Report to: Cabinet **Date of Meeting: 6** October 2016

Subject: Revenue Budget Update 2016/17 and Medium Term Financial Plan 2017/18 – 2019/20

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) The current outturn forecast position for the Council for 2016/2017 as at the end of July. This forecast will be informed by the latest analysis of expenditure and income due to the Council, in addition to the progress in delivering approved savings;

ii) The current forecast on Council Tax and Business Rates collection for 2016/17.

iii) The current financial environment and the previously reported Medium Term Financial Plan position for 2017/18 to 2019/20;

iv) The proposed approach to the development of a budget package; and,

v) A proposed timetable for reporting to Members.

Recommendation(s)

Cabinet is recommended to:-

i) Note the current forecast outturn position as at the end of July 2016;

ii) Note the progress to date on the achievement of approved savings for 2016/17 and residual savings carried forward from previous years;

iii) Note the forecast position on the collection of Council Tax and Business Rates for 2016/17.

iv) Note the proposed approach to developing a budget package; and,

v) Note the proposed timetable for the budget process until the setting of the 2017/18 budget on 2 March 2017.

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

	<u>Corporate Objective</u>	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. In addition, Cabinet will be updated on the forecast outturn position with regard to the collection of Council Tax and Business Rates.

To ensure that Cabinet is fully aware of the MTFP position and the proposed approach to the development of a budget package.

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.

The current financial position on approved savings indicates that about £8.445m 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. Further work is being undertaken to assess the likely achievement of these items in 2017/18 and subsequent years.

As at the end of July, the surplus in the remainder of the Council's Budget reduces the potential overspend to £3.515m. 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 throughout 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 at the earliest opportunity.

The projected budget gap for 2017/18 – 2019/20 is estimated at £63.5m and the preparation of a financial plan to cover this period is to be undertaken prior to the start of the 2017/18 financial year.

(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 4334/16)

The Head of Regulation and Compliance has been consulted and has no comments on the report. (LD 3617/16)

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

Contact Officer: Stephan Van Arendsen
Tel: 0151 934 4082
Email: Stephan.VanArendsen@sefton.gov.uk

Background Papers: None

1. **Introduction**

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 (increasing to £0.969 following the approval to continue to modern apprenticeship scheme as agreed by Cabinet in July), 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 the agreed savings for 2016/17 (£29.171m), plus the ongoing savings requirements carried forward from previous years.

1.3 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 also affect the Council's financial position in future years.

1.4 As part of the 2016/2017 budget process, Cabinet on 14 January 2016 agreed that officers prepare a single updated Medium Term Financial Plan to cover the period 2017/18 to 2019/20 and also prepare a related budget preparation work plan which seeks to give the Council the opportunity to consider the policy changes required to have balanced finances as part of a three year financial plan. This report therefore outlines the proposed approach to the development of a budget package and confirms a timetable for reporting to Members.

2. **Summary of Forecast Outturn Position as at the end of July 2016**

2.1 At the end of July 2016, a forecast deficit is projected on the Council's outturn budget of £3.515m (previously reported as £4.664m to the end of June). This is shown in the table below:

	Budget	Forecast Outturn	Variance	June Position
	£m	£m	£m	£m
Services				
Strategic Management	2.837	2.837	0	0
Strategic Support Unit	2.757	2.874	0.117	0.119
Adult Social Care	85.900	88.864	2.964	2.975
Children's Social Care	27.604	28.687	1.083	1.281
Communities	10.828	10.638	(0.190)	(0.047)
Corporate Resources	4.185	4.130	(0.055)	0
Health & Wellbeing	23.385	23.385	0	0
Inward Investment and Employment	4.159	4.224	0.065	0.091
Locality Services - Commissioned	18.910	18.910	0	0
Locality Services - Provision	9.345	9.845	0.500	0.509
Regeneration and Housing	4.381	4.428	0.047	0.054
Regulation and Compliance	4.606	4.397	(0.209)	(0.209)
Schools and Families	25.924	25.516	(0.408)	(0.030)
Total Service Net Expenditure	**224.820**	**228.735**		

Reversal of Capital Charges	(13.376)	(13.376)	0	0
Council Wide Budgets	2.046	1.647	(0.399)	(0.079)
Levies	33.769	33.769	0	0
General Government Grants	(34.655)	(34.655)	0	0
Total Net Expenditure	**212.605**	**216.120**		
Forecast Year-End Deficit			**3.515**	**4.664**

2.2 Based upon the current forecast, if this position were to be maintained until the year-end, the use of Council reserves would total £4.484m, due to the budget already assuming the use of reserves totalling £0.969m.

2.3 It can be seen from the Table at paragraph 2.1 that the key variations at this time are as follows:-

2.3.1 The Adult Social Care budget is currently forecast to be in a net deficit position (£2.964m). 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 that this sum will not be received during the year. The Council appealed this positon through the Department of Health but was not successful. As a result, it has been confirmed that a lower contribution of £0.910m will be received. This outcome 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 £0.325m within the employee budget and an additional sum of £0.700m being available from the 2016/17 Care Act grant allocation. In addition the Community Care budget is currently forecasting a surplus of £1.141m based on existing demand. Despite these opportunities, the loss of the expected £6m support has led to a net deficit of £2.964m being forecast. This forecast is in line with that reported last period.

2.3.2 Children's Social Care is forecasting a year end deficit of £1.083m 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 £1.071m 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 £0.154m, 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.

- The deficit position within the service has improved by £0.198m since June due to reduced placement costs (£0.065m), reduced staffing costs (£0.113m) and a revised forecast for the supplies and services budget (£0.017m).

2.3.3 The Locality Services (Provision) Budget is forecast to be in deficit by £0.500m. This is due to an underachievement of income on Burials (£0.150m) arising from the impact 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 deficit on Building Cleaning of £0.084m due to the closure of a number of internal facilities and services along with a deficit of £0.150m on the Security Service.

2.3.4 Offsetting these deficit positions are surpluses with the Schools and Families budget of £0.407m (£0.030m in June). These forecast surpluses comprise:

- Education Services (£0.152m),
- Schools and Families Regulatory Services (£0.107m),
- Schools and Families Central (£0.151m) and
- SEN and Inclusion Services (£0.045m)

3. Approved savings for 2016/17 (and previous years carry forward savings)

3.1 The table at **Annex A** 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).

3.2 The position as at the end of July 2016 for the achievement of savings is that £28.345m (76%) of the total required savings in 2016/17 of £37.407m have been delivered or are on plan; with £0.617m (1%) at some risk of not being fully achieved. This leaves a further £8.445m (23%) of savings that are unlikely to be achieved in 2016/17 (identified as "Red"), which has reduced from the £8.292m reported to the previous Cabinet.

3.3 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 also 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.

4. Long term financial sustainability

4.1 As reported, the current outturn forecast for 2016/17 would require the Council to use an increased level of its reserves during the year in order to deliver a balanced budget. It will therefore be important that each area of the budget continues to be scrutinised and the forecast outturn position updated and pro-actively managed in order that this impact can be mitigated.

4.2 As part of the budget setting process the Council will undertake a risk based analysis of it general fund reserves position, and the current deficit position that is forecast could impact this. Likewise confirmation of non-delivery of savings beyond the current year will also require remedial action. As the Council seeks to meet its objectives in a financially sustainable manner, each of these areas will be the focus of financial management activity during the remainder of the year.

5. Council Tax Income – Update

5.1 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.

5.2 The forecast outturn at the end of July 2016 is a surplus of -£1.547m (-£1.321m to the end of June) 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 -£0.612m, a change of -£0.040m from June; and
- Council Tax Reduction Scheme discounts being lower than estimated at -£0.359m, a change of -£0.062m from June.

5.3 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 distributed in future years.

6. Business Rates Income – Update

6.1 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.

6.2 The forecast outturn at the end of July 2016 is a deficit of £2.246m (£2.211m to the end of June) 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 -£0.192m which are largely due to the rateable value of properties increasing since December 2015 rather than reducing as forecast.

6.3 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.

7. Medium Term Financial Plan 2017/18 – 2019/20

Current Financial Environment

National Context

7.1 Government policy announcements in autumn 2015 and the output from the 2015 Local Government Finance Settlement has resulted in local government continuing to be faced with a severe financial challenge for the three years 2017/18 to 2019/20. These announcements included key national budget decisions which are likely to have an impact on both the Council and also the local economy for years to come.

7.2 As result, these policy decisions and proposed funding settlements influenced the most recent MTFP that the Council has been informed of and which have been referenced in a wide range of forums during 2016.

7.3 Since that point there have been further significant incidents that may have an influence on local government and its financial arrangements. The most noticeable incident occurred in June 2016 when the outcome of the EU referendum resulted in a mandate to leave. Following this historic event, there has been a major change in the key personnel within the Government's Cabinet including a change in Prime Minister and Chancellor. From initial observations by industry commentators, the indications are that whilst there may be some easing in the previous Chancellor's target of delivering a public spending surplus by 2020, at this stage it is considered unlikely this will result in significant change in the resources available for local authorities from the Government. This view may become clearer during the Autumn Statement on 23rd November 2016. Members will be informed of any key decisions and their potential impact from this Statement as they arise.

7.4 Likewise the impact on the national economy from the vote to leave and indeed the relationship with the EU and how this will impact upon existing funding streams is still uncertain and will require careful assessments as the UK's exit plan is negotiated.

Changes to Local Government Finance

7.5 As Members have previously been informed, the Government are committed to introducing 100% Business Rates retention model for local authorities by 2019/20 and are currently consulting with stakeholders on the most appropriate method to achieve this. This move from a grant based support mechanism is the largest proposed change to local government finance in recent times and will fundamentally change local governments approach to financial management.

7.6 As part of this reform, the Government is seeking to pilot the new system in certain areas and this is discussed in the following section. Whilst this change in the core financing arrangements is being developed, the Government is also continuing with its reform programme in respect of the fair funding review and schools / education funding.

7.7 Proposals on both of these issues are due to be received over the forthcoming period and will have an impact on the roles and level of resources that the Council has available to it. The Council will take an active role in assessing these proposals and Members will be engaged throughout the process as information is received.

Changes to Local Government Finance – Sefton

7.8 Members will recall that Cabinet on 1 September 2016 recommended to Council that Sefton should accept the Government's offer of a four-year financial settlement (including the already confirmed 2016/17 settlement). This decision will provide the Council with financial certainty with regard to its core financial resources that it will have available to it during this time.

7.9 At the same Cabinet meeting, Members were also informed of the continuing role that the Council is taking with regard to the design of the 100% Business Rates Retention scheme with its City Region partners. DCLG's stated objective is for the pilot areas to test the proposed system being designed and the potential for additional responsibilities to be devolved to local government as part of that system.

7.10 Following initial discussions, the Liverpool City Region is currently producing its proposition for submission to the DCLG on how it would wish the pilot to operate. Whilst such an approach provides an opportunity to influence how the final scheme will operate, this involvement is not expected to materially increase the resources available to the Council, however it may offer a greater incentive to Councils with regard to the growth agenda and greater flexibility around how it spends the resources available to it.

Financial Savings Delivery 2010-2016

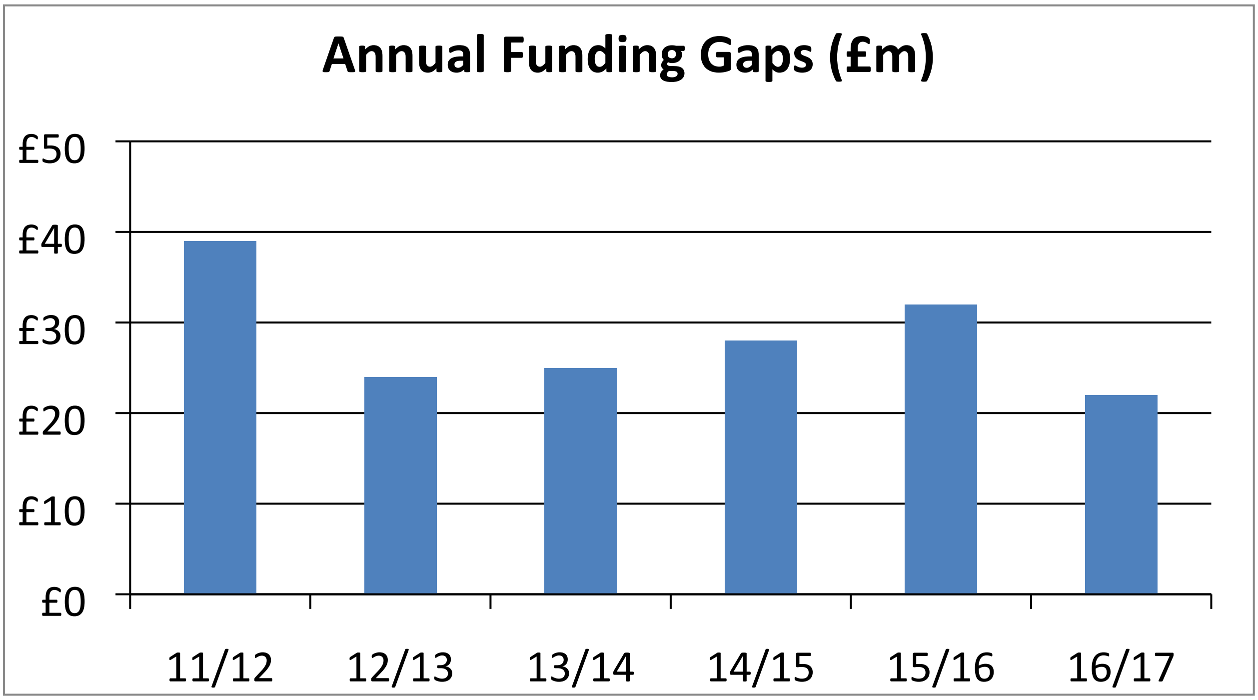
7.11 The Council, its communities and partners have faced and continue to face unprecedented change borne out of a radical reduction in resources coupled with increased demand in services for its vulnerable residents and a dynamic national policy agenda.

7.12 Since 2010 the Council has focused on becoming a leaner and more agile organisation, and has been successful in delivering real term reductions of £169m. This financial objective has been achieved through:

- Reviewing its organisational design;
- 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; and,
- Increasing the role the community plays.

7.13 The savings per year that have been delivered are shown as follows:



MTFP 2017/18 to 2019/20 – Position as at March 2016

7.14 The Local Government Finance Settlement was announced on 19 December 2015 and indicative funding figures were also provided for 2017/18 to 2019/20. In addition to forecast reductions in core grant, the Council will also face a range of other financial challenges over the coming years.

7.15 As a result of an assessment of the overall financial position of the Council, Members were provided with a detailed analysis of the financial challenge that it is facing at its Cabinet and Council meetings in February and March respectively. At that stage, given the high level of uncertainty around some of the figures and lack of information on other areas it was acknowledged that they would be subject to change and would continue to be refined during the forthcoming budget process. The reported funding gap is shown in the following table:

	2017/18	2018/19	2019/20	TOTAL
	£m	£m	£m	£m
Reductions in general grant (Inc. RSG)	10.3	5.8	5.7	**21.8**
Estimated further reductions in Public Health grant	0.5	0.5	0.5	**1.5**
Education Services Grant	0.7	0.7	0.7	**2.1**
Pay and Prices inflation	4.0	4.2	4.0	**12.2**
National Living Wage	3.2	3.4	3.5	**10.1**
Adult and Children budget resizing	7.7	0.0	0.0	**7.7**

Replacement of one off savings in 2016/17 with sustainable savings	7.0	0.0	2.0	**9.0**
TOTAL BUDGET SHORTFALL	**33.4**	**14.6**	**16.4**	**64.4**

Assessment of Reported Forecast

7.16 There are a number of areas that will be subject to change over the coming months and these will have an impact on the previously reported figures. The MTFP will be updated as confirmation of these changes is obtained. Potential changes that are anticipated will be in respect of :-

- The levies that the Council will be bound to incur in respect of the Merseyside Recycling and Waste and Transport Authority's;
- The level and phasing of payments due to the Merseyside Pension Fund following the Triennial Valuation; and
- Forecast income due to the Authority in respect of Council Tax, Business Rates, New Homes Bonus, Education Services Grant and the improved Better Care Fund.

As with previous years, the majority of revisions are obtained during September to December with central government confirming final grant settlements and policy changes, levying bodies confirming future years spending plans and revised estimates being available in relation to local tax collection. Members will be informed of any material changes during this period.

Existing Better Care Fund

7.17 Within the Council's Medium Term Financial Plan the Council is currently assuming a £3m receipt in respect of the Better Care Fund. This is a reduction from the 2016/17 assumption of £6m. Work will be required to ensure that this area of the Council's activity is financial sustainable and this will be a key aspect of the budget setting process.

General Fund Balances

7.18 The forecast budget position within this report does not include any assumptions about changes in the level of General Fund Balances/Reserves.

7.19 The Council's General Balances are forecast to be £7.209m at the end of 2016/17 which equates to 3.39% of Sefton's net budget (based upon the 2016/17 net budget). As part of the budget setting process a risk based assessment of the adequacy of this level of balances will be undertaken to seek assurance that this level is appropriate given the financial risks faced by the Council over the forthcoming period 2017/18 to 2019/20. In addition to an internal assessment, the view of the Council's external auditor will be sought and will form the basis of the Council's reserves strategy.

8. Proposed Approach to Developing a Budget Package

8.1 As outlined in the previous section, it is estimated that the Council will have to save a further £64.4m over the next three financial years. Despite the scale of this challenge the Council continues to be ambitious for Sefton and the process for developing a 2030 vision for the Borough of Sefton is well advanced. This vision for

Sefton 2030 will be shared across residents, businesses, investors, visitors and workforces.

8.2 In approaching this budget cycle, the key aim will be to deliver on the Council's 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.

8.3 Over recent years the Council has successfully managed to achieve its financial objectives whilst minimising the impact on front line services. A further reduction of £64.4m will challenge the Council to think even more radically about how it 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.

8.4 As reported to Cabinet in September 2016 a result at this stage it is proposed that a three year programme and financial plan will be 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

8.5 Such an approach will be ambitious and will need to reflect the needs and aspirations of residents, communities and businesses. Members will be engaged fully throughout the process and a further report will be presented to Cabinet in November 2016 with more details of the approach being taken.

8.6 As with previous years, work will continue on refining the financial assumptions and the proposed budget proposals in advance of the following key dates:

- Overview and Scrutiny Committee – 14 February 2017
- Cabinet - 16 February 2017
- Budget Council - 2 March 2017

9. Conclusion

9.1 The Council continues to face significant financial challenges over the period 2017/18 to 2019/20. At this time it is estimated that a budget shortfall of approximately £64.4m will need to be addressed, with the financial assumptions around this scenario being continually refined in advance of a final budget package being developed for consideration by Members.

9.2 The Council has a demonstrable track record in meeting its financial challenges that have been presented through current Government policy, and it will require the same level of consideration in order to meet its corporate objectives whilst ensuring it maintains financial sustainability. Members will be fully engaged with the process in advance of Budget Council on 2nd March 2017.