
Revenue Budget 2016/17 – Supporting Information

1. Introduction

- 1.1 The purpose of this paper is to propose the Council's revenue budget for 2016/17, to outline the context within which it is set, and to set a Council Tax requirement for 2016/17.
- 1.2 This report highlights that for West Berkshire residents there will be a Council Tax requirement of £82.28m requiring a Council Tax increase of 1.99% in 2016/17 and a ring-fenced 2% precept for adult social care. The Council has had to find savings of £14m in 2016/17, the highest in the Council's history.
- 1.3 Given the scale of task to arrive at a balanced budget for next year a number of significant saving proposals have been made including reductions to libraries, children centres, home to school transport, public transport subsidy, highway maintenance, provision of care services and many others.
- 1.4 The proposed savings will have significant implications for staff. Subject to the outcome of public consultations, 127 employees will be at risk of redundancy and associated exit costs are estimated to be in the region of £2m.
- 1.5 The report also proposes the Fees and Charges for 2016/17 as set out in Appendix H and the Special Expenses as set out in Appendix I.

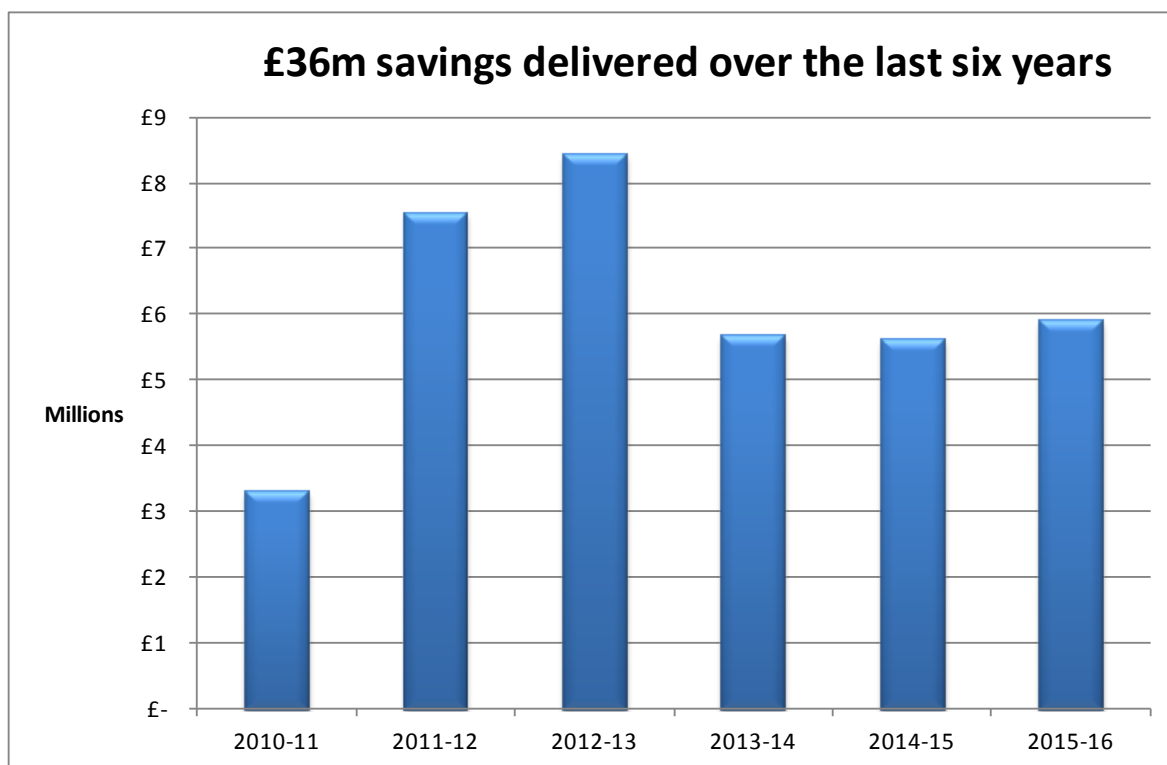
2. Background

- 2.1 Over the last six years, West Berkshire Council has had to find over £36m of revenue savings, which has been achieved through finding efficiencies, staff reductions and transforming services. This level of savings was required as a result of a number of factors:
 - (1) Since 2010, Council funding from Central Government has significantly reduced as part of the deficit reduction programme.
 - (2) Since 2013/14, the Council has been exposed to the volatility of our local business rate generation. This represents both an opportunity to benefit from growth, but also a risk. Since the introduction of local business rate retention, growth has stagnated and a number of large appeals from business to the Valuation Office have reduced the Council's income. We have faced a loss of nearly £3m from backdated appeals and an ongoing loss of circa £850k per year.
 - (3) The Care Act 2014 came into force in April 2015, introducing the most significant changes to social care legislation for 60 years. Despite the Government stating they would meet the costs of the Care Act in full, the Council has been left to cover an annual funding gap of £3m.
 - (4) The Council's costs rise by about 2% each year to perform exactly the same functions with no new demands. There have also been new cost

pressures such as increased demands on children’s placements, social worker recruitment, demand for social care and demand for services such as waste management.

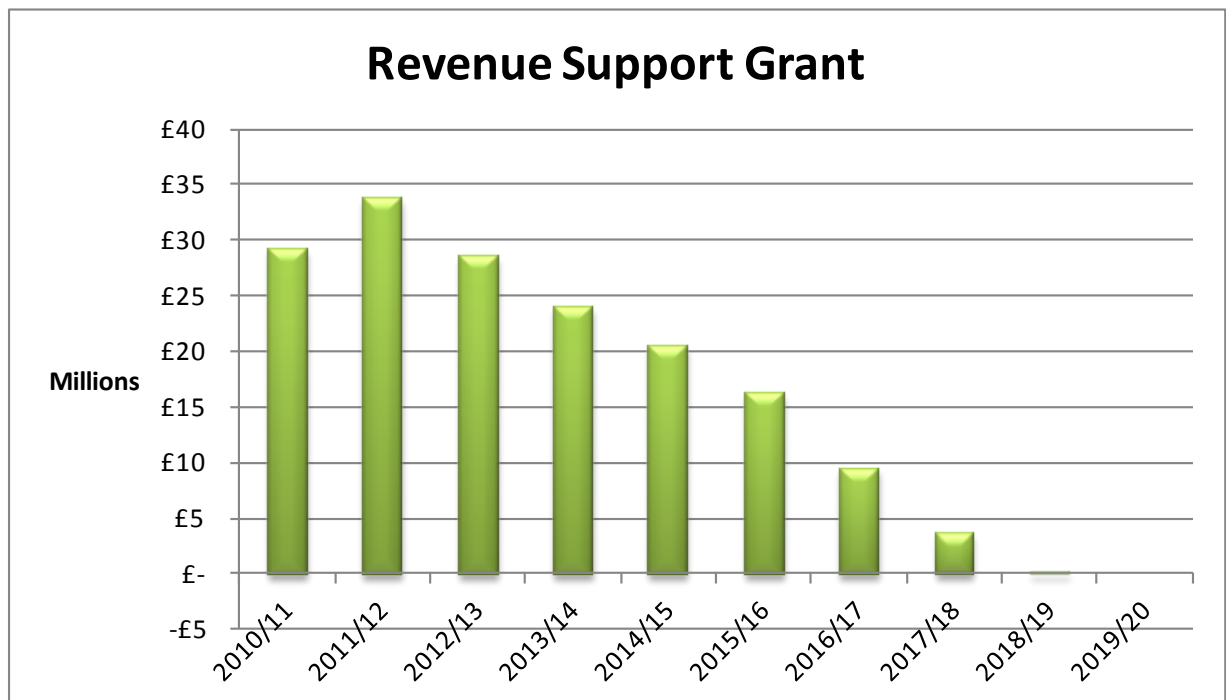
- (5) Over two thirds of the Council’s income comes from Council Tax, which has seen no increases in four out of the last six years, with the last increase being in 2013/14. Where there have been increases, these have been kept below 2%.

2.2 During this period, we have put in place a programme to remain within our budget which has delivered savings of around £36m as shown in the following chart:



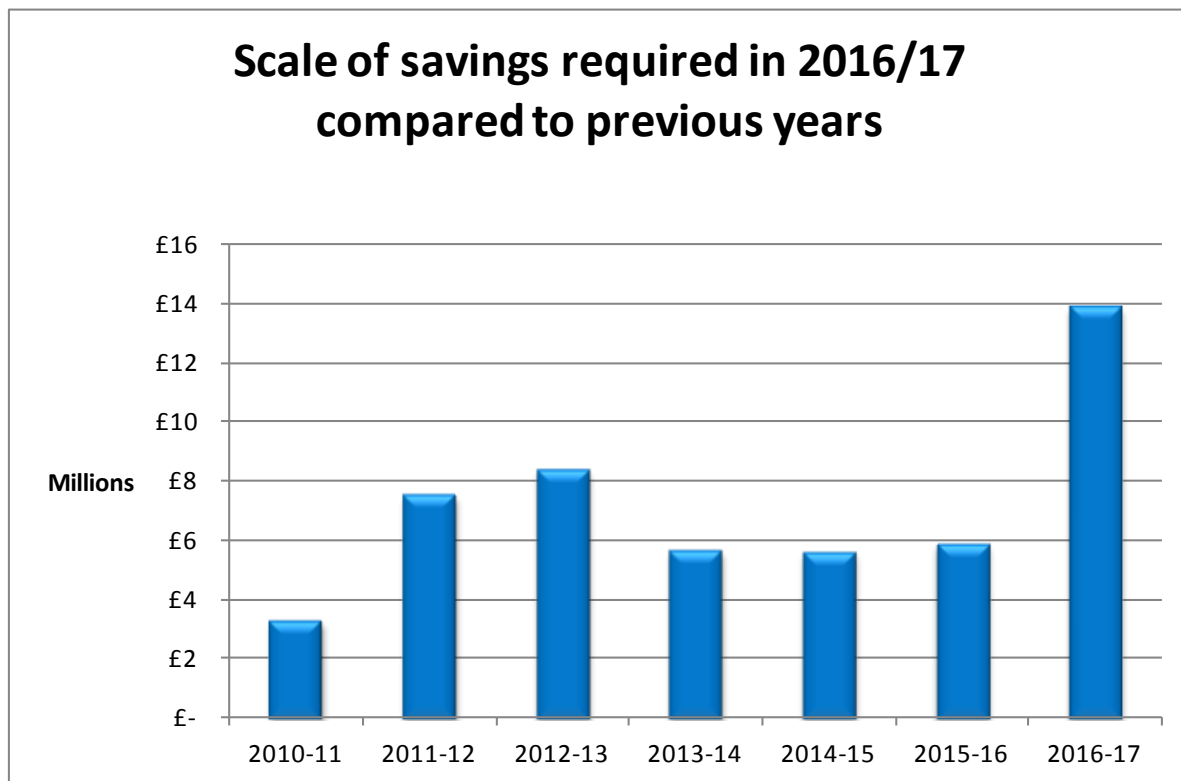
3. Local Government Settlement 2016-17

3.1 The provisional settlement figures for the next four years were issued on 17 December 2015 and the settlement for West Berkshire was much worse than expected. In 2016/17 we will receive 44% less in Revenue Support Grant (RSG) than in 2015/16, equating to a loss of £7.6m. This is the third largest cut to RSG of all Unitary Authorities in England. Although we had planned for RSG to be cut by 25% year on year, the cuts to RSG are being applied much faster than expected. The scale of RSG cuts are shown in the following chart:



- 3.2 By 2019/20 we will no longer receive any RSG, and will also be charged an additional tariff on our business rates in order to meet the overall reductions to local government funding set in the Spending Review. A number of grants have been rolled into the RSG and have then been cut. The most significant of these is the freeze grant funding that we received for freezing Council Tax in prior years. For West Berkshire this amounted to £2.8m. This grant has now been rolled into the RSG and will be cut as part of the RSG cuts so that by 2019/20 none of our freeze grant will remain.
- 3.3 The Spending Review included proposals for further major transformation of local government funding, confirming that the Government will move to the retention of 100% of business rates by 2020, but no details have yet been issued on whether this will benefit local authorities.
- 3.4 Central Government has introduced without warning, a new formula for distribution of council funding. West Berkshire loses from this formula because it is based on assumptions about our ability to raise Council Tax income. Central Government has assumed that local authorities will increase their Band D Council Tax by 1.75% (CPI forecast) and take up the 2% ring-fenced adult social care precept. Based on these assumptions, our grant funding has been reduced accordingly.
- 3.5 Our Education Services grant has been cut as a result of the General Funding Rate for schools being reduced from £87 to £77 per pupil. This has cost us £180k in 2016/17.
- 3.6 The New Homes Bonus funding is below our previous expectations as a result of proposed reforms, and this is forecast to fall by £1.5m in 2018/19 and a further £100k in 2019/20.
- 3.7 Prior to the provisional settlement we had identified a need to find £10.8m savings in 2016/17, but in the light of these grant figures, this increased to £19m. By increasing Council Tax by 1.99% and applying the Adult Social Care ring-fenced precept of 2%, and making some changes to our assumptions around cost

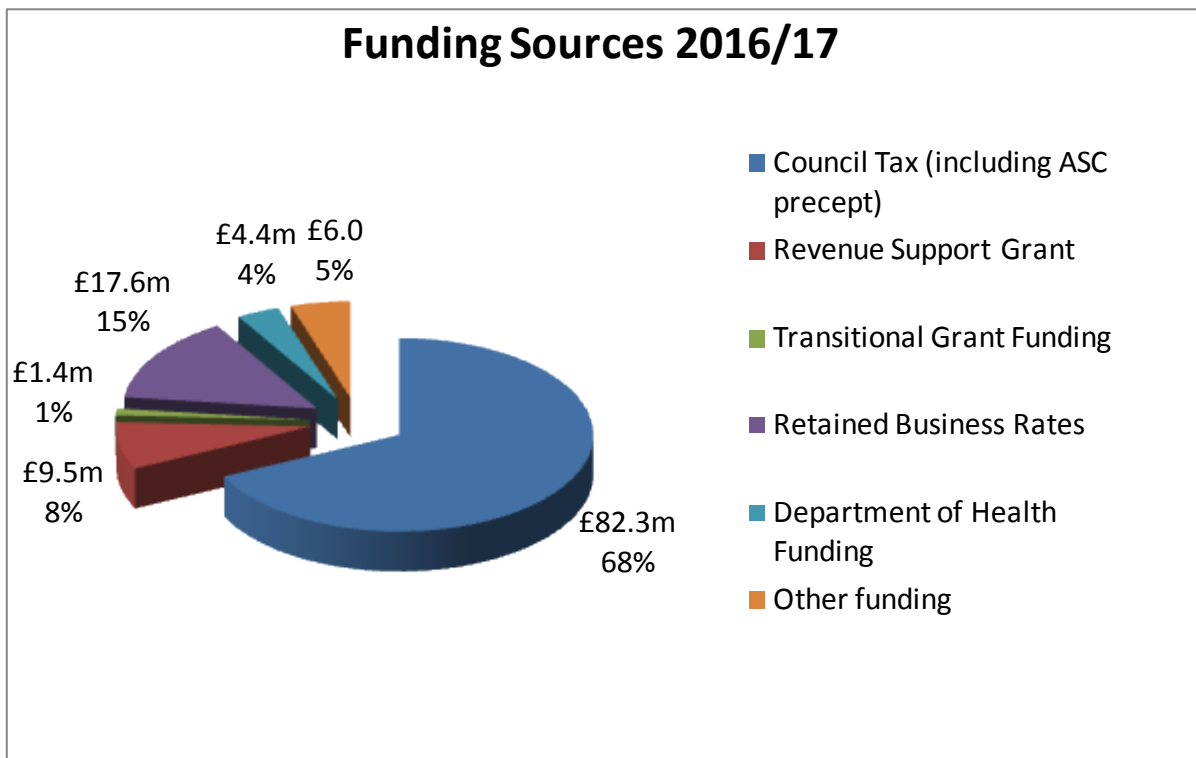
pressures and inflation, we have reduced this savings requirement to £14m. However, by choosing not to fund some cost pressures we are exposed to greater risk. The scale of savings compared to previous years is shown in the following chart:



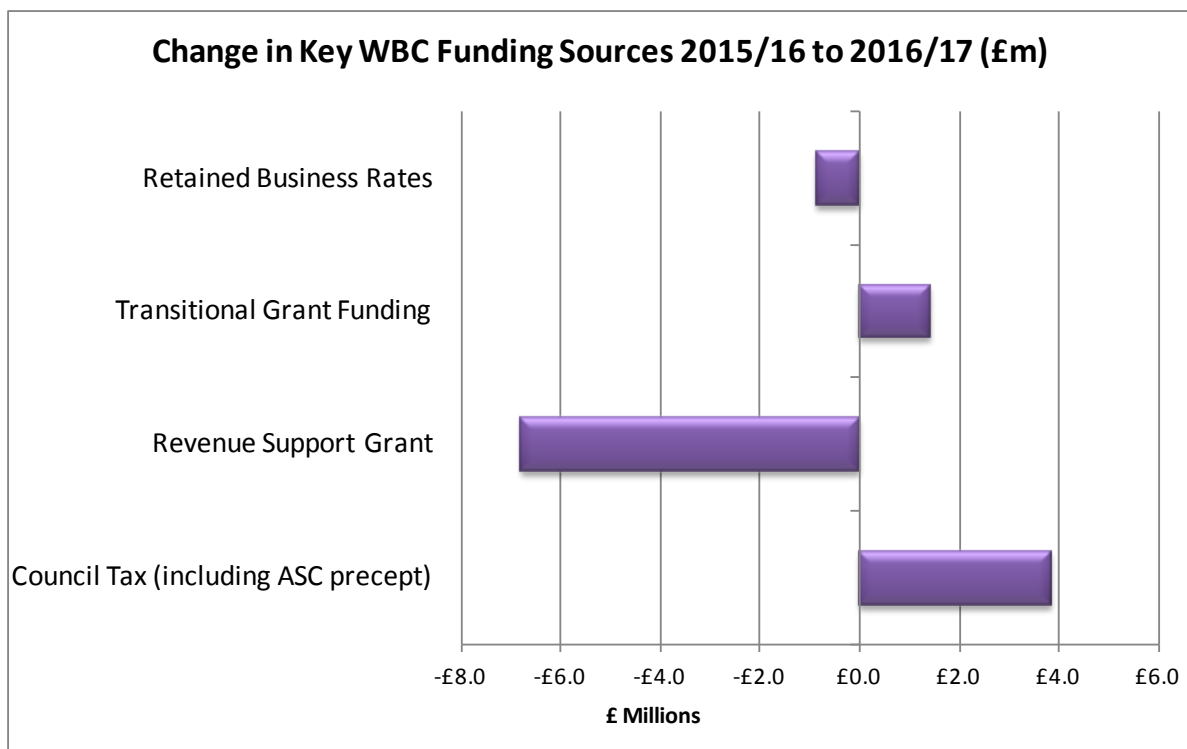
3.8 On 8 February 2016, Government announced their response to the consultation of the provisional Local Government Settlement. A transitional grant has been made available to be paid in each of the first two years of the settlement. West Berkshire will receive additional transitional grant funding from central government of £1.39m in 2016/17 and £1.37m in 2017/18. After the Phase 2 consultation on savings is closed, the Executive on 24 March 2016 will be proposing where the transitional grant funding will be used.

4. Sources of Funding

4.1 The sources of funding for the revenue budget for West Berkshire Council in 2016/17 are shown in the following chart. This does not include ring-fenced grants which are used to fund specific areas.



- 4.2 **Council Tax.** West Berkshire Council’s main source of funding is from Council Tax, which is collected from local residents based on the value of the property in which they live. The recommendation included within this report is a Council Tax increase of 1.99% for 2016/17 and a 2% ring-fenced precept for adult social care.
- 4.3 **Revenue Support Grant (RSG).** Councils receive a general grant from Government to support the services provided. There are no restrictions on how this is used, within a council’s legal powers. West Berkshire Council will receive Revenue Support Grant of £9.5m in 2016/17. This represents a reduction in this funding of 44%, or a £7.6m reduction from 2015/16.
- 4.4 **Transitional Grant Funding.** This was announced on 8 February 2016 as a response to the consultation on the Provisional Local Government Finance Settlement and is available for the first two years of the settlement.
- 4.5 **Retained Business Rates.** From 2013/14, councils keep a proportion of the income they receive from business rates raised in their area. Of the £87m collected locally the vast majority is paid over to central government leaving the Council with £17.6m. Currently councils have limited ability to counteract risk in relation to appeals and avoidance, and this is especially the case for councils dependent on a small number of large businesses. Whilst councils did not previously bear any risk from successful appeals, they are now liable for half of the cost, including any backdating liability, which in some cases may go back to 2005 or earlier. Appeals have had a significant impact on West Berkshire which has resulted in a loss of nearly £3m from back dated appeals and an ongoing loss of circa £850k per year.
- 4.6 The chart below shows the change to the three main funding sources compared to last year.



4.7 **Department of Health Funding.** This funding via the Better Care Fund is to be spent locally on health and care with the aim of achieving closer integration and improve outcomes for patients and service users and carers. In 2016/17 the fund will be allocated to local areas where it will be put into pooled budgets under Section 75 joint governance arrangements between CCGs and councils. A condition of accessing the money is that the CCGs and councils must jointly agree plans for how the money will be spent, and these plans must meet certain requirements. In addition to this the Department of Health is providing grants to meet some of the new burdens arising from the Care Act but this does not include the additional eligibility cost of £3m the Council is currently having to accommodate despite previous reassurances from the Department of Health that these additional costs would be funded and discussions on this matter are still continuing.

4.8 **Other Funding.** West Berkshire Council receives a number of specific grants to support its priorities:

- (1) **Education Services Grant.** This is allocated on a per-pupil basis to local authorities according to the number of pupils for whom they are responsible. For 2016/17 this amounts to £1.84m for West Berkshire Council, a reduction of £187k from 2015/16. The reduction is as a result of reducing the pupil funding rate from £87 per pupil to £77.
- (2) **New Homes Bonus.** This is paid to councils to encourage them to build new homes. This gives councils a grant equivalent to their increase in Council Tax income for a period of six years for each new home. There is additional money if any of these new homes are affordable housing. West Berkshire Council will receive £3.95m from this grant in 2016/17, which is an increase of £892k from 2015/16 as a result of reaching year six of the scheme.
- (3) **Collection Fund Deficit.** A collection fund deficit of £1.01m has arisen because council tax debits raised have not matched expectations when

the taxbase was set in December of the previous year. The taxbase reflects the actual number of properties liable to council tax adjusted for any relevant discounts and exemptions and with a further adjustment for the effect of new build property. In 2015/16 the physical number of new builds has met expectations but the rate of build has been slower, resulting in a lower value of debit. The deficit reduces our funding available by £1.01m.

- (4) **Capital Receipt.** As part of the Local Government Spending Review, the Government has provided councils with the flexibility to use capital receipts to fund transformation and restructuring of services in order to achieve efficiencies and revenue cost savings. In order to qualify for this flexibility, the authority must prepare an Efficiency Strategy which is included in Appendix O. The initial strategy must be approved by Council by 31 March 2016. This may be updated at any point in the year to take account of any change to the estimated level of capital receipts available and their planned use. Any amendments must also be approved by Council. The main capital receipt available in 2016/17 is £2.9m from the sale of the former Pound Lane depot. This will be used to fund the expected cost of redundancies in 2016/17 of £1.9m, which will generate annual savings of £2.7m, and to fund the transformation of service provision costing an estimated £1m, which will generate annual savings of £500k.

4.9 **Ring-fenced Funding.** The Council receives ring-fenced funding which must be spent on these specific areas. The largest of these are detailed below:

- (1) **Dedicated Schools Grant (DSG).** The DSG does not form part of the Revenue budget as it is received by government and then passed straight out to schools. The funding is split into three blocks – schools, early years and high needs. The DSG settlement for 2016/17 was announced on 17 December 2015 and there will be a shortfall of £1.4m. The shortfall in funding will have a significant impact on all schools, making it harder for schools to balance their own individual budgets. The available funding compared to the budget estimates for 2016/17 is shown in the following table:

2016/17 Estimate	DSG Funding £'000	Budget Estimate £'000	Headroom/ (Shortfall) £'000
Schools Block	96,718	96,112	606
Early Years Block	6,708	6,824	-116
High Needs Block	19,464	21,379	-1,915
Total	122,890	124,315	-1,425

- (2) **Public Health Grant.** West Berkshire Council receives a ring-fenced grant to fund Public Health. The Government has announced savings in public health spending averaging annual real terms savings of 3.9% over the next five years and that the grant is to remain ring-fenced for a

further two years in 2016/17 and 2017/18. In 2016/17 we will receive £6.2m. Details of the savings required to meet the cut in grant in 2016/17 are shown in Appendix E iv).

5. Planned Revenue Expenditure

BASE BUDGET GROWTH

- 5.1 This is the budget increase required for the Council to perform exactly the same functions year on year. As part of the budget setting process, the Council provides for general inflationary pressures such as salary increases (1% assumption) based on the established number of posts, together with salary increments and increases to National Insurance and pension contributions. From April 2016, the new State Pension will replace the existing basic and additional State Pension and will bring to an end 'contracting-out' and the National Insurance rebate. For employers, the standard rate of National Insurance is 13.8% of all earnings above the secondary threshold for all employees and we will no longer receive the 3.4% National Insurance rebate. The impact for West Berkshire Council in 2016/17 is expected to be in the region of £800k.

BASE BUDGET GROWTH - CARE ACT ELIGIBILITY

- 5.2 The first phase of the Care Act 2014 came into force in April 2015 and introduced the most significant changes to social care legislation for 60 years. The most significant financial impact for the Council was the implementation of the new national eligibility criteria. This required the Council, which had previously met service users' "critical" needs only, to expand the number of clients supported, and the scope of packages of care, to meet this new definition of eligibility which is closer to that previously defined as "substantial". Despite the Government stating they would meet the costs of the Care Act in full, the total additional funding received (which has covered other elements of the Care Act, such as services to carers) has left the Council to cover a funding gap of £3m in caused by this particular change. The Council (with another LA) judicially reviewed the Department of Health's assessment and decision making process and it agreed a further review of the eligibility criteria based on that challenge. The local MP also made representation to the Secretary of State and additional funding may become available following the final outcome of all the review processes.

CONTRACT INFLATION

- 5.3 Budgets are inflated where a contract is in place and is subject to annual inflationary increases. This amounts to £383k in 2016/17. The main amount of contract inflation the Council faces is from the waste PFI contract. This contract increase is based on the RPIx measure in January of each year. Full details are given in Appendix C.

UNAVOIDABLE SERVICE PRESSURES

- 5.4 Each year new unavoidable service pressures arise and need to be built into the revenue budget. The unavoidable pressures for 2016/17 amount to £3.9m and include £908k for children's placements, £551k for Ofsted Improvement plans for Children's Services, £600k for the transition of learning disability clients from children to adult placements and £179k for costs associated with Deprivation of Liberty Safeguarding. Full details are given in Appendix D.

OTHER RISKS

- 5.5 The Council is also facing a number of risk items that will arise during 2016/17 but cannot yet be quantified. The main risk items are:
- (1) introduction of the National Living Wage, which will affect some Council employees and service providers that we commission
 - (2) part year impact of any delays to implementing the savings plans for 2016/17
 - (3) possible delay to the recruitment and retention of permanent social workers in Children's Services
 - (4) increases in demand for services over and above budget assumptions.

6. Savings

- 6.1 Given the scale of task to arrive at a balanced budget for next year a number of significant saving proposals have been made including reductions to libraries, children centres, home to school transport, public transport subsidy, highway maintenance, provision of care services and many others as detailed in Appendix E totalling £14m.
- 6.2 As a result of these savings plans, 127 employees are at risk of redundancy (96 FTE) and in addition 27 vacant posts will be deleted. The associated exit costs are estimated to be in the region of £2m. The Council is proposing in the Efficiency Strategy at Appendix O, to use capital receipts to fund these costs given the level of organisational change being proposed.

7. Budget Consultation 2016/17

- 7.1 Given the scale of the savings requirement for 2016/17, some tough decisions have had to be made. We recognised that a number of the proposals being put forward within the revenue budget would be considered 'front line' services that people use and will miss. As a result, from 3 November to 14 December 2015, a public consultation exercise (Phase 1) was undertaken on the need to make £10.8m of savings in 2016/17. £4.6m of these savings affected frontline services. The consultation generated over 2,500 responses and covered 47 individual budget proposals.
- 7.2 Since the consultation closed on 14 December 2015 Members and officers have had the task of reading and assessing all of the comments received. The Revenue Budget papers has included, as Appendix N, the report which went to the Executive on 11 February 2016 which has been amended to reflect the comments made at that meeting including referencing the three petitions and a letter objecting to the proposed funding reductions for short breaks for children and bus route 143. This report also contains links to the verbatim comments, a summary of comments template, an overview and recommendations template and the Equality Impact Assessments templates for each of the 47 savings proposal.
- 7.3 Members are fully aware of the Public Sector Equality Duty which requires "decision makers" to keep the welfare of service users and their families at the forefront of

their mind particularly those that are most disadvantaged. This is an important consideration when setting the 2016/17 budget.

- 7.4 In view of the unexpectedly poor Government RSG settlement it has been necessary to undertake a Phase 2 public consultation exercise. This commenced on 15 February 2016 and will conclude on 7 March 2016. There are 16 public facing savings proposals representing £2.1m.
- 7.5 It is proposed that the Council will set its budget on 1 March 2016. However, it is also proposed that the Executive, at its meeting on 24 March 2016, be given delegated authority to adjust these plans afterwards, should it need to. Once the consultation closes on 7 March 2016, the responses to our proposals will be fully considered. The Executive will be able to respond accordingly to any issues raised, and will be proposing where the transitional grant funding of £1.39m will be used. The full list of savings proposals for 2016/17 are detailed in Appendix E, amounting to £14m.

8. Levies and Capital Financing Costs

- 8.1 This budget includes approximately £9.6 million for principal and interest payments on the long term loans which the Council has taken out to fund its capital programme. This cost is offset by interest earned on the Council's investments estimated at about £0.39 million. The remaining budget also includes levies set by the Environment Agency and the Thames Valley Magistrates Courts Service.

9. Fees and Charges

- 9.1 The proposed changes to each Directorates fees and charges are shown in Appendix H. There are generally two types of charges; statutory and discretionary and the rationale behind the proposed increases are included in detail in Appendices H i) to H iv).

10. Funding Statement

- 10.1 The Funding Statement for 2016/17 shows all non-ringfenced funding available to the Council which can be used to fund the budget requirement.

2016/17 Funding Statement	£m	£m
Income		
Council Tax income		82.28
Revenue Support Grant		9.53
Transitional Grant Funding		1.39
Other Non-Ringfenced Grants		0.07
Retained Business Rates		17.65
Education Services Grant (ESG)		1.84
Department of Health Funding		4.37
New Homes Bonus		3.95
Council Tax Collection Fund deficit		-1.01
Use of Capital Receipt		1.17
Funds available		121.25
Expenditure		
Opening Directorate Budget	116.30	
Base budget growth	2.07	
Contract inflation	0.38	
Unavoidable service pressures	3.89	
Other risks	1.97	
Savings identified	-13.90	
Use of transitional grant funding	1.39	
Directorate budget requirement		112.09
Levies & capital financing costs		9.10
Net Budget Requirement for Management Accounting		121.19
Use of Reserves (-)		0.00
CTSS support for Parishes		0.05
Budget requirement		121.25

11. Reserves

- 11.1 As part of the financial planning process, the Council will consider the establishment and maintenance of reserves. Reserves are categorised into General Reserves, Earmarked Reserves, Capital Reserves and Unusable Reserves.
- 11.2 The General Reserves consist of the General Fund and the Medium Term Financial Volatility Reserve (MTFVR).
- (1) The General Fund exists to cover a number of risks. These are detailed as per the s151 officer's statement in Appendix G; there are a number of items that have inherent but not specific risks. If the risks occur, then this would reduce the General Reserves, assuming that every other Council budget breaks even. If the Council over spends then it will need to establish a mechanism for replenishing reserves in future years.

- (2) The Medium Term Financial Volatility Reserve (MTFVR) was created in 2012/13 to cover a number of risks, primarily resulting from changes to local government finances and the volatility that these present.

11.3 At 31 March 2015 the General Reserves amounted to £7.97m, comprising £6.44m in the General Fund and £1.53m in the MTFVR. During 2015/16, the General Reserves decreased by £2.75m for the following reasons:

- (1) £1.15m to support the 2015/16 budget
- (2) £1m to create an earmarked reserve for schools in financial difficulty
- (3) £0.6m to fund the 2015/16 over spend as forecast at quarter three.

11.4 The Council s151 officer (the Head of Finance) recommends that General Reserves are a minimum of 5% of the Council’s net budget, which in 2016/17 should be £6m. In order to ensure the General Reserves meet the £6m prudent level recommended by the s151 officer, £780k has been released from Earmarked Reserves by reassessing the risks relating to these items. General Reserves are now expected to amount to £6m, comprising £4.97m General Fund and £1.03m MTFVR.

12. Special Expenses

12.1 There are six Parish special expenses areas within the District and the special expenses to be levied are detailed below:

North Fawley – St Mary the Virgin	£350
Hungerford Footway Lighting	£4,280
Kintbury – St Mary’s Churchyard	£5,100
Shaw – St Mary’s Churchyard	£910
Theale – Holy Trinity	£1,270
Tilehurst – St Michael’s	£12,500
Total	£24,410

12.2 The special expenses to be levied for these areas are detailed in Appendices I.

13. Options for Consideration

13.1 The scale of the Local Government Settlement has left West Berkshire Council with limited options. We are proposing to increase Council Tax by 1.99% and apply the adult social care ring-fenced precept of a 2% increase to Council Tax. If these options were not taken, the savings requirement would be £3.2m higher. We have considered all options available to us in order to keep the savings requirement to the level it is. These options include use of capital receipts and transitional grant funding.

14. Proposals

- (1) That the responses received to each of the 47 public facing savings proposals in relation to Phase 1 of the public consultation exercise undertaken on the 2016/17 budget be noted.
- (2) That Council consider the use of the 2016/17 transitional grant as a means of mitigating the impact of some of the Phase 1 proposals and where this is not used, the recommendations set out in the Overview and Recommendations template be approved.
- (3) That Council recommend that those public health grant funded services (marked as “to be progressed”) in the Overview and Recommendations template totalling £114,000 be progressed.
- (4) That the 2016/17 revenue budget requirement for Council Tax setting purposes of £82.28 million requiring a Council Tax increase of 1.99% be approved.
- (5) That the 2% ring-fenced adult social care precept be applied.
- (6) That the Fees and Charges be approved as set out in Appendix H and the appropriate statutory notices be placed where required.
- (7) That the Special Expenses be approved as set out in Appendix I.
- (8) That the Efficiency Strategy for Use of Capital Receipts be approved as set out in Appendix O.
- (9) That the Executive, on 24 March 2016, be given delegated authority to adjust the Council’s budget plans, should the responses to Phase 2 of the public consultation require it to do so.
- (10) That the Executive, on 24 March 2016, propose where the transitional grant funding of £1.39m will be used.

15. Conclusion

- 15.1 The Council has been left with little room for manoeuvre to deliver a balanced budget for next year and has to propose significant savings to many valued services across the Council as detailed in the report.
- 15.2 As a result of these savings plans, 127 employees are at risk of redundancy (96 FTE) and in addition 27 vacant posts will be deleted. The associated exit costs are estimated to be in the region of £2m.
- 15.3 A public consultation exercise (Phase 1) was undertaken on the need to make £10.8m of savings in 2016/17. £4.6m of these savings affected frontline services. In view of the unexpectedly poor Government RSG settlement it has been necessary to undertake a Phase 2 public consultation exercise. This commenced on 15 February 2016 and will conclude on 7 March 2016. There are 16 public facing savings proposals representing £2.1m.

15.4 It is proposed that the Council will set its budget on 1 March 2016. However, it is also proposed that the Executive, at its meeting on 24 March 2016, be given delegated authority to adjust these plans afterwards, should it need to. Once the Phase 2 consultation closes on 7 March 2016, the responses to our proposals will be fully considered. The Executive will be able to respond accordingly to any issues raised, and will be proposing where the transitional grant funding of £1.39m will be used.

15.5 The Council s151 officer (the Head of Finance) recommends that General Reserves are a minimum of 5% of the Council's net budget, which in 2016/17 should be £6m.

Background Papers:

None

Subject to Call-In:

Yes: No:

The item is due to be referred to Council for final approval



Wards affected:

All

Strategic Aims and Priorities Supported:

The proposals will help achieve the following Council Strategy aims:

- BEC – Better educated communities**
- SLE – A stronger local economy**
- P&S – Protect and support those who need it**
- HQL – Maintain a high quality of life within our communities**
- MEC – Become an even more effective Council**

The proposals contained in this report will help to achieve the following Council Strategy priorities:

- BEC1 – Improve educational attainment**
- BEC2 – Close the educational attainment gap**
- SLE1 – Enable the completion of more affordable housing**
- SLE2 – Deliver or enable key infrastructure improvements in relation to roads, rail, flood prevention, regeneration and the digital economy**
- P&S1 – Good at safeguarding children and vulnerable adults**
- HQL1 – Support communities to do more to help themselves**
- MEC1 – Become an even more effective Council**

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