

Cabinet

28th November 2017

Name of Cabinet Member:

Cabinet Member for Strategic Finance and Resources – Councillor J Mutton

Director Approving Submission of the report:

Deputy Chief Executive, Place

Ward(s) affected:

All

Title:

Pre-Budget Report 2018/19

Is this a key decision?

Yes

Cabinet is being recommended to approve, as a basis for consultation, the spending and savings proposals for 2018/19 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 2018/19 to 2020/21 and an overall Council Tax increase for 2018/19 of c4.9% including 3% to reflect funding for Adult Social Care as allowed for within Government guidelines. The final Budget proposals and the Council Tax increase will be subject to Council approval in February.

The Council remains committed to seeking to protect its most vulnerable citizens and to delivering a range of core services to everyone in the city at a time of recent large reductions in Government funding. In last year's budget setting process, the Council approved proposals to deliver a balanced three year position to 2019/20. This was achieved through a combination of changes to the way that some services are delivered and efforts to increase the Council's degree of self-sufficiency through increased tax revenues and commercial/technical approaches.

Moving forward into a new 3 year planning period incorporating financial year 2020/21, an updated position is included within this report reflecting revised estimates and new areas of expenditure pressure and savings proposals. The Council is faced with new financial challenges stemming from uncertainty around the Local Government finance environment, greater external pressures in some of its demand led services and continued challenges in driving through the most recent savings targets within its own budgets. The Council's projections of the overall position has worsened significantly in recent months and it is very unlikely that it will be in a position to present a balanced medium term budget in February. Based on the proposals within this report there is a budget gap over the next three years of £3m rising to £19m.

The financial proposals are based on the funding set out in the Local Government Finance Settlement announced in February 2016 – an equivalent 2018/19 Settlement Funding Assessment reduction for the Council of £6.3m as part of the Government’s 4 year settlement. This is not expected to be altered significantly in forthcoming Government announcements in December and February.

Further work will be undertaken to address the 2018/19 Budget gap outlined in this report between now and the final Budget Report in February. Details on individual spending and 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 2.6 as the basis for the Council’s statutory budget consultation process; and
- (2) Approve the proposed approach on Council Tax in Section 2.7.

List of Appendices included:

Appendix 1 – Pre-Budget Financial Proposals

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

Report Title: Pre-Budget Report 2018/19

1. Context (or background)

- 1.1 The Council has received £107m less core Government grant in 2017/18 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 £6m in 2018/19. By 2019/20 the total loss will amount to c£119m per annum.
- 1.2 Confirmation of the Government's proposed Settlement Funding Assessment (SFA) for the Council will be contained within the Provisional Local Government Finance Settlement to be released probably in the week leading up to Christmas. The final settlement announcement is expected in late January or early February 2018. The Council's existing participation in the West Midlands 100% Business Rates Retention Pilot will continue into 2018/19, the projected benefits and no detriment basis of which were set out in the 2017/18 Budget Report. Due to the fact that the Council is effectively operating under a 100% Business Rates scheme and as a result of continuing reductions in its SFA, the Council will be subject to a tariff of c£11m in 2018/19. This is required to be paid over to Government as part of the overall Local Government funding model.
- 1.3 When the 2017/18 Budget was set, the Council had a balanced budget position for both 2018/19 and 2019/20. However, it has become clear that some existing savings plans cannot now be delivered to the original timescale. In addition the Council is faced by some additional demand led pressures, the most significant of which reflect a number of societal and social-economic factors that are affecting a number of councils across the country. This position has created budget shortfalls of £12m and £10m (after identified budgetary pressures) over the next two years.
- 1.4 In 2020/21, which fell outside of the three year balanced budget approved in February 2017, the initial projected budget gap (after identified budgetary pressures) is £21m. The Government's current plans for Local Government Funding beyond 2019/20 could be subject to the combination of a new national Spending Review, a revised allocation model within the Local Government sector and a new national 100% Business Rates model. As a result there is huge uncertainty around Local Government funding which makes it impossible to provide a robust financial forecast at this stage. Nevertheless, initial assumptions and existing trends are sufficiently firm to indicate that there will in all certainty be a substantial gap for that year. The view of the Council's Director of Finance and Corporate Services is that the Council should be planning for such a position.
- 1.5 The City Council's Medium Term Financial Strategy (MTFS) which is being brought to the same meeting of Cabinet as this report sets out further national and local context in which the Council is operating. Also, 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 2018/19 and declare any projected deficits or surpluses from previous years.
- 1.6 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 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 as well as the way that Council employees work.

- Being honest with its citizens about the need to make savings in and cuts to some services including the proposals considered as part of previous Budget reports.
 - A focus on ensuring that the Council optimises the full-range of income sources that affect its overall budget including Council Tax and Business Rates revenue, external specific grants, fees and charges and other elements of income from commercial activities including loan finance and returns from property and treasury investments.
- 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 5% including a 3% Social Care Precept, 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 2017/18 Budget Report the Council faced a balanced budget for 2018/19 and 2019/20 with a gap of £11m in 2020/21. A number of changes to technical assumptions, budget pressures and savings plans that have not yet been delivered since then have created a revised budget gap over this period.
- 2.3 There is a range of key new issues that are putting renewed pressure on the Council's financial position, the three most significant of which are outlined below. The full list including a number of smaller cost pressures are detailed in Appendix 1.

- The Council's Children's Services continue to face challenges from high and increasing demand. This is causing new budget pressure from the cost of care packages for looked after children and the costs of supported accommodation.
- There is a range of pressures across Council services that reflect the growth in homelessness in the city resulting in Housing Benefit costs that the Council is not able to recover from Government and the costs of households subject to the benefits cap and families with no recourse to public funds.
- There is an anticipated shortfall in the delivery of savings set previously which were anticipated would be achieved in 2018/19 and beyond. Savings programmes set since 2015/16 total over £50m and current estimates indicate that over 90% are expected to be achieved to previously indicated timescales. However, the remaining savings are proving more difficult to deliver and there is likely to be a shortfall in achievement of £5.6m in 2018/19 as set out in Appendix 1. The majority of the shortfall is within Children's Services and the cost pressures referred to above make 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 2018/19 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 2018/19.

- 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 growth in the level of Council Tax income that is likely to be available. It reflects increases in the city's tax-base and continuing falls in the level of Council Tax Reduction Scheme payments and includes known and estimated surpluses brought forward from 2016/17.
- Asset Management Revenue Account - This incorporates the revenue financing costs of capital spending and the confirmed cash-flow benefits of the Council's prepayment of pension contributions to the West Midlands Pension Fund covering the period up to 2019/20.
- Salary/Inflation Contingencies – Planned amounts set aside for issues including pensions auto-enrolment and payroll contingencies are now expected to be lower than previously budgeted. Payroll budgets continue to be planned based on an assumed 1% pay award. Any future decision to provide for a pay award above this threshold would cause a cost pressure for the Council.

2.5 If all these adjustments are incorporated there are still significant budget gaps over the medium term summarised in Table 1 below. The budget gap is forecast to be £2.8m in 2018/19 rising to £19.1m 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 in 2018/19. Whilst this, and a balanced position within 2019/20, look to be realistic within current known financial parameters the position clearly becomes far more serious in 2020/21. This is explored more fully in section 5.1.

Table 1: Overall Financial position 2018/19 to 2020/21

<u>Summary Position</u>	2018/19	2019/20	2020/21
	£000	£000	£000
Initial Budget Gap	0	0	11,419
Delayed Delivery of Existing Savings	5,601	4,032	3,477
Emerging Budgetary Pressures	6,123	5,608	6,110
Technical and Corporate Savings	(8,900)	(6,000)	(2,000)
Current Budget Gap	2,824	3,640	19,006

2.6 The Council's draft five year capital programme until 2022/23 totals over £500m, of which £237m is currently cash-flowed for 2018/19. The programme sees some major schemes start their early stages of works in particular for Coventry Station Masterplan (out for planning approval) and final approval from WMCA for £39m of funding and the early phases of the Whitley infrastructure programme.

In addition the Friargate and City Centre Destination Facility are coming to the end of their construction life alongside regular capital programme investments such as the highways programme. Below is list of some of the specific schemes within the City Councils current draft Capital Programme for 2018/19;

- West Midlands Combined Authority funded schemes including City Centre Regeneration and Friargate at £58m and Uk Central and Connectivity at £43m.
- Continued development of the Coventry Station Masterplan and NUCKLE 1.2 schemes (£23m).
- £24m of Local Enterprise Partnership Growth Funded Schemes to parties outside the Council led Programme.

- £20m of investment in the first phases of the Whitley Infrastructure works. This will rise to a £60m scheme – 100% funded from external partners.
- £22m continued investment in Public Realms works including works on the the ring-road and multi storey car parks.
- Continued investment in the Education Capital Programme in particular for Schools of £17m, including provision for the expansion of secondary places.
- Final phase of the City Centre Destination Leisure Facility (£15m).
- Continued provision for Social Care activities including Pathways to Care and Disabled Facilities Grants (£3m) plus the ICT Programme (£2m).

The draft programme will be subject to change between now and February with every expectation that some of the proposed expenditure profiling above being shifted to later years. Given the large amount of externally funded and driven proposals within the Council's Capital Programme it is very likely that a fair degree of flux will continue to be experienced over the next few years.

2.7 Council Tax

In 2017/18 the Council increased its Council Tax by just under 5%, the limit above which it 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 5% in 2018/19. This incorporates an underlying increase of just under 2% and a further 3% to support Adult Social Care costs allowed for within the Government regulations. Final Council Tax proposals will be confirmed in February once the 2018/19 settlement is known.

3. Results of consultation undertaken

- 3.1 Given the relatively low impact of the recommendations within this report the proposals will be subject only to statutory consultation requirements. The Council will communicate the report's key messages through usual means including social and digital media.

4. Timetable for implementing this decision

- 4.1 If approved, the proposals identified within this report will be implemented from 1st April 2018 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 Director of Finance and Corporate Services

5.1 Financial implications

The proposals in this report are wholly concerned with financial matters. In several key ways they reflect challenges that are common to a number of similar authorities across the sector in terms of emerging cost pressures and delivering challenging transformation targets. The balanced 3 year budget set in February 2017 put the City Council in a better position than many authorities and for this reason the Council should be able to balance its budget for 2018/19 and 2019/20 without the need for very large additional savings across services. However, unless there is a significant shift in national funding arrangements in the Council's favour, financial year 2020/21 threatens to be a very challenging one. Neither this report nor the final Budget report in February will offer solutions to balance 2020/21 at this stage. However, the Council's Strategic Management Board and its Director of Finance and Corporate Services intend to initiate early work to identify ways in which the Council can start to meet the budget gap indicated.

There is no expectation of significant uncertainty over the assumptions for the Council's funding position in 2018/19. Therefore, the work to finalise the 2018/19 Budget for February will focus mainly on fine-tuning (and ameliorating where possible) the cost pressures

identified as well as the Corporate/technical measures including its Council Tax tax-base, capital financing costs and any one-off measures that can be used in line with the Council's Medium Term Financial Strategy.

The potential changes to the local government finance system expected from 2020/21 that are outlined in section 1.4 could have a profound impact on the whole sector and it is impossible at this stage to predict what these may be. Current financial assumptions for the Council are based on the continuation of existing trends which means the likelihood of further reductions in resources.

There are no proposals at present to increase the use of one-off resources to fund the Council's overall revenue budget beyond those approved last year. Such measures are not sustainable over any significant length of time and the strong preference is to avoid doing so. However, it may be necessary to implement such measures where the pressures are perceived to be short term and where there are plans to achieve a sustainable budget position in the medium term.

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 through proposals made in previous budget reports which will continue to be implemented over the next two financial years. However, no new savings are being proposed as part of this report. 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 continue to emerge that this strategy is taking effect and it is vital that investment in the city's future continues to consolidate this. In addition, the Council is adopting some more commercial approaches that will help it to achieve some new and increased revenue streams. These approaches are outlined in the Medium Term Financial Strategy and have already resulted in a number of decisions. The view of the Director of Finance and Corporate Services is that the Council must increase its own financial robustness and self-reliance in order to support the fundamental services that protect the most vulnerable citizens which it is responsible for.

Notwithstanding the very difficult position facing the Council's revenue budget, there is an continued trend for the Council to propose a large and expansive Capital Programme. This encapsulates several key features: successful efforts to attract external grant funding, working with local partners to lever in funding for important projects often with a sub-regional dimension and flexible use of existing budgets to self-fund schemes from Prudential Borrowing. This is part of the medium term focus referenced above and is central to the Council's plans to increase local regeneration and prosperity.

5.2 Legal implications

The proposals in this report are designed to meet the Council's statutory obligations in relation to setting a balanced 2018/19 budget by mid-March 2018. 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 Finance Act 1992 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 Plan?

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. Early Retirement and Voluntary Redundancy decisions continue to be made 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

The savings contained in this year's pre-Budget report are all technical in nature and therefore there is no equality impact in relation to these. This position will be reviewed ahead of the final budget proposals being put forward in the new year, and any associated equality analysis will be carried out accordingly.

6.5 Implications for (or impact on) the environment

None

6.6 Implications for partner organisations?

None

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