

Cabinet

13 January 2016



Medium Term Financial Plan 2016/17 to 2019/20 (MTFP6) and 2016/17 Budget

Key Decision CORP/R/15/02

Report of Corporate Management Team
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Councillor Alan Napier, Cabinet Portfolio Holder Finance
Councillor Simon Henig, Leader of the Council

Purpose of the Report

- 1 To provide Cabinet with an update on the Medium Term Financial Plan (MTFP(6)) 2016/17 to 2019/20 and the 2016/17 Budget following the Government's Local Government Finance Settlement announcement on 17 December 2015, whilst also providing initial feedback from the budget consultation process.

Executive Summary

- 2 The financial outlook for the Council continues to be extremely challenging. The Chancellor of the Exchequer's November 2015 Spending Review confirmed that funding cuts to local government would continue until 2019/20. The majority of unprotected government departments will face government grant reductions of 6% over this period whilst local government would see a cash reduction of circa 53% (real term reduction of 56%).
- 3 The Spending Review indicated that the grant reduction for local government in 2016/17 would be higher than forecast, with the total reduction in Revenue Support Grant (RSG) for the council between 2016/17 and 2019/20 forecast to be £85m. Overall it was forecast that savings of circa £135m would be required between 2016/17 and 2019/20 bringing the total savings required since the beginning of austerity in 2011/12 to almost £290m.
- 4 The Spending Review indicated that the council tax referendum limit for 2016/17 would be 2% with no indication of the offer of a Council Tax Freeze Grant. The Spending Review also announced however that local authorities providing adult social care services would be able to raise an additional 2% above the referendum limit on the understanding that the sum raised would be invested in adult social care through an adult social care precept.
- 5 The provisional local government financial settlement was received on 17 December 2015 and details are included within this report. The main points are as follows:
 - (i) In 2016/17 RSG will reduce by £23.1m to £77.1m. This is in line with previous Council forecasts.

- (ii) After taking into account the transfer of specific grants into RSG the reduction in RSG between 2016/17 and 2019/20 will be circa £75m as compared to our original forecast of £85m.
 - (iii) Although the core RSG allocations have been announced the council is still awaiting a range of specific grant allocations particularly in relation to Public Health.
 - (iv) The government confirmed provisional allocations for an increased Better Care Fund (BCF). The initial allocation of £2.4m will be received in 2017/18 increasing to a forecast £23.1m in 2019/20. The increased BCF will be part funded by a reduction in the New Homes Bonus (NHB). The government has announced a three month consultation on changes to the NHB Scheme. At this stage therefore it is not clear what reduction the council will face in NHB to part finance the increase in BCF.
 - (v) It is apparent that the council will face a slightly higher forecast reduction in Core Spending Power than the national average. The government however has taken steps to attempt to ensure the financial settlement is “fairer” than was the case in the period 2011/12 to 2015/16.
- 6 Overall the settlement is slightly better than was forecast and reported to Cabinet in December 2015. Total clarity will not be available until all specific grant allocations are received, but it is clear that the council will face significant challenges in achieving savings over the next four years which are still expected to be in excess of £100m.

Background

- 7 The MTFP(6) update report to Cabinet on 16 December 2015 identified the Council faced a forecast £288m of savings across the period 2011 to 2020. Although the Council would have delivered £153m of savings by the end of 2015/16, there was still £135m of savings required to balance MTFP(6).
- 8 It was reported that an additional report would be brought to Cabinet on 13 January 2016 which would provide details of the provisional settlement and provide an analysis of the MTFP(6) consultation process.
- 9 The draft Council Plan and Service Plans for 2016/17 to 2018/19 continue to be developed within the context of the financial settlement and budget planning, and will be presented to Cabinet in March once the budget has been set.

Provisional Local Government Finance Settlement

- 10 The provisional Local Government Finance Settlement was published on 17 December 2015. The final settlement will be confirmed in late January/ early February 2016. The settlement has confirmed provisional RSG allocations for 2016/17. In addition however, provisional RSG allocations have also been provided for the following three years. The government has confirmed that they will offer any council that wishes to take up a four year funding settlement the opportunity to do so. To receive a four year settlement the government has identified that local authorities will be required to publish an ‘Efficiency Plan’. At this stage, no detail has been provided on the expected content of such a plan, but a four year

settlement would be seen as potentially beneficial for the council so developments in the coming weeks will be closely monitored.

- 11 The Council Tax Referendum Limit is confirmed at 2% for 2016/17. The Government has also confirmed that there will be no offer of a Council Tax Freeze Grant in 2016/17. Additional details of the requirements associated with the adult social care 2% precept were included in the settlement including:
- (i) In the first instance an authority's Section 151 officer must indicate to the Department for Communities and Local Government (DCLG) 'whether their authority is minded to take up the 2% flexibility by 5 pm on 15 January 2016'.
 - (ii) Section 151 officers will be required to provide an annual statement to the government confirming that any additional income raised from the adult social care precept would be invested in adult social care. In identifying the funding available to local government over the next four years all government forecasts have assumed that every local authority will utilise the additional 2% council tax flexibility in each of the four years.
- 12 To provide flexibility, the council will inform the DCLG by the set deadline advising that the council is minded to take up the 2% adult social care council tax precept increase subject to a Full Council decision.
- 13 Meanwhile, the council has been consulting upon the option of raising an additional 2% adult social care precept as part of the MTFP(6) Budget consultation process. Feedback on the consultation is included later in this report. At this stage, a 2016/17 council tax increase of 2% only (in line with previous forecasts) is included for modelling purposes.
- 14 The settlement includes details of core grants e.g. Revenue Support Grant (RSG) and Business Rates 'Top Up' Grant. In addition, confirmation was received for a small number of specific grants. The table below highlights the 2016/17 reduction in the Settlement Funding Assessment (SFA). It is important to note that the Business Rates figure below is a 'notional' figure published by the Government.

Funding Stream	2015/16	2016/17	Variance	
	£m	£m	£m	%
Revenue Support Grant	100.240	77.140	(23.100)	(23.0)
Business Rates	55.050	55.500	0.450	0.8
Top Up Grant	60.491	61.000	0.509	0.8
SFA	215.781	193.640	(22.141)	(10.3)

- 15 The table above highlights that the SFA has reduced by 10.3% in 2016/17 although of more importance is the reduction in RSG. The government has also announced that specific grants in relation to both the Care Act and Local Lead Flood Authorities have been transferred into RSG. In 2015/16 the council received £2.770m and £0.047m respectively in relation to these funding streams. After taking these transfers into account the actual reduction in RSG in 2016/17 is therefore £25.9m or 25.8%.
- 16 The council has received confirmation of 2016/17 allocations for a small number of specific grants. A significant number of specific grant allocations are expected to

be confirmed during January. The major confirmations awaited are in relation to the Public Health Grant and the current Better Care Fund.

- 17 Of the allocations of specific grant received to date, a reduction of £595k (10%) has been confirmed in relation to the Education Services Grant. The 10% reduction in the Education Services Grant (ESG) for 2016/17 is likely to be followed by additional reductions in future years. The government has confirmed that there will be a consultation during 2016 in relation to local authority statutory duties in relation to Education. If there is a reduction in duties in this regard there will also be significant cuts in future years in the ESG.
- 18 In addition to the receipt of the local government finance settlement there are a number of further adjustments required to the budget assumptions included in the December 2015 MTFP(6) Cabinet report as detailed below:
- (i) The final allocation in relation to 2016/17 New Homes Bonus have been received. The final allocation of £1.86m is £0.11m higher than the previous £1.75m forecast.
 - (ii) Detailed base budget building for 2016/17 has enabled an accurate calculation to be finalised in relation to the impact of National Insurance contribution changes resulting from the Government's move to a Single State Pension. The actual base budget pressure has been calculated at £4.5m, £0.2m less than the previous forecast.
 - (iii) Two new base budget pressures have been introduced in relation to the specific grant income which has transferred into RSG. A sum of £1m has been introduced in relation to Care Act responsibilities and £0.047m in relation to Local Lead Flood Authority responsibilities.
 - (iv) The forecast 2016/17 savings have been increased by £0.45m to £28.619m. The additional savings identified are detailed below:
 - £0.200m - lower than expected energy prices for 2016/17
 - £0.200m - savings realised due to the reduction in fuel prices
 - £0.050m - additional savings realised from contract negotiation in relation to Concessionary Fares

Impact upon 2016/17 Budget

- 19 The December 2015 Cabinet MTFP(6) report forecast that £8.1m of the Budget Support Reserve (BSR) would need to be utilised to balance the budget in 2016/17. Having taken into account all of the variances in this report in relation to government funding, base budget pressures and additional savings it is now forecast that the council will need to utilise £7m of the BSR to balance the 2016/17 budget. It is recognised that this requirement could still change as confirmation is received in relation to Specific Grant allocations. An updated MTFP(6) model is attached at Appendix 2 which provides additional detail on the 2016/17 budget.

Fairness of Settlement

- 20 A significant amount of evidence has been published in the past in relation to the higher Spending Power cuts faced by deprived areas between 2011/12 and 2015/16 compared to more affluent areas. The council along with the Association of

North East Councils (ANEC) and the Special Interest Group of Municipal Authorities (SIGOMA) have campaigned extensively for this approach to change.

- 21 To an extent the government has taken these views into account as part of this settlement and has adjusted the methodology for applying local government funding reductions. To aid this process the government has simplified the calculation of 'Spending Power'. The main change in this regard is that Public Health Grant and the original BCF allocations have been excluded. However, this masks the true Spending Power position for each local authority due to the expected reduction in the Public Health Grant.
- 22 The Government's revised 'Core Spending Power' calculation includes the following:
- (i) The Settlement Funding Assessment (SFA) for the council. This includes assumed retained Business Rates, the Top Up Grant and RSG.
 - (ii) The council tax requirement. This includes the following assumptions:
 - Annual growth in the council tax base, utilising the average growth between 2013/14 and 2015/16
 - An average 1.75% annual increase in council tax.
 - (iii) The potential additional council tax income available from the adult social care council tax precept flexibility. It has been assumed in published figures that this flexibility is utilised in each year up to 2019/20.
 - (iv) The additional funding available from the BCF.
 - (v) New Homes Bonus. The government has forecast how much this funding stream may reduce in future years to finance the increase in the Better Care Fund.
- 23 In the future, to ensure local authorities providing the same services experience similar overall funding reductions, the RSG cut will be based upon total Core Spending Power rather than just the value of RSG. This change is welcomed and will ensure a fairer allocation of funding cuts whilst austerity continues.
- 24 In addition, the additional BCF funding will not be allocated based upon the current BCF methodology.
- 25 To calculate the BCF allocation, the government has taken into account the following:
- (i) Identifying the total additional sum available nationally over the next four years for adult social care from the 2% council tax precept flexibility and from the additional BCF
 - (ii) Calculating how much each local authority providing adult social care should receive based upon their individual proportion of the 2013/14 adult social care Relative Needs Formula (RNF).
 - (iii) Calculating how much each local authority could generate from the additional 2% adult social care council tax precept flexibility.

- (iv) Calculating for each local authority the additional BCF allocation by deducting the sum which could be generated from the 2% adult social care council tax precept increase from the RNF.
- 26 This approach is much fairer to areas such as Durham and naturally has resulted in the council receiving a higher than average provisional BCF allocation.
- 27 In terms of the calculation of the council's Core Spending Power the table below details the provisional position published by the government for the period up to 2019/20. It is important to note that the government has assumed that the council will utilise the flexibility to increase council tax annually by 2% to invest in adult social care. The government has also forecast the impact of reducing the sum available nationally for NHB.

	2015/15 Adjusted	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m	£m
Settlement Funding	219.2	193.6	174.8	164.2	153.8
Council Tax Requirement	174.1	178.0	182.8	187.9	193.4
2% Council Tax Social Care Precept Flexibility	0	3.5	7.3	11.3	15.7
Improved Better Care Fund	0	0	2.4	13.4	23.1
New Homes Bonus	8.7	10.5	10.5	6.6	6.3
TOTAL	402.1	385.6	377.7	383.4	392.3

Note – Forecast reduction in Core Spending Power **-2.4%**

- 28 It is important to note the following in relation to the above:
- (i) The government has assumed a 3% average increase every year in Business Rate income and Top Up Grant.
 - (ii) The government is forecasting an additional 1% per annum increase in council tax base.
 - (iii) The New Homes Bonus figures are estimates at this stage.
 - (iv) No account is taken of the £73m of base budget pressures faced by the council over the next four years. One of the major pressures the council will face over the next four years in this regard is an estimated £19m pressure related to the introduction of the Government's National Living Wage.
- 29 Although the Core Spending Power reduction figure for the council of 2.4% is in excess of the national average of 0.5%, this variance is a result of the assumptions built into the Core Spending Power calculation in relation to Council Tax Base and New Homes Bonus.
- 30 Overall it is reasonable to say that the settlement is fairer than has been the case during the last five years.

MTFP(6) 2016/17 to 2019/20

- 31 At this stage, the position in relation to the 2017/18 to 2019/20 period is still uncertain. Although provisional figures have been provided in relation to RSG and

the additional BCF allocations there is significant uncertainty in relation to the following:

- (i) Public Health Grant
- (ii) Original Better Care Fund allocation of £43m
- (iii) Education Services Grant
- (iv) Benefit Administration Grant
- (v) New Homes Bonus

32 At this stage therefore, the only amendment included in the MTFP(6) model detailed in Appendix 2 is the RSG adjustments for the period 2017/18 to 2019/20. The RSG reductions compared to those included in the December 2015 MTFP Cabinet report are detailed below. The 2016/17 RSG reduction has been adjusted to take into account the transfer of Care Act and Local Lead Flood Authority grants into RSG.

Year	December Cabinet	Provisional Settlement	Difference
	£m	£m	£m
2016/17	25.000	25.918	0.918
2017/18	30.000	21.140	(8.860)
2018/19	20.000	14.140	(5.860)
2019/20	10.000	14.240	4.240
TOTAL	85.000	75.438	(9.562)

33 The table above highlights the slightly higher forecast RSG reduction in 2016/17, but lower than forecast reductions in 2017/18 and 2018/19. The 2019/20 reduction in RSG is £4.24m higher than forecast.

34 After taking these adjustments into account the MTFP(6) model detailed in Appendix 2 can be summarised as follows:

MTFP(6) Plans	2016/17	2017/18	2018/19	2019/20	Total
	£m	£m	£m	£m	£m
Savings Plans	28.619	33.664	0	0	62.283
Savings to be Identified	0	0	30.468	22.620	53.088
Public Health Savings	4.290	1.311	1.363	1.363	8.327
Previous Years Shortfall	0	(7.070)	(7.131)	0	(14.201)
Utilisation of Budget Support Reserve	7.070	7.131	0	0	14.201
TOTAL	39.979	35.036	24.700	23.983	123.698

35 The table highlights that it is presently forecast that £123.7m of savings will be required between 2016/17 and 2019/20. This would result in £277m of total cumulative savings between 2011/12 and 2019/20.

36 The table also indicates that £14.2m of the BSR would need to be utilised during 2016/17 and 2017/18 to delay the impact of cuts upon frontline services.

100% Business Rate Retention

37 The finance settlement confirmed the government's intention for local authorities to retain 100% of all business rates collected locally by the end of the current

parliament in 2020. It is expected that there will be a consultation process in this regard during 2016.

- 38 The transfer of 100% of business rate income would result in local government as a whole receiving more income than would be required. On this basis, the government has confirmed that additional service responsibilities would need to be transferred to local government. Although the transfer of service responsibilities will be consulted upon, the government have indicated at this stage that they would favour transferring Public Health funding and Attendance Allowance payments (currently administered by the Department of Works and Pensions) into the Business Rate Retention Scheme.

Council Budget Consultation – 2% Council Tax Social Care Precept

- 39 Public consultation meetings were held in December 2015 to share information on the council's budget proposals and identify views on three key areas, including the councils approach to managing the reduction to date, the proposals for 2016-17 and the potential introduction of the 2% social care precept.
- 40 At this early stage, we can provide some initial responses in relation to the social care precept. The full consultation results will be provided in the February Cabinet report. This will take account of individual and partner responses which were still open for comments until 12 January 2016.
- 41 139 people participated in three public events, involving 20 facilitated group discussions.
- 42 In relation to the Social Care Precept, 18 groups indicated that they would support the introduction of the 2% precept. Two of these groups would have supported a 4% or higher Social Care Precept if this was possible. One group disagreed with the introduction of an additional precept on the basis that it would not have significant impact in their view and one group could not reach an agreement.
- 43 When asked how the Social Care Precept could be used, a range of responses were received, however the following areas were most frequently mentioned:
- Services to keep older people in their own homes, including support for carers and families (12 groups);
 - Services for those with Dementia/Alzheimer (5 groups);
 - Services to enable efficient transition from hospital to home (5 groups).
- 44 Other comments about the introduction of the Social Care Precept focused on the need for efficiency, smarter working arrangements and effective links between NHS and council services.

Recommendations and Reasons

- 45 Cabinet is asked to:-
- (i) Note the 2016/17 Budget and Medium Term Plan update in relation to the Local Government Finance Settlement announced on 17 December 2015.
 - (ii) Note the requirement for the council to submit an 'Efficiency Plan' should it wish to secure a four year settlement 2016/17 to 2019/20.

- (iii) Agree the intention for the Council to contact the DCLG by the 15 January 2016 deadline to advise that the 2% council tax social care precept flexibility will be taken up subject to a Full Council decision.
- (iv) Note the current 2016/17 savings requirement of £39.979m which is forecast to be offset by the utilisation of £7m of the Budget Support Reserve.
- (v) Note the forecast savings requirement over the 2016/17 to 2019/20 period of £123.7m.
- (vi) Note the fairer process adopted in the provisional finance settlement for both Revenue Support Grant and the additional Better Care Fund allocation.
- (vii) Note the initial feedback from the MTFP(6) budget consultation process.

Background papers

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Appendix 1: Implications

Finance – The report highlights that the Local Government Finance Settlement is broadly in line with forecasts. A savings target of £39.979m is required for 2016/17 with a forecast £7m of the Budget Support Reserve required to balance the budget at this stage.

Staffing – The savings proposals in MTFP(6) could impact upon employees. HR processes will be followed at all times.

Risk - Risk will be continually assessed throughout the budget-setting process especially in relation to funding reduction assumptions and risk assessment of savings plans.

Equality and Diversity/Public Sector Equality Duty – Equality considerations are built into the proposed approach to developing MTFP(6) as a key element of the process.

Accommodation – None.

Crime and Disorder – None.

Human Rights – Any human rights issues will be considered for any detailed MTFP(6) and Council Plan proposals as they are developed and decisions made to take these forward.

Consultation – The consultation outputs to date are detailed in the report.

Procurement – None.

Disability Issues – All requirements will be considered as part of the equality process followed as part of MTFP(6) planning.

Legal Implications – None.

Appendix 2 - Medium Term Financial Plan - MTFP (6) 2016/17 - 2018/19 Model

	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000
Government Funding				
Government RSG Funding Reduction	23,100	21,140	14,140	14,240
Reduction in Public Health Grant	4,290	1,311	1,363	1,363
Reduction in Education Services Grant	595	0	0	0
Town and Parish Council RSG Adjustment	-131	-190	-173	-90
Business Rates - RPI increase (0.8%/1.5%/2%)	-438	-820	-1,110	-1,130
Top Up Grant - RPI increase (0.8%/1.5%/2%)	-504	-930	-1,270	-1,300
Other Funding Sources				
Council Tax Increase (2% per annum)	-3,556	-3,675	-3,800	-3,900
New Homes Bonus	-1,860	0	0	0
Council Tax/Business Rate Tax Base net increase	-3,400	-750	0	0
Bus. Rates 2014/15 Collection Fund Surplus - Adjustment	500	0	0	0
NHS Funding - Social Care Transformation	-4,432	0	0	0
Estimated Variance in Resource Base	14,164	16,086	9,150	9,183
Pay inflation (1.5% - 1.5% - 1.5%)	3,300	3,200	3,100	3,000
Price Inflation (1.5% - 1.5% - 1.5%)	2,500	2,400	2,300	2,200
Corporate Risk Contingency Budget	-3,000	0	0	0
Base Budget Pressures				
Employer Nat. Insurance increase - State Pension changes	4,500	0	0	0
Costs Associated with National Living Wage	4,000	5,000	5,000	5,000
Single Status Implementation	4,537	0	0	0
Additional Employer Pension Contributions	900	3,000	1,000	1,000
Employee Increments	2,581	0	0	0
Energy Price Increases	0	500	500	500
Concessionary Fares	0	100	100	100
Pension Fund Auto Enrolment	100	550	550	0
Climate Change Levy - Impact upon Landfill income	200	0	0	0
Apprentice Levy	0	1,200	0	0
Care Act Grant - Transferred into RSG	1,000	0	0	0
Local Lead Flood Grant - Transferred into RSG	47	0	0	0
CAS Demographic and Hyper Inflationary Pressures	1,000	1,000	1,000	1,000
Use of Earmarked Reserve in CAS	4,150	0	0	0
Prudential Borrowing to fund new Capital Projects	0	2,000	2,000	2,000
TOTAL PRESSURES	25,815	18,950	15,550	14,800
SUM REQUIRED TO BALANCE BUDGET	39,979	35,036	24,700	23,983
Savings Plans	-28,619	-33,664	0	0
Savings to be Identified	0	0	-30,468	-22,620
Public Health Savings	-4,290	-1,311	-1,363	-1,363
Previous Years Shortfall	0	7,070	7,131	0
Utilisation of Budget Support Reserve	-7,070	-7,131	0	0
TOTAL SAVINGS REQUIRED	-39,979	-35,036	-24,700	-23,983