

County Council – 7 February 2017

Revenue and Capital Budget 2017/18 to 2019/20 and Treasury Management Strategy

Director of Finance Statement

As the section 151 Officer for this Council, and ahead of your important debate today, there are a few messages that I wanted to draw to your attention. Significantly, I stress that the bulk of my statement to follow is consistent with my Section 25 report in the papers you have before you.

The situation you are considering today is a very serious one and, from a technical perspective, I will explain why:

1. This time last year I told you that although the level of risk in the Council's medium term financial plan remained significant, the budget proposals for 2016/17 were deliverable so long as three things happened:
 - Government provided transitional grant to mitigate the 'shock' impact of the Financial Settlement in 2016/17;
 - That all savings planned for 2016/17 were delivered, and;
 - That the Public Value Transformation (PVT) programme identified further considerable base budget reductions in costs as soon as manageable.
2. Since then:
 - the Government did allocate some transitional relief grant but this fell short of covering the full 'shock' effect;
 - current budget monitoring for 2016/17 is forecasting delivery of around £65m of an in year planned total of £83m, a shortfall of £18m, and;
 - the discovery phase of the Public Value Review programme concluded during the summer 2016 that the Council had already identified savings at the upper limit of what can be achieved through the transformation programme. No further proposals were identified.
3. Additionally during 2016/17 the financial outlook for future years has deteriorated in several key respects:
 - the service demand pressures have continued to escalate adding yet more pressure to budgets from 2017/18. In particular this relates to adult and children's social care services;
 - in September the Cabinet reported a £22m in year overspend if no further action was taken. A number of measures have been put in place and as a result the current year's budget is moving closer to being balanced, but there remains significant underlying pressures moving forwards into 2017/18, and;
 - reviews of savings already planned have demonstrated that a number of these may not deliver the savings in the required time, to the required level or in some cases at all. The proposals for future years' service budgets reflect these changes.

4. Turning now to consider the Council's reserves. These are at minimum safe levels in light of the continuing and significant risks facing the Council in terms of increasing demand and further significant service reductions proposed. It is my opinion that reserves should not be allocated against the budget for 2017/18. Rather these should be retained to mitigate against non-delivery of savings and other future potential financial funding changes the council might face.
5. In recognition of the seriousness of the financial challenges facing the council, with the support of the Chief Executive and the Leader, I requested that CIPFA carry out a financial resilience review in November 2016. The key conclusions by CIPFA were that the budget planning assumptions and figures were sound. CIPFA also advised that the council's financial resilience is not sustainable over the short or medium term unless it identifies and implements the full scale of savings required as soon as possible to match the current allowed level of income.
6. The council received the Provisional Financial Settlement on 15 December 2016, and subject to council's decisions today, this would improve the council's funding level by approximately £9m in 2017/18. The Government is yet to issue the Final Financial Settlement and has indicated that this will now be later in February. Current expectations are that there will be little change in the Final Settlement and it is proposed that I will work with the Leader to finalise budget proposals once this is announced.
7. In the original papers you have before you, the cabinet's proposed budget to set the CT increase at 15%. This would achieve a long term sustainable financial position, so long as the substantial planned on-going service efficiencies and transformations totalling £93m in 2017/18 are delivered.
8. Whilst the Secretary of State for the Department for Communities and Local Government has yet to confirm the principles governing the limit for a CT increase, it is expected to be 4.99%.
9. As you have heard from the leader this morning, he is now proposing that the council set a council tax increase of 4.99%. This is the substitute budget in the papers you have before you.
10. It is my view that the substitute budget includes significant risks of not balancing as additional and material service reductions, in addition to already stretching service reduction plans of £93m, are required to be delivered. These have not yet been identified. The Cabinet has agreed, last week, to establish a Sustainable Review Board comprising senior officers and three cross party members. This Board is required to bring back an initial report to Cabinet on 28 March. This will update on progress towards identifying the required permanent and additional one-off reductions to balance the budget in 2017/18.
11. Even with this focus, it is my view that the Council would be required to make a significant unplanned use of earmarked reserves in particular in 2017/18 in the possible range of £20m to £30m. This would take reserves below the safe minimum levels advised unless they are replenished in the following year, especially those earmarked for other purposes. To achieve that and the more underlying challenge of sustainable service spending and finances would require a fundamental review of the delivery of all council services.
12. To conclude, from a statutory officer perspective, it is my view that the proposed budget at 15% would have achieved a balanced and long term sustainable budget from 2017/18 if successfully implemented.
13. Finally, in relation to the substitute budget, with an increase of 4.99%, it is my view that this contains substantial risks. In particular, during 2017/18 reserves will probably have been depleted below safe minimum levels and will need replenishing in future years. Also, the work of the Sustainable Review Board will be critical in identifying permanent and additional one-off reductions to balance the budget in 2017/18 and make some progress towards a sustainable budget.

Sheila Little, Director of Finance, 7 February 2017