

**Bristol City Council
Business Change & Resources Scrutiny Commission
15 December 2014**

Report of: Service Director, Finance

Title: Scrutiny of 2015/16 Budget **Ward:** Citywide

Officer presenting report: Peter Gillett

Contact telephone number: 0117 922 2419

Recommendation

That the Commission consider the draft budget/MTFS proposals for 2015/16.

Summary

Arrangements for 2015/16 budget and Medium Term Financial Strategy were considered by Cabinet at their meeting of 4 November 2014 (copy attached as an Appendix) and this formed the basis for the Budget issued for consultation by the Mayor on 17th November.

This is the first of two budget scrutiny sessions, the second to be held on 5th January 2015. The Committee has asked for a number of discussion/ working papers to be prepared for consideration at the meeting. These are currently being prepared and will follow.

Note:

Cabinet Report 4 November 2014 - Appended

BRISTOL CITY COUNCIL CABINET 4 NOVEMBER 2014

REPORT TITLE:

Arrangements for 2015/16 budget and Medium term financial strategy

Ward(s) affected by this report: Citywide

Strategic Director: Max Wide – Strategic Director Business Change

Report author: Peter Gillett – Service Director Finance

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Purpose of the report:

To update Members on the principles and assumptions underlying the Council's approved Medium Term Financial Strategy; to roll forward the MTFS for a further year to include 2017/18; to outline proposals for public consultation arrangements for the 2015/16 draft budget and to seek Cabinet approval in line with the Council's constitution.

RECOMMENDATION for the Mayor's approval:

Cabinet are asked to note:

1. The initial financial forecast in relation to resources and expenditure at Appendix A
2. The key assumptions and principles underpinning the financial forecasts and the associated risks set out at paragraphs 16 to 29
3. The consultation arrangements as set out at paragraphs 30 - 32

BACKGROUND

1. The Medium Term Financial Strategy sets out the Council's key financial management principles, budget assumptions and service issues. The MTFS is kept under constant review to ensure it continues to align with the Council Plan and that resources are directed to delivery of priorities.
2. The Council approved the 2014/15 Budget and 2014/15 to 2016/17 medium term financial strategy in February 2014. This included proposals to ensure a balanced budget requirement across all three financial years. Planning and implementation are now well underway.

3. Those proposals were consulted on widely with the people of Bristol reaching significantly more people than any previous budget consultation. It is estimated that the promotional activity to raise awareness of the budget consultation reached an audience of over 50,000 people that in turn prompted approximately 10,000 views of web information and over 1,300 people to turn out in person to a public meeting. This led to a record response rate to the consultation (over 12 times the response in 2012) with nearly 3,900 people 'having a say' via paper and online surveys.
4. In addition to the measures to address the funding reductions, the approved MTFS accommodates:
 - That the Council continues to fully fund the Council Tax Reduction Scheme at an estimated cost of £4m;
 - Additional investment of £1.150m which is made up of: a hardship fund to help residents with the impact of welfare reform (£0.250m), investment in Parks and Play (£0.5m) and £0.4m to meet the cost of introducing the Living Wage for council employees (subsequently approved by Full Council in September 2014)
 - A Capital programme over the three years of £506m including provision for The Arena, Metrobus schemes and Schools investment

Full Council, in September 2014, approved an amendment to the Council's pay policy to introduce a Living Wage Supplement, this would ensure the budget commitment is fulfilled and that all employees, including casual workers, receive no less than the Living Wage as their pensionable pay for all hours worked.

5. Members also approved, for one year only, further investments in sports development of £0.1m; maintaining previous levels of spending on parks to cover existing services while renegotiation for the contracts from 2015/16 was underway (£0.5m); pest control budgets of £0.2m; and transitional arrangements for children's centres of £0.5m. These additions were funded by one-off Icelandic Bank and VAT recoveries of £1.3m.
6. 2015/16 is the second year of the approved three-year financial plan and this report provides an opportunity to:
 - (i) take stock of how plans are progressing and to take corrective action where necessary
 - (ii) review the principles and assumptions underlying the MTFS

The outcome of this review provides the framework for the budget proposals that will be published for consultation by the Mayor on 17 November.

MTFS 2014/15 – 2016/17: PROGRESS TO DATE

7. Regular budget monitoring reports throughout the financial year provide early warning of changes to the council's financial position. Directorates deal with a range of spending challenges throughout the year which they are expected to accommodate within their budgets. Where those pressures cannot be managed within approved budgets they are taken into account in updating MTFS.
8. The most recent budget monitoring report highlights specific budget pressures within

People directorate as well as early warnings of emerging pressures and issues in a number of other service areas. These demand led demographic pressures are most noticeable in Adult and Children's Social Care, Transport (e.g. concessionary fares), waste management and planning services. The financial impact of these pressures is currently being assessed in detail and management actions will be taken to manage and mitigate the costs. For financial planning purposes a prudent provision of an additional £2.5m per annum has included into overall MTFS.

9. On November 17th, the Mayor will announce his budget consultation. In doing so, his proposals for 2015/16 and beyond, will need to be cognisant of both the service and demographic pressures as well as any realignment of resources that may be required to ensure delivery of the mayoral priorities.
10. The savings proposals contained within the MTFS include both the Mayoral saving proposals consulted on and agreed in February 2014, and the major transformational change programme, the Single Change Programme. Delivery of these programmes is closely monitored to ensure delivery remains on track.
11. With regard to the Mayoral Savings, these are built into directorate budgets. Progress with these is positive and we expect the overall target to be achieved.
12. The Single Change Programme was adopted by the Council in September 2013. The Programme set out a number of projects with target timescales for the delivery of savings and improvements and these were incorporated within the MTFS.
13. As reported to Cabinet in October 2014, the Programme as a whole is on track to deliver on the savings and improvements required. Progress is monitored weekly and where issues occur, action taken to rectify any delays and to correct or absorb any variation from original targets and timescales. Significant savings which will be delivered this year include:
 - The Restructure workstream which is forecast to achieve in-year savings of £12.1m, rising in a full year to £21.2m;
 - The Category Management workstream which is forecast to deliver £4.1m by 31st March 2015.
14. The horizon beyond 2016/17 now comes into view as we look toward the next Comprehensive Spending Review. Inevitably there will come a time when efficiency programmes run out of track, where it will no longer be possible to reduce costs by reducing the cost of supply. In this case, we will need to look more ambitiously at the benefits to be gained through working more closely with our partners, sharing services and trying to find ways to reduce demand. In the July report to Cabinet we characterised these different approaches as 'steps'. Step 1 is about 'doing (existing) things better'; Step 2 is about doing better (or new) things.
15. The Business Change and Resources Scrutiny Commission will regularly review progress of the Single Change Programme as part of its 2014/15 work plan.

Assumptions

16. Good financial management requires that the Council continually reviews its financial strategy to ensure that the financial plans remain robust. Planning assumptions made when the budget was set in February 2014 now need to be revisited and reassessed in line with latest information, announcements and intelligence.
17. An initial forecast of a refreshed MTFs is attached at Appendix A. This reflects the updated assumptions and emerging budget pressures as well as rolling forward the forecast for 2017/18. Overall the MTFs indicates a sound financial position over the forecast period. This must be considered however, against the background of challenging savings and transformation targets. The position beyond 2017/18 remains challenging as the period of funding reductions is indicated to continue into the next decade. Business Change and Resources Scrutiny Commission will continue to take a key role in scrutinising and challenging the budget assumptions.
18. The principal spending assumptions applied include:
 - All existing approved savings plans are delivered
 - 2.2% annual pay award in 2015/16 and 2% per annum thereafter (an increase from the 1% per annum previously assumed at a cost of £2.2m in 2015/16)
 - 2.5% general contract inflation each year (unchanged)
 - Annual pension increases in line with the 2013 revaluation (unchanged)

Local Government Funding

19. The Chancellor of the Exchequer announced the outcome of the 2013 Spending Review on 26th June 2013. The Spending Review set out the Governments spending plans for central government departments, the NHS and local government for 2014/15 and 2015/16. The Chancellor also confirmed that the Government intends to continue with its national austerity measures into 2020 and that the scale of reductions would be similar to those seen since 2010. The next CSR is not expected this side of the General Election.
20. The Local Government Finance Settlement announced in December 2013 provided an indicative settlement for 2015/16. For the Council the settlement indicated a cash reduction of 27% from 2014/15. Over the summer of 2014, the government conducted a technical consultation on aspects of the 2015/16 settlement but, in contrast to last year, the exercise has not revealed any further cuts in funding but has confirmed the 27% reduction for the Council.
21. Early modelling, based on HM Treasury forecasts and financial models from the Local Government Association indicate that the City Council could face an additional annual budget savings requirement of £49m by 2020.
22. Welfare Support funding is ceasing in 2015/16. It is understood that funding for welfare provision is to be included as a notional element within the settlement with no additional specific funding being included.
23. Better Care Funding - 2015/16 will see important changes to the delivery and funding of

Adult Social Care and integration with health. The Better Care Fund (BCF) combines £3.8bn nationally aimed at transforming health and social care services. This funding does not provide any new money across the health and social care sector, but it combines it into a pooled fund that will operate from 1st April 2015. The planned BCF for Bristol in 2015/16 totals £30.3m. The Department for Health requirement for the BCF include ensuring the financial sustainability of social care services, i.e. the BCF should fund demographic pressures and contribute to meeting the additional requirements of the Care Act.

24. Other Specific Grants - in general the MTFs assumes that all variations in specific grants, e.g. Dedicated Schools Grant, will be matched by variations in related spending.
25. Council Tax – income yield from council tax is dependent on the number of properties liable to council tax (the council tax base), the charge per property and the collection rate. The MTFs assumes an annual increase of 1.95% in the level of council tax. The Council tax base is now subject to increased volatility and takes account not only of the number of properties but also the level of discounts and exemptions. A significant factor is the number of families liable for discounts under the Local Council tax Reduction Scheme. In 2014/15 the increase in the number of properties liable to council tax was broadly in line with forecasts. However the taxbase increased materially due to (i) Council action to ensure Single Person discounts were being properly claimed (ii) a change in the calculation of Second Home Discounts and (iii) a general improvement in economic conditions meaning less working age families were eligible for council tax reductions. The Council Tax Base report will be presented to Council for approval in December.
26. Business Rates - under the Business Rates Retention scheme the Council shares in any business rates growth above the governments set baseline. A prudent approach to business rate growth has been included in the MTFs as there remains considerable uncertainty with regard to the number and value of successful business rate appeals, which can go back a number of years. The 2013/14 business rate collection fund showed a deficit of £7.5m after providing for outstanding appeals. This appeal provision, in accordance with accepted accounting practice from central government, has been spread across future years from 2014/15 to 2018/19. Accordingly the MTFs includes an annual RPI increase in business rate multiplier but does not include anything for year on year growth in the business rate tax base outside of the Enterprise areas. If possible, it will be prudent to consider establishing a reserve to cover the potential impact of such appeals.
27. The business rates taxbase is largely based on data produced after the end of October. We are currently therefore still working through all the detailed technical calculations and data. Initial data and intelligence does not provide evidence that the improving economic conditions are yet feeding through into increased business rate income. Indeed anticipated growth is likely to be within the Enterprise Zone and Enterprise Areas where the additional income will initially be passed to the LEP. The business rate taxbase and income will be approved in January 2015.
28. Council tax and business rate collection targets are on track.

Legislation

29. The Care Act received Royal Assent in May 2014 and it has wide ranging implications for adult social care services some of which take effect in April 2015 and the remainder in April 2016. There are significant financial risks associated with the delivery of the Care Act and the likely costs are currently very difficult to identify with reasonable accuracy. The Government has committed to fully funding the additional costs, but there can be no guarantees that this will be genuine new money and clearly represents an area of some risk.

TIMELINE

Date	Activity
17 November 2014	Mayor publishes budget proposals. Consultation is open for 6 weeks
16 December 2014	Full Council approval of Council Tax Band D equivalent properties for 2015/16 (Taxbase)
October 2014 - January 2015	Scrutiny meetings
29 December 2015	Consultation closes
13 January 2015	Cabinet – recommendation to Council for budget approval taking into account initial consultation feedback
17 February 2014	Final budget at Full Council

CONSULTATION ARRANGEMENTS

30. The Council undertook extensive consultation on the 2014/15 to 2016/17 budget and medium term financial strategy and also on the Local Council Tax Support Scheme as outlined in paragraph 3. Whilst the MTFs assumptions have been refreshed there are no significant decisions likely to be required as part of the budget consultation other than the level of council tax. Accordingly a lighter touch consultation will be undertaken on any proposed changes in respect of 2015/16 budget, the second year of the approved three year plan

31. On November 17th, the Mayor will announce his budget consultation. In doing so, his proposals for 2015/16 and beyond, will need to be cognisant of both the service and demographic pressures as well as any realignment of resources that may be required to ensure delivery of the mayoral priorities.

32. Consultation will be open for 6 weeks and consist of:

- (i) Public website consultation (hard copies will be available)
- (ii) Business and partner engagement
 - Statutory consultation with businesses via presentations and discussions at scheduled meetings
 - Discussions with voluntary and community sector partners

- (iii) Frequently asked questions and updates will be provided through the consultation

33. After the consultation closes the results will be collated and analysed ready for consideration at Cabinet in January and Full Council in February and published on the council website.

Consultation and scrutiny input:

a. Internal consultation:

- SLT
- Consultation team
- The Business Change and Resources Scrutiny Commission have considered the assumptions underpinning the budget and financial strategy and any changes arising from updates to those assumptions. Further sessions are planned to review the budget following announcement of the Mayor's updated proposals.

b. External consultation:

N/A

Other options considered:

Consultation is a statutory requirement for businesses only.

A wider public consultation was considered. However, extensive consultation was undertaken on the MTFS leading up to the approval of the current three year MTFS. 2015/16 is the second year of that Strategy and other than the level of council tax, no significant changes are proposed.

Risk management / assessment:

The following table identifies the key financial risks to the Council's financial position over the medium term, the mitigating actions in place and planned to reduce the impact of these risks on the Council's future financial position.

	Key Financial Risks	Likelihood	Impact	Mitigating Actions
	Unexpected events or emergencies By its nature, the financial risk is uncertain	Medium	High	<ul style="list-style-type: none"> • Council maintains a Strategic and General Reserve at a level of around 5% of its revenue budget for emergency purposes • Level of reserve is currently £20.0m
	Increasing demand for Adult Social Care Demand for services continue to increase as Bristol's population gets older	High	Medium	<ul style="list-style-type: none"> • Demand led pressures provided for within our spending plans • Activity indicators are being developed and are detailed below. These will be reported monthly alongside budget monitoring
	Potential Overspend and Council does not deliver required level of savings to balance spending plans Challenging savings have been identified within our	Low	Low	<ul style="list-style-type: none"> • High risk budget areas have been identified and financial support is targeted towards these areas • Regular progress reports on delivery of savings to Management Teams and Executive Board • Budget monitoring arrangements for

	spending plans.			forecasting year end position to be reviewed.
	Potential delay in delivery of Capital Receipts	Medium	Low	<ul style="list-style-type: none"> • Potential new capital receipts may be available from further corporate property review. • Capital receipts received to be monitored quarterly
	Increase in Pension Liabilities Our contributions are influenced by market investment returns and increasing life expectancy.	High	Medium	<ul style="list-style-type: none"> • Our spending plans reflect the level of pension contribution required as identified by the Avon Pension Fund's Actuary in 2013 for the next three years • New pension regulations changing scheme benefits to be implemented from 2014
	Non delivery of the Change Programme The Single Change Programme will transform the Council's internal management structure	Low	High	<ul style="list-style-type: none"> • Substantial savings have been identified and plans developed to ensure their delivery • Savings are removed from operating budgets to highlight overpends early. • Project delivery costs are to be rigorously monitored and managed

These financial risks are reflected in the assessment of the adequacy of council reserves and the use of reserves over the next three years.

Public sector equality duties:

N/A as this is an information report. Any changes as a result of the budget proposals will be considered.

Eco impact assessment

N/A

Resource and legal implications:

Finance

a. Financial (revenue) implications:

Guidance:

The revenue costs of the consultation will be contained within existing budgetary provision.

Advice given by Robert Woollatt, Interim Service Manager Corporate Finance

Date 10 October 2014

b. Financial (capital) implications:

Guidance:

None

Advice given by Robert Woollatt, Interim Head of Corporate Finance

Date 10 October 2014

Comments from the Corporate Capital Programme Board:

N/A

c. Legal implications:

The report sets out the proposals for the Mayor's budget consultation for 20115/16. The

proposals meet the public law duty to undertake proper public consultation particularly in relation to the requirement to set council tax, and the specific legal requirement to consult with business rate payers on its annual budget proposals. The proposals also comply with the Council's Budget and Policy framework requirements for consultation.

Nancy Rollason, Service Manager, Legal services

d. Land / property implications:

N/A

e. Human resources implications:

N/A

Appendices:

Appendix A - initial draft of updated MTFS

						APPENDIX A
UPDTED MTFS 14 OCTOBER 2014 (see changes in table below)						
2014/15 £'m		2015/16 £'m	2016/17 £'m	2017/18 £'m	2018/19 £'m	2019/20 £'m
	Departmental Summary					
217.7	People Directorate	213.6	212.9	212.9	212.9	212.9
59.6	Neighbourhoods	59.1	59.2	59.2	59.2	59.2
18.3	Place	18.1	18.3	18.3	18.3	18.3
55.8	Busines Change	55.4	54.2	54.2	54.2	54.2
9.1	City Director	9.1	9.1	9.1	9.1	9.1
(5.3)	Change Programme	(37.5)	(59.0)	(64.0)	(64.0)	(64.0)
21.4	Other Budgets	37.0	39.3	47.4	51.9	63.2
376.6	TOTAL NET COST OF SERVICES	354.8	334.0	337.1	341.6	352.9
	FUNDED BY:					
(110.4)	Formula Grant	(80.0)	(60.0)	(48.0)	(38.4)	(30.7)
(164.2)	Council Tax	(172.9)	(173.6)	(178.3)	(183.2)	(188.2)
(92.5)	Business Rates	(95.0)	(97.6)	(99.6)	(101.5)	(103.6)
(9.5)	New Homes Bonus	(10.8)	(12.1)	(11.2)	(9.9)	(7.5)
-	Contribution to/(from) reserves	3.9	9.3	-	-	-
(376.6)	Spending Pressure	(354.8)	(334.0)	(337.1)	(333.0)	(330.0)
-	SHORTFALL	-	-	-	8.6	22.9
MTFS CHANGES INCLUDED IN REFRESHED MTFS (including forecasts to 2019/20)						
2014/15 £'m		2015/16 £'m	2016/17 £'m	2017/18 £'m	2018/19 £'m	2019/20 £'m
	FUNDING CHANGES					
	Formula Grant	-	-	12.0	21.6	29.3
	Council Tax (Note 1)	(4.6)	(4.7)	(9.4)	(14.3)	(19.3)
	Business Rates	-	-	(2.0)	(3.9)	(6.0)
	New Homes Bonus	-	-	0.9	2.2	4.6
	Reassessment of council tax base in year benefit	(3.9)	-	-	-	-
	Funding (benefit)/pressure	(8.5)	(4.7)	1.5	5.6	8.6
	SPENDING PRESSURES					
	Pensions	-	-	1.8	3.6	5.4
	Pay Award	2.2	4.0	7.6	11.2	14.8
	Contract Inflation	-	-	3.4	6.8	10.2
	Emerging issues	2.4	5.0	7.5	10.0	12.5
	Spending Pressure	4.6	9.0	20.3	31.6	42.9
	OTHER CHANGES					
	One Change Programme invstment - time limited	-	-	(5.0)	(5.0)	(5.0)
	Reduce contingency	-	-	(3.2)	(10.0)	(10.0)
	SAVINGS OPPORTUNITIES	-	-	(8.2)	(15.0)	(15.0)
	Contribution to/(from) reserves (Note 2)	-	(4.3)	(13.6)	(13.6)	(13.6)
	Reassessment of council tax base in year benefit	3.9	-	-	-	-
	RESIDUAL BUDGET DEFICIT	-	-	0.0	8.6	22.9

Note 1 – The council tax adjustment in 2015/16 and 2016/17 reflect the increase in the taxbase only as a 1.95% was already assumed in the approved MTFS. Beyond this an annual increase of 1.95% is assumed.

Note 2 – The MTFS approved by Council in February assumed a repayment to reserves of £13.6m in 2016/17. This is now needed to meet spending pressures of £4.3m in 2016/17 and in full in 2017/18 and beyond.