Title: Budget update 2016/17 to 2020/21

Report of the Strategic Director, Finance and Investment

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<th>Open Report</th>
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<td>Wards Affected: All</td>
<td>Key Decision: No</td>
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Summary:

This report provides an update on the Council’s estimated budget position for 2016/17 to 2020/21 following the announcement of the Local Government Finance Settlement announced on the 17th December.

For the first time in many years, the Settlement covered the parliamentary period to 2019/20, which will enable the Council to plan ahead with greater certainty.

Following detailed analysis of the Settlement, the Council is now able to set a balanced budget for 2016/17. This compares favourably to the £5.7m budget deficit report in July in respect of 2016/17.

The overall budget gap has also reduced from £71.6m to £63m by 2020/21. This position will be subject to change, as new pressures emerge and legislative burdens are announced.

Recommendation(s)

PAASC is asked to note the contents of this report.

Reason(s)

Having a good understanding of the Council’s Medium Financial Strategy, enables the Council to plan effectively and deliver its vision of “One borough, one community; London’s growth opportunity.”
1. Introduction

1.1 The budget gap reported in July 2015 of 2016/17 included £12.855m of savings proposals previously agreed by Cabinet in December 2014 following consideration by the Select Committees between October and December that year.

1.2 The agreed savings proposals have been reviewed regularly throughout the current financial year to ensure the savings would be delivered in order for the Council to set a balanced budget for 2016/17. As part of this, a number of challenge sessions have taken place including portfolio holders to develop actions plans to de-risk any issues on the implementation of the agreed proposals. It was agreed that any shortfall through delayed implementation would be managed within the directorate’s existing budgets.

1.3 A list of savings proposals agreed for 2016/17 is attached in Appendix 1.

1.4 The biggest area of risk related to ACS/SAV/36 - Options appraisal of Leisure and Cultural services, proposed to save £0.25m in 2016/17 and a further £0.75m in 2016/17. Subsequent to the development of the proposal, it was decided that the Council would explore additional options with the view to deliver savings in excess of the original £1m identified. The Council is currently developing a business case and due to the delay in implementing this proposal, it is unlikely that the £1m saving will be delivered in 2016/17.

1.5 The Medium Term Financial Strategy therefore takes the delay into account and funds have been set aside to cover this pressure for 2016/17, with the expectation that this saving will be delivered in 2017/18.

2 Budget pressures in 2015/16

2.1 PAASC are aware that Children’s Services are currently reporting an overspend of approximately £6m from pressures in a number of areas including difficulties in recruiting permanent social workers, support to those with no access to public funds (NRPF) and the number of children requiring assessments. The £6m overspend is the net position, after £5.5m of mitigating actions to manage down the position. Children’s are currently implementing programme SAFE, a financial recovery plan, which will enable Children’s Services balanced budget by the end of 2016/17.

2.2 Adult Social Care are experiencing pressures in the allocation of personal budgets, nursing home and residential placements. Although these pressures are being managed in year, it is likely they will recur until additional funding has been allocated to Adult Social Care.

2.3 Environmental Services are reporting pressures on their staffing budgets in Cleansing and Refuse services. There are also pressures in the fleet budget and an under recovery of income. Management are currently reviewing the staffing requirements to determine the level of staffing required going forward. In the meantime, vacancies are being held back and spend restraints are now in operation to mitigate the pressure.

2.4 There are also pressures experienced by Housing General Fund due to the increased number of bed and breakfast placements over budget. The use of
decants on the HRA estate and the creation of additional hostel places should alleviate this pressure in 2016/17.

3 Local Government Finance Settlement

3.1 On the 17th December 2015, the Department for Communities and Local Government announced a four year settlement. Although the cuts are still very significant over the next four years, it will enable councils to plan with greater certainty the challenges it faces over the medium term.

Revenue Support Grant (RSG)

3.2 The reduction in the RSG was £2m less than originally estimated in the July 2015 MTFS. This is as a result of a change in the methodology for distributing RSG to reflect the Council’s relative ability to raise Council Tax and NNDR.

3.3 For 2016/17, the MTFS previously estimated a reduction of £11m of RSG and the actual reduction as per the Local Government Settlement is c£8.7m. Over a five year period, the July MTFS assumed cuts to RSG of £36.8m, compared to actual cuts of £28.5m as per the Settlement.

3.4 The Council has been lobbying central government about the inequities of the current funding formula and it can be viewed that that lobbying has influenced the proposed methodology. That said, the effects of grant “damping” reduced our RSG allocation by £7.9m in 2013/14 and the cumulative loss of grant is estimated to be £50m by 2020. This is also compounded with the RSG not recognising the increases in the borough’s population. By 2020, the Council will have lost out on c£20m of grant due to the funding regime being fixed.

Care Act 2014

3.5 The RSG for 2016/17 rolls in £1m of funding in relation to Care Act 2014, which was previously paid as a separate ring-fenced grant. To recognise the pressures experienced by Adult Social Care in implementing the Care Act, this funding has been transferred to the Adult Social Care budget in full.

New homes bonus

3.6 Following announcements in the Autumn Spending review about cuts to New Homes Bonus of £800m to partially fund the increased £1.5bn budget requirements of the Better Care Fund, the Council took a prudent approach with the reductions in the new homes bonus. For 2016/17, the July MTFS assumed that New Homes Bonus would still be subject to a top slice of £1m, with no further increases. The Settlement confirmed that new homes bonus would be c£6m, which was £3m better than previously assumed. The Settlement also confirmed that the new homes bonus would remain at £6m for 2017/18 but will then reduce to £3.8m in 2018/19 as funding is transferred to offset the costs of the Better Care Fund.

Better Care Fund

3.7 By 2019/20, the Council will receive up £8.2m of grant towards the Better Care Fund though further details of the Fund are yet to be announced. Due to the current restrictions of the Better Care Fund, from the Council’s medium term financial
planning perspective, this additional funding has not been taken into account of the Council’s overall financial position to reduce the budget gap.

**Housing Benefit Administration grant**

3.8 Confirmation has now been received that the HB administration grant will be £0.1m less than it was in 2015/16. The reduction in funding has been adjusted in the MTFS.

**Council Tax increases & Adult Social Care Precept**

3.9 The MTFS assumes that the Council will be increasing its Council Tax by 1.99% per annum which will generate an additional £0.9m per annum. After having frozen Council Tax for 7 years in a row, the Council now needs to re-build its base funding position.

3.10 Following the Government announcement that Councils are now able to introduce a 2% precept which will be ring-fenced solely for the purposes for Adult Social Care, it will be recommended to Cabinet that a further 2% increase will be applied to Council Tax in 2016/17. This will go towards supporting the pressures in Adult Social Care as outlined in section 2.2 of this report.

4 **Summary**

4.1 Overall, the Settlement was better than previously estimated, reducing the Council’s budget gap from c£72m as reported in July 2015 to c£63m. Although the funding announcements allow the Council to move forward with relative certainty, the level of financial pressures and additional burdens arising from legislation will further inform the MTFS.

4.2 The Budget Strategy report was presented to Cabinet in January and sets out the revisions to the MTFS following the Settlement.

4.3 The Budget Framework report will be presented to Cabinet in February, to formally set the Council’s budget and Capital Programme for 2016/17 to 2020/21.

5 **Financial Implications**

5.1 Financial implications are covered through this report.

6 **Legal Implications**

*Implications completed by: Dr. Paul Feild Senior Corporate Governance Solicitor*

6.1 The Council is required under the Local Government Finance Act 1992 to produce a ‘balanced budget’. As set out in this report, the projected budget outlook takes place in the context of significant and widely known reductions in public funding to local authorities. Should the need emerge to make reductions or changes in service provision as a result of changes in the financial position, the Council may vary its policy and consequent service provision to engage with the change. However it must at the same time have regard to public law considerations in making any such decisions that it is properly informed including carrying out appropriate consultation with interested parties. This is necessary to avoid or defeat any challenge by judicial
review and in any event Members will also wish to ensure adherence as part of good governance. Should such steps be required, then specific legal advice will be available on the detailed implementation of savings options.

Background Papers Used in the Preparation of the Report:

- Local Government Finance Settlement, papers and appendices