Report to: Cabinet **Date of Meeting:** 1 September 2016

Subject: Revenue Budget and MTFP Update

Report of: Head of Corporate Resources **Wards Affected:** All

Is this a Key Decision? No **Is it included in the Forward Plan?** Yes

Exempt/Confidential No

Purpose/Summary

To inform Cabinet of: -

i) Progress in the achievement of the approved Revenue savings for 2016/17 (including residual savings carried forward from 2015/16);
ii) The current forecast outturn position for 2016/2017 as at the end of June 2016.
iii) The receipt of grant for the Independent Living Fund;
iv) The request to engage specialist support to assist the Council in delivering a change programme and a sustainable budget position for the period 2017/18 to 2019/20; and
v) The forecast on Council Tax and Business Rates collection for 2016/17;

Recommendation(s)

Cabinet is recommended to:-

i) Note the progress to date on the achievement of approved savings for 2016/17 and residual savings carried forward from previous years;
ii) Note the current forecast outturn position as at the end of June 2016;
iii) Note the receipt of £2.319m grant for the Independent Living Fund for 2016/17, and agree that the additional receipt of £0.5m be allocated to the Adult Social Care budget;
iv) Approve the proposed approach to deliver the 2030 Vision and a sustainable budget for 2017-2020;
v) Approve the use of £0.3m from the Transformation Reserve to finance the anticipated costs of specialist support in delivering the three year forecast MTFP deficit of £64m. and
vi) Note the forecast position on the collection of Council Tax and Business Rates for 2016/17.

How does the decision contribute to the Council's Corporate Objectives?

Corporate Objective		Positive Impact	Neutral Impact	Negative Impact
1	Creating a Learning Community		•	
2	Jobs and Prosperity		•	
3	Environmental Sustainability		•	
4	Health and Well-Being		•	

5	Children and Young People		•	
6	Creating Safe Communities		•	
7	Creating Inclusive Communities		•	
8	Improving the Quality of Council Services and Strengthening Local Democracy		•	

Reasons for the Recommendation:
To ensure Cabinet are informed of the forecast outturn position for the revenue budget and delivery of savings as at end of June 2016. The report also identifies the receipt of Independent Living Fund monies for 2016/17 and requests approval for its use within Adult Social Care to meet ongoing budget pressures. To approve the use £0.3m from the Transformation Reserve to finance the anticipated costs of specialist support in developing the necessary business cases and supporting the delivery of £64m savings requirement, also requires approval. In addition, Cabinet will be updated on the forecast outturn position with regard to the collection of Council Tax and Business Rates.

What will it cost and how will it be financed?

(A) Revenue Costs

i) 2016/17 Revenue Budget

Any under-achievement of the approved revenue budget savings for 2016/17 (and residual savings from previous years) will need to be financed from within any surplus identified within other areas of the 2016/17 budget, or from the Council's general balances. Any usage of balances will reduce the amount available to support the phased introduction of savings in future years.

The current financial position on approved savings indicates that about £8.292m are at significant risk of not being achieved (the "Red" marked items in Annex A). Due to the time required to implement large projects, some savings will not be achieved (or achieved in full) in 2016/17 but will be implemented in full in 2017/18.

As at the end of June, the surplus in the remainder of the Council's Budget reduce the potential overspend to £4.664m. Should other budget savings not be identified during the year , then an equivalent level of reserves would be required to support the budget. In previous years, surpluses have tended to materialise toward the end of the financial year as services restrain spending in order to remain within budget and an appropriate intervention strategy has been implemented. As with previous years, the revenue budget will be closely managed throughout the remainder of the year, with reports provided to Cabinet accordingly. However, in order to identify options which could contribute to a year end balanced position, it is proposed that all areas of expenditure will be reviewed in order that improvements can be made to the forecast outturn position.

The Council has received notification of a Government grant allocation of £0.5m. It is proposed that this be allocated to the Adult Social Care budget to assist with existing budget pressures.

(B) Capital Costs

Implications:

Legal: None

Human Resources None

Equality

Equality Implication	√
Equality Implications identified and mitigated	
Equality Implication identified and risk remains	

Impact on Service Delivery:
None.

What consultations have taken place on the proposals and when?
The Head of Corporate Resources is the author of the report (FD 4265/16)

The Head of Regulation and Compliance has been consulted and has no comments on the report. (LD 3548/16)

Are there any other options available for consideration?
None.

Implementation Date for the Decision
Immediately following the call-in period following the publication of the Cabinet Minutes

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Background Papers: None

1. **<u>Introduction</u>**

1.1 The Council approved the revenue budget for 2016/17 and this required savings of £37m to be implemented during the year in order for a balanced budget to be delivered. The approved budget also included the use of balances totalling £0.869m, pending identification of any alternative means of financing.

1.2 This report therefore presents an assessment of the forecast outturn position for 2016/17 in addition to the latest position on the achievement of agreed savings for 2016/17 (£29.171m), plus the ongoing savings requirements carried forward from previous years. This has resulted in an overall savings target of £37.407m for the year. It is important that the Council remains within budget and also has a sound financial base for the future financial challenges that are expected beyond 2016/17.

1.3 In addition, the report also outlines the current position regarding other key income streams for the Authority, namely Council Tax and Business Rates, as variations against expected receipts in these two areas will affect the Council's financial position in future years.

1.4 Cabinet has been previously advised that the forecast financial position for 2017-2020 indicated a budget gap of £64m. This is in addition to the £169m already delivered since 2011. Savings of this magnitude will require a further fundamental change to the services provided by the Council and how those services are delivered. The report outlines the need to engage external special support on an invest to save basis to assist in the delivery of a sustainable budget position.

2. **<u>Approved savings for 2016/17 (and previous years carry forward savings)</u>**

2.1 The table at **<u>Annex A</u>** identifies the current position of the agreed savings for 2016/17. They are analysed into four categories: -

- Savings achieved to date (Blue);
- Progress is satisfactory (Green);
- Outcome is unknown and is at risk of not being fully achieved (Amber); and
- Known shortfalls, or significant risk of not being achieved (Red).

This approach is designed to ensure complete transparency, effective risk management and improved consultation and engagement.

It should be noted that individual savings may be categorised into more than one area; for example, part of the work to achieve a required saving may be on track (and a value can be shown in Green), whilst another element is potentially at risk (and therefore shown as Amber).

2.2 The position as at the end of June 2016 for the achievement of savings is that £28.068m (75%) of the total required savings in 2016/17 of £37.407m have been delivered or are on plan; with £1.047m (3%) at some risk of not being fully achieved. This leave a further £8.292m (22%) of savings that are unlikely to be achieved in 2016/17 (identified as "Red").

2.3 As with previous years all budget savings will continue to be closely managed, with regular reports being presented to Cabinet and Overview and Scrutiny Committee (Regulatory, Compliance and Corporate Services). Officers will continue to be mindful of the ongoing financial position and take appropriate action where further efficiencies can be found which do not require a change of policy.

3. Summary of Forecast Outturn Position as at the end of June 2016

3.1 At the end of Quarter 1 (June 2016), a forecast deficit is projected on the Council's outturn budget of £4.664m. This is shown in the table below:

	Budget	Forecast Outturn	Variance
	£m	£m	£m
Services			
Strategic Management	2.836	2.836	0
Strategic Support Unit	2.719	2.838	0.119
Adult Social Care	86.139	89.114	2.975
Children's Social Care	27.613	28.894	1.281
Communities	10.828	10.781	(0.047)
Corporate Resources	4.301	4.301	0
Health & Wellbeing	23.395	23.395	0
Inward Investment and Employment	4.159	4.250	0.091
Locality Services - Commissioned	18.910	18.910	0
Locality Services - Provision	9.345	9.854	0.509
Regeneration and Housing	4.508	4.562	0.054
Regulation and Compliance	4.632	4.423	(0.209)
Schools and Families	26.211	26.181	(0.030)
Total Service Net Expenditure	**225.596**	**230.339**	
Reversal of Capital Charges	(13.376)	(13.376)	0
Council Wide Budgets	1.271	1.192	(0.079)
Levies	33.769	33.769	0
General Government Grants	(34.655)	(34.655)	0
Total Net Expenditure	**212.605**	**217.269**	
Forecast Year-End Deficit			**4.664**

3.2 Based upon the current forecast, if this position were to be maintained until the year-end, the use of Council reserves would total £5.533m, due to the budget already assuming the use of reserves totalling £0.869m.

3.3 It can be seen from the Table at paragraph 3.1 that the key variations at this time are as follows:-

3.3.1 The Adult Social Care budget is currently forecast to be in a net deficit position (£2.975m). This is due to the following main factors:

- Income of £6m had been budgeted for in 2016/17, this being the anticipated contribution from Clinical Commissioning Groups via the Better Care Fund. It has now been confirmed by the NHS that this sum will not be received from the

CCG's. The Council appealed this positon through the Department of Health but was not successful. A contribution of £0.910m will be received. As a result, this has placed a significant budgetary pressure on the service and the wider Council finances for which compensatory savings will be required. It is particularly disappointing that the Fund which was intended to protect social care services has not delivered on this objective.

- In order to manage this issue, each area of the Service has been reviewed with savings identified, including £0.500m within the employee budget and an additional sum of £0.650m being available from the 2016/17 Care Act grant allocation. In addition the Community Care budget is currently forecasting a surplus of £1m based on existing demand. Despite these opportunities, the loss of the expected £6m support has led to a net deficit of £2.975m being forecast.

3.3.2 Children's Social Care is forecasting a year end deficit of £1.281m due to the following:

- The service was awarded £2.5m additional resources in 2016/17 to support on-going budget pressures across care packages and placements. However, despite this, there is an additional forecast deficit on placements and packages of £1.14m as a result of high numbers of Looked-After Children and the ongoing costs associated with care leavers. This area is the subject of continual review to ensure that young people are in the most appropriate placements in terms of both cost and need.

- Adoption Allowances are also forecast to be in deficit by £0.155m; however, this is anticipated to reduce in future given the relatively low number of adoptions taking place.

- These budget pressures are being partially offset by staffing vacancies, most of which are within Children's Social Care Administration.

3.3.3 The Locality Services (Provision) Budget is forecast to be in deficit by £0.509m. This is due to an underachievement of income on Burials (£0.150m) due to the effect of new private sector competition along with reduced capacity at Thornton for 3 months, whilst capital works are carried out. Also there is an expected non-achievement of savings on Public Conveniences of £0.084m and on the Security Service of £0.275m.

3.4 In previous years, when overall deficit positions have been forecast, services have reviewed all areas of expenditure in order to contribute to a year end balanced position. In light of the current year end forecast, it is proposed that this process is reintroduced in order that improvements can be made to the forecast outturn position. This will be reported to future meetings.

4. Independent Living Fund Grant

4.1 A report to Cabinet on 18 February 2016 and Council on 3 March 2016 noted that the final 2016/17 Independent Living Fund grant allocation had yet to be received but agreed that £1.8m be approved for allocation to appropriate Adult Social Care budgets. It was further agreed that should any further grant be received, that this would be held in contingency and Cabinet would determine the use of the remainder of the grant. The final grant allocation has now been received (£2.3m) and it is requested that the additional £0.5m is allocated to the Adult Social Care budget to assist with the budget pressures outlined earlier in the report (N.B. this will not affect the forecast overspend figure above).

5. Delivering the 2030 Vision and a sustainable budget for 2017-2020

5.1 The Council, its communities and partners have faced and continue to face unprecedented change borne out of a radical reduction in resources coupled with increased demand in services for vulnerable people and a dynamic national policy agenda.

5.2 Since 2010 the Medium Term Financial Plan (MTFP) has focused on becoming a leaner and more agile organisation; and we have been successful in delivering real term reductions of £169m, we have done this by:

- Right sizing the organisation
- Developing lean practice and reducing bureaucracy
- Implementing a new leadership framework and team
- Having a clear Council core purpose
- Developing a one-Council approach
- Working more closely with partners
- Increasing the role the community play

5.3 Looking forward, it is estimated that the Council will have to save a further £64m over the next three financial years. Despite the scale of this challenge the Council continues to be ambitious for Sefton and we are in the process of developing a 2030 vision for the Borough of Sefton. We have engaged thousands of people and invited them to tell us their aspirations for the Borough and what they want and need now and into the future. The vision for Sefton 2030 is shared across our residents, businesses, investors, visitors and workforces and together we will deliver it.

5.4 In approaching this budget cycle, the key aim is to deliver on our emerging Vison and achieve a sustainable financial position. With a current net budget requirement of £213m in 2016/17, and having reduced the cost base of the Council considerably in recent years, a wide ranging review of all services will be required in order to develop proposals that will meet this twin aim.

5.5 Over recent years we have successfully managed to achieve our financial objective whilst minimising the impact on front line services. A further reduction of £64m will challenge us to think even more radically about how we can deliver services differently, working in partnership with other public service partners, communities and businesses, investing in new approaches and ways of working that deliver a financial return, and engaging with the communities across Sefton in new ways to make the most of everyone's talents and skills.

5.6 At this stage we are developing a three year programme and financial plan built around 4 key themes: -

- Public Sector Reform - improving the way the public sector works with residents and streamlining the way we deliver services

- Economic Growth - enhancing our economic base through business growth and development, infrastructure and housing
- Service Delivery - maximising efficiency and reviewing service standards and levels
- Strategic Investment - capitalising on our assets and maximising their potential so that we Invest to Save, Invest to Grow and Invest to Thrive

5.7 We are not underestimating the scale of this challenge. It will need to be well thought out and based on evidence about what works and what is right for our communities. The change programme will need to be appropriately resourced.

5.8 The first phase for us in this process is developing the ideas and testing their initial viability. Once this is complete we will need to produce a full business case which confirms the direction of travel and puts us in the best possible position to implement.

5.9 To achieve all of this we want to set up a small Programme Management Office (PMO) and relevant change teams. We will offer secondment opportunities for staff to be part of the PMO and change teams, providing us with the capacity we need to move to the next stage. However our initial skills analysis has shown some gaps in key skills and also in specialist capacity; these skills will be essential to developing the business cases in an assured manner. We will need therefore to turn to the market to procure these specialist skills. The skills include commercial and business development, technical business analysts and financial modellers, specialist legal and property advice and specialist service skills such as community development and commissioning experts.

5.10 At this stage we have estimated the additional cost of the change programme to be around £0.3m. This is less than 0.5% of the savings requirement of £64m. Whilst there is currently no specific budget provision for this, the Council has in previous years established a Transformation Reserve to fund the cost of change. It is recommended that this cost be met from this Reserve.

5.11 This approach will provide us with the specialist skills and capacity that we require over the next 3 months and gain the assurance we need around the MTFP. In order to provide a more sustainable approach we will ensure external support is aligned with our business teams and that the PMO works together to. This way knowledge and tools will be transferred into our workforce. The cost of change for the three years will be calculated as part of this phase of work.

6. Council Tax Income – Update

6.1 Council Tax income is shared between the billing authority (Sefton Council) and the two major precepting authorities (the Fire and Rescue Authority, and the Police and Crime Commissioner) pro-rata to their demand on the Collection Fund. The Council's Budget included a Council Tax Requirement of £111.644m for 2016/17 (including Parish Precepts), which represents 85.4% of the net Council Tax income of £130.689m.

6.2 The forecast outturn at the end of June 2016 is a surplus of -£1.321m on Council Tax income. This is due to:-

- The surplus on the fund at the end of 2015/16 being higher than estimated at -£0.462m;
- Gross Council Tax Charges in 2016/17 being higher than estimated at -£0.572m; and
- Council Tax Reduction Scheme discounts being lower than estimated at -£0.297m.

6.3 Due to Collection Fund regulations, the Council Tax surplus will not be transferred to the General Fund in 2016/17 but will be carried forward to be recovered in future years.

7. Business Rates Income – Update

7.1 Since 1 April 2013, Business Rates income has been shared between the Government (50%), the Council (49%) and the Fire and Rescue Authority (1%). The Council's Budget included retained Business Rates income of £32.975m for 2016/17, which represents 49% of the net Business Rates income of £67.296m. Business Rates income has historically been very volatile making it difficult to forecast accurately.

7.2 The forecast outturn at the end of June 2016 is a deficit of £2.211m on Business Rates income. This is due to:

- The surplus on the fund at the end of 2015/16 being lower than estimated £2.438m;

- In year budget variations to date in 2016/17 of -£0.227m which are largely due to the rateable value of properties increasing since December 2015 rather than reducing as forecast.

7.3 Due to Collection Fund regulations, the Business Rates deficit will not be transferred to the General Fund in 2016/17 but will be carried forward to be recovered in future years.