

READING BOROUGH COUNCIL

REPORT BY INTERIM MANAGING DIRECTOR

TO:	COUNCIL		
DATE:	18 OCTOBER 2016	AGENDA ITEM:	8
TITLE:	FINANCE SUSTAINABILITY PLAN SUBMISSION TO THE DEPARTMENT OF COMMUNITIES AND LOCAL GOVERNMENT		
LEAD MEMBER:	COUNCILLOR LOVELOCK	JO PORTFOLIO:	CORPORATE
SERVICE:	ALL	WARDS:	BOROUGHWIDE
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1. PURPOSE AND SUMMARY OF REPORT

- 1.1 On 9 February 2016, the then Secretary of State for the Department for Communities and Local Government, Greg Clark MP, announced the Final Local Government Finance Settlement for 2016/17. The settlement included indicative funding allocations for the subsequent three financial years up to and including 2019/20 and confirmed that the Government would offer any council wishing to take it up, a Four-year Funding Settlement running from 2016/17 up to 2019/20.
- 1.2 This was followed by a letter to chief executives and leaders of local authorities inviting them to submit a four year financial sustainability plan by 14 October 2016 as a condition of the Four Year Settlement offer.
- 1.3 This offer was described at Policy Committee on 26 September 2016 in an update report on the Council's financial position. It was explained that the Government had offered a multi-year financial settlement to local authorities on the condition that they submitted a web link to their financial sustainability plan by 14 October 2016. Councils that did not accept the offer would be subject to the existing annual process for determining the level of central funding that they would receive and may be subject to additional grant reductions.
- 1.4 It is therefore proposed that the Four Year Settlement offer is accepted, which will mean that Revenue Support Grant (RSG) will not be less than the figures published by the Government and that the financial sustainability plan is submitted.

- 1.5 Policy Committee agreed that the draft sustainability plan should be considered at the meeting of Council on 18 October 2016, notwithstanding that this was a few days after the government's deadline and the plan is attached at Annex one to this report.
- 1.6 It has been agreed with DCLG that the plan should be submitted on 14 October subject to approval at Council on 18 October. This is in line with a number of other authorities who are similarly reporting to Council on 18 October.

## **2. RECOMMENDED ACTION**

- 2.1 That the Council's Four Year Settlement Offer, which would run from 2016/17 to 2019/20 be accepted.
- 2.2 That the Financial Sustainability Plan, as submitted to the Department of Communities and Local Government by the deadline of 14 October 2016 and appended to the report, be accepted.

## **3. POLICY CONTEXT**

- 3.1 The Council receives an annual Settlement Funding Assessment from the Government, which is made up of Revenue Support Grant (RSG), and the Government's estimate of the Council's share of the Business Rates income raised. On 9 February 2016, the then Secretary of State for the Department for Communities and Local Government, Greg Clark MP, announced the Final Local Government Finance Settlement for 2016/17.
- 3.2 The settlement included indicative funding allocations for the subsequent three financial years up to and including 2019/20 and confirmed that the Government would offer any council wishing to take it up, a Four-year Funding Settlement running from 2016/17 up to 2019/20. The final settlement also included transitional grant in 2016/17 and 2017/18 and these sums are part of the guarantee.
- 3.3 This was followed by a letter from the Secretary of State to chief executives and leaders of local authorities on 10 March 2016 explaining that authorities wishing to accept the offer had until 14th October 2016 to respond via the submission of a Four Year Financial Sustainability Plan. Although the format and content of the plan were not prescribed, best practice suggests that a short 2-4 page narrative based on the Council's Medium Term Financial Plan would be appropriate. The DCLG will consider each Plan on its own merits.

## **4. THE PROPOSAL - FINANCE SUSTAINABILITY PLAN**

- 4.1 The key element of the indicative funding allocations is the RSG projections for the next 3 financial years. As part of the annual budget setting process

the Council prepares a medium term financial plan which is refreshed every year. The Council's current Medium Term Financial Plan (MTFP) published at Policy Committee on 15 February 2016 and at Council on 23 February 2016 assumed significant cuts in RSG (which is planned to be phased out in 2020 with the introduction of 100% Business Rates Retention).

- 4.2 The indicative allocations suggest that accepting the Four Year Offer could provide some £18.6m RSG over the period 2017/18 to 2019/20, £10.4m next year falling just below £2m in 2019/20. These resources have been assumed in the draft medium term financial plan.
- 4.3 The Secretary of State's letter and annex made clear that councils which choose not to accept the offer, or which do not qualify, will be subject to the existing annual process for determining the local government finance settlement with the associated uncertainty.
- 4.4 Future levels of funding will not be guaranteed and "could be subject to additional reductions dependant on the fiscal climate".
- 4.5 It is proposed that Reading Borough Council accept the Four Year Settlement Offer and the attached Financial Sustainability Plan set out in Annex one has been submitted to DCLG in order to meet the deadline of 14 October noting that it is subject to approval of Council.

## 5. COMMUNITY ENGAGEMENT

- 5.1 There are no community engagement implications from this report.

## 6. FINANCIAL IMPLICATIONS

- 6.1 The Four Year Settlement offer is recommended as this provides the Council with some certainty in regard to RSG over the period of the medium term financial plan and will offer some protection from a further reduction in resources.
- 6.2 The table below sets out the impact of the four year settlement on Revenue Support grant over the medium term period.

Revenue Support Grant (RSG)	2017/18 £k	2018/19 £k	2019/20 £k
RSG Estimates	10,368	6,209	1,998
Transitional Relief Grant	387		

- 6.3 The indicative settlement has already been incorporated into the medium term financial plan.

6.4 **T**he Secretary of State has also issued guidance on the flexible use of capital receipts. This will enable councils submitting a Financial Sustainability Plan to finance revenue expenditure from capital receipts where such expenditure is forecast to generate ongoing savings. This will provide the Council with additional flexibility in deciding how best to fund the changes needed to deliver the Financial Sustainability Plan. Any decision to use this flexibility will be taken based upon the Council's best financial interests at the time.

## **7. EQUALITY IMPACT ASSESSMENT**

7.1 None directly from this report.

## **8. LEGAL IMPLICATIONS**

8.1 None directly from this report.

## **9. BACKGROUND PAPERS**

9.1 Agenda and Minutes of the Policy Committee - 26 September 2016

9.2 Final Local Government Finance Settlement - 9 February 2016

9.3 Letter and Annex from Secretary of State - 10 March 2016

## READING BOROUGH COUNCIL FINANCIAL SUSTAINABILITY PLAN 2017-2020

### 1. Executive Summary

- 1.1. The Council is facing a severe and financial challenge over the coming years, despite making significant savings over several years. As a result of continuing reductions in funding and increasing pressures, it is currently forecast that the Council needs to make revenue savings of £41.9m by 2019/20.
- 1.2. Savings of £23.4m have already been agreed by Councillors, and the Council is now working to deliver these.
- 1.3. This leaves a budget gap of £18.5m which will be closed through the adoption of the strategic approach to budget review and planning the Council's future service offer and delivery model.

### 2. Financial Context

#### Setting the Budget

- 2.1. The Council's annual Budget is set at Council each February and incorporates the Medium Term Financial Plan, which presents the budget forecast on a three year rolling basis. The report also updates the Council's Corporate Plan which sets out key priorities and service activities.
- 2.2. Council Budget reports are accessible at the link <http://www.reading.gov.uk/budget-reports> and the 2016/17 budget report is available here:

[http://www.reading.gov.uk/media/4929/Corporate-Plan-and-Budget-2016-2019/pdf/Corporate\\_Plan\\_and\\_Budget\\_2016-2019.pdf](http://www.reading.gov.uk/media/4929/Corporate-Plan-and-Budget-2016-2019/pdf/Corporate_Plan_and_Budget_2016-2019.pdf)

#### Managing the Budget Gap

- 2.3. Between 2011/12 and 2019/20 the Council's grant will have been cut by £57.5m. The most significant change was the cut this year because of changes to the distribution methodology. The Medium Term Financial Plan for 2016 to 2020 took account of the unexpected additional loss of £5m grant which was announced on 17 December 2015. The short notice of this reduction meant there was insufficient time to safely recommend further savings to bridge the funding gap for 2016/17 as it did not allow enough time for the Council to adequately consult on the additional proposals required to make the savings.

- 2.4. The financial table in the budget report (page (B)16) shows how the 2016/17 budget balanced, along with the position for the following years. The table incorporates Council Tax at 2016/17 levels, and it is anticipated that the 2017/18 savings gap of £1.45m could be covered by a future Council Tax and Adult Social Care Precept increase.
- 2.5. Based on the four year settlement forecast to 2019/20 we estimate that in addition to the savings identified in the Medium Term Financial Plan, we require further savings of around £15m spread across 2018/19 and 2019/20 to ensure a sustainable financial plan.
- 2.6. The Medium Term Financial Plan also incorporates £7.5m (including £0.7m use of the Prudential Reserve to smooth increases in borrowing costs) of one off resources to bridge the budget gap as well as high level, indicative savings of £21m which required detailed work immediately after the budget was set.

Increasing pressures on the budget

- 2.7. There have been increasing pressures and service demand on the current budget, so to ensure a prudent approach £6.4m additional and ongoing revenue demands have been built into the budget for the purposes of planning. This does not mean that the current overspend position is accepted or that any additional funding will be included in service specific budgets until the Council budget process has concluded.
- 2.8. The current year pressures include £3m for Children's Social Care due to the escalating demands on the service which continue to severely impact on the Council's overall budget position. Work is underway to implement a revised model of Children's Social Care, which has required increased staffing levels to reduce high caseloads and increased the structural cost above that budgeted by £0.7m. Additional costs arising from the level of agency staff required during the recruitment and transition period have meant that in 2016/17 actual costs are £1.4m above budget.
- 2.9. Work began immediately after the 2016/17 budget was set to work up the detail of the £21m high level savings indicated in the report. Further savings proposals were also identified and put forward to Councillors and a package of budget savings of £19.8m was approved at Policy Committee on 18 July. The link for this can be found at: [http://www.reading.gov.uk/media/5708/item09-2/pdf/item09\\_\(2\).pdf](http://www.reading.gov.uk/media/5708/item09-2/pdf/item09_(2).pdf)
- 2.10. Work is underway to implement these along with progressing all earlier agreed savings, including appropriate consultation with staff and the public.

- 2.11. This July report also updated the financial position and identified a £36.7m remaining budget gap for the period 2016-20 prior to delivery of savings which were then agreed at that committee. This gap reflected the further significant emerging pressures of £4m on the 2016/17 budget, which had then been identified and particularly relate to Children's Services.

*Interim review of the budget*

- 2.12. Since the July report the underlying budget assumptions have been reviewed, and the in-year overspend had increased to £6.9m based on the end of July budget, with continuing overspending in the Children's Social Care service. There was some offset due to an improved forward Council Tax receipts position due to a sharper rise this year than in recent years in new properties.
- 2.13. A report presented to September's Policy Committee set out in outline the changed Financial Position found at:

<http://www.reading.gov.uk/media/5974/Item09/pdf/Item09.pdf>

This identified that for the 2017-20 period, we had a budget gap of £41.9m before allowing for the agreed savings of £23.4m, which leaves the £18.5m gap.

- 2.14. To ensure prudent budget planning, these calculations assume that the current overspending will need to be allowed for within the budget to meet rising demand in Children's Social Care. However, before any changes to baseline budgets could be made, this must be considered within the context of the overall 2017/18 budget process and the review of in-year overspend mitigation.
- 2.15. The following table identifies the current position:

	2017/18	2018/19	2019/20	Total
<b>Budget Requirement (previous year):</b>	120,197	119,957	120,474	
Impact of Agreed Funding measures and Budget Overspend in 2016/17	13,634	-	-	
Estimated Impact of Budget build in accordance with agreed guidelines	10,527	10,866	7,543	
Budget before savings	144,358	130,823	128,017	
Resources Available to Fund Budget	-119,957	-120,474	-120,842	
Budget Gap	24,401	10,349	7,175	41,925
Agreed Savings to date (from	-14,851	-6,002	-2,587	-23,440

February Council, July 2015, July 2016 & September 2016 Policy Committees){note INCLUDES A HILL}				
<b>Remaining Gap</b>	<b>9,550</b>	<b>4,347</b>	<b>4,588</b>	<b>18,485</b>

- 2.16. The key changes from the £36.7m gap presented in July to the £41.9m above are an additional 2016/17 overspend of £2.8m and the impact of revised budget build assumptions of £1.7m as above.
- 2.17. It should also be noted that there are some potential additional pressures that have not yet been costed or incorporated, such as the Apprenticeship Levy, impact of the Pension Fund Revaluation.

### 3. **Developing the Medium Term Financial Plan**

- 3.1. In the context of our interim budget review, we have now begun to identify further savings to balance the budget over the next three years using the approach set out below to take into account the changing operational landscape. The planned timetable brings identified savings before members in early December for approval to allow for consultation with a view to setting the 2017/18 budget and having a balanced Medium Term Financial Plan with agreed savings to 2019/20.

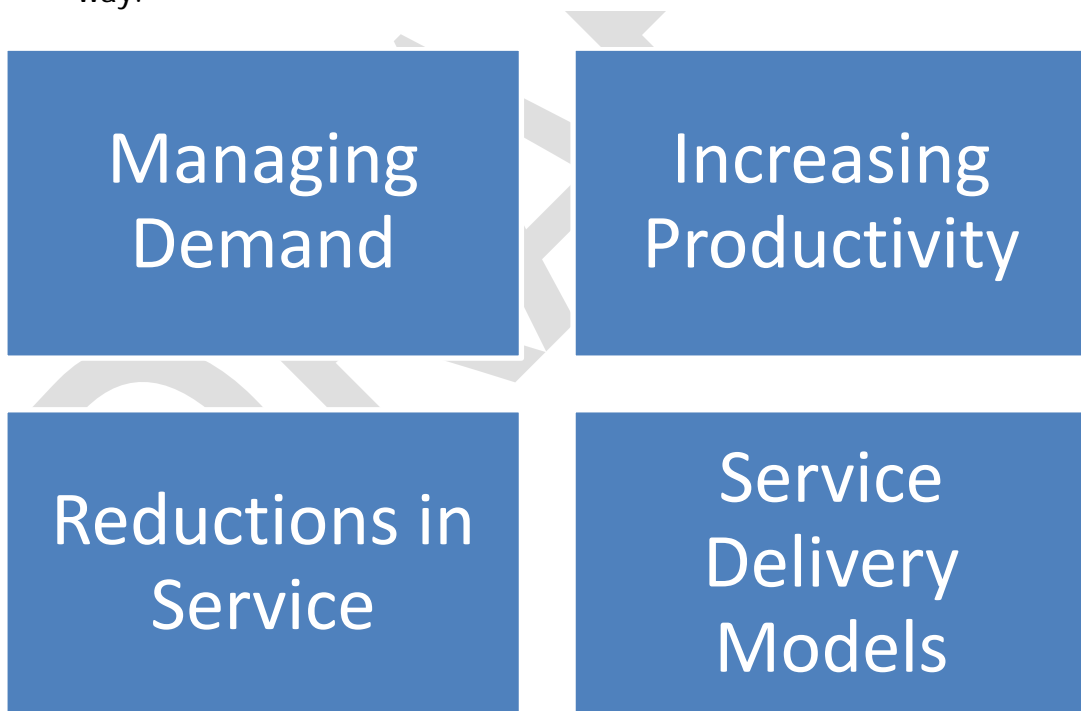
#### Our approach

- 3.2. Since 2010/11 the Council has successfully managed the reduction in resources available to fund services, which has required a combination of innovative solutions and difficult choices made by the Council. To put this in context, by the end of the financial year 2015/2016, the Council had agreed savings of almost £65m from its budget since 2011 and difficult decisions have already been made.
- 3.3. A variety of methods have been taken to the budget setting process to enable the Council to set and maintain a balanced budget including assessments of services' relative contributions to Council priorities, assessments of statutory and non-statutory services, as well as more rudimentary approaches such as equalised budget reductions.
- 3.4. The Council has made service cuts and reductions, as well as adopting more efficient models of service delivery such as developing shared services with partners and outsourcing.
- 3.5. We are working through a Council wide programme of digitisation and increasing self-service by both customers and employees, with services redesigned to deliver efficiencies. A major programme of transformation is underway in Adults Services where expectations



about service provision among our communities and partners will change with initiatives underway to help people to look to their own resources and communities to meet their social care needs. In Children's Services while we work to manage the current structural pressure, it is expected to move to a steady state in the medium term with a focus on early help and prevention to manage demand.

- 3.6. For discretionary services we have a strategy to maximise income by developing successful Council businesses which have an identified market. We have also embarked on a programme to make best use of Council assets through rationalisation.
- 3.7. In the context of the financial situation outlined above, and the certainty of a minimum four year grant settlement proposed by Central Government, the Council is now developing its latest Medium Term Financial Plan based on the approach set out below. This builds on the work we have done historically to manage budgets and which we are drawing on to stabilise our financial position within the current financial year and to develop further proposals for the Council to consider to bridge the medium term gap in a sustainable way.



Managing Demand

- 3.8. Around 70% of the Council's existing revenue budget supports the delivery of Adults and Children's Social Care. Additionally the Council operates a vibrant leisure and cultural offer for citizens, which is largely self-sustaining. Going forward, a key strategic aim of all transformation plans will be to reduce and manage demand more effectively, working with service users to deliver greater

independence, sustainability, and more cost effective support from the authority as well as focussing on business development to increase income where possible.

- 3.9. We will work more effectively with other public sector partners and the voluntary/community sector to ensure we are joining up service delivery to meet the needs of local communities.

#### Increasing Productivity

- 3.10. The Council has driven efficiency in the services it delivers over many years. However, it is recognised that there are further efficiencies/productivity gains that can be made. The Council is continuing its digitisation plan, and this will begin to allow productivity to increase over the four year period to 2020.

#### Service Delivery Models

- 3.11. We have taken a pragmatic approach about models of service delivery and we already have a variety of shared service relationships with partners across Berkshire, for example in the areas of legal services, waste disposal, cultural services, procurement, etc. and we are exploring other opportunities to consolidate across the region. We have also externalised some services, for example ICT provision and much of Adult Social Care provision is commissioned from the private sector.
- 3.12. However, we recognise there are further opportunities that need to be considered where other councils have been very successful in generating substantial savings. The Council is currently considering the potential for other models for additional back office services such as Revenues & Benefits, as well as front line services such as Leisure Services.

#### Reductions in services

- 3.13. The Council's financial situation is such that now it needs to consider the extent to which additional services should be reduced or stopped using the approach detailed above.

### **4. Conclusion**

- 4.1. Whilst the Council has had a long history of adapting to change and robust decision making to ensure it has delivered required savings to live within its means, it is now facing unprecedented times and challenges.
- 4.2. However, the additional certainty provided by the four year settlement and additional flexibility to use capital receipts strengthens our ability to plan for the future and decide what local

services we will provide, how they are delivered and how we fund the changes that will be required.

- 4.3. Over the coming months we will work to set a sustainable Medium Term Financial Plan for 2017-2020 to bridge the budget gap and set the future direction of the Council.

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