Cabinet
18 July 2018

KEY DECISION
No
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BUDGET 2018-2020 UPDATE

WARDS AFFECTED

All

EXEMPT/CONFIDENTIAL ITEM

No

1.0 Introduction

1.1 The Council set a three year Budget in March 2017 covering the period 2017-2020. This budget aimed at setting a foundation for the Council's long term aspirations of Growth and Care and Health integration. These three themes are inextricably linked and are intended to deliver a sustainable future for the Borough.

1.2 The budget was based on meeting the challenges of continuing Central Government imposed austerity whilst meeting the Council's statutory responsibilities. It required the delivery of £20.6m of savings over the period and service plans for portfolios were agreed to achieve these savings by 2020.

1.3 The Cabinet, at its meeting on 19 July 2017, requested that portfolios should provide a further report as to how they would operate within the agreed cash limits. Subsequently, the meeting of Cabinet on 13 September received a further report that detailed progress made in meeting the financial challenge and highlighted the further portfolio actions required to deliver the necessary position.

1.4 At its meeting of 28 February 2018, the Council reaffirmed the budget strategy and position and agreed the cash limits for 2018-19 and 2019-20. Savings requirements over the 2017-2020 period were reconfirmed as being £20.6m.

1.5 The key elements of the agreed budget for 2017-2020 were:

1. Cash limits were set for each Directorate / Portfolio for the three individual years' budget period.

2. Service plans identified the areas to be reviewed with a view to delivering the £20.6m savings by 2020.

3. Council Tax increases of 4.99%, 5.99% and 2.99% were set for 2017-18, 2018-19 and 2019-20 respectively.

4. Price inflation was set at 3% for 2017-18 and 2018-19 and 2% for 2019-20.

5. Pay inflation was included in accordance with the offer that had been made by the National Employers.

6. The Council Tax base and the Business Rate base were estimated to increase marginally over the period.

7. The budget was set using the principles of the long term budget strategy established in 2001.

1.6 This report provides an update on progress towards this aim and lists key changes which will need to be taken into account as part of the overall budget delivery.

2.0 Emerging Issues Update

2.1 Implications of the Exit from the EU

There are a number of issues specific to the nature of the UK's exit from the EU. However, the key issues for the Council are the impact on the local economy and the access to EU funding. The Government has previously stated it expects the economy will not be adversely affected however this is dependent upon the terms of the EU exit and that a commitment to fund those schemes already approved for EU funding.

Ongoing uncertainty is considered to have a generally negative impact on economic activity and curtailment of business investment. It is unknown to what extent the Government will continue to support regions' to attempt to balance economic activity as was the case with EU funding.

2.2 Council Tax Increase

The 2018-19 Local Government Funding Settlement acknowledged the pressures that Local Authorities faced due to growing demand for services and gave councils the ability to increase Council Tax by an additional 1% without a local referendum for 2018-19. It is anticipated that this will be repeated in 2019-20 – though this will be subject to confirmation by way of the Referendums Relating to Council Tax Increases (Principles)(England) Report 2019/20.

2.3 Care Demand and Service Expectations

The care demands will continue to increase due to an ageing population, the instances of dementia, increasing number of people living with debilitating illnesses and the impact of drug and alcohol abuse.

There is also a pre-existing trend by which expectation is rising as the burden on Local Authority service delivery increases. This is particularly prevalent in delivering Children's Services and meeting safeguarding requirements, where a series of nationally reported cases has resulted in an increasing need to manage demand and the significant associated risk.

2.4 Inflationary Pressures

2.4.1 Pay

The Government confirmed its commitment to pay constraint within the Public Sector until at least 2020 as part of the austerity programme. General pay was to be limited to 1%; however, this was reviewed by the Government at the start of 2018 and the public sector pay cap was lifted, with the result that a multi-year offer was made and accepted that will result in average increases on the Council's paybill of 2.9% in 2018-19 and 2.8% in 2019-20. Although the Government removed pay constraint, no additional funding was allocated to local authorities to cover increased costs and Local Government must fund the impact itself without any central government support.

2.4.2 Prices

Prices inflation is now at 2.4%, having fallen from its recent peak of 3.1% in November 2017. Expectations are that inflation will return to the Government target of 2% for 2019-20, but there are upside risks related to the impact of rising global oil prices and wage growth. A no-deal hard Brexit would be likely to result in a fall in the foreign exchange rate and the consequent increase in the price of imported goods and surge in inflation. Rising inflation would obviously result in further pressure on budgets.

2.5 Business Rates

St. Helens is currently part of a 100% Business rate retention pilot for the Liverpool City Region. Under the terms of the Pilot Agreement negotiated with MHCLG, there is a guarantee that during the pilot period each of the six councils will individually be financially no worse off than they would be under the existing system. This principle of 'no detriment' was essential when considering whether the Council should participate as a pilot.

Each authority's final position is dependent upon the position of other pilot members. Consequently, the Council has adopted a prudent approach in relation to its participation in the pilot scheme by budgeting to set aside any projected gains to cover the eventuality that these may not be realisable under the detailed terms of the pilot scheme. The unaudited 2017-18 outturn positions of each pilot member removed the need for this set aside for the financial year 2017-18.

Each financial year is considered independently. Within the budget model, £2.5m gains are forecast for both 2018-19 and 2019-20.

The pilot scheme was intended to be rolled out to the rest of the country by 2020. However, this has now been postponed and the government has announced that a new 75% retention scheme will be introduced from 2020-21 to avoid the need for primary legislation. It is, as yet, unclear as to how existing 100% pilot areas will be affected by this change.

2.6 Strategic Investments

At its meeting on 16 November 2016 Cabinet agreed criteria for the control of Strategic Investments in support of the Council's Growth Strategy and agreed to the establishment of an Investment Panel. This established a control framework which will support the wider growth strategy whilst ensuring that the overall financial stability of the Council is maintained.

The Growth Strategy recognises the public sector commitment necessary to stimulate inward investment and to support private sector investments to realise the Borough's aspirations.

The challenges and opportunities that this presents will need to be managed within the overall budget strategy, and the financial risks effectively managed.

2.7 National Welfare Benefit Savings

The Government has continued with significant welfare reductions for working aged families. These will have a significant impact on those in receipt of them with the consequent increase in care demand from the Council in a number of areas.

The on-going implementation of Universal Credit will continue to impact on the Council's role in providing local Benefits.

3.0 Budget 2018-2020

3.1 The Budget agreed in February 2018 has been amended to reflect the changes in the Portfolios in May 2018. However, the overall position remains the same. The cash limits are shown in summary below and in detail at Appendix 1, with details of the underlying assumptions. It should be stressed that:-

(a) the inflation assumptions may change over time;

(b) the model makes no allowance for service demand/legislative changes. The underlying assumption is that these will be contained within cash limits;

(c) the model does not take account of any new areas of policy priorities.

3.2

Summary Budget for 2018-2020	**£m 2018-19**	**£m 2019-20**
Portfolio Cash Limits	126.025	121.330
Levies	21.091	22.425
Other Items	3.698	5.802
Total Expenditure	150.814	149.557
Council Tax	(70.994)	(73.522)
Retained Business Rates/Section 31 Grant	(50.874)	(52.758)
Formula Grant	(22.724)	(19.257)
Other	(6.222)	(4.020)
Total Income	(150.814)	(149.557)

4.0 Budget Strategy Risk Assessment 2018-2020

4.1 The factors identified in Section 2 could have a significant impact on the Council's financial position and reports will be brought back as and when further information becomes available. Decisions on how these risks need to be managed will inevitably be influenced by the level of available resources. A risk assessment has been undertaken to establish the overall value of the risk facing the Council through to 2020. If these risks materialise, they will add to the position highlighted in Section 3 above. The risks are highlighted below:-

Risk to Budget Position	£m 2018-19	£m 2019-20	Basis	Risk Category 'Likelihood'
Additional local Council Tax Support claimants	0.3	0.6	Based on 2% increase per annum	Medium
Loss of Business Rates	1.0	2.0	Based on 2% reduction per annum	Medium
Demand	3.0	6.0	Previous Underlying Demand Levels	Medium
Price inflation	1.0	2.0	Based on rate exceeding model provision by 1%	Medium
Total Risk Value	5.3	10.6		

4.2 The above, if realised and unresolved, will add to the existing budget. Each risk area will be monitored throughout the period to determine whether they will have an impact on the overall financial position of the Council.

5.0 Beyond 2019-20

5.1 Local Government finances are faced with a period of significant uncertainty which make producing a budget for the 2020-21 financial year and beyond extremely difficult. The significant uncertainty arises as a result of a number of separate factors, including the following:

5.1.1 Comprehensive Spending Review

The certainty offered by the current long term funding settlement will cease in 2019-20 and the government has announced that it will undertake a full review of departmental funding next year after the publication of the overall spending envelope later in 2018.

5.1.2 Fair Funding Review and needs assessment

The Government has announced a review of the Funding Formula which is used to calculate baseline funding allocations for local authorities. Government are considering a wide range of options by looking at the factors that drive costs and identifying approaches to measure the relative needs of local authorities. The Government's intention is to publish a series of technical consultations during mid-2018, followed by the 'broad outlines' of the new system in late 2018. 'Indicative numbers' will then be made available in spring to early summer 2019, followed by 'final numbers' in autumn 2019.

5.1.3 Business Rates Reset

Within the business rates retention scheme, the determination of the business rates baseline could be considered to be the most important element in determining an authority's ability to meet the resources amount allocated to it within the Settlement

Funding Assessment. The current business rates baseline has been in place since 2013-14 and is due to be updated through a reset process. Alternative approaches to the reset are being considered and the impact of the reset is unknown at the moment. The length of time between future resets is also unknown, as is the existence or otherwise of transitional arrangements between reset periods.

5.1.4 Business Rates Retention

Since 2013-14, councils in England have retained 49% of business rates. The Government announced an intention to move to a system whereby local authorities retained 100% of business rates and introduced a number of pilot areas in 2017-18 to trial the system. The intention was that all authorities would move to this system by 2020 but, following the election in 2017, the Government have announced plans to move towards a 75% business rates retention system from 2020-21. There is uncertainty whether the current 100% retention pilot areas, St Helens being a member of the Liverpool City Region Pilot, will continue after 2019-20 or revert to the new 75% system.

5.1.5 Social Care Funding

As part of the Government's previous financial settlements it announced that it would develop long-term reforms that will provide a sustainable system for everyone who needs social care, in order to finish the job of integrating health and social care systems. In November 2017 the Government announced that it would publish a green paper on care and support for elderly people by summer 2018. The paper has been delayed and is now expected in autumn 2018.

Improved Better Care funding was first announced in the 2015 Spending Review and grant allocations were increased in the 2017 Spring Budget in recognition of the pressures facing all local authorities on the provision of adult social care. This additional funding was announced for the period 2017-2020 but no indication has been given as to whether this funding will continue post 2019-20.

In addition, the ability for Councils to raise a social care precept beyond 2019-20 is unknown.

6.0 Recommendations

6.1 It is recommended that Cabinet agree that:

(a) portfolios deliver their agreed service plans within the agreed cash limits;

(b) portfolios identify the key decisions required to meet the Budget 2018-2020 and detail these in the Budget Report in September 2018; and

(c) Scrutiny be requested to review the delivery of the Budget 2018-2020.

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Background documents open to inspection in accordance with Section 100D of the Local Government Act 1972:-

The following list of documents was used to complete this report and is available for public inspection for four years, from the date of the meeting, from the contact officer named above:

Budget Working Papers

Appendix 1

Budget 2018-2020

	2018-19 £000	2019-20 £000
Corporate Services Directorate		
Council Leader }		
Collaborative Resources }	6,790	5,457
	6,790	**5,457**
People's Services Directorate		
Adult Social Care	46,785	46,931
Developing Young People	43,362	42,935
Better Health and Building Arts and Culture	267	153
	90,414	**90,019**
Place Services Directorate		
Balanced Development, Housing and Economic Opportunity	(570)	(1,510)
Better Neighbourhoods	18,187	17,007
Community Based and Focused Services	11,204	10,357
	28,821	**25,854**
DIRECTORATE TOTAL SPENDING	**126,025**	**121,330**
Levies	21,091	22,425
Contribution to/from Earmarked Balances	(790)	3,040
Treasury Management	10,843	10,966
Restructuring	2,033	0
Pensions-Fixed Cost Element	4,986	5,170
Capital Charges	(13,374)	(13,374)
TOTAL SPEND	**150,814**	**149,557**
Formula Grant	(22,724)	(19,257)
Retained Business Rates/Section 31 Grants	(50,874)	(52,758)
Council Tax	(70,994)	(73,522)
New Homes Bonus	(2,415)	(1,707)
Collection Fund Surplus 2017/18	(1,444)	0
PFI (Interest Grant)	(2,363)	(2,313)
NET FINANCIAL POSITION	**-**	**-**

The assumptions used are as follows:

	2018-19	2019-20
Pay	2.9%	2.8%
Prices	3.0%	2.0%
Income	2.5%	2.5%
MRWA Levy	11.88%	9.78%
Combined Authority Levy - Merseytravel	(0.11%)	4.0%
Combined Authority Single Investment Fund contribution	£722k	NIL
Council Tax (including Care Precept)	5.99%	2.99%
Council Taxbase	1.37%	0.55%
Business Rates Multiplier (as contained in the MHCLG Finance Settlement	2.95%	3.20%

Additional pressures arising from the following are to be contained within cash limits of the respective portfolio:

(i) Demographic and other demand issues;
(ii) Increased pensions-related contributions;
(iii) Price inflation above that allowed in the assumptions;
(iv) Reductions in fees, charges and other locally derived income or inability to increase such charges;
(v) Reductions in any remaining specific, service-based grant funding.