2019/20.
32. Paragraph 12 outlines the mechanism proposed by Government to support Social Care pressures in the flexibility to apply a levy of 2% per year to be collected through Council Tax. Given that the MTFP includes significant Social Care pressures, if the Council were to follow the Government's proposal, this would generate £1.4m in 2016/17 rising to an estimated £6.3m in 2019/20 and this would reduce the gap accordingly.
33. 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.

Future Changes and Risks

Retention of Business Rates & New Responsibilities

34. The Government announced as part of the Spending Review that there will be a fundamental review of the way in which Councils are funded. The proposal announced by the Chancellor is to move to a system whereby Local Government is funded through 100% business rate retention by the end of the Parliament. The move to 100% Business Rates Retention by the end of this Parliament will 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 will be launched in summer 2016. The design of any future scheme is critical and until further information is received a high degree of caution must be taken for the latter years of the MTFP. This represents a very significant change to the funding of local authorities and the design of the new scheme will be crucial in how it impacts on local authorities at a local and regional level.
35. Alongside the move to 100% retention of Business Rates, and to allow this to happen, the Spending Review includes reference to additional responsibilities that will be transferred to local authorities by the end of the Parliament. It is 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.

New Homes Bonus

36. The government have commenced consultation around changes to the system of distributing New Homes Bonus. This is linked to an overall reduction in funding nationally of £800m and the indicative allocation for future years included elsewhere in the report needs to be treated with huge caution. The key issues around the consultation are:
 - Reduction in payments for Councils with no local plan prepared / adopted
 - Setting a baseline for growth and only paying above it
 - Paying a reduced level where planning permission is not granted and development is granted following appeal

School Funding

37. A national funding formula for schools will also be consulted upon in 2016 and introduced from April 2017. The impact on Stockton schools will 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 have 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.

TIMELINE

38. The Final Local Government Finance Settlement is expected to be announced in late January and any further implications will be included in the budget report to Cabinet on 18th February 2016. This will subsequently be presented to Council on 24th February 2016. Member briefing sessions will be arranged in advance of the presentation of the report.

FINANCIAL IMPLICATIONS

39. To update the MTFP.

LEGAL IMPLICATIONS

40. None

RISK ASSESSMENT

41. The update of the MTFP is categorised as low to medium risk and is covered by existing management arrangements.

EQUALITIES IMPACT ASSESSMENT

42. Not applicable

CORPORATE PARENTING

43. Not applicable

CONSULTATION INCLUDING WARD/COUNCILLORS

44. Not applicable.

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