

CABINET MEETING – 10 JANUARY 2018
EXECUTIVE SUMMARY SHEET – PART I

Title of Report:

Revenue Budget 2018/2019 to 2020/2021 – Update and Provisional Revenue Support Settlement

Author(s):

Executive Director of Corporate Services

Purpose of Report:

To provide an update on the budget position for 2018/2019 to 2020/2021 including the impact of the Provisional Revenue Support settlement, prior to the receipt of the final Local Government Finance Settlement 2018/2019.

Description of Decision:

Cabinet is requested to

- Note the outcome of the provisional Local Government Finance Settlement set out at section 4 of the report.
- Note the update on the 2018/2019 to 2020/2021 budget planning as set out at sections 5 to 7 of the report.
- In relation to the Sunderland Schools local funding formula for 2018/2019, Cabinet is asked to approve the National funding formula be implemented with the following local adjustments in order to protect Sunderland schools in the initial years:
 - The new Free School Meal Indicator not to be used in the Sunderland Formula in order to support the following protection to all schools;
 - Sunderland Lump Sum value of £150,000 will remain;
 - Minimum Funding Guarantee to be implemented at 0% so that no schools will see a reduction in per pupil funding in 2018/2019.

Is the decision consistent with the Budget/Policy Framework?

Yes – it is seeking to inform a future decision to set the Budget for 2018/2019.

If not, Council approval is required to change the Budget/Policy Framework

Suggested reason(s) for Decision:

To provide an update on the impact of local government finance settlement on the budget planning for 2018/2019 to 2020/2021.

To update the MTFs and Budget Planning in light of latest information.

Alternative options to be considered and recommended to be rejected:

There are no alternative options recommended for approval.

Impacts analysed:

Equality Privacy Sustainability Crime and Disorder

Is the Decision consistent with the Council's Co-Operative Values? Yes

Is this a "Key Decision" as defined in the Constitution? Yes

Is it included in the 28 day Notice of Decisions? Yes

REVENUE BUDGET 2018/2019 to 2020/2021- UPDATE AND PROVISIONAL REVENUE SUPPORT SETTLEMENT

Report of the Executive Director of Corporate Services

1. Purpose of Report

- 1.1 This report provides an update on the budget position for 2018/2019 to 2020/2021, including the impact of the Provisional Revenue Support settlement, prior to the receipt of the final Local Government Finance Settlement 2018/2019.

2. Description of Decision

- 2.1 Cabinet is requested to:
- Note the outcome of the provisional Local Government Finance Settlement set out at section 4 of the report.
 - Note the update on the 2018/2019 to 2020/2021 budget planning as set out at sections 5 to 7 of the report.
 - In relation to the Sunderland Schools local funding formula for 2018/2019, Cabinet is asked to approve the National funding formula be implemented with the following local adjustments in order to protect Sunderland schools in the initial years:
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 - Sunderland Lump Sum value of £150,000 will remain;
 - Minimum Funding Guarantee to be implemented at 0% so that no schools will see a reduction in per pupil funding in 2018/2019.

3. National and Economic Context and the Autumn 2017 Budget Statement

- 3.1 The Chancellor delivered his Budget Statement on 22nd November 2017 and provided an update of the economic forecasts with GDP growth forecasts revised down since the March 2017 Budget to 1.5% in 2017 (down from 2.0%), 1.4% in 2018 (down from 1.6%) and 1.3% in 2019 (down from 1.7%).
- 3.2 Included within the 2016 budget was the requirement of government to make additional £3.5bn efficiencies in 2019/2020. Commentary within the detailed budget papers suggests that although an element of this saving has been identified, spending and administrative pressures faced by departments mean the government will not proceed with the remaining efficiency gap. This is good news for local government who could potentially have been impacted upon by these reductions.
- 3.3 Disappointingly there was only very limited additional funding announced to address the difficulties being felt by Local Government in relation to either

adult or children's social care. While the budget included for £42m nationally for Disabled Facilities grant funding, this equates to only circa £0.258m additional funding for Sunderland in 2017/2018.

- 3.4 There is to be no additional funding provided for any pay awards in excess of 1% for Local Government.
- 3.5 The Chancellor announced that annual increases in Business Rates would now be linked to CPI rather than RPI and the detailed papers confirmed that Local Authorities will be fully compensated via a section 31 grant.
- 3.6 In relation to Health service pressures, the Government committed to an additional £10bn capital investment in frontline services over the course of the Parliament to support STPs. Outside of the Spending Review process, the Chancellor indicated an additional £2.8bn for the NHS for day-to-day services is to be made available. There will be £335m to be made immediately available for 2017/2018 'winter pressures', with £1.6bn available in 2018/2019 and the remainder in 2019/2021.
- 3.7 Housing and infrastructure was a significant focus of the budget, with capital funding aimed at supporting the housing market to deliver 300,000 homes per year by the mid 2020's and an aim to eliminate rough sleeping by 2027. It remains to be seen the impact this funding will have on areas such as Sunderland. With regard to infrastructure, government funding of £337m to support the replacement of the Tyne and Wear metro rolling stock was welcomed.
- 3.8 The Chancellor also announced a series of funding measures to support the teaching of maths and computer science, as well as additional funding for further education colleges to prepare for the new T level qualification.

4. Provisional Local Government Settlement for 2018/2019

- 4.1 The Provisional Local Government Settlement was announced on 19th December 2017. The key features of the settlement are set out at section 4.2 (national position) and 4.3 (Sunderland position) below.

The provisional settlement includes a consultation paper with a deadline for responses to Government by 16th January 2018. Officers are preparing the proposed response in consultation with the Deputy Leader and Cabinet Secretary.

4.2 Provisional Local Government Settlement - National Position

4.2.1 Key points from the settlement announcement include:

- This is the third year of the four year settlement offer for the period to 2019/2020. The council is one of 97% of councils to have accepted the four year settlement offer which provides a guaranteed minimum Revenue Support Grant envelope through to 2019/2020.
- Council Tax Increase
The Government increased the general council tax referendum limit from 1.99% to 2.99%, in line with CPI inflation. When taken together with flexibilities introduced last year in relation to adult social care precept, this means social care authorities can increase council tax by up to 6% including social care precept in 2018/2019.
- New Homes Bonus (NHB)
Following the outcome of consultation on a proposed alternative approach to the allocation of NHB, the settlement confirmed there is to be no change to the allocation methodology for 2018/2019. This means that the 0.4% threshold for payments will remain and payments for homes approved after appeal will not be withheld.
- Capital Receipts
The flexibility to use capital receipts to help meet revenue costs of transformation was extended for a further three years to April 2022.
- Negative RSG
The Government announced it will be considering 'fair and affordable' options for dealing with the issue of negative RSG in 2019/2020, and will consult on options before that year's settlement.
- Review of Relative Needs and Resources
Alongside the settlement information the government published a consultation on the fair funding review and confirmed that it aims to implement a new system for 2020/2021.
- The Government also confirmed the intention that local authorities will retain 75% of business rates from 2020/2021 by incorporating existing grants into business rates retention including Revenue Support Grant and the Public Health Grant. A further 10 Business Rates Pilots were announced in order to test out aspects of the proposed system.

4.2.2 Core Spending Power

The government uses a measure known as the Core Spending Power to indicate the impact of changes in funding. This measure includes:

- Settlement Funding Assessment (SFA) comprising:
 - Revenue Support Grant (RSG);
 - Retained Business Rates;
 - Top Up Grant;
- Compensation for the under-indexing of the Business Rates Multiplier;
- New Homes Bonus;
- Local Government element of the Improved Better Care Fund;

- Council Tax Income including an assumed 6% increase in the precept to support social care over the three years 2017/2018 and 2019/2020.

Core Spending Power will increase by an average 1.5% nationally in 2018/2019 and increase by an average 2.1% over the spending review four year period to 2019/2020.

4.2.3 Within the Core Spending Power measure, the Settlement Funding Assessment (including RSG, government assumed Retained Business Rates and Top up grant) will reduce nationally by an average 6.4% in 2018/2019 and 32.2% over the spending review four year period to 2019/2020.

4.2.4 Within the Settlement Funding Assessment, Revenue Support Grant is to reduce nationally by an average 68.2% over the spending review period to 2019/2020.

Revenue Support Grant is the key needs based element of local government funding and this is being significantly cut over the four year period.

4.3 Provisional Local Government Settlement - Impact of Government Funding for Sunderland 2018/2019 to 2020/2021

4.3.1 Core Spending Power

Appendix 1a and 1b sets out the Governments Core Spending Power measure for Sunderland as assessed by Government (which includes income raised locally from council tax and governments assumed levels of business rates).

This demonstrates an increase of £3.6m (1.5%) for 2018/2019 which is in line with the national average increase of 1.5%. This reflects the additional Improved Better Care Fund provision, based on an allocation that reflects the limited ability of councils with low council tax bases to raise additional income locally.

4.3.2 Settlement Funding Assessment

Appendix 1a also sets out the Settlement Funding Assessment for Sunderland (including Revenue Support Grant, Governments assumed level of Retained Business Rates and Top up grant).

For Sunderland there is a 4.9% net reduction for 2018/2019, which compares to the national average cut of 6.3%.

- Within the Settlement Funding Assessment, the council will receive Revenue Support grant of £36.157m in 2018/2019. This represents a cut of 19.1% (£8.555m) compared to 2017/2018. By 2019/2020 Revenue Support grant will reduce to £27.507m (a cut of 38.5% compared to 2017/2018).
- The amount of Top-up grant to be received by Sunderland announced as part of the Provisional Local Government Finance Settlement is £42.175m.

4.3.3 Specific Grants within Core Spending Power

- Improved Better Care Fund (IBCF)
 - The council IBCF grant will increase by £3.7m in 2018/2019 to £13.0, and to £16.6m in 2019/2020.
 - The allocations include the additional one-off IBCF social care allocations which tapers over the three year period, set out as follows:

2017/2018	£7.534m
2018/2019	£4.493m
2019/2020	£2.220m

This funding can be used solely for adult social care purposes and for additional purposes to existing plans. As such the funding is assumed to have a nil net impact for overall council budget planning purposes as additional plans are brought forward to utilise the funds. Proposals for the use of the additional IBCF funds are included in the 2017-2019 Better Care Fund agreement as agreed by Health and Wellbeing board in November 2017.

Government have indicated Delayed Transfers of Care (DTCO) will be closely scrutinised and have indicated the potential to reduce 2018/2019 IBCF funding for poor performing areas. Following a review undertaken by the Department of Health, the Council was notified on 6th December that there will be no change to, or impact on, Sunderland's 2018-19 IBCF allocation.

- New Homes Bonus
 - The council's indicative new homes bonus will reduce from the £3.7m received in 2017/2018 to the following allocations:
 - 2018/2019 £3.2m
 - 2019/2020 £2.9m
 - Attainment of these grant allocations will be dependent on actual housing growth within Sunderland over the period. Although housing numbers in Sunderland are increasing, the amount of grant received is reducing due to change in the way that government allocates the grant.
- Section 31 Grant
 - The Government will continue to compensate Councils for any changes to nationally determined reliefs allowed for in the Business Rate regime. This includes for changes to Small Business Rates Relief thresholds introduced in April 2017 and the change from RPI to CPI announced as part of the November budget. The core spending power includes for an assumed allocation of £1.7m section 31 grant in 2018/2019, although this will only be confirmed on completion of the NNDR1 which is due to Government by 31st January 2018.

4.3.4 Other Grants

At the time of writing, allocations for a number of grants have yet to be released. This includes Public Health Grant, Council Tax and Housing Benefit Administration Grant, Independent Living Fund, Community Voices and Extended Rights to Free Travel. The impact of the allocations once received will be factored into the February Budget report.

4.4 Schools Funding

4.4.1 The Secretary of State for Education has set out the future arrangements for school funding from 2018/19 and the DfE have confirmed the following:

- The dedicated schools grant for LAs will be allocated in 4 blocks (schools, high needs, early years and central schools services). Each will be calculated on the basis of a different national formula.
- It remains DfE long-term intention that schools' budgets should be set on the basis of a single, national formula (a 'hard' formula). To ensure some transitional stability, LAs will continue to set a local formula for schools in 2018/2019 and 2019/2020.

4.4.2 Local budget flexibility arrangements associated with the schools block ring fence, allows for the Schools forums to agree transferring up to 0.5% of their schools block funding to the High Needs Block. Sunderland Schools Forum have agreed to the transfer of £0.800m (0.5%) from the Schools Block to the High Needs Block. This recognises the increased demand in commissioned places and Education, Health and Care Plans.

4.4.3 In considering the local formula for schools in 2018/2019 and 2019/2020, officers have engaged with Sunderland Schools Forum and held consultation sessions with 108 attendees representing 64 schools and academies. The responses to the consultation demonstrated a good overview of the schools funding system that allowed informed decision making in responding to the consultation questions. The responses showed:

- 95% agreement with the decision to transfer funds from the school to high needs block;
- 76% think it is the correct time for Sunderland to move to the national funding formula with protection;
- 62.5% consider the option of retaining the Sunderland lump sum value of £150,000 by not implementing the Free School Meal indicator and a minimum funding guarantee value at 0% to be the preferred model. This option protects Sunderland's schools in the initial years of implementing the national funding formula.

4.4.4 Sunderland Schools Forum at its meeting on the 7th December has recommended Cabinet be requested to approve the following principles be implemented for the 2018/2019 Sunderland local funding formula:

- The National funding formula to be implemented with the following local adjustments to protect Sunderland schools in the initial years:

- The new Free School Meal Indicator will not be used in the Sunderland Formula to support the following protection to all schools.
- Sunderland Lump Sum value of £150,000 will remain.
- Minimum Funding Guarantee to be implemented at 0%. This would protect the per pupil calculation so that no schools will see a reduction in per pupil funding in 2018/2019.

These principles will be used to finalise the local formula.

4.4.5 The School Funding announcement on the 19th December 2017 confirmed the following information based on the October Schools Census data. As part of the introduction of the new formula provisional funding allocations were provided in September. This allowed the development locally of funding formula options as described above. The change from the provisional funding allocation to the settlement information reflects changes in pupil numbers from October 2016 to October 2017:

	Adjusted Baselines 2017-18	Provisional Funding allocations 2018-19	Settlement Information 2018-19	Change in Funding
	£m	£m	£m	£m
Schools Block	163.249	165.418	165.702	0.284
High Needs Block	22.327	22.932	22.784	-0.148
Central Services Block	1.225	1.250	1.251	0.001
Total	186.801	189.600	189.737	0.137
Early Years	17.508	N/a	18.291	N/a
Total	204.309	189.600	208.028	0.137

The early years block comprises funding for the free early education entitlements for 3 and 4-year-olds and disadvantaged 2-year-olds. The figures are initial allocations for this block as early years funding is based on the January census data.

4.4.6 The pupil premium per pupil amounts are unchanged, with the exception of the pupil premium plus, which will increase from £1,900 per pupil to £2,300, for Looked After Children and those adopted from care or who leave care under a Special Guardianship Order or Child Arrangements Order.

4.4.7 Other grant funding

Further details will be made available in 2018 for the following grants that will continue into the next financial year: Universal Infant Free School Meals, Year 7 catch-up premium, Primary PE and Sport Premium, School Improvement Monitoring and Brokering Grant and extended rights to home to school transport.

4.4.8 Next Steps

The Schools Forum will consider all the information in January prior to the submission of the Local Funding Formula proforma to the DFE on the 19th January. School briefing sessions are scheduled for January 25 to inform schools and academies of their provisional funding allocation.

4.5 Local Funding Elements for 2018/2019

The key local funding elements to support the revenue budget in 2018/2019 comprise:

4.5.1 Retained Business Rates

The forecast income from Business Rates for 2018/2019 which will be retained by the Council is reported in the NNDR 1 return, which must be submitted to Government by 31st January 2018. The value of Business Rates to be taken into account in setting the 2018/2019 budget will only be confirmed upon completion of the NNDR1.

The outcome of the return on the budget position will be included in the February Budget report to Cabinet.

4.5.2 Council Tax

- **Capping Powers and Reserve Powers**

The Localism Act provides for the provision of referendums to veto excessive council tax increases. This places a limit on council tax increases and if councils exceed Government limits then the public will be able to vote to agree or veto any increase considered 'excessive'.

 - In the Provisional Settlement the Government announced that the referendum threshold for 2018/2019 is 6%, comprising 3% for the Adult Social Care precept and 3% for the core council tax element. The 3% limit for core council tax element marks a change in policy, whereby the government have linked the excessive increase criteria to CPI inflation. It remains to be seen whether this practice continues into 2019/2020
 - With regard to the Adult Social Care precept, the overall limit of a 6% increase across the three years to 2019/2020 remains, with no one year to exceed 3%. Sunderland raised the Social Care precept by 3% in 2017/2018. There is therefore option to increase the Social Care Precept by a further 3% in total over 2018/2019 and 2019/2020. Assumptions in relation to council tax increases in 2018/2019 are set out at section 6 of this report with final decision to be considered as part of the February Budget report.
- The government is to allow Police and Crime Commissioners to increase Council Tax up to a flat rate £12 increase at Band D, in 2018/2019.
- **Local Council Tax Support Scheme**

Proposals for the Local Council Tax Support Scheme for 2018/2019 are set out elsewhere on today's agenda.

4.6 Summary Impact of the Provisional Settlement on the Medium Term Planning

- 4.6.1 It is disappointing that central government has provided no new money within the settlement and therefore the provisional settlement is much as anticipated within the budget planning framework as reported to Cabinet in September 2017.
- 4.6.2 The government has not provided any additional funding to address the pressures being experienced by councils in relation to adult and children's social care, or provided additional funding to address any pay award over 1%. The prognosis therefore remains bleak into the medium term and significant cuts continue to be required.
- 4.6.3 The impact of the proposed changes to the local government funding system as a result of the Fair Funding review and the move to 75% retained Business Rates in 2020/2021 remain critical to understanding the future sustainability of services within Sunderland. All opportunities are being taken to influence government thinking.

5. Budget Planning Update

- 5.1 The Budget Planning Framework report to Cabinet in September set out the budget gap at that time, together with savings proposals totalling £29.90m for 2018/2019 to 2020/2021. Taking into account assumed increases in council tax and social care levy in line with referendum limits, the proposals at that time delivered a balanced budget position over the two financial years 2018/2019 and 2019/2020, (with a small surplus of £0.4m). Further savings of £8.52m were required in 2020/2021 as a result of unavoidable cost pressures. The table below summarises the position at that time:

	2018/19	2019/20	2020/21	Total
	£'m	£m	£m	£m
Total Funding Gap	20.55	14.90	9.36	44.81
Savings Plans to Meet the Funding Gap				
Leader	(0.38)	(0.20)	0.00	(0.58)
Deputy Leader	(1.41)	(1.83)	0.00	(3.24)
Cabinet Secretary	(3.88)	(1.89)	0.00	(5.77)
Childrens Services	(2.61)	(3.58)	0.00	(6.19)
Health, Housing and Adult Services	(4.78)	(1.33)	(0.14)	(6.25)
Public Health, Wellness and Culture	(0.44)	(0.90)	0.00	(1.34)
City Services	(2.63)	(2.65)	(0.30)	(5.58)
Responsive Services and Customer Care	(0.48)	(0.47)	0.00	(0.95)
Total Current Savings Programme	(16.61)	(12.85)	(0.44)	(29.90)
Additional IBCF Social Care grant allocation	(4.49)	(2.22)	0.00	(6.71)
Use of additional IBCF Social Care grant for social care purposes	4.49	2.22	0.00	6.71
Assumed Council Tax Increase	(1.79)	(1.91)	0.00	(3.70)
Assumed Increase in Council Tax - Social Care Levy	(2.70)	0.00	0.00	(2.70)
Current MTFS Gap after agreed savings proposals and assumed council tax increases	(0.55)	0.15	8.92	8.52
Cumulative Funding Gap 2018/2019 and 2019/2020 @ September 2017		(0.40)		

5.2 The September Cabinet report flagged a number of outstanding uncertainties at that time. A number of pressures and issues have now crystallised, which require the MTFS to be updated and the budget planning to be amended accordingly. The key issues are highlighted in section 5.3 and 5.4.

5.3 Review of Existing MTFS Assumptions

5.3.1 A review of all government grant funding assumptions in the MTFS has been undertaken in light of latest intelligence and reflected in the updated MTFS.

5.3.2 A review of all MTFS cost pressure provisions e.g. for inflation, pensions costs, workforce transformation adjustments and contingencies, has been undertaken and updates reflected in the MTFS.

5.3.3 The NECA budget setting arrangements for the Tyne and Wear Transport Levy for 2018/2019 are in line with the previous MTFS assumptions but incorporate the results of changes in population of the five Districts. This results in a saving of £0.350m to the council.

5.3.4 The latest position in respect of bases for Council Tax and NNDR have been reflected in the 2018/2019 budget. In addition, the MTFS for 2020/2021 has been updated to take into account the assumed impact of an annual increase in council tax charges of 2%, although final decisions on council tax increases will be taken as part of that year's budget process.

5.4 Spending Pressures Update

5.4.1 Together for Children

As at the December TfC Board reporting cycle, the company are forecasting a budget shortfall of £5.7m primarily as a result of increased numbers of looked after children over that provided for within the budget, and the continued use of agency social workers. The contract sum assumes delivery of savings in 2018/2019 through reductions in looked after children numbers and reduction in the number of external placements. The Board are seeking mitigating actions to minimise the impact of the pressures both in year and on-going.

Additional officer support and challenge has been provided by the council in response to the latest forecast position. However, at this stage it is anticipated an additional financial contribution will be required both in-year and on-going.

It is proposed that additional contract funding of £4m is provided on an on-going basis from 1 April 2018/2019 to enable the company to rebase their budget, taking into account additional demand in looked after children numbers in both 2017/2018 and to provide for additional demand in 2018/2019.

The Council will be working intensively with the Company during the last quarter of 2017/18 to carry out extensive due diligence on the increased forecast, and to develop an action plan that will allow the Company to operate within a sustainable funding envelope that is affordable.

5.4.2 Adult Social Care Pressures

- Pressures in Adult Social Care continue with increased demand for social care packages to support hospital discharges which is likely to continue given the national focus on delayed transfers of care and the requirement for Sunderland to maintain its good level of performance. While the provision of additional Improved Better Care Funding has helped support the position in 2017/2018, this funding stream tapers off during 2018/2019 and 2019/2020 resulting in on-going pressures remaining for 2018/2019 of circa £2.3m.

In addition the CCG have advised their savings plans for 2018/2019 include for £0.6m reduction in NHS funded Section 256 contributions to adult social care services (funding to support adult social care which also has a health benefit) and in funding for the Move to Improve Project.

The Executive Director People Services is utilising business intelligence information to identify areas where client needs are not being met in the most cost effective way. A series of mitigating actions including the use of assistive technology have been put in place to ensure that moving forward all packages of care put in place, whilst still meeting client needs, are provided in a way which ensures best value.

- **Complex Needs**
Additional pressures are likely to arise as a result of the government commitment to move complex need clients from hospital placements into community based support. The council continues to lobby health partners and government to ensure an appropriate transfer of resources to support this additional burden to minimise any additional cost impact to the council. This position will be kept under review and an update provided in future budget reports.

5.4.3 Sunderland Care and Support (SCAS)

As reported as part of the Third Revenue Review elsewhere on today's Cabinet agenda, Sunderland Care and Support (SCAS) have pressures as a result of the impact of workforce transformation, which is currently forecast at £2.5m in 2017/2018.

The Chief Operating Officer is currently restructuring the service which will reduce the pressure into 2018/2019 to £1.8m. Further plans are being progressed to address the remaining budget pressure. In order to provide for a lead in time for further changes to be implemented it is proposed to make provision for a one-off additional contribution in 2018/2019 of £1.8m.

5.4.4 Place Based Services - Additional Investment

The Budget consultation feedback for 2017/2018 highlighted the importance of place based services to city residents, however satisfaction levels were low. The service has been subject to significant reductions in recent years as a result of austerity measures. Additional on-going funding of £0.5m was provided as part of the 2017/2018 budget.

It is proposed to continue this process of reinvestment in Place based services with £0.5m on-going additional funding to be provided in each year of the three years 2018/2019 to 2020/2021, so that by 2020/2021 there is an additional £1.5m in the place base budget provision. In addition it is proposed that in 2018/2019 and 2019/2020 one-off resources are utilised to boost the base budget position so that the service has available a total additional £1.5m in each of the next three years to improve outcomes for residents.

5.4.5 Tall Ships

Latest financial projections for the Tall Ships event indicate a requirement for up to £2m of additional funding to meet costs of dredging, and event infrastructure. It is proposed that the MTFS be updated to include for the additional investment on a one-off basis. It is proposed the cost of the additional investment be met from available one-off resources and the Councils share of the additional Newcastle airport dividend reported in the Revenue Budget Third Review 2017/2018 elsewhere on today's agenda.

5.4.6 Pay awards

On 5th December the National Employers confirmed a final pay offer covering the period 1 April 2018 to 31 March 2020. The pay offer includes:

- From 1 April 2018 ('Year One'):
 - Bottom-Loading on SCPs 6-19 - higher increases on the lower pay points resulting in a new bottom rate of £8.50 per hour on SCP6;
 - SCPs 20 and above a flat rate increase of 2%;
- 1 April 2019 ('Year Two'):
 - A bottom rate of £9.00 per hour;
 - Pairing of bottom twelve pay points into six new pay points;
 - 'Ironing out' the current random gaps between pay points and even increments of 2.0% between new SCPs 1 to 22;
 - From new SCP23 onwards, a flat-rate increase of 2.0% and retention of the current random differentials.

While it is difficult to estimate the exact impact of the offer at this stage, initial estimates indicate an additional cost of at least £1.8m per year over that currently provided for within the MTFS rising to an additional £2m per year by 2020/2021. The provisional settlement provided no additional funding for any pay awards above 1% for Local Government therefore this additional cost has been factored into the latest MTFS update.

- National Living Wage
The government implemented the National Living Wage with effect from April 2016 at £7.20. This increased to £7.50 at April 2017 and will increase to £7.83 from April 2018. Latest forecasts included within the low pay commission autumn 2017 update, suggest it will rise to £8.61 by 2020. This represents a significant additional cost pressure for local councils. In particular home care and care home providers will seek to pass the cost on through increased contract prices. Appropriate provision has been factored into the Budget planning.

5.4.7 Capital Financing Costs

The December Cabinet report included for additional capital proposals totalling £60.5m from 2018/2019. The proposals result in additional borrowing costs of £1.5m over that allowed for within the current MTFS from 2020/2021. It is proposed additional provision be included within the MTFS.

The government is currently consulting on changes to the Prudential Framework of Capital Finance, Local Authority Investment and Minimum Revenue Provision (MRP) Guidance. Proposed changes to the guidance could require previously agreed changes to the councils MRP policy to be revisited, with a consequential negative on-going financial impact for the council budget. The council, along with others in the sector, are strongly arguing that any changes should not impact retrospectively. Should the outcome be unfavourable to Sunderland, the MTFS will be amended accordingly.

5.4.8 Summary Updated Spending Pressures

A summary of the spending pressures and commitments provided for within the MTFS taking into account the revisions set out in paragraph 5.4.1 to 5.4.7 is set out below:

	2018/19 £'m	2019/20 £m	2020/21 £m	Total £m
Spending Pressures and Additional investment				
Pay, Prices and Other Pressures including Contract Inflation	6.77	8.93	10.36	26.06
People - Investment in Extra Care	0.17	0.00	0.00	0.17
People - Adults Demand Pressures	0.50	0.50	0.50	1.50
People - Adult Social Care - complex needs	0.18	0.08	0.08	0.34
People - Adult Social Care Pressures - assumes fully mitigated	0.00	0.00	0.00	0.00
People - SCAS delays in achieving savings	1.82	(1.82)	0.00	0.00
Together for Children additional investment	4.00	0.00	0.00	4.00
Place Based Services - Additional Investment	0.50	0.50	0.50	1.50
Place Based Services - One-Off additional support	1.00	(0.50)	(0.50)	0.00
Tall Ships one-off additional investment	2.00	(2.00)	0.00	0.00
Debt Charges	0.00	0.00	1.50	1.50
Workforce Transformation - Incremental Impact	1.66	0.50	0.15	2.31
Apprenticeship levy And Public Sector Duty	0.60	0.00	0.00	0.60
Pressure from Use of Previous One-off Balances 2017/2018	6.36	0.00	0.00	6.36
Total On-Going Funding Gap	25.56	6.19	12.59	44.34

5.5 Savings Proposals 2018/2019 to 2019/2020 and remaining budget gap

5.5.1 As reported to Cabinet in September (link to report below), savings proposals of £29.90m have previously been approved and consulted upon which contribute towards reducing the budget gap over the three year period.

[September Cabinet Report](#)

5.5.2 The table below demonstrates the remaining budget gap after taking into account previously agreed saving proposals, but before any assumed increase in council tax, social care levy or use of one off resources.

	2018/19 £'m	2019/20 £m	2020/21 £m	Total £m
Funding Reductions	1.81	6.59	0.27	8.67
Total Ongoing Spending Pressures	25.56	6.19	12.59	44.34
Revised Total On-Going Funding Gap	27.37	12.78	12.86	53.01
Approved Savings Plans to Meet the Funding Gap				
Leader	(0.38)	(0.20)	0.00	(0.58)
Deputy Leader	(1.39)	(1.83)	0.00	(3.22)
Cabinet Secretary	(3.88)	(1.89)	0.00	(5.77)
Childrens Services	(2.61)	(3.58)	0.00	(6.19)
Health, Housing and Adult Services	(4.79)	(1.33)	(0.14)	(6.26)
Public Health, Wellness and Culture	(0.45)	(0.90)	0.00	(1.35)
City Services	(2.63)	(2.65)	(0.30)	(5.58)
Responsive Services and Customer Care	(0.48)	(0.47)	0.00	(0.95)
Total Current Savings Programme	(16.61)	(12.85)	(0.44)	(29.90)
Remaining Gap after approved Savings Plans	10.76	(0.07)	12.42	23.11

6. Approach to Addressing the remaining Budget Gap

6.1 Proposed Council Tax Increase 2018/2019

6.1.1 In order to prevent further cuts to front line services and enable some investment in services which previous consultation has told us is important to residents, it is proposed at this stage to increase the council tax and the social care levy for 2018/2019.

6.1.2 Previous consultation undertaken as part the 2017/2018 budget setting process asked respondents whether they supported increases in Council Tax within the Governments referendum limit.

Over 77% of respondents to the question supported an increase in Council Tax:

- 58% supported an increase in Council Tax within the Government's set referendum limit;
- 19% supported an increase above the referendum limit.

6.1.3 The referendum limits set out in the local government settlement for 2018/2019 enable the combined council tax and social care precept to be increased by up to 5.99% without the need for a referendum.

6.1.4 At this stage for 2018/2019 it is proposed to increase core council tax by 2.99% and to increase the social care precept by 2%, resulting in a combined increase of 4.99% i.e. lower than the referendum limit permitted by government.

6.2 Use of One off Resources

6.2.1 While work continues to develop further savings proposals to address the gap over the medium term, at this stage it is proposed that one-off resources be utilised in 2018/2019 and 2019/2020 to support the budget.

It is proposed that reserves of £6.40m are utilised in 2018/2019 in order to ensure a balanced budget position is maintained while smoothing the impact of the funding cuts and cost pressures. It is also proposed that reserves of £3.49m be utilised in 2019/2020 in order to allow time for additional savings plans to be developed over the MTFS period.

7. Summary budget position 2018/2019 to 2019/2020

7.1 The table at 7.2 below summarises the MTFS position after taking into account:

- A review of MTFS assumptions set out at section 5.3.
- Additional pressures identified at section 5.4.
- Previously agreed savings proposals of £29.90m as referred to at section 5.5.
- An assumed increase in council tax and social care levy for 2018/2019 as set out section 6.1, and with future years in line with referendum limits, although final decisions on these increases will be made as part of the final budget setting process in each year.
- Use of available reserves as set out at 6.2.1

7.2 The table below demonstrates a balanced budget position for 2018/2019 and 2019/2020, with a residual budget gap of £14.0m in 2020/2021.

	2018/19 £'m	2019/20 £m	2020/21 £m	Total £m
Funding Reductions	1.81	6.59	0.27	8.67
Total Ongoing Spending Pressures	25.56	6.19	12.59	44.34
Total Funding Gap	27.37	12.78	12.86	53.01
Total Current Savings Programme	(16.61)	(12.85)	(0.44)	(29.90)
Additional IBCF Social Care grant allocation	(4.49)	(2.22)	0.00	(6.71)
Use of additional IBCF Social Care grant for social care purposes	4.49	2.22	0.00	6.71
Assumed Council Tax Increase	(2.57)	(1.89)	(1.91)	(6.37)
Assumed Increase in Council Tax - Social Care Levy	(1.79)	(0.95)	0.00	(2.74)
Revised MTFS Gap / Surplus after agreed savings proposals and assumed council tax increases	6.40	(2.91)	10.51	14.00
Use of One-Off Reserves				
Total Use of One off Resources to smooth the budget position	(6.40)	(3.49)	0.00	(9.89)
Pressure in following year as a result of use of resources to support the budget in 2018/2019 and 2019/2020		6.40	3.49	9.89
Remaining Funding Gap	(0.00)	0.00	14.00	14.00

It is noted that this position assumes that when a revised system of retained business rates is implemented in 2020/2021, Government will take action to

ensure a 'status quo' impact on the funding position for each council through the top-ups and tariffs system, to ensure no detrimental impact on each councils overall funding position.

- 7.3 Further work is continuing to identify and capture additional savings to support the budget position going forward, with the aim of identifying during 2018/2019, a suite of proposals to address the medium term budget gap of £14.0m and to reduce the call on one-off resources in 2019/2020 wherever possible. Further updates will be provided to Members in due course.

8. Outstanding Uncertainties

- 8.1 Even allowing for the late publication of the settlement, the Council still faces an unprecedented level of uncertainty at this very late stage in the budget process for 2018/2019. Issues yet to be resolved include:

- The outcome of the final Local Government Revenue Support Grant Settlement for 2018/2019;
- Outstanding specific grant announcements e.g. Public Health, Council Tax Benefit Administration;
- The final agreed pay award;
- Transitional costs in relation to the implementation of savings proposals;
- The estimation of Business Rates resources and the impact of revaluation;
- The final Collection Fund position for both Council Tax and Business Rates.

In addition, it will be necessary to consider the feedback from communications and outcome of consultation which has taken place on the budget proposals.

- 8.2 As set out in 5.4.7, the government is currently consulting on changes to the Prudential Framework of Capital Finance, Local Authority Investment and Minimum Revenue Provision (MRP) Guidance. Should the outcome be unfavourable to Sunderland, the MTFS will be amended in future years accordingly.

- 8.3 The outcome of the above issues together with the impact of the issues set out in sections 4 to 7 will be taken into account in finalising the budget proposals to be considered as part of the February Cabinet.

9. Budget Consultation

- 9.1 Cabinet agreed the proposed communication arrangements in September 2017 as part of the budget planning framework. This took into account the detailed consultation that informed the MTFS 2017/2018 to 2019/2020.

- 9.2 Additional savings proposals set out at the September Cabinet for 2018/2019 and 2019/2020 focussed on contract reviews; business process and consumption reviews; and maximising income. This enables front line services to be protected from the requirement for further cuts and as such, a large scale consultation exercise as undertaken in previous years was not considered appropriate.
- 9.3 The revisions to the MTFS assumptions contained within this report are similarly not considered to require a detailed consultation exercise.
- 9.4 A media release in September 2017 set out how the council proposes to meet the current budget gap, and reminded people of some of the savings that have already been made. Further communications will be produced prior to implementation of specific proposals, where considered relevant.
- 9.5 Existing networks have been utilised to communicate with a range of partners including Trades Unions, Chamber of Commerce and Sunderland Business Innovation District (BID).
- 9.6 Feedback from formal consultation with Scrutiny Coordinating Committee, Trade Unions and Business representatives will be considered in framing the final budget proposals to be submitted to Cabinet in February 2018.

10. Equality Analysis Assessment

- 10.1 In accordance with the approach followed in previous years the council continues to fully consider the impact of its plans by following a robust approach to equalities analysis. Where proposals have been developed since the initial decision making, equality analyses have been reviewed. Should there be instances where there are significant changes, a new or updated equality analysis has or will be completed.

11. General Balances

- 11.1 A Statement of General Balances is attached at Appendix 2.
- 11.2 As reported at the Second Revenue Review Report to Cabinet, some savings have been generated in 2017/2018 from Interest on Balances and Debt Charges, and unutilised contingency provisions. Any savings generated will be required to fund one off spending pressures and additional costs associated with implementing the budget proposals for 2017/2018 and to support the 2018/2019 Revenue Budget as part of a prudent and robust approach to budget setting.
- 11.3 The balances position will be updated / reviewed as the budget is progressed. A full risk analysis will be presented with the final budget proposals to the February meeting of Cabinet.

12. Suggested Reason for Decision

- 12.1 To provide an update on the impact of the local government finance settlement on the budget planning for 2018/2019 to 2020/2021.
- 12.2 To update the MTFS and Budget Planning in light of latest information.

13. Alternative options to be considered and recommended to be rejected

- 13.1 There are no alternative options recommended for approval.

Background Papers

Budget Planning Framework, Revenue Budget Proposals and Medium Term Financial Strategy 2018/2019 – 2020/2021
Local Government Finance Settlement 2018-19:

<https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2018-to-2019>

Provisional Revenue Support Settlement 2018/2019
Core Spending Power 2018/2019 compared to 2017/2018

	2017/18 £ m	2018/19 £ m	change £ m	change %
Settlement Funding Assessment*	124.9	118.8	-6.1	-4.9%
Compensation for under-indexing Business Rates Multiplier (Section 31 Grant)	1.0	1.7	0.7	70.0%
Council Tax of which;				
<i>Council Tax Requirement excluding parish precepts (including base growth and levels increasing by CPI)</i>	85.6	90.0	4.4	5.1%
<i>additional revenue from referendum principle for social</i>	4.2	7.2	3.0	71.4%
Improved Better Care Fund	9.3	13.0	3.7	39.8%
New Homes Bonus	3.7	3.2	-0.5	-13.5%
Rural Services Delivery Grant	0.0	0.0	0.0	0.0%
Transition Grant	0.0	0.0	0.0	0.0%
The 2017-18 Adult Social Care Support Grant	1.6	0.0	-1.6	100.0%
Sunderland Total Core Spending Power	230.3	233.9	3.6	1.5%

Memorandum National Position

1.5%

Settlement Funding Assessment and Revenue Support Grant 2018/2019

SFA split	2017/18 Settlement Funding Assessment £m	Provisional 2018/19 Settlement Funding Assessment £m	Variation between 2018/19 and 2017/18 adjusted £m	Variation between 2018/19 and 2017/18 adjusted %
RSG(including funding transfers in 2016/17)	44.712	36.157	-8.555	-19.13%
Baseline Funding (Top Up Grant)	40.699	42.175	1.476	3.63%
Assumed Business Rates	39.491	40.425	0.934	2.37%
Sunderland Total SFA	124.902	118.757	-6.145	-4.92%

Memorandum - National Position

-6.36%

APPENDIX 1b

Provisional Revenue Support Settlement 2018/2019

Core Spending Power 2018/2019 to 2020/2021

	2015/16 £ m	2016/17 £ m	2017/18 £ m	2018/19 £ m	2019/20 £ m
Settlement Funding Assessment*	150.7	135.8	124.9	118.8	111.9
Compensation for under-indexing the business rates multiplier (Section 31 Grant)	1.1	1.1	1.0	1.7	2.6
Council Tax of which;					
<i>Council Tax Requirement excluding parish precepts (including base growth and levels increasing by CPI)</i>	78.3	81.7	85.6	90.0	94.5
<i>additional revenue from referendum principle for social care</i>	0.0	1.6	4.2	7.2	7.6
Improved Better Care Fund	0.0	0.0	9.3	13.0	16.6
New Homes Bonus	3.4	4.6	3.7	3.2	2.9
Rural Services Delivery Grant	0.0	0.0	0.0	0.0	0.0
Transition Grant	0.0	0.0	0.0	0.0	0.0
The 2017-18 Adult Social Care Support Grant	0.0	0.0	1.6	0.0	0.0
Sunderland Total Core Spending Power	233.5	224.8	230.3	233.9	236.1
Change over the Spending Review Period (£ millions)					2.6
Change over the Spending Review Period (% change)					1.1%
<i>Memorandum - National Change Over Spending Review Period</i>					2.1%

APPENDIX 2

Statement of General Balances

Statement of General Fund Balances

	£000
Balances 31st March 2017	10.000
Use of / Addition to Balances 2017/2018	
Contribution to Revenue Budget	(6.362)
Additions to Balances 2017/2018	
Transfer from Medium Term Planning Smoothing Reserve to support the 2017/2018 Budget	6.362
Estimated Balances 31st March 2018	10.000
Use of Balances 2018/2019	
- Contribution to Revenue Budget	(6.400)
Addition to Balances 2018/2019	
- Transfer from Strategic Investment and Medium Term Planning reserve to support the budget over the medium term	6.400
Estimated Balances 31st March 2019	10.000

The above position will be reviewed and updated and reported to Cabinet in February 2018.

