

## Revenue Budget for 2016/17 to 2018/19 and Capital Programme update

### 1. Introduction

1.1 The draft Revenue Budget for 2016/17, incorporating the first year of the proposed MTFP for 2016/17 to 2018/19, is set in section 5 of the report to Cabinet. The new savings plans are set out in Appendix 3.

1.2 2016/17 is the first year of the new three year Council Plan which will run until 2018/19. The proposed MTFP covers a period of significant uncertainty and while for 2016/17 there is a 'balanced' budget position. The budget contains a proposal to allocate funding to address areas of pressure particularly in ASC (at Q2 2015/16 a £4.3m overspend was being estimated) that are already emerging this year and are potentially being managed through contingency. Further work will be required to refine estimated pressures and consider future savings as further information is made available. The updated MTFP pressures against the savings identified are summarised in the table below. Noting that the deficit remaining in year 2, reported to October Cabinet, was in the region of £9.0m. This has been exacerbated by the RSG reduction:-

Table 1 - Summary of savings against pressures

	2016/17 £m	2017/18 £m	2018/19 £m
Estimated Deficit	19.6	47.5	70.2
Savings identified (cumulative) <sup>1</sup>	(19.6)	(36.9)	(64.3)
(Surplus)/Deficit remaining	0	10.6	5.9

<sup>1</sup> Excludes £1.8m Council Tax Reduction Scheme savings now included in Council Tax. Adult Social Care 2016/17 savings have been reduced by £1.921m.

1.3 The table below summarises the changes to the ASC 2016/17 savings reported to the October Cabinet:

Table 2 – Changes to Adult Social Care Savings 2016/17

	2016/17 £m
Supporting People funding – learning disability accommodation schemes	0.152
Supporting People funding for short term mental health housing support services for people aged 16+	0.341
Supporting People funding for on-site support for single homeless people	0.287
Refocus Supporting People funding on high risk groups for young people	0.380
Young Mothers: review and realign service provision	0.050
Home Works: review and realign service provision to target people with the highest needs.	0.535
HIV Services	0.048
Through the East Sussex Better Together Programme, review funding arrangements for Prospectus services and support funded by health and social care.	0.128
<b>Revised Total ASC savings</b>	<b>1.921</b>

## 2. Provisional Grant Settlement 17<sup>th</sup> December 2015

2.1 A new methodology for determining authorities' RSG allocations has been proposed within the provisional settlement. Rather than applying the same pro rata cut to all authorities, the new approach takes into account individual authorities' council tax raising ability and the type of services provided. For East Sussex further reduced RSG funding, as it has for all counties, although to differential levels. By the end of 2018/19, ESCC RSG will be £14.966m compared to £18.561m estimated previously (an additional loss of £3.6m). The impact from the provisional settlement is detailed in the table below:-

Table 3 – Provisional Settlement RSG Adjustment

	2016/17 £m	2017/18 £m	2018/19 £m
Cabinet 13/10/15 MTFP	47.453	32.261	18.561
Provisional Settlement	45.107	26.727	14.966
Cumulative	2.346	5.534	3.595
Annual Change	2.346	3.188	(1.939)

2.2 We await information on specific grants and levies.

2.3 The current allocations also do not include the final grant amount in respect of the Council's share of retained NNDR, which will not be known until the Department for Communities and Local Government have received the base estimates of potential NNDR yields for 2016/17 from the Borough and District Councils and published them as part of the Final Grant Settlement for 2016/17. We are working on getting early sight of this but this will be as late as the end of January.

## 3. Revenue budget updates 2016/17 to 2018/19

3.1 There are also a number of key areas impacted by other announcements since October. Updates for these and other areas of change are as follows:-

3.2 Council Tax –The proposed inflation uplift for council tax has been amended to 1.99% from 1.95% to secure the base budget as far as possible. This results in additional income of £0.093m for 2016/17, £0.099m for 2017/18 and £0.102m for 2018/19. The formal Precept notice for issuing to the Borough & District Councils will form part of the report for recommendation to County Council.

3.3 The Government has confirmed that authorities with social care responsibilities will have the ability to raise an additional 2% levy through council tax each and every year over and above the referendum threshold where they need additional money to address social care demand and cost issues. For the County Council, a 2% increase in council tax from 2016/17 will cumulatively raise in the region of £15m by 2018/19 (for 2016/17 this is estimated at £4.7m). It is proposed that the council implement this as pressures are estimated to be significantly more. This will also mean a technical change in software used as the precept needs to be shown on the council tax bill. As part of this agreement the County Council will have to pay for these changes at this stage the costs of this are unknown.

3.4 Income from council tax is projected to increase as a result of the changes in the council tax reduction scheme and additional properties. The Districts and Boroughs have provided updated projections for the council tax base for 2016/17; the overall council tax base has increased by 2.69% compared to 2015/16. The increase relating to the changes in the Council Tax Reduction Scheme of 1.88% which equates to additional income of £4.3m for 2016/17. The increase in base relating to additional properties is 0.81% rather than the

1.5% previously included for 2016/17; 1.5% remains for future years. In addition a contribution of £0.3m will be made to the Districts and Boroughs for collection costs and hardship fund. This will help to ensure that the council tax yield does not reduce as a result of the changes in the Council Tax Reduction Scheme. When all aspects of council tax receipts are taken together the result is additional income of £1.8m for 2016/17.

3.5 Confirmation of the collection fund surplus is awaited; however at this point an additional £2m surplus has been assumed for 2016/17, i.e. a total of £4.2m and £1m thereafter

3.7 Pay Award/Inflation – The National Living Wage impacts on care and other contracts. We are currently working towards the completion of competitive negotiations in relation to these.

3.8 For East Sussex the impact of the National Living Wage on Pay scales is complex, until national discussions have concluded, a local position is required to ensure the pay structure is legal. It is therefore considered prudent to provide for a provision of £0.5m to be set aside for the costs of supplements and any potential and national outcomes that are as yet to be agreed for 2016/17 and 2017/18.

### 3.9 Adult Social Care – growth and demography

The pressure for demography & service growth has been revised based on current data. ASC has used a range of models (internal and external) to assess the impact of demography. The level of growth and demography has been updated due to the increased demand and cost of care packages being experienced in the current financial year. The growth and demography projection in 2016/17 is higher than in future years due to the funding required to meet the cost of additional commitments arising from the increased demand in 2015/16. The new services being put in place through East Sussex Better Together will improve how demand is managed and the projections for 2017/18 onwards are therefore lower.

Table 4 –Summary of growth and demography

	<b>16/17 (£'000)</b>	<b>17/18 (£'000)</b>	<b>18/19 (£'000)</b>
Demography and future growth (reflecting activity in 15/16)	6.086	3.752	4.285
Cumulative effect	6.086	9.838	14.123

3.10 The total reduction to the revenue contribution to the waste reserve is £3.2m. Of this, £1.8m is proposed as a CET saving in the 2016/17 – 2018/19 MTFP. £1.25m is proposed to be used to mitigate unachieved Waste and Road Safety savings, and budgetary pressures within The Keep and Fleet Management. These unavoidable costs were reported in the Revenue Budget Summary of the Q1 report. They have been temporarily mitigated in the current year by underspends and one off income generated. The remaining £0.15m will be put into the Community Care budget (see para 3.11 of covering report) in line with our One Council approach to RPPR.

3.11 Waste contract - Recycling levels since the start of the joint collection contracts have not to date shown the improvements expected and income is significantly less than expected. The position is only forecast to show marginal improvement. The annual financial negative impact to the County Council is now estimated at £792k.

3.12 Business Rates - The Borough and District Councils have indicated that the yield from National Non-Domestic Rates (NNDR) is lower than originally planned for 2015/16 as a result of a significant increase in successful appeals against valuations. The projections for 2016/17 have therefore been reduced. There is a projected collection fund deficit of £0.646m in 2016/17 as a result of the reduced 2015/16 income. NNDR figures will be confirmed by early February. For East Sussex appeals have resulted in an estimated reduction of £0.2m annually, a result of reduced rates from successful appeals, and a one off reduction to the collection fund surplus of £0.6m. There has also been a slight reduction due to September's RPI being 0.8% rather than 1%.

3.13 Education Services Grant (ESG) - ESG will reduce by £0.6m in 2016/17. This is due to a change in the grant methodology (over and above the £0.3m that had been projected from revised estimates of academisation in November).

3.14 Treasury Management - The treasury management position has been further and robustly reviewed in the latest context of the markets and outlooks and a further £1m can be released in addition to the £2m already identified as a saving for 2016/17.

3.15 Apprenticeship Levy - The Levy will be introduced from April 2017 and Government has announced that the Levy will be set at 0.5% and will apply to an Employer's entire payroll (gross pay) cost. For ESCC that is currently in the region of £245m (including schools) and so the Apprenticeship Levy will be in the order of £1.2m annually. Costs are estimated at £0.6m, assuming we can recover the £0.1m costs of the current scheme, from 2017/18. This also assumes schools share is passported to schools and there is no expansion beyond the scope and scale of the existing apprentice scheme

3.16 Residential Children's Homes Improvements - Following Ofsted inspection as part of the Residential Children's Homes Improvement plan there is an additional pressure of £0.2m to meet management and staffing capacity requirements.

3.17 New Homes Bonus (NHB) - The figures for NHB have changed marginally to the estimates previously included in the MTFP. This is a net nil effect as NHB has always been assumed to support capital. Given the uncertainties around the scheme figures are also only included in the capital programme up to and including 2016/17.

3.18 Funding changes - The nature of expenditure has altered with regard to Microsoft licenses (£0.5m) and part of the building maintenance programme (£1.0m). This work is now categorised as revenue rather than capital. The contribution to capital from revenue has been reduced to £6.0m to reflect this. The adjustment has no impact on the overall funding position.

3.19 Over this period there are a number of significant areas of change that will impact on the Councils budget but that remain unknown. A number of announcements that will be subject to later government announcements and further consultation and consideration; including the detail on specific grant allocations.

3.20 The movements in the MTFP since the October Cabinet are summarised in the table below:

Table 5 – Summary of movements from Cabinet 13<sup>th</sup> October 2015

	2016/17	2017/18	2018/19
	£m	£m	£m
<b>Cabinet 13/10/15</b>	<b>22.962</b>	<b>49.473</b>	<b>75.947</b>
Business Rates	0.972	0.532	0.591
Council Tax	(5.718)	(6.301)	(7.989)
Council Tax Social Care Precept	(4.657)	(4.667)	(4.667)
Revenue Support Grant	2.346	5.534	3.595
Pay /Inflation/NLW	(1.495)	(4.163)	(5.974)
Adult Social Care Growth & Demography	3.986	5.314	6.830
Waste Contract	0.292	0.292	0.292
Education Services Grant	0.664	0.664	0.664
Apprenticeship Levy		0.600	0.600
OFSTED	0.200	0.200	0.200
General Contingency	0.090	0.050	0.080
<b>Cabinet 26/1/15</b>	<b>19.642</b>	<b>47.528</b>	<b>70.169</b>

#### 4. Fees and Charges

4.1 As part of setting the budget, the Council is required to review the charges it makes for services and approve a schedule of revised charges for:-

- The requirement that all fees and charges to be reviewed on an annual basis will continue,
- To streamline the approval process, the budget process will identify a prescribed level of increase for all Fees and Charges, this is 2% for 2016/17.
- Any individual fee or charge that is increased up to this prescribed rate will then not require any formal approval as part of the budget report, only those that have a higher rate applied to them will require specific approval.
- Where there is either a statutory requirement for the Council to have to formally approve an increase, or new charges are being proposed or the level of the proposed fee or charge is to be reduced then these will continue to be reported for specific approval as part of the annual budget report.
- This will remove the need for individual fees & charges to be reported, but they will be required to be reported as part of any formal review of the policy to which they relate.

4.2 The schedule of the fees and charges requiring specific approval is set out in Appendix 4.

#### 5. Reserves

5.1 As part of the annual budget setting process, work to review current reserves has been undertaken to ensure the level of reserves are appropriate. In addition a detailed review of the £34.8m Waste Reserve has been carried out and it is proposed that the reserve is not topped up by the current contribution made as part of the Communities, Economy and Transport's budget (see para 3.10 above). It is proposed that the Waste

reserve be reviewed annually to assess the next 4 years of risks, rather than the lifetime of the PFI contract therefore it is proposed to drawdown £22.0m. This is achieved by the Corporate Waste Reserve being set at a level which covers the worst case scenario over the following four years. This is currently £12.8million. Of the £22.0m draw, £20.9m be set aside for the future capital programme and £1.1m to increase the general fund from £8.9m to £10.0m, as provision for growing pressures on service budgets.

5.2 Having conducted a thorough review of reserves held by East Sussex the level of reserves held is considered appropriate.

## **6. 2013/14 to 2017/18 Capital Programme and assumptions for 2018/19 onwards**

6.1 At July 2015 the County had a gross capital programme of £356.3m which after applying scheme specific income of £102.8m resulted in a net programme to be financed of £253.5m.

6.2 The Council also held a contingency of £12.9m (3.6% of gross expenditure). As agreed at Council in February 2015, the contingency is held to manage a number of risks. These include inflationary pressures on constructions costs, uncertainty regarding delivery of projects, still unknown requirements and the uncertainty regarding the level of government grants.

6.3 Work has been ongoing to update the capital programme, its profile across financial years and the available resources that support it. The full proposed capital programme is set out in the Capital Programme section of appendix 2a.

6.4 This work has identified additional resources of £19.9m, however, £8.4m of these relate to confirmation of grants to support work that had previously been funded through borrowing. This leaves £11.5m additional resource. The detail of which is set out in the tables below:-

Table 6a – Change in resource

<b>Change in Resources</b>	<b>£m</b>
Additional non ring fenced capital grants – Schools basic need grant (£7.4m) and highways incentive grant (£1m)	8.4
New Homes Bonus 2016/17 (see para. 3.12)	3.0
Schools condition grant – used to increase the capital programme	3.6
Reported underspend (Hastings Library, Westfield Lane, Bridge Strengthening) and other minor adjustments	2.2
Additional scheme specific income (revenue contributions from departments and S106 etc.)	3.7
Reduced capital receipts	(1.0)
<b>Total</b>	<b>19.9</b>

Table 6b – Change in resource

<b>Change in Resources</b>	<b>£m</b>
Total Change in Resource	19.9
Used to reduced borrowing	(8.4)
<b>Resource remaining after offsetting borrowing</b>	<b>11.5</b>

6.5 Part of the current programme is funded by £91.6m borrowing, as last reported in the Q2 Monitoring report in December. The Council has a strategy of repaying debt and reducing its borrowing to provide savings. The £8.4m additional grant is provided to support core need for transport and school places for the period up to 2017/18. It is therefore

proposed that this be used to offset the borrowing that provided for this work. Therefore reducing borrowing by £8.4m to £83.2m.

6.6 Further savings of approximately £5m are likely to arise by postponing the requirement to secure external borrowing with the effect of delaying the impact of debt servicing costs. This would reduce borrowing further to £78.2m. At this point it is not proposed to finance the contingency so the borrowing is reduced by a further £8.7m (see para. 6.9 below) to £69.5m.

6.7 The Government will consult on reforms to the New Homes Bonus including means of sharpening the incentive to reward communities for additional homes. It will further consult on reducing the length of payments from 6 years to 4 years. In the circumstances it is considered prudent to forecast a grant for 2016/17 but not to rely upon New Homes Bonus grant beyond that.

6.8 The availability and value of Government grants has been reviewed and no further new announcements or increases in grants are forecast over the life of the programme except for changes in New Homes Bonus.

6.9 A number of pressures have been identified that would add to the current approved programme for the period up to 2017/18. They are as follows:-

Table 7 – Programme pressures

<b>Programme Pressures</b>	<b>£m</b>
Bexhill Hastings Link Road (see para. 6.11 below)	7.9
Lewes Station Bridge, Newhaven Swing Bridge (see para. 6.12 below)	0.5
Capital Building Improvements – financed from schools condition grant	3.6
A number of variations funded by scheme specific resource as set out in para. 3.18 including Microsoft licences and building maintenance charged to revenue (see para. 6.13 below)	3.7
<b>Total</b>	<b>15.7</b>

It is proposed that £15.7m is allocated as laid out above to be funded by the £11.5m additional resource identified (see para. 6.4 above) and by £4.2m from the capital contingency reducing the contingency being held from £12.9m to £8.7m.

6.10 The proposed allocation of resources is in response to a number of budget pressures and changes to essential need and other new requirements.

6.11 Bexhill Hastings Link Road: The latest estimate of the total cost on the Bexhill Hastings Link Road scheme is forecast to increase by a further £3.4m, in addition to the £4.5m identified in Q2. The final cost of the scheme has now been re-assessed at a cost of £124.3m. The reasons for this are due to an updated construction cost of £4.6m, 50% of which is payable by ESCC plus indexation making a total of £2.4m, costs of post excavation archaeology of £0.7m and additional consultant's costs of £0.3m. The post excavation archaeological survey may be offset by grant from Historic England which as yet has not been assumed. It should be noted that as there are a number of claims from the contractor still to be resolved there remains a risk of further increases in the forecast outturn, which would be funded from the capital contingency.

#### Other Pressures

6.12 Works on the Lewes station bridge uncovered worse than anticipated structural deterioration and there were also additional costs on the Newhaven swing bridge.

#### Other Net Nil Variations

6.13 Since July a number of scheme specific grants and contributions have been confirmed that provide a source of finance for equivalent spending. This includes developer

contributions towards sustainable transport and increased grant towards Universal Infant Free School Meals and Schools Delegated Capital as well as revenue contributions towards ICT Strategy Implementation. The award of additional grant from the DoE presents an opportunity to increase spending on the school estate and mitigate deterioration in the County's assets. There are also changes to the financing of Microsoft software licences from capital to revenue (£0.5m) and for revenue maintenance of buildings (£1m) for the remainder of the programme. In each instance there is a corresponding adjustment to the revenue contribution to capital so that the overall programme remains in balance.

#### Review of Scheme Profiling

6.14 Significant work has been undertaken to robustly review the spending profiles within the programme to identify slippage and/or other changes to the predicted cash flows on individual projects. This does not affect the overall requirement for resources.

#### Capital Programme 2018/19 to 2022/23

6.15 There will be a new, five-year Capital Programme from 2018/19 to 2022/23 and work has been undertaken to identify and quantify the Council's core need. Initial estimates of core needs are being reviewed, but currently, a total need of £414m has been identified, made up as follows:

- School Places (primary, secondary and special) - £229m;
- Highways Improvements - £122m;
- Rights of Way - £2m;
- Property Building Improvements - £40m;
- and ICT strategy - £21m.

6.16 The level of core need identified to date is not affordable within current estimates of resources. Work is continuing to find ways to manage the diminished level of resources and the increasing core need. During 2015/16 a high level capital programme management review was commissioned in recognition that firm targets need to be set to focus and shape the forward capital programme.

6.17 The capital position is as difficult, if not more so, than the revenue challenge; it is likely that it will be July 2016 before a balanced capital budget can be proposed to and agreed by members.

## **7. Council Tax requirement**

7.1 The Council's original budget projections for 2016/17 were based on the continuation of the 2015/16 Council Tax policy of increasing the Council Tax precept by inflation. The Government has confirmed that the referendum limit for 2016/17 will remain at 2%. The draft budget therefore assumes a Council Tax increase of 1.99%.

7.2 In addition in the Settlement the new Social Care Precept was announced. The County can raise an additional 2% levy through council tax to address social care demand and cost issues. Local authorities will be required to demonstrate that an amount equivalent to the additional council tax has been allocated to adult social care. Tax payers must be informed on the face of the council tax bill and in the accompanying information how much of the council tax increase is being used to fund adult social care.

7.3 It is therefore proposed that the council be asked to consider increasing the Council Tax for 2016/17 by 1.99%. This would increase the annual precept from £1,203.93 to £1,227.83 an increase of £23.90 pa on a Band D property. It is also proposed that there should be a further 2% increase in respect of the adult social care precept as announced in the Spending Review. This results in a further increase of £24.07 on a Band D property.



The proposed band D charge for 2016/17 would therefore be:

Changes in Council tax	Council tax
Band D 2015/16	£1,203.93
1.99% Council tax increase *	£23.95
2% ASC Levy *	£24.02
Band D 2016/17	£1,251.90

\* Rounded

7.4 The formal Precept notice for issuing to the Borough & District councils will follow, for formal recommendation to council. This will be subject to change following the final settlement and confirmation of NNDR for 2016/17.