

Cabinet

29th November 2016

Name of Cabinet Member:

Cabinet Member for Strategic Finance and Resources – Councillor J Mutton

Director Approving Submission of the report:

Executive Director of Resources

Ward(s) affected:

All

Title:

Pre-Budget Report 2017/18

Is this a key decision?

Yes - Cabinet is being recommended to approve, as a basis for consultation, the spending and savings proposals for 2017/18 and future financial years as adjustments to the Council's Budget.

Executive Summary:

This report outlines as a basis for consultation a set of new revenue budget proposals for 2017/18 to 2019/20 and an overall Council Tax increase of just under 4%.

The Council continues to seek to protect its most vulnerable citizens and to deliver a range of core services to everyone in the city. Nevertheless, continued large Government funding cuts mean that it is increasingly difficult for the Council to maintain this commitment. The savings put forward for consultation in this report affect a range of fundamental services provided by the Council.

The financial proposals are based on the funding set out in the Local Government Finance Settlement announced in February 2016 - a headline 2017/18 grant loss for the Council of £12m. This will be confirmed in forthcoming Government announcements in December and February. Further context is provided in this report of the large grant losses suffered by the Council since 2010.

The 2017/18 Pre-Budget position will reflect additional income from continued growth in the city's Council Tax-Base – the taxable capacity within the city. It will also be based on an assumed overall Council Tax increase of just under 4%, including 2% to reflect a further amount for Adult Social Care. The Council Tax increase will be subject to Council approval in February.

At the start of this budget setting process, the Council faced significant budget gaps. In addition, the Council now anticipates that savings approved previously for 2017/18 will not be achieved in line with the original timescale. After taking this delay in meeting savings targets into account the starting budget gap stands at £19m for 2017/18 rising to £36m in later years.

The proposals in this report reduce the 2017/18 gap to £1m and if any of them are not accepted this will increase the size of the gap. Further work will seek to balance the Budget between now and the final Budget Report in February. Details on individual savings are provided in Section 2 and on a line by line basis in Appendix 1.

Recommendations:

Cabinet is recommended to:

- (1) Approve the content of the report, the revenue spending and savings options in Section 2 and Appendix 1 and the broad Capital Programme proposals in section 2.8 as the basis for the Council's budget consultation process.
- (2) Approve the proposed approach on Council Tax in Section 2.9.

List of Appendices included:

Appendix 1 – Pre-Budget Financial Proposals
Appendix 2 – Equality and Consultation Analysis

Other useful background papers:

None

Has it been or will it be considered by Scrutiny?

No

Has it been or will it be considered by any other Council Committee, Advisory Panel or other body?

No

Will this report go to Council?

No

Pre-Budget Report 2017/18

1. Context (or background)

- 1.1 The Council has received £95m less core Government grant in 2016/17 than the equivalent figure it received in 2010/11. The four year settlement announced by Government in February 2016 confirmed additional reductions including a further £12m in 2017/18. By 2019/20 the total loss will amount to c£120m per annum.
- 1.2 Confirmation of these numbers will be contained within the Provisional Local Government Finance Settlement to be released by Government, probably in the week leading up to Christmas. The final settlement announcement is expected in early February. The Council's proposed participation in the West Midlands 100% Business Rates Retention Pilot approved by Cabinet on 1st November offers the potential for additional resources to be made available.
- 1.3 Incorporating the grant loss known currently, the Council's starting gap for 2017/18 was £11m. However, it has become clear that some existing savings plans cannot now be delivered in 2017/18 to the original timescale and this has increased the overall budget shortfall to £19m. This rises to £36m by 2019/20 and means that the Council needs to plan for significant reductions in its budgets over the medium term. This report incorporates savings proposals to help achieve this as a basis for consultation.
- 1.4 The City Council's Medium Term Financial Strategy (MTFS) approved by Council on 11th October set out the national and local context in which the Council is operating. Prior to setting the final Budget in February, the Council will be required by law to establish the Council Tax and Business Rates tax-bases for 2017/18 and declare any projected deficits or surpluses from previous years.
- 1.5 Sitting behind the overall financial approach is the Council's commitment to protect its most vulnerable citizens and to deliver a range of core services to everyone in the city. However, the Council's message to Coventry citizens is that that it faces an increasingly difficult task to achieve this at the same time as dealing with continued austerity. In order to balance its Budget the Council is taking the following broad approaches:
 - Overhauling and modernising Council services including changes to service provision that require a different set of customer expectations and behaviour.
 - A focus on ensuring that the Council optimises those sources of income over which it has an element of control including Council Tax and Business Rates revenue, external specific grants and fees, charges and rental income.
 - Being honest with its citizens about the need to make savings in and cuts to some services including the proposals considered as part of this report.
- 1.6 It is important to recognise the major projects that are being delivered across the city which the Council is leading on or supporting in 2017/18: work will begin on the construction of a new water and leisure facility in the city centre; it is anticipated that further restaurants will be attracted to Coventry to add to the high profile names that have come to the city recently; major projects to enhance the local rail travel offer (the NUCKLE scheme) and Coventry Railway Station (the Coventry Station Master Plan) will continue the transformation of this part of the city; further public realm works will be undertaken to improve the appeal of the city centre in 2017/18; and the Council is in the early stages of putting together the major City Centre South project which will deliver a new mixed leisure/retail/residential development, supported by funding available as part of the Council's participation in the West Midlands Combined Authority. The vast majority of the funding to deliver these schemes comes from sources that can only be used in one-off capital schemes and therefore is not available to support the revenue budget which is the focus of most of this report.

1.7 This report proposes that the budget consultation is carried out on the basis that the Council will increase Council Tax levels by just under 4%, the maximum amount allowable by Government without triggering a referendum.

2. Options considered and recommended proposal

2.1 The remainder of the report details the financial position facing the Council and the specific proposals put forward for consultation. These proposals are set out within Appendix 1.

2.2 Following the 2016/17 Budget Report the Council faced an initial budget gap of £11m rising to £36m over the next three years. A number of changes to technical assumptions, budget pressures and the resources available to the have emerged since then leaving a revised budget gap over this period.

2.3 The key new issue that is putting pressure on the Council's bottom line is the anticipated shortfall in the delivery of savings set previously which were anticipated would be achieved in 2017/18. Recent Budgets have seen the Council establish very significant savings programmes and current estimates indicate that out of £68m of savings set in recent years nearly 90% are expected to be achieved. However, the remaining savings are proving more difficult to deliver and there is likely to be a shortfall in achievement of £8.6m in 2017/18 as set out in Appendix 1. The most significant shortfalls are within the People Directorate which continues to face challenges from high and increasing demand across a number of service areas. As well as causing new budget pressure from the cost of care packages and support for children and adults that have entered the care system, this pressure makes it more difficult to meet budget savings based on reductions in workforce numbers and transformational change. Given the nature of these savings and the current early stages of progress in delivering them it is unrealistic to expect them to be delivered in full within 2017/18 and this requires an adjustment to reflect this shortfall. It should be noted that delivery of the remaining savings programmes will continue to be a key budget risk in 2017/18.

2.4 A number of the issues that are helping to close the budget gap represent technical realignments of the budget that will not have a significant impact on services or citizens. The major ones are described briefly below:

- Council Tax-Base - This represents a significant improvement in the level of Council Tax income that is likely to be available. It reflects increases in the city's tax-base and continuing reductions in the level of Council Tax Reduction Scheme payments and includes known and estimated surpluses brought forward from 2015/16 and 2016/17.
- Asset Management Revenue Account - This incorporates the revenue financing costs of capital spending. Continuing low interest rates and the re-profiling of capital spend mean that there will be a significant saving in this area although budget re-basing last year mean that the savings are lower in relative terms than they have been in previous years.
- Salary/Inflation Contingencies – Planned increases in the budget for superannuation costs in relation to pensions auto-enrolment and the triennial actuarial review are now expected to be lower than previously budgeted.
- Better Care Fund – this reflects indicative figures for Better Care Fund (BCF) grant resources from Government for managing services delivered between Adult Social Care and health. The assumed costs that should be funded by BCF have already been built into the Council's budget.

- 2.5 New savings proposals which require a change in Council policy or have an impact on the nature of Council services and staff have been identified which together move towards balancing the financial position. These proposals are put forward as a basis for consultation. The most significant proposals include:
- Reviewing the Council’s employment costs to save a further £5m by 2019/20.
 - Further review of the Council Tax Support threshold to reduce it by £2m per year from 2018/19.
 - Redesign of the Household Waste Collection Service maintaining a weekly collection of food waste and incorporating collection of the blue, green and brown lidded bin every two weeks – including extension of the brown lidded bin collection to all year round. This is expected to save £1m per year from 2018/19.
 - Increasing charges in areas such as bereavement services, pest control and car parking to generate £0.5m per year.
 - Reducing budgets in parks and street cleansing by £0.5m per year.
 - Ending most of the employment support services provided through the Employment Team, Job Shop and Youth Employment services, saving £0.5m per year.
- 2.6 After all these adjustments have been made there is still a significant budget gap in 2017/18. Appendix 1 includes some time-limited proposals to balance the Budget through a combination of the Council’s revenue reserves and capital receipts. The view of the Executive Director Resources is that it is vital that the Council retains its one-off resources to support key policy initiatives, and in particular those key capital projects and regeneration schemes designed to improve the image, vibrancy and self-sufficiency of the city over the long-term. Therefore, efforts will be made to identify resources or other measures prior to final Budget setting to replace some of the time-limited proposals in Appendix 1.
- 2.7 Table 1 below summarises the overall position. If all the proposals included within this report were accepted, this would bring the forecast budget gap down to £1.0m in 2017/18 rising to £8.5m in 2019/20. Further proposals will be brought forward as part of the final Budget Report which will ensure that a balanced budget position is achieved. Any of the existing proposals that are not accepted would need to be replaced by alternative savings.

Table 1: Overall Financial position 2017/18 to 2019/20

<u>Summary Position</u>	2017/18	2018/19	2019/20
	£000	£000	£000
Initial Budget Gap	10,563	24,299	35,944
Delayed Delivery of Existing Savings	8,611	0	0
Resource Changes	(3,042)	(5,160)	(5,160)
Technical and Corporate Savings	(5,236)	(6,218)	(6,283)
Savings Proposals	(3,175)	(10,055)	(14,655)
Time Limited Contributions	(6,700)	(4,400)	(1,300)
Current Budget Gap	1,021	(1,534)	8,546

- 2.8 The medium term Capital Programme will be presented as part of the Budget Report in February subject to the latest estimate of current year expenditure and Government capital allocations. The Programme will see the continuation of a number of large investment programmes across the city, utilising external grant resources and borrowing approvals

approved previously. The full Capital Programme that is likely to reflect the following progress in 2017/18:

- Completion of the Council's Friargate office in 2017/18.
- Continued development of the NUCKLE phase 2 rail project and of the Coventry Station Masterplan including the Station Access Tunnel.
- Initial building phase of the City Centre Destination Leisure Facility.
- Investment in road maintenance and improvements including the Whitley infrastructure works to support the expansion of Jaguar Landrover.
- Continuation of Public Realm works to improve the City Centre
- Further works on the city's schools including a new Broad Spectrum School

2.9 Council Tax

In 2016/17 Coventry increased its Council Tax by just under 4%, the limit above which the Council would have been required to seek referendum approval from Coventry voters. The financial position built into this report is based on an equivalent rise of just under 4% in 2017/18. This incorporates a 2% underlying increase and a further 2% to support Adult Social Care costs allowed for within the Government regulations. Final Council Tax proposals will be confirmed in February once the 2017/18 settlement is known.

3. Results of consultation undertaken

- 3.1** Following agreement by Cabinet, the proposals in this report will be subject to eight weeks public consultation ending on 27th January 2017. The Council will invite comments on the proposals from members of the public and from organisations that act as its regular consultees through social and digital media. The outcome of this consultation will be included in the February budget report.

4. Timetable for implementing this decision

- 4.1** If approved, the proposals identified within this report will be implemented from 1st April 2017 in line with the profile set out in Appendix 1. This report does not authorise spending and savings decisions. This will happen in the final Budget Setting report in February.

5. Comments from Executive Director of Resources

5.1 Financial implications

The proposals in this report are wholly concerned with financial matters. They reflect a direction of travel that Coventry has faced in recent years in line with all other similar authorities across the country which leaves it with no option but to identify ways of reducing its overall budget in order to respond to cuts in Government resources.

There is no expectation of significant uncertainty over the assumptions of Government grant resources for 2017/18 although proposed changes to the local government finance system are expected from 2020/21. The work to finalise the 2017/18 Budget in February will focus mainly on the Council's Business Rates and Council Tax tax-bases and on the Council's employer superannuation costs which are subject to current negotiations with the West Midlands Pension Fund.

The Council is moving towards achievement of its outstanding savings programmes but this report reflects a year's delay in doing this. The Council is not alone in experiencing such a delay which is a symptom in part of the severity and longevity of the austerity programme that has been applied to local government. However, the Council has no option but to identify these savings over the medium term and the Council's senior management will continue to focus its attention on these matters.

There are proposals at present to include the use of one-off resources to fund the Council's overall revenue budget. This is not sustainable over any significant length of time and the strong preference is to avoid doing so. Should any flexibility emerge between now and February's Budget Setting report the Executive Director Resources will seek to minimise as far as possible the use of one-off resources in this way. This is seen as crucial to protect the Council's medium term financial position.

Many of the savings in this report have an impact on some of the core services used by Coventry citizens. Although the Council has worked hard to achieve greater efficiency in its services, the requirement to reduce its budgeted expenditure makes it inevitable that reductions in the level or quality of service will be felt in some areas. Nevertheless, the Council's medium term focus remains on helping Coventry become a growing and more prosperous city. This will help protect and increase key Council revenue streams in the form of Business Rates and Council Tax and reduce the reliance of some local residents on Council services. Signs are emerging that this strategy is taking effect and it is vital that investment in the city's future continues to consolidate this. The new Local Government Finance System that is expected to take shape in 2020/21 will place increasing emphasis on self-sufficiency. Only if the Council increases its own financial robustness and self-reliance will it be able to support the fundamental services that protect the most vulnerable citizens which it is responsible for.

5.2 Legal implications

The proposals in this report are designed to meet the Council's statutory obligations in relation to setting a balanced 2017/18 budget by mid-March 2017. This includes the duty to report to the Council on the robustness of the estimates provided and the adequacy of the financial reserves in place. Section 31A of the Local Government Act 1992 (as amended) and Section 25 of the Local Government Act 2003 refer.

6. Other implications

6.1 How will this contribute to achievement of the Council's key objectives / corporate priorities (corporate plan/scorecard) / organisational blueprint / Local Area Agreement (or Coventry Sustainable Community Strategy)?

The Council, in common with all local authorities, will continue to be faced with challenging resource constraints over the coming years, which will inevitably have an increasing impact on front-line services. The budget is developed within the context of the approved Medium Term Financial Strategy, which in turn rests on the principles set out for the City within the Council Plan. In this way pre budget proposals are aligned to existing policy priorities.

6.2 How is risk being managed?

The inability to deliver a balanced budget is one of the Council's key corporate risks. The proposals within this report are aimed directly at trying to mitigate this risk. The scale and scope of the savings that will be included in the Council's bottom line budget position are such that they represent a significant risk of non-achievement in the future. The savings programme will continue to be monitored robustly to ensure that Strategic Management Board and members are kept up to date with the progress of these reviews.

6.3 What is the impact on the organisation?

The size of the revenue gap to be managed means that the Council will have to change radically to meet the challenges that it faces both in terms of the way it works and the services it provides. The very large savings included in previous Budgets but relating to

future years will be met largely from savings in employee budgets. A new Early Retirement and Voluntary Redundancy programme is being implemented in order to continue the reductions in employee numbers needed to deliver new and existing savings plans. Reduced employee numbers across the Council plus the need to do things differently will further accentuate the importance of new ways of working and will change the nature of the services provided, and the way the Council works.

6.4 Equalities / EIA

As indicated in the table attached as Appendix 2, some of the proposals contained in this year's Pre-Budget Report have produced initial equality and consultation analyses (ECAs). These will be developed further throughout the budget consultation period, prior to being finalised in time of for the final Budget Report in early 2017. Many of the other savings are at the early stages of development and will require detailed ECAs to be carried out at the relevant time. The equalities impact will therefore be considered by elected members at the appropriate stages of subsequent decision making for the individual proposals.

6.5 Implications for (or impact on) the environment

None

6.6 Implications for partner organisations?

None

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