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| CABINET | AGENDA ITEM No. 9 |
| 7 NOVEMBER 2016 | PUBLIC REPORT |

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|--------------------------------|---|----------------------------|
| Cabinet Member(s) responsible: | Councillor David Seaton, Cabinet Member for Resources | |
| Contact Officer(s): | John Harrison, Corporate Director: Resources Steven Pilsworth, Service Director Financial Services | Tel. 452520 Tel. 384564 |

MEDIUM TERM FINANCIAL STRATEGY 2017/18 TO 2026/27

| R E C O M M E N D A T I O N S | |
|--|----------------------------|
| FROM : Cabinet Member for Resources | Deadline date : N/A |
| That Cabinet approve the Phase One Budget Proposals (Appendix 1), including a Council Tax increase of 4 per cent, as the basis for public consultation. | |

1. ORIGIN OF REPORT

- 1.1. The Cabinet meeting of 26 September 2016 considered a report 'Medium Term Financial Strategy and Budgetary Control Report – July 2016' and within this report considered the budget process timelines for setting a balanced budget for 2017/18 and options for allowing the maximum possible consultation period with the public.
- 1.2. On 12 October 2016, Council agreed to continue a two-phased approach to the consultation process on a permanent basis. This will ensure that the views of all residents, partner organisations, businesses and other interested parties to understand the scale of the financial challenge and have the opportunity to feed back their views, commencing with the first tranche of budget proposals.

2. PURPOSE AND REASON FOR REPORT

- 2.1. This report comes to Cabinet as part of the council's Budget and Policy Framework that requires Cabinet to initiate and propose budget proposals to set a balanced budget for the forthcoming financial year.
- 2.2. The purpose of this report is to:
 - 2.2.1. Recommend that Cabinet approve the first phase of budget proposals for consultation to contribute towards closing the budget gap of £18.8m in 2017/18, and the strategy of working to close the budget gaps in 2018/19 and beyond. Subject to Scrutiny feedback and comments from residents, partner organisations, businesses and other interested parties, Cabinet will recommend budget proposals to Council in December 2016 to implement at the earliest opportunity.
 - 2.2.2. Outline the approach for the remaining budget process.
 - 2.2.3. Outline the financial challenge the council faces in setting a balanced budget for 2017/18.

- 2.3. This report is for Cabinet to consider under its Terms of Reference No. 3.2.1 which gives Cabinet collective responsibility for the delivery of all strategic Executive functions within the Council's Major Policy and Budget Framework and lead the Council's overall improvement programmes to deliver excellent services.

3. **TIMESCALES**

| | | | |
|---|-------------------------|--|------------------------|
| Is this a Major Policy Item/Statutory Plan? | YES | If Yes, date for relevant Cabinet Meeting | 7 NOVEMBER 2016 |
| Date for relevant Council Meeting | 14 DECEMBER 2016 | Date for submission to Government department | N/A |

4. **EXECUTIVE SUMMARY**

- 4.1 The report outlines the financial position of the Council for 2017/18, as well as Cabinet's approach to tackling the challenge by releasing budget proposals in two phases. The deficit is currently forecast to be £18.8m and the savings proposals total £9.9m. The phase 1 Budget position is currently balanced with the use of £8.9million of the Grant Equalisation (GE) reserve. The budget gap in 2018/19 is £17.8million. The phase 2 budget proposals will be brought forward in January 2017 and will aim reduce the reliance on reserves, and to help close the budget gaps in following years.

5. **FINANCIAL POSITION AND BUDGET PROPOSALS**

- 5.1. The budget proposals must be set in the context of the incredibly challenging financial position that all councils face. Since the financial crisis of 2008, the public sector has seen unprecedented reductions in funding. In the six years to 2016/17, the council has seen its government funding cut by £54m, which equates to nearly 50 per cent of its government grant.
- 5.2. For next year (2017/18), it is forecast that the Council will see a further government grant reduction of £7.5m. The Comprehensive Spending Review on 23rd November will give an indication of what the final scale of grant reductions will be, however the true scale of the cuts will not be known until the provisional Local Government Finance Settlement is published. Whilst this information is usually released in late December, the late timing of the Comprehensive Spending review may mean that the Provisional Settlement is not published until early 2017.
- 5.3. In addition, it faces financial pressures of £11.3m as a result of an increasing demand for services and changes to the Council's statutory duties. This creates a significant challenge of finding £18.8m of savings and efficiencies to balance the budget, which will increase to a gap of £38m by 2021/22.
- 5.4. The first tranche of budget proposals accompanies this report (Appendix 1) and includes both savings and emerging pressures. However, these proposals alone do not provide a balanced budget for 2017/18, only with the use of the Grant Equalisation Reserve will it be balanced and it will be necessary for Cabinet to identify and consult on a second tranche of savings commencing January 2017 to reduce the reliance on the reserve and look to close the gap in future years.

5.5. Summary of Phase 1 budget proposals:

| | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|--|-----------------|---------------|---------------|---------------|---------------|
| | £000 | £000 | £000 | £000 | £000 |
| Opening Budget before the GE reserve | 15,289 | 24,347 | 31,170 | 33,807 | 34,285 |
| Planned use of the GE reserve | (11,188) | | | | |
| Opening Budget Gap (2016/17 Strategy) | 4,101 | 24,347 | 31,170 | 33,807 | 34,285 |
| Phase 1 – Pressures | 3,330 | 2,377 | 2,844 | 3,136 | 3,428 |
| Phase 1 – Investments | 182 | 272 | 330 | 352 | 352 |
| Add back planned use of the GE reserve | 11,188 | | | | |
| Initial Budget Gap | 18,801 | 26,996 | 34,344 | 37,295 | 38,065 |

5.6 The next table outlines the position if all Phase 1 proposals are accepted. The phase 1 Budget position is currently balanced, however only with the use of £8.9million of the Grant Equalisation reserve. The budget gap in 2018/19 is £17.8million. Further urgent work is needed in phase 2 to reduce the reliance on reserves, and to help close the budget gaps in following years.

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|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| Initial Budget Gap | 18,801 | 26,996 | 34,344 | 37,295 | 38,065 |
| Phase 1 - Efficiencies | (2,692) | (3,729) | (3,410) | (3,507) | (4,060) |
| Phase 1 – Income | (7,256) | (2,870) | (2,718) | (2,720) | (2,722) |
| Revised Budget Gap | 8,853 | 20,397 | 28,216 | 31,068 | 31,283 |
| Use of the GE reserve (£11,444) | (8,853) | (2,591) | | | |
| Total Budget Gap | 0 | 17,806 | 28,216 | 31,068 | 31,283 |

5.7. As part of the budget-setting process, Cabinet is also considering recommendations regarding the level of Council Tax support that the Council provides to working-age claimants. It has been recommended that the Council continues with the existing level of support it currently provides in 2017/18. This is included as a separate item on the agenda of this meeting.

5.8. The Phase 1 Budget Conversation document can be found in Appendix 1. The Phase 2 budget proposals will follow in January and Members and interested parties will again be able to provide feedback on this second tranche.

6. CONSULTATION APPROACH

6.1. Cabinet have been working over a period of five months and several meetings with the Cross-Party Budget Working Group to seek views on all Cabinet budget proposals, including the opportunity to make alternative suggestions. As part of these meetings, the Budget Working Group explored options to commence consultation at the earliest opportunity

- 6.2. The budget process will have two phases for Cabinet to put forward budget proposals, recommending these proposals to two separate Council meetings. The first meeting held in December will be to consider the first tranche of budget proposals. The second meeting will be the formal process to set out a lawful and balanced budget for the remaining budget proposals to be published during January 2017 and recommended by Cabinet for approval by Council on 8th March 2017. This timeline is outlined below:

| Meeting | Content | Date |
|--|--|--------------------------------|
| Phase One | | |
| Cabinet | Release of first tranche of budget proposals | 7 th November 2016 |
| Scrutiny | Formal scrutiny of budget proposals | 16 th November 2016 |
| Cabinet | To recommend the first tranche of budget proposals to Council having regard to feedback | 5 th December 2016 |
| Council | Approve the first tranche of budget proposals | 14 th December 2015 |
| Phase Two (including the remaining budget documents for Council Tax, reserves and the Medium Term Financial Strategy) | | |
| Cabinet | Release of second tranche of budget proposals | 6 th February 2017 |
| Scrutiny | Formal scrutiny of budget proposals | 8 ^h February 2017 |
| Cabinet | To recommend the second tranche of budget proposals to Council having regard to feedback | 27 th February 2017 |
| Council | Approval of budget and council tax | 8 th March 2017 |

- 6.3. Alongside the budget process, there is a legislative requirement to approve the council's council tax support scheme annually each year. The timeline is as follows:

| Meeting | Content | Date |
|---------|--|-------------------------------|
| Cabinet | Recommend the scheme to Council for approval | 16 th January 2017 |
| Council | Approve the Council Tax Support Scheme | 25 th January 2017 |

- 6.4. The following budget events will be held during phase one to enable residents, partner organisations, businesses and other interested parties to feedback on budget proposals and council priorities:

- Scrutiny
- Discussion with the trade unions
- Discussion with the business community
- Borderline Peterborough Local Commissioning Group
- Peterborough Housing Partnership
- Disability Forum
- Connect Group
- Schools Forum
- Parish Councils
- Peterborough Community Assistance Scheme
- Youth Council

- 6.5. A hard copy of the phase one budget proposals and Budget Conversation document will be available in all libraries and Town Hall and Bayard Place receptions. The council will also receive responses via an on-line survey on its website.
- 6.6. A copy of the phase one budget proposals will be published on insite, and will be available to all staff to enable them to provide responses.
- 6.7. We will also promote the Budget Conversation through the local media and through the council's Facebook and Twitter accounts to encourage as many people as possible to have their say.
- 6.8. The Council will look to repeat this approach with the Phase 2 proposals to be released in January 2017.

7. ANTICIPATED OUTCOMES

- 7.1. Following the release of the first tranche of budget proposals to tackle the financial gap and outlining Cabinet's priorities and vision for Peterborough, Cabinet is seeking the opinions of all residents, partner organisations, businesses and other interested parties to understand which council services matter most. The Council must set a balanced budget for 2017/18 within the financial resources it will have next year and the feedback received will help inform Cabinet in considering budget proposals within the second tranche.

8. REASONS FOR RECOMMENDATIONS

- 8.1. The Council must set a lawful and balanced budget. The approach outlined in this report work towards this requirement.

9. ALTERNATIVE OPTIONS CONSIDERED

- 9.1. No alternative option has been considered as the Cabinet is responsible under the Constitution for initiating Budget Proposals and the Council is statutorily obliged to set a lawful and balanced budget by 11th March annually.

10. IMPLICATIONS

Elected Members

- 10.1. Members must have regard to the advice of the Section 151 Officer. The Council may take decisions which are at variance with this advice, providing there are reasonable grounds to do so.
- 10.2. Section 106 of the Local Government Finance Act 1992 applies whereby it is an offence for any Members with arrears of Council Tax which have been outstanding for two months or more to attend any meeting of the Council or its committees at which a decision affecting the budget is made, unless the Members concerned declare at the outset of the meeting they are in arrears and will not be voting on the decision for that reason.

Legal Implications

- 10.3. In terms of the Council's executive arrangements, the adoption of the Council's Budget is a role shared between the Cabinet and the Council, whereby the Cabinet (Leader) is responsible for formulating the budget proposals and full Council is responsible for then approving (or not) those proposals and setting the budget and council tax requirement.
- 10.4. For the remainder of the year, the principal purpose of the Budget is to set the upper limits of what the executive (Leader, Cabinet or officer under delegated executive authority) may

decide to spend the Council's resources on. The Council cannot through the Budget overrule an executive decision as to how to spend the money, but the Budget will require the Cabinet to exercise their responsibilities for decision making so as not to make a decision where they are 'minded to determine the matter contrary to, or not wholly in accordance with the authority's budget'. This means that a decision that leads to excess expenditure, a virement from one budget heading to another over the amount allowed by Council in the Budget Book or expenditure of unexpected new money outside of the Budget is required to have approval of the Council before the Leader and Cabinet can make that decision.

- 10.5. When it comes to make its decision on 9 March 2016, the Council is under a legal duty to meet the full requirements of section 31A of the Local Government Finance Act 1992 which includes the obligation to produce a balanced budget.
- 10.6. A principle of fairness applies to consultation on the budget proposals, both consultation required under s65 of the Local Government Finance Act 1992 and more generally as proposed here, which operates as a set of rules of law. These rules are that:
 - Consultation must be at a time when proposals are still at a formative stage;
 - The proposer must give sufficient reasons for any proposal to permit of intelligent consideration and response;
 - Adequate time must be given for consideration and response; and
 - The product of consultation must be conscientiously taken into account in finalising any statutory proposals.
- 10.7. Added to which are two further principles that allow for variation in the form of consultation, which are:
 - The degree of specificity with which, in fairness, the public authority should conduct its consultation exercise may be influenced by the identity of those whom it is consulting; and
 - The demands of fairness are likely to be somewhat higher when an authority contemplates depriving someone of an existing benefit or advantage than when the claimant is a bare applicant for a future benefit.
- 10.8. It should be noted that the consultation to be undertaken as a result of this report is on the Budget proposals, and consequently the Cabinet's general approach to the savings requirements, and not on the various decisions to take whatever actions that may be implicit in the proposals and later adoption of that budget, each of which may or may not require their own consultation process.
- 10.9. By virtue of section 25, Local Government Act 2003, when the Council is making the calculation of its budget requirement, it must have regard to the report of the Director of Finance, as to the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves. It is essential, as a matter of prudence that the financial position continues to be closely monitored. In particular, members must satisfy themselves that sufficient mechanisms are in place to ensure both that savings are delivered and that new expenditure is contained within the available resources. Accordingly, any proposals put forward must identify the realistic measures and mechanisms to produce those savings.

Human Resource Implications

- 10.10. There will be no implications on staffing as part of the phase one proposals.

Equality Impact Assessments

10.11. All budget proposals published in this first tranche have been considered with regards to equality issues and where appropriate equality impact assessments have been completed and available on the council's website.

11. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985)

11.1 None.

12. APPENDICES

Appendix 1 – Phase 1 Budget Conversation Document

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