

# Cabinet Meeting

## 13 January 2016

<b>Report title</b>	2016/17 Budget and Medium Term Financial Strategy 2016/17 – 2018/19 – Provisional Local Government Finance Settlement Update	
<b>Decision designation</b>	AMBER	
<b>Cabinet member with lead responsibility</b>	Councillor Andrew Johnson Resources	
<b>Key decision</b>	Yes	
<b>In forward plan</b>	Yes	
<b>Wards affected</b>	All	
<b>Accountable director</b>	Keith Ireland, Managing Director	
<b>Originating service</b>	Strategic Finance	
<b>Accountable employee(s)</b>	Mark Taylor Tel Email	Director of Finance 01902 554410 <a href="mailto:mark.taylor@wolverhampton.gov.uk">mark.taylor@wolverhampton.gov.uk</a>
<b>Report to be/has been considered by</b>	Confident, Capable, Council Scrutiny Panel Audit Committee	3 February 2016 14 March 2016

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### Recommendation(s) for action or decision:

The Cabinet is recommended to approve:

1. That the Director of Finance notifies the Secretary of State that the council intends to take up the 2% option to increase council tax to support Social Care.

### Recommendations for noting:

The Cabinet is asked to note:

1. The outcome of the 2016/17 provisional local government finance settlement.

2. The report to Cabinet on 24 February 2016 will reflect the outcome of budget consultation, which is due to be complete on 18 January 2016. This report will also include the outcome of the scrutiny process and the detailed budget work for 2016/17 including a review of all savings and the risks associated with their delivery.

## **1.0 Purpose**

- 1.1 The purpose of this report is to provide Cabinet with an update on the 2016/17 provisional local government finance settlement, which the Government announced on 17 December 2015.

## **2.0 Background**

- 2.1 The Budget 2015/16 and Medium Term Financial Strategy (MTFS) 2015/16 to 2018/19 was presented to Full Council for approval on 4 March 2015. After taking into account savings proposals approved during the 2015/16 budget setting process, equating to £26.9 million over the four year period to 2018/19, it was projected that the Council would be faced with finding further estimated savings totalling £46.3 million by 2018/19.
- 2.2 A strategy to address the projected budget deficit over the medium term was approved by Full Council in March 2015, with an initial focus on identifying £20.0 million of additional savings for 2016/17 during the first few months of the current financial year, in order to demonstrate that a balanced budget can be achieved in 2016/17. Whilst the projected budget deficit for 2016/17 stood at £14.8 million, a savings target in excess of the projected budget deficit was deemed necessary due to the increased uncertainty surrounding future government funding. It was deemed that in the unlikely event that government funding is in line with, or better than, current projections, this strategy would give the Council some choice over the implementation of savings proposals.
- 2.3 It is important to note that a £2.0 million Adult Services savings target was incorporated into the existing MTFS within 2016/17, taking account of this the total savings target for 2016/17 stood at £22.0 million in July 2015.
- 2.4 A review of the anticipated assumptions and projections built into the Draft Budget and Medium Term Financial Strategy 2016/17 – 2018/19 was undertaken following the Government Summer Budget 2015 announcement which indicated that there would be some additional cost pressures and potential further cuts to grant, in addition to reviewing existing assumptions concerning the successful delivery of significant levels of challenging savings. As a result on 21 October 2015, Cabinet approved that the savings target for 2016/17 be revised upwards from £22.0 million to £24.0 million. It is important to note, that this new savings target for 2016/17 still includes a prudent uplift of £5.2 million due to the extremely uncertain times within which the Council is operating.
- 2.5 On 21 October 2015 Cabinet approved that Savings, Redesign and Income Generation proposals totalling £14.1 million and Financial Transactions and Base Budget Revisions totalling £7.1 million proceed to the formal consultation and scrutiny stages of the budget process. This left a shortfall against the revised saving target of £2.8 million.
- 2.6 On 17 December the Government announced the provisional local government finance settlement for 2016/17. This report analyses the impact of the announcement on the assumptions included in the Medium Term Financial Strategy.

### 3.0 Headlines

3.1 The main points from the Ministerial statement were as follows:

- Core Spending Power for local government will be reduced from £44.5 billion in 2015/16 to £43.3 billion in 2016/17;
- A Council Tax referendum limit of 2.0% will be maintained;
- New Homes Bonus will be kept indefinitely, but will be subject to reform following consultation;
- The Government is also setting out an offer to any authority that wishes to take it up of a four year funding settlement to 2019/20;
- Councils will be able to use new capital receipts from April 2016 to March 2019 to pay for revenue set up costs of projects that are designed to make revenue savings.

### 4.0 Impact on Wolverhampton

4.1 The following table provides a comparison of the Medium Term Financial Strategy (MTFS) assumptions as at October 2015 and the provisional settlement.

Description	MTFS	Provisional	Difference Over /	
	Assumption	Settlement	(Under)	
	£M	£M	£M	%
Revenue Support Grant	53.772	50.280	(3.492)	-6.5%
Top Up Grant	36.258	36.200	(0.058)	-0.2%
New Homes Bonus	3.957	3.957	-	0.0%
Education Services Grant *	2.710	2.600	(0.110)	-4.1%
<b>Total</b>	<b>96.697</b>	<b>93.037</b>	<b>(3.660)</b>	<b>-3.8%</b>

\* The provisional settlement (£2.807 million) is based on pupil numbers as at November 2015 but due to impending academy conversions it is estimated that the grant will be reduced to £2.6 million during 2016/17.

4.2 It can be seen that the provisional settlement figures show further overall reductions in funding of £3.6 million in 2016/17 in addition to that previously reported. The MTFS assumptions as reported to Cabinet in October included assumptions which are broadly in line with the confirmed cut in grant. Subject to finalisation of the detailed budget work, this means that the council anticipates that it should be possible to set a balanced budget for 2016/17 within the expenditure envelope predicted in that report.

### 5.0 Other Grant Funding

5.1 At this stage we are still waiting notification about levels of other grant funding for 2016/17. When information is received this will be incorporated into the Medium Term Financial Strategy and in future reports to members. Information outstanding includes:

- Public Health Grant
- Independent Living Fund
- S31 grant for council tax new burdens
- S31 grant for business rates relief
- Housing Benefit Administration grant

## **6.0 Use of an increase in the council tax referendum threshold for Adult Social Care**

- 6.1 In the Autumn Spending Review the government announced that it is to allow local authorities with adult social care responsibilities, the power to raise an additional 2% through council tax to fund adult social care. The 2% would be in addition to the council tax referendum limit and would need to be used for adult social care only.
- 6.2 The 2% additional council tax income is included in the Governments calculation of the council's spending power which is used to determine the grant allocations.
- 6.3 The provisional settlement stated that by 15 January Section 151 officers are required to indicate whether their authority is minded to take up the 2% increase in council tax threshold. Section 151 officers will then be expected to notify the Secretary of State of the amount intended to be raised through the additional social care income and what impact it has on previous plans for social care budgets. The additional information is required within 7 days of setting the budget. This report recommends that Cabinet approve that the Director of Finance notifies the Secretary of State that the council intends to take up the 2% option to increase council tax to support Social Care.

## **7.0 Four year settlement**

- 7.1 In addition to 2016/17 information, the Government have released indicative figures for 2017/18 to 2019/20 taking us to the end of the Spending Review period. In order to secure a four year settlement it is necessary to publish an efficiency strategy which must be approved by Full Council. Further work is required to understand exactly how this might impact on Wolverhampton and therefore an update will be provided in the report to Cabinet on 24 February 2016.
- 7.2 The provision of four year settlement information is welcome and would, to some extent, enable greater certainty in medium term financial planning however, due to the outstanding grant funding information, not only for 2016/17 but also the years beyond, the impact of the settlement over the medium term is uncertain at this stage.
- 7.3 The position beyond 2019/20 is less clear still, in part this is due to the transition to 100% retention of business rates. In addition, details have not been released about proposals to transfer any additional responsibilities to local government which would bring additional cost pressures.

## **8.0 Flexible use of capital receipts**

- 8.1 The Government have announced that councils will be able to use new capital receipts from April 2016 to March 2019 to pay for revenue set up costs of projects that are designed to make revenue savings. It will be for individual local authorities to decide if a project qualifies. In order to qualify, councils will be required to list all qualifying projects in the annual efficiency strategy referred to previously. This strategy, and any variations to it, will need to be approved by Full Council. Work is being undertaken to identify potential projects which will qualify for the use of capital receipts. An update will be provided to Cabinet on 24 February 2016.

## **9.0 Detailed Budget Review**

- 9.1 The report to Cabinet on 24 February 2016 will reflect the outcome of budget consultation, which is due to be complete on 18 January 2016. This report will also include the outcome of the scrutiny process and the detailed budget work for 2016/17 including a review of all savings and the risks associated with their delivery.

## **10.0 Financial implications**

- 10.1 The financial implications are discussed within the body of the report.  
[CN/05012016/Q]

## **11.0 Legal implications**

- 11.1 The Council's revenue budgets make assumptions which must be based on realistic projections about available resources, the costs of pay, inflation and service priorities and the likelihood of achieving any savings proposals.
- 11.2 The legal duty to spend with propriety falls under S.151 Local Government Act 1972 and arrangements for proper administration of their affairs is secured by the S.151 Officer as Chief Financial Officer.
- 11.3 Section 25 of the Local Government Act 2003 requires the Chief Financial Officer to report to the Council when it is making the statutory calculations required to determine its council tax. The Council is required to take this report into account when making its budget decision. The Chief Financial Officer's report must deal with the robustness of the budget estimates and the adequacy of the reserves for which the budget provides. Both are connected with matters of risk and uncertainty. They are inter-dependent and need to be considered together. In particular, decisions on the appropriate level of Reserves should be guided by advice based upon an assessment of all the circumstances considered likely to affect the Council.
- 11.4 The relevant guidance concerning reserves is Local Authority Accounting Panel Bulletin 77, issued by CIPFA in November 2008. Whilst the Bulletin does not prescribe an appropriate level of reserves, leaving this to the discretion of individual authorities, it does set out a number of important principles in determining the adequacy of reserves. It emphasises that decisions on the level of reserves must be consistent with the Council's MTFS, and have regard to the level of risk in budget plans, and the Council's financial management arrangements (including strategies to address risk).

- 11.5 In addition, Section 114 of the Local Government Finance Act 1988 requires the Chief Financial Officer to ‘...**make a report ... if it appears to him that the Authority, a committee or officer of the Authority, or a joint committee on which the Authority is represented**’:
- (a) has made or is about to make a decision which involves or would involve the Authority incurring expenditure which is unlawful,
  - (b) has taken or is about to take a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency on the part of the Authority, or
  - (c) is about to enter an item of account the entry of which is unlawful.
- 11.6 The Chief Financial Officer of a relevant Authority shall make a report under this section if it appears to him that the expenditure of the Authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure.
- 11.7 These statutory requirements will have to be taken into account when making final recommendations on the budget and council tax requirement for 2016/17.  
[TS/04012016/M]

## **12.0 Equalities implications**

- 12.1 Under the Equality Act 2010, the council has a statutory duty to pay due regard to the impact of how it carries out its business on different groups of people. This is designed to help the council identify the particular needs of different groups and reduce the likelihood of discrimination.
- 12.2 In relation to determining the overall revenue budget for the council there is always a difficult balance to be struck in deciding the levels at which to invest, reduce expenditure and raise income set against the often competing needs of different groups within the Wolverhampton community.
- 12.3 In summary the council’s annual budget and medium term financial strategy supports a range of services designed to meet key equalities objectives. A cumulative equalities analysis will be conducted on the overall budget proposals. This is will be made available on the Council’s website.

## **13.0 Schedule of background papers**

Budget 2015/16 and Medium Term Financial Strategy 2015/16 – 2018/19, report to Full Council, 4 March 2015.

Draft Budget and Medium Term Financial Strategy 2016/17 – 2018/19, report to Cabinet, 22 July 2015

Draft Budget 2016/17, report to Cabinet, 21 October 2015

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