



Northumberland

County Council

CABINET

11 SEPTEMBER 2018

Budget 2019-20 and Medium Term Financial Plan 2019-22

Report of Barry Scarr, Executive Director of Finance and Deputy Chief Executive

Cabinet Member: Nicholas Oliver, Portfolio Holder for Corporate Services and
Cabinet Secretary

Purpose of report

This report provides an update on the development of the 2019-20 budget and the Medium Term Financial Plan covering the period 2019 to 2022.

Recommendations

Members are requested to:

- 1. Note the revisions to the assumptions within the Medium Term Financial Plan covering the period 2019-22, including, the projected budget gap of £36 million over the period 2019 to 2022.**
- 2. Note that an additional £27 million of spending reductions are required over the period of the Medium Term Financial Plan.**

Link to Corporate Plan

The Council's budget and Medium Term Financial Plan are aligned to the priorities outlined in the Corporate Plan 2018-21 "A Council that Works for Everyone".

Key issues

- 1. In February 2018, the Council approved the Medium Term Financial Plan covering the period 2018-22, and, the budget for 2018-19.**
- 2. This report replaces the 2018-22 Medium Term Financial Plan with a revised set of assumptions and plan covering the period 2019-22.**

3. This report sets out the revised gap of £36 million required, over the 3 years of the Medium Term Financial Plan. Savings proposals will be developed to fill the gap using the following principles:
 - a) Setting a balanced budget over the life of the Medium Term Financial Plan whilst maintaining modest and sustainable increases in Council Tax.
 - b) Ensuring that service and financial planning is fully aligned with the Corporate Plan.
 - c) Continuously reviewing services in order to keep reductions to front line services to a minimum as a far as possible.
 - d) Maintaining the Council's strong financial position so that it has sufficient reserves and balances to address any future risks and unforeseen events without jeopardising key services and delivery of outcomes.
 - e) Investing to save; recognising that one-off resources can be used to generate future savings that will pay back the investment.
 - f) Maintaining a commercial focus and maximising income generation while at the same time managing risk.
 - g) Ensuring the Council can demonstrate value for money in the delivery of its priorities.

Proposals will be reported to Cabinet in October 2018 for approval in order to start consultation.

4. The report sets out the forecast budget position within the Medium Term Financial Plan for the period 2019-22. Whilst the position represents the best estimate at the current time, the figures are likely to change as a result of the reform of local government finance.

Background

1. Medium Term Financial Plan 2018-19 to 2021-22

The Medium Term Financial Plan was approved by Full Council in February 2018 as part of the 2018-19 budget setting process. The plan is continually updated to reflect changing circumstances. The Medium Term Financial Plan will be reviewed throughout the budget process and a full and revised Medium Term Financial Plan will be presented to the Cabinet in February 2019.

2. National Context

There are a number of external factors that will significantly affect the Council's resource base from April 2020 onwards:

- 2.1 **Spending Review:** The current spending review period provided stability by way of a four year funding settlement for local government up until 2019-20. A new spending review period will be implemented from 2020 onwards, and the level of funding that will be attributed to local government as a result of the review is currently unknown.
- 2.2. **Fair Funding Review:** The Government is currently reviewing the funding mechanism for local government and intends to implement a fair funding review of relative needs and resources from April 2020. There is no certainty as to future local authority funding allocations beyond this point and there is no clarity on how funding will be distributed at this stage.
- 2.3 **Changes to Retained Business Rates:** In parallel with the fair funding review, the Government is looking to increase the retained element of business rates from 50% to 75%. This had previously been announced at 100%, but the necessary primary legislation has not been enacted. Again, it is clear that there are significant risks to the Council's funding depending on the how the move to 75% Business Rates Retention (BRR) is implemented.

Initial discussions have revolved around Public Health being funded by business rates via a relative needs formula (RNF) rather than specific grant (Northumberland would be the only authority in the North East that would gain from such a change), but detailed changes and implications have yet to emerge.

In addition, the current business rates legislation contains a provision for a full business rates baseline reset in 2020-21. The reset will see business rates baselines adjusted to reflect how much local authorities are actually collecting in business rates.

- 2.4 **Business Rates Pilot:** The last round of 100% business rate pilot schemes announced in autumn 2017 was aimed at combined authorities covering a 'coherent economic area'. Given the situation with the North East Combined Authority (NECA) at the time, a North East pilot bid could not have been

submitted. On 24 July 2018 the Government announced its intention to proceed with a new Business Rates Retention Pilot scheme but this is with 75% retention and the “no detriment” assurance removed. A North of Tyne bid is currently being considered for submission by 25 September 2018 as this could be an opportunity for additional funding for the three authorities involved.

- 2.5 **Social Care Funding:** The Government is due to publish a green paper on the future of health and social care funding in the autumn of this year. The last two years have seen a reactive approach to funding, with resource being allocated by Government at the the very last minute; combined with a ‘social care precept’ that passes the cost of social care funding onto the Council Tax payer. Other than the fact that the paper will be aimed at older people’s social care provision rather than the full spectrum of Adult Social Care, there is little detail beyond a set of principles announced by the Secretary of State. The proposals will potentially affect the funding and structure of social care provision.
- 2.6 **Children’s Social Care:** The volume and cost of children’s social care has been identified as a national problem. Both increases in the number of cases and the complexity of cases is driving costs up and increasing pressure on already strained budgets. Central government is being lobbied to provide extra funding for this key service in the next spending review.

3. **Medium Term Financial Plan - Current Position**

- 3.1 Deliverability of the 2018-19 and 2019-20 pre-agreed savings is being assessed, and will be monitored on an ongoing basis. Directorates have been asked to establish plans to mitigate any shortfalls and to deliver the totals required.

4. **Medium Term Financial Plan - Revised Assumptions**

There is a high level of uncertainty regarding the medium term funding prospects of the Council; and, whilst the trajectory of funding reductions may not be as aggressive as previous spending reviews, there is no indication from Government that Local Government funding will either stabilise or increase. As a result of this uncertainty, creating an accurate projection of the budget gap up until 2021-22 is difficult, but a scenario can be created from a number of principles:

- 4.1 **Social Care Funding:** Previous plans have contained a ‘cliff edge’ scenario for Adult Social Care with an assumption that the Improved Better Care Fund (IBCF) will not exist beyond the current spending review period (2019-20). Given the Government's commitment to a social care green paper and the Government's intention to review the funding of social care, a complete reduction in existing funding could be considered unlikely. The revised Medium Term Financial Plan assumes no detriment in the future; i.e. the Council will be no worse or better off in the next spending review.

- 4.2 **Non-recurrent Pressures:** Rather than adding to the budget gap, non recurrent pressures will in the future be met from reserves over the period of the Medium Term Financial Plan.
- 4.3 **Resource base:** Previous projections of the resource base (Council Tax, New Homes Bonus and NNDR) assumed a fairly cautious position in terms of property numbers. The revised Medium Term Financial Plan reflects prudent growth in house numbers, based on recent experience, within the resource base for Council Tax purposes.
5. **Funding**
- 5.1 As part of the Local Government Finance Settlement 2018-19 the Government provided details of its assumptions on Core Spending Power for the 2 years covering 2018-19 and 2019-20. There is currently no detail published beyond 2019-20.
- 5.2 Revenue Support Grant and Rural Services Delivery Grant remain unchanged in the Medium Term Financial Plan at the 2019-20 level.
- 5.3 The Business Rates multiplier and top grant had already been increased in line with inflation (CPI) but the figures have now been updated to reflect the 2017-18 outturn position.
- 5.4 The New Homes Bonus figure has been revised to assume a small amount of growth and assumes that the deadweight of 0.4% remains unchanged. On 24 July 2018 the Government published "The 2019-20 Local Government Finance Settlement Technical Consultation" which states that due to the continued upward trend for house building, the Government expects to increase the deadweight in 2019- 20 but there is no indication of the scale of the increase.
- 5.5 The previous Medium Term Financial Plan assumed that the Improved Better Care Fund Grant would cease to exist post 2019-20, but the revised version assumes that it will continue at the 2019-20 rate of £10.607 million per annum for the remainder of the Plan. If Improved Better Care Fund money does cease it is envisaged that it will be replaced and that there will be no detriment to the Council's finances.
- 5.6 The Council Tax and Adult Social Care Precept figures have been increased in line with the council tax base which has been revised to include new properties added to the council tax list between October 2017 and March 2018 and anticipated growth over the period of the Medium Term Financial Plan.
- 5.7 Service specific grants and income have been revised to the current levels.

6. Expenditure

6.1 In addition to funding changes the Council must also plan for a range of spending pressures and commitments which are not funded by the Government.

6.2 The following has been taken into account: however, specific cost details require finalisation and will be subject to review and refinement throughout the budget process.

6.3 **Inflation:** Inflation includes an estimate of £5.1 million each year which is the cost associated with incremental drift, non-pay inflation and the proposed pay award of 2% in each year.

6.4 Recurrent Pressures:

	2019-20	2020-21	2021-22	Total
	£000	£000	£000	£000
Adult Social Care - Demographic and Living Wage Pressures	4,667	3,486	3,500	11,653
Children's Services - SEN Home to School Transport Service	232	232	232	696
Finance - Fire and Rescue On-call RDS Tiered Contracts	(201)	-	-	(201)
Finance - Computer Licences	225	225	-	450
Place - Post 16 Transport	800	-	-	800
Total Recurrent Pressures	5,723	3,943	3,732	13,398

6.5 **Non-recurrent Pressures:** The revised Medium Term Financial Plan now assumes that non recurrent pressures will be met from reserves over the period of the plan.

	2019-20	2020-21	2021-22	Total
	£000	£000	£000	£000
Children's Services - School Deficit upon Academy Conversion	1,585	-	-	1,585
HR & OD - Council Elections	-	-	500	500
Total Non Recurrent Pressures	1,585	-	500	2,085

6.6 **Growth and Commitments:** The figures have been amended to account for known changes to the capital programme (including profiling); the change in the interest rate of loans and investments following the increase in the Bank of England Base Rate from 0.5% to 0.75%; changes required for Adult Social Care

as a result of the revised assumptions regarding the Adult Social Care precept and Improved Better Care Fund grant.

7. Budget Planning Framework 2019-20 to 2021-22

7.1 The total reduction in resources along with the spending pressures represents the estimated gross funding gap. However, at this stage there are still a number of uncertainties:

- a) Local Government Finance Settlement confirmation for 2019-20. The provisional settlement should be made available in December 2018 and the final settlement in February 2019;
- b) Potential impact of Brexit and future cost pressures;
- c) The Government's plans in relation to Business Rates and the funding of social care; and,
- d) confirmation of the delivery of existing savings plans and/or assumptions.

8. Savings

8.1 Directorates were asked to assess the deliverability of agreed savings for both the current year (2018-19) and 2019-20. Work is ongoing to develop delivery plans for those savings that have not yet been realised, and identify alternative proposals where necessary. Current assumptions allow for non-delivery of £2 million of these savings.

8.2. Taking this into account and applying the above assumptions, the revised budget gap from 2019-20 to 2021-22 is estimated at £36 million.

8.3 In order to fill the estimated budget gap work has commenced on identification and development of additional savings plans. The recommended framework and Medium Term Financial Plan principles surrounding the development of these plans has been as follows:

- a) Setting a balanced budget over the life of the Medium Term Financial Plan whilst maintaining modest and sustainable increases in Council Tax.
- b) Ensuring that service and financial planning is fully aligned with the Corporate Plan.
- c) Continuously reviewing services in order to keep reductions to front line services to a minimum as far as possible.
- d) Maintaining the Council's strong financial position so that it has sufficient reserves and balances to address any future risks and unforeseen events without jeopardising key services and delivery of outcomes.
- e) Investing to save; recognising that one-off resources can be used to generate future savings that will pay back the investment.

- f) Maintaining a commercial focus and maximising income generation while at the same time managing risk.
- g) Ensuring the Council can demonstrate value for money in the delivery of its priorities.

8.4 These additional savings will be presented to Cabinet in October 2018 in order to start consultation.

9. **Budget Consultation Strategy**

9.1 Budget consultation will commence once the proposals have been through Scrutiny Committee and secured Cabinet approval on 9 October.

9.2 It is proposed that consultation will run for seven weeks to allow for full discussion and debate at local area councils; parish and town councils; and, with staff and the unions.

9.3 Service areas will consult on their budget proposals directly with individual services users, partners and key stakeholders.

9.4 Feedback on budget consultation will be run online.

9.5 Consultation will be promoted primarily through local and social media channels, linking through the Council's budget website.

10. Timetable

A high level timetable for the budget setting process is detailed below:

Date	Action
11 September 2018	2019-20 Budget and MTFP Report to Cabinet setting out revised assumptions and gap
1 October 2018	Initial savings proposals to Corporate Services and Economic Growth Overview and Scrutiny Committee
9 October 2018	Initial savings proposals presented to Cabinet for approval to consult
5 November 2018	Estimated Collection Fund Balances for 2018-19 Report to Corporate Services and Economic Growth Scrutiny Committee
7 November 2018	2019-20 Budget and MTFP Report to County Council
13 November 2018	Estimated Collection Fund Balances for 2018-19 Report to Cabinet
December 2018	2019-20 Provisional Finance Settlement announced by Ministry of Housing, Communities and Local Government
7 January 2019	2019-20 Council Tax Base Report to Corporate Services and Economic Growth Scrutiny Committee
15 January 2019	2019-20 Council Tax Base Report to Cabinet for approval
February 2019	2019-20 Final Finance Settlement announced by Ministry of Housing, Communities and Local Government
4 February 2019	2019-20 Budget and MTFP Report to All Member Scrutiny Committee (use date and time of Corporate Services and Economic Growth Scrutiny Committee)
12 February 2019	2019-20 Budget and MTFP Report to Cabinet (including details of 2019-20 Provisional Finance Settlement and reserves and provisions)
20 February 2019	2019-20 Budget and MTFP Report to County Council (to include any Final Settlement update) 2019-20 Council Tax Report to County Council

Implications

Policy	This is the second year of this Administration's Medium Term Financial Plan; and, it fully supports the priorities outlined in the Corporate Plan 2018-21 - A Council that Works for Everyone.
Finance and value for money	The Council remains under significant financial pressure. The financial implications of the 2019-20 budget and the Medium Term Financial Plan are detailed within this report. 2019-20 and beyond will continue to be challenging.
Legal	The provisions of the Local Government Finance Act 1992 set out what the Council has to base its budget calculations upon, and require the Council to set a balanced budget with regard to the advice of its Chief Finance Officer. The Act also states that the Council has got to set its budget before 11 March in the financial year preceding the one in respect of which the budget is set.
Procurement	There are no specific Procurement implications within this report.
Human Resources	The size of the financial challenge will have an impact on staffing levels across the Council. The Council will continue to try and mitigate this impact by the management of vacancies and voluntary redundancy wherever possible.
Property	The individual proposals will carefully consider the impact with regard to property requirements.
Equalities (Impact Assessment attached) Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>	An overarching equality review, which identifies the main issues which need to be considered in setting the budget will be compiled for February 2019 Cabinet and Full Council meetings once an agreed package of budget balancing measures has been finalised. An equality impact assessment will be completed for savings proposals as they are developed if it is required and deemed appropriate.
Risk Assessment	The risks associated with the budget proposals will continue to be reviewed up to and including implementation of the detailed proposals.
Crime & Disorder	There are no specific Crime & Disorder implications within this report.
Customer Consideration	The individual proposals will carefully consider the impact upon both customers and residents of Northumberland.
Carbon reduction	The budget makes financial provision for the carbon taxes levied by the Government and the Council has implemented and continues to develop proposals concerning the management of energy.
Wards	All wards.

Background papers:

Cabinet report: 13 February 2018 Medium Term Financial Plan 2018-22 and Budget 2018-19

Report sign off.

Authors must ensure that officers and members have agreed the content of the report:

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