

**Report to:**

**Council 23 February 2017**



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## **General Fund Revenue Budget 2017/18 and Medium Term Financial Plan 2017/18 to 2019/20 and Capital Programme 2017/18 to 2019/20**

**Report of the Leader of the Council**

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### **Purpose of the Report**

1. To present to Council:

The Leader's General Fund Revenue Budget 2017/18 and Medium Term Financial Plan 2017/18 to 2019/20 and Capital Programme 2017/18 to 2019/20.

The following Appendices are attached to the report:

- |        |  |
|--------|--|
| A (i)  | - Summary of the Budget Consultation Exercise            |
| A (ii) | - The Leader's Budget Statement 2017/18                  |
| B (i)  | - Analysis of Budget Movements 2016/17 to 2017/18        |
| B (ii) | - Schedules of proposed savings for 2017/18              |
| C      | - Schedules of Fees and Charges                          |
| D      | - Analysis of Business Units' Budgets 2016/17 to 2017/18 |
| E      | - 3 year Medium Term Financial Plan 2017/18 to 2019/20   |
| F      | - Strategy Regarding Capital Receipts Flexibility        |
| G      | - Risk Assessment of level of General Reserves           |
| H      | - Schedule of General and Earmarked Reserves             |
| I      | - Council Tax and Precepts                               |
| J      | - Equality Impact Assessments                            |
| K      | - Capital Programme 2017/18 to 2019/20                   |

## **Executive Summary**

2. The report provides the suite of assumptions and technical underpinnings for the Leader's Budget statement, shown at Appendix A (ii) and the savings proposals included at Appendix B (ii).
3. The report also sets out the levels of Council Tax which result from the Leader's Budget Proposals in 2017/18 including a 3% increase for Adult Social Care Precept plus a 1.99% General Fund increase making a 4.99% increase in total which is being proposed.
4. In addition, the report sets out the proposed Capital Programme 2017/18 to 2019/20 which is consistent with the General Fund Medium Term Financial Plan.

## **Recommendations**

5. The Council is recommended to:-
  - i) Note the Leader's Budget Proposals 2017/18 as set out in Appendix A(ii);
  - ii) Approve the Council's 2017/18 Revenue Budget savings and Service expenditure allocations as set out in Appendix B (ii) and D; subject to any budget amendments properly notified to and approved by Council in line with the Constitution;
  - iii) Note the proposed fees and charges for services at Appendix C
  - iv) Note the Medium Term Financial Plan as set out at Appendix E;
  - v) Approve the Capital Receipts Flexibility Strategy set out at Appendix F;
  - vi) Approve the contribution to/from reserves and levels proposed at Appendix H;
  - vii) Approve the levels of Council Tax, noting the precepts of the Police and Crime Commissioner for Humberside and Fire Authority as set out at Appendix I;
  - viii) Note the comments of the Interim Director of Finance and Transformation and Section 151 Officer on the robustness of the Budget and adequacy of reserves as set out at paragraph 71;
  - ix) Approve the Capital Programme 2017/18 to 2019/20 as described at paragraphs 87 to 96 of the report and detailed at Appendix K;

## **Revenue Budget 2017/18 - Consultation**

6. The Government announced details of the provisional Local Government finance settlement on 15 December 2016 with the final settlement expected on 22 February 2017. This report assumes that there are no changes to the figures within the final settlement. The budget for 2017/18 reflects the cuts in Government funding detailed in the settlement and the resulting service reductions required to produce a balanced position for 2017/18.
7. Cabinet approved a schedule of savings proposals for consultation on 25 July and 22 August 2016 and an updated position on 28 November 2016. The proposals were made available on the Council's website and reported in the local media.
8. City Managers have undertaken specific consultations with service users where appropriate. The savings proposals issued during 2016 have been amended following the period of consultation with the financial detail incorporated into the tables and appendices included within this report. A final list of savings was considered by Cabinet on 23 January, which included some additional proposals and the removal of 2 items agreed in November, and the full list of proposed savings and changes since November are shown at Appendix B (ii).
9. Consultation meetings have also been held with representatives of the Voluntary Sector and Young People of the city as well as the Business Community regarding the Council's budget. The Council has also undertaken a broader exercise regarding meeting Council priorities in an environment of reducing public sector funding and expenditure.
10. A summary of the consultation exercise is shown at Appendix A (i) alongside the Leader's Budget Statement which is attached at Appendix A (ii).

## **Local Government Finance Settlement – Core Funding and Business Rate Retention**

11. The Chancellor's Autumn Statement back in November 2015 set out the Government's public spending plans for the period of the next Parliament up to 2019/20. Whilst the Chancellor did report better than previously expected economic forecasts with regard to growth, borrowing costs and tax receipts and therefore promised to protect the budgets of the NHS, Schools, Overseas Development, Defence and Police, he confirmed that Councils would face significant cuts in funding over this period.
12. The Provisional Local Government Settlement for 2017/18, issued on 15 December 2016, confirmed the indicative funding allocations provided previously. This was as we expected as the Council, along with the vast majority of other Councils (97% in total), had accepted the Government's 'offer' to provide certainty over the key elements of the Council's funding up to 2019/20 by submitting an 'Efficiency Plan'.

13. This means that the Council will have lost an estimated £136 million in Core Funding between 2010 and 2020, a 55% reduction as the £21million of future cuts are in addition to the £115 million cuts between 2010/11 and 2016/17. Although significant reductions are faced across the whole local government sector, Hull and similar authorities, which have a high level of need but suffer from relatively low property values and economic growth, are set to suffer disproportionately from the future cuts in funding, as has been the case in recent years.
14. The Government has also indicated that they wish to move to a position, by 2020/21, whereby Council's retain 100% of locally collected Business Rates and are consulting on how this may be achieved. The Local Government Finance Bill is going through the parliamentary process and the Government has indicated that it intends to retain the system of 'top ups and tariffs' which is vital to cities like Hull. As such, the Council's Medium Term Financial Plan (MTFP) presently assumes a neutral impact when the planned change in system is introduced. It is essential for Hull that the Government ensures equity in the distribution of overall resources to adequately reflect comparative local needs and the differing abilities of councils to raise income locally. We will continue to lobby to best effect through direct responses to Government consultation proposals as well as through SIGOMA and the Local Government Association. The local Chamber of Commerce is to support the Council in the lobbying of Government following our consultation meeting with them on 26 January 2017.
15. In Hull the reduction in core funding between 2016/17 and 2017/18 is 9% which is shown in Table 1 below.

**Table 1 – Movement in Core Funding 2016/17 to 2017/18**

	<b>2016/17 £m A</b>	<b>2017/18 £m B</b>	<b>Change £m</b>	<b>Change %</b>
Revenue Support Grant	50.7	39.5	(-)11.2	(-)22
Business Rate Funding				
- Top-Up	31.4	38.2	(+)6.8	(+)22
- Retained Business Rates	43.3	38.0	(-)5.3	(-)12
- Adjustment	1.1	0.0	(-)1.1	(-)100
	75.8	76.2	(+)0.4	(+)1
<b>Total Core Funding</b>	<b>126.5</b>	<b>115.7</b>	<b>(-)10.8</b>	<b>(-)9</b>

### **Additional Funding for Adult Social Care**

16. Although the cuts in core funding are very significant, the Government has announced, as part of the Finance Settlement, the availability of additional funding to help meet cost pressures arising within Adult Social Care. There are three funding streams which can be accessed:
  - discretion to increase Council Tax up to a limit of 6% across the next three financial years to 2019/20
  - additional Better Care Grant Funding
  - a new grant which the Government has called the 'Adult Care Support Grant'.
17. With regard to the Adult Social Care Council Tax precept, as part of the provisional finance settlement, the Government announced that Councils would be able to vary the value of the uplift. The Government originally introduced the precept option for 2016/17 with a 2% cap. Whilst the total increase over the next 3 years was therefore limited to 6% across the next three years 2017/18 to 2019/20, Councils can now increase the financial benefit in the earlier two years by profiling the increase up to 3% per annum and 0% in 2019/20. This still means a 6% cap across the three year period but a cash flow benefit for Councils if the increase to 3% was to be taken in the first two years. Should the Council agree, the benefit for Hull would be circa £0.7million additional income in 2017/18 and 2018/19 which would help alleviate the very significant pressures in Adult Social Care in each of these two years.
18. The increase in Better Care Funding Grant was confirmed as part of the Provisional Settlement in December 2016 in line with indicative figures agreed by Full Council in our February 2016 Budget and Medium Term Financial Plan Report.
19. The Provisional Financial Settlement in December 2016 also detailed a 'one off' grant in 2017/18 of £1.5 million for the Council to provide additional funding for Adult Social Care. Although welcome, it should be noted that the Government have funded this grant by reducing the national allocations for New Home Bonus. The Council's net gain for 2017/18 is therefore £0.65 million as there has been a reduction in New Homes Bonus that we were expecting next year of £0.85 million.
20. Taken together these measures will provide an additional c£19 million (estimated full year effect by 2019/20 - £3.291million in 2017/18) which is reflected in the MTFP to help meet the very significant additional costs of Adult Social Care. However, whilst the additional funding is welcome, it would still not be enough to meet the growing demands and costs in this area which are estimated to be in excess of £25 million in Hull. These arise primarily from the impact of the National Living Wage (planned to be £9 per hour by 2019/20) and the ageing population in the city. In addition, it is likely that the Council will be constrained by requirements stipulated by Central Government with regard to how the additional Better Care Funding is to be used.

## **Balancing the 2017/18 Budget**

21. The 2016/17 Budget approved by Council in February 2016 included a forecasted need to make additional savings of £8.689 million and a further £13.005 million in 2018/19 adding up to £21.694 million in total across these two years to eliminate anticipated budget shortfalls. These financial forecasts have been reviewed in the light of latest funding data, inflationary pressures and critically actual cost and outturn projections incurred during 2016/17.

## **Implications of 2016/17 Costs and Outturn Projections**

22. The latest in year revenue monitoring and outturn projections for 2016/17 suggest a likely year end overspend at service level of c£12 million. Although mitigating measures have been identified such that the year end overspend is expected to be reduced to c£6 million, it is necessary to adjust future year budgets to more accurately reflect the current levels of expenditure.
23. The overspending in 2016/17 relates primarily to Adult Social Care and Children's Services and reflects a combination of shortfalls in savings delivery and cost pressures arising from demand which are not adequately reflected in the current budgets.
24. In order to address this budget imbalance in these two Service Areas,:
- A detailed review of all savings included in 2016/17 has been undertaken to ensure that the projected value of savings included in the budget for 2017/18 and future years are realistic and deemed deliverable by Directors and City Managers.
  - £7.5 million of additional funding has been set aside to re-base budgets in 2017/18 to meet the current costs of service delivery in Adult Social Care (£3.5 million) and Children's Services (£4 million).
25. The Table below summarises the projected movements in funding and budget pressures and identifies sums required to balance the budget in each of the next 3 years. In summary, however, after factoring in the approved savings (as detailed at Appendix B (ii)) the projections show a balanced budget in 2017/18, a deficit of £3.6 million in 2018/19, and a balanced position in 2019/20. As such, additional measures will need to be identified during 2017/18 in order to eliminate the budget gap in 2018/19. The detail of movements between years are shown at Appendix B(i) with supporting narrative shown in the paragraphs below.

**Table 2 – Medium Term Financial Plan Year on Year Movements**

	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Movement in Resource Base	-0.150	-0.599	-2.434
Contingencies and Budget Pressures	16.428	16.625	14.676
Sum Required to Balance Budget	16.278	16.026	12.242
Savings (See Appendix B (ii))	-16.278	-12.416	-12.242
<b>Budget Shortfall after applying savings</b>	<b>0.000</b>	<b>3.610</b>	<b>0.000</b>

## **Funding**

### **Council Tax**

26. Subject to Cabinet and Full Council approval, Council Tax projections have been reviewed and updated to reflect an assumed:
- Annual increase of 4.99% in 2017/18 and 2018/19, reflecting a 1.99% increase in line with the Referendum Limit of 2% plus the additional 3% Adult Social Care Precept to be used to off-set cost pressures within Adult Social Care;
  - Increase of 1.99% in 2019/20.
27. Robustness of collection rates which have been maintained despite the introduction of the Local Council Tax Support Scheme and subsidy rules and the minimum charge of 20% for working age council tax support cases provides for an increase in the funding base. The projections also reflect net increases in the number of homes which includes the Kingswood development where c2,500 properties are planned over the next 10 years.

### **Public Health Grant**

28. As part of the provisional finance settlement in December 2016, the Government confirmed the previously indicative cut in the Public Health Grant for 2017/18 of £0.635 million to £25.130 million (a 2.5% reduction). The grant is expected to decrease by a further 2.5% in the two subsequent years 2018/19 and 2019/20. In addition, it is proposed that £0.5 million of public health expenditure will be saved from current activity and re-directed to support service provision within Children's Services. As such, the savings at Appendix B detail savings of £1.135 million.

## **Review of Charges for Council Services**

29. Fee levels have been set at values consistent with recouping the cost of providing the service and protecting Council revenues whilst ensuring income targets are realistic in the light of the current economic climate. The achievement of income targets will be subject to in year monitoring along with the delivery of the approved savings. The proposed charges for 2017/18 are shown at Appendix C.

## **Enterprise Zones - Uplift in Business Rates**

30. The Council is entitled to retain 100% of any increase in Business Rates arising within the designated Enterprise Zones. This additional funding can be used, in agreement with Local Enterprise Partnership (LEP), to support LEP priorities within the City.
31. The MTFP reflects the planned use of the Business Rates uplift to support the Council's regeneration activities through revenue funding of £1 million in 2017/18, and £1.5 million in 2018/19 and 2019/20, with the balance earmarked to fund capital projects as part of the on-going regeneration of the City. The projected uplift in Business Rates and utilisation is summarised at Table 9 at paragraph 94 of this report detailing the funding of the Capital Programme.

## **Budget Pressures**

### **Employer Pension Contributions**

32. The Triennial valuation of the East Riding Pension Fund as at 31 March 2016 has been completed. The Actuary has advised the value of employer's contributions relating to the funding of future service benefits will be frozen at the current rate of 14.8% of pensionable salary for 2017/18 to 2019/20.
33. With regard to the contributions due in respect of the historic deficit, the Actuary has also advised that there will be a small reduction in annual costs over the next 3 years.
34. In line with the Cabinet decision of 18 December 2016 to approve the pre-payment of employer contributions for the period April 2017 to March 2019, the projected employer costs have been reduced to reflect the savings associated with the pre-payment.

### **In House Transformation Team**

35. Given the critical need to deliver savings against current expenditure levels in order to balance future year budgets, resources (£888,000) have been set aside within the 2017/18 Budget to fund a Transformation Team to support service departments in implementing alternative models of service delivery and reducing costs whilst maintaining services.



## NPS Profit Share

36. Given the ongoing trading pressures faced by NPS the previously assumed level of profit share has been reduced in 2017/18.

## Streetscene Capital / Revenue Adjustment

37. Funding of £500,000 has been included in the 2017/8 Budget to meet the costs associated with the redesign of Highways design and management services required to best deliver the highways capital programme.

## Capital Financing

38. The MTFP projections have also been updated to reflect latest information regarding the Capital Programme with Capital Financing Costs revised in line with latest expenditure projections as shown at Appendix K and funding assumptions including the use of capital receipts to meet transformational costs as noted at paragraph 53.
39. The Council's Treasury Strategy, approved by Council on 25 February 2016, provided for a change in the Council's policy regarding the Minimum Revenue Provision (MRP) which allowed for savings against revenue expenditure which are reflected in the 2017/18 Budget and the future years projections. The 2016/17 Period 8 Outturn Projections, considered by Cabinet on 23 January 2017 included a proposal to release a back dated over provision of MRP.
40. The Capital Financing projections reflect this proposal with the associated allocations of the one off benefit to fund the projected over spend in 2016/17 and bolster reserves is set out at paragraph 68.

## Contingencies

41. Business Unit Budgets may be subject to further adjustments including the allocation of contingencies / provisions to meet cost pressures. These are technical adjustments which will not impact on approved Service levels. Contingencies are shown within the MTFP at Appendix E and shown below at Table 3.

**Table 3 – Contingencies to meet cost pressures**

	<b>2017/18 £000</b>	<b>2018/19 £000</b>	<b>2019/20 £000</b>
- Energy Inflation (5%)	300	530	830
- General Inflation – non Pay (1%)	1,609	3,149	4,649
- Revenue Contingency** (see note below)	644	-	3,020
- Pay Award (1% Plus National Living Wage)	1,480	3,530	5,680
- Apprenticeship Levy	250	250	250
- Public Realm Cleaning	125	125	125
- Streetscene Capital/Revenue Adjustment	500	500	500
<b>Total – Contingency Budgets</b>	<b>4,908</b>	<b>8,084</b>	<b>15,054</b>

## **\*\* Revenue Contingency**

At the end of October 2016, the Council's residual waste disposal contractor failed to perform their contractual obligations and subsequently went into administration. The Council has put into place alternative arrangements in order to ensure service continuity in the short term and is in the process of re-procuring a supplier to meet service demands.

The costs of the service in 2017/18 are subject to the timing and result of the procurement process and as such remain uncertain, however it is very likely that they will exceed existing budgetary provision. Whilst this budget pressure will be partially off-set by the carry forward of an expected underspend against contractual budget in 2016/17, it is anticipated that the unfunded budget pressure in 2017/18 will be the first call against the Revenue Contingency budget. Based on current estimates the call on contingency may be c£300,000.

## **Savings**

42. The detailed analysis of Service Budgets is set out in Appendix D with the associated savings listed at Appendix B (ii). Savings have been identified following programmes of work designed to improve operating models and identify efficiencies commensurate with the future needs of the Council. Appendix B (ii) includes for each saving a summary of the stakeholder consultation undertaken and details the progress in delivery.
43. As part of the Financial Settlement in December 2016, the Government confirmed that no specific funding will be made available in 2017/18 to support the Local Assistance Scheme. The Council's budget includes £0.6 million set aside to maintain the local scheme at current levels for the forthcoming year however no funds have been set aside in 2017/18 within the MTFP such that the curtailment of the scheme is shown as a saving in 2018/19.
44. However, it is important to note that whilst Appendix B(ii) shows the impact of savings in 2018/19 and 2019/20 in addition to 2017/18, the deliverability and desirability of these future savings will be revisited in the preceding year (i.e. summer 2017 for the 2018/19 savings) as part of the annual budget cycle to gain explicit Officer and Member approval for service changes.
45. Given the level of the projected cuts in government funding and the significant financial challenge faced by the Council over the next 3 years, at least, it is imperative that strict budgetary control is maintained across all services. To this end, it may be necessary during 2017/18 to revisit some budget allocations in the light of in-year analysis of anticipated costs and activity levels. Although service costs must be maintained within the totality of the budget allocations reflected in this report, there is the potential for some movement within the total envelope. Any proposed movements between budgets will be presented to Cabinet for approval. The position within all services will continue to be closely monitored throughout 2017/18.

46. The provisional financial outturn providing details of 2016/17 actual spend against budget will be reported to Cabinet in June 2017 and this will inform the Quarter 1 monitoring for 2017/18. (The provisional outturn figures will be confirmed in September following the completion of the external audit of the Council's accounts).

### **The 3 Year Medium Term Financial Plan 2017/18 – 2019/20**

47. The Medium Term Financial Plan shown in summary at Table 4 and in detail at Appendix E has been developed based on the assumptions discussed above and summarised below.
- i) MTFP reflects successive funding reductions from 2017/18 to 2019/20 in line with the indicative data provided in the 2017/18 Settlement. There is a risk that the reductions could be greater than currently modelled and the forecasts may need to be revisited as the new government releases information over the coming years
  - ii) Provision of resources to allow pay increases of 1% in 2017/18 and each forward year (plus an allowance for the impact of National Living Wage and the Apprenticeship Levy from 2017) and a 1% increase in budgets to reflect future price increases.
  - iii) Full delivery of the 2017/18 budget savings and those impacting in future years as detailed at Appendix B(ii).
  - iv) Council Tax increases of 4.99% in 2017/18 and 2018/19 and 1.99% in 2018/19. 2017/18 and 2018/19 reflecting a 3% increase hypothecated to support Adult Social Care.

**Table 4 – Summary MTFP**

	<b>2017/18 £m</b>	<b>2018/19 £m</b>	<b>2019/20 £m</b>
<b>Expenditure</b>			
Directorates (including Public Health)	199.8	199.4	194.5
Schools	67.7	67.7	67.7
Corporate Budgets (including provisions for pay, prices, pensions)	43.5	31.6	38.1
Net Budget requirement	311.0	298.7	300.3
<b>Funding</b>			
Government Grant / Retained Business Rates	220.0	223.9	223.9
Carry Forwards of Re-Organisation Budget and Contribution (to) / Use of Revenue reserves	11.6	(-)7.8	(-)8.2
Contribution (to) / Use of Capital Reserves	4.8	-	-
Council Tax (Increases of 4.99%/ 4.99% / 1.99% increase)	74.6	79.0	81.0
<b>Total Funding</b>	311.0	295.1	296.7
<b>Surplus(-)/Shortfall +</b>	0.0	3.6	3.6

48. Whilst the detailed savings proposals shown at appendix B (ii) provide for the delivery of a balanced 2017/18 Budget (and in 2019/20), there is a budget shortfall in 2018/19 of £3.6 million. The means of addressing this shortfall will be considered over the coming months, in the light of 2016/17 Outturn, progress in delivering the 2017/18 savings and updated view of the savings potentially impacting in 2018/19, with options presented for Member consideration and approval in the autumn of 2017.
49. In addition to the assumptions set out above the following factors have also been taken into consideration.

### Re-Organisation Budget

50. The Council's 2016/17 Budget approved in February 2016 included a sum of £14 million to meet the costs of re-organisation, primarily those associated with the Council's Voluntary Early Termination (VET) scheme.
51. In order to reduce the cost base it is inevitable that the Council will need to continue to reduce the number of staff it employs. Although the 2017/18 Savings proposals (as detailed at Appendix B (ii)) will result in modest post reductions it is envisaged that there will be further post reductions arising from changes in service delivery models although the precise timing is as yet uncertain as the Council seeks to balance its budget in the face of the reductions in Government funding. As a result £8.9 million has been included in the 2017/18 budget to meet the associated termination costs arising in the next and future years. It is anticipated that costs incurred during 2016/17 will amount to around £5.1 million.
52. In addition, as set out in the Period 8 Revenue Outturn Projection report considered on 23 January 2017, Cabinet approved the temporary use of Re-Organisation budget to part fund the projected 2016/17 Overspend of £4.9 million which will be repaid during 2017/18. The Table below shows how the Re-Organisation Budget of £8.9 million in 2017/18 is derived. The budget will be confirmed at Outturn in the light of actual costs incurred in 2016/17.

**Table 5 Re-Organisation Budget**

	<b>£million</b>
<b>Budget 2016/17</b>	<b>14.0</b>
Costs in 2016/17 (estimate)	-5.1
Finding to meet 2016/17 Corporate Overspend (estimate)	-4.9
Balance to c/f to 2017/18 at 31 March	4.0
Reimbursement of 16/17 Contribution to Overspend	4.9
<b>Budget 2017/18</b>	<b>8.9</b>

## **Transformational Costs (Utilising Capital Receipts Flexibility)**

53. The Secretary of State for Communities and Local Government issued guidance in March 2016, giving local authorities greater freedoms with how capital receipts can be used to finance expenditure. This Direction allows for the expenditure incurred in delivering revenue savings or service transformation, between 2016/17 and 2018/19, to be treated as capital and not be charged to revenue, subject to generating funding from asset disposals in the same period and Council approval of the planned use of the flexibility.
54. The Council's Strategy is included at Appendix F and reflects a plan to meet c£6 million of transformation costs from asset disposal between 2016/17 and 2018/19.

## **Schools Funding**

55. The Council's financial position is impacted by the way in which schools are funded and the ongoing transfers to academy status. Schools with Academy status, of which the number in Hull is growing (65 as at January 2017), receive all their funding direct from the Government rather than through the Council.
56. This movement to Academy status is reflected in the anticipated Dedicated Schools Grant (DSG) receivable by the Council in 2017/18 of £67.7 million compared to the 2016/17 value of £97.1 million.

## **Education Support Grant (ESG)**

57. The Council currently provide a portfolio of services relating to the support of schools. The Government provide a specific (but non ring fenced) grant to meet the associated costs of these services (ESG). The value of this grant is predicted to fall in 2017/18 but changes in DSG provide for the impact to be fully mitigated. This reduction in funding arises partly as the Government seek to reflect the fact that as the number of Academies increases the call on Council services reduces.

## **Public Health Grant**

58. The Government have confirmed their intention to reduce the value of the Public Health Grant payable to the Council by 2.5% in each of the next three years and this is reflected in the MTFP projections.

## **NHS Better Care Funding**

59. As part of the national drive to reduce public sector expenditure and improve the quality of care the Government is seeking to encourage closer working between Councils and the NHS. In broad terms there is a desire to reduce the cost of acute health care through better focussed and resourced community services designed to meet the care needs of individuals at an early stage and therefore reduce the call on expensive acute services.

60. To this end the Government introduced the Better Care Funding initiative in 2015/16 which sees significant resources from the NHS, and local Councils, jointly managed under the auspices of Health and Well Being Boards with a formal pooled budget arrangement. The MTFP for 2017/18 reflects the expected level of funding received from the NHS to support services.

### **Budget Provision for City Plan**

61. The future prosperity of Hull depends on addressing the lowest employment rates and some of the worst health inequalities in the country. Being at the heart of the Hull and Humber City Deal (“Energy Estuary”) will help it to work more closely with government to unlock improvements. Hull, like all cities, needs to have a single, distinct story for the City itself, which accelerates improvement in people’s lives, creates a sustainable future, and defines Hull’s unique position in the UK.
62. The City Plan has been developed in conjunction with the Council’s partners in order to create that focus for activity in the City; it aims to take advantage of the city’s unique opportunities for renewable energy and its rich cultural heritage, to address the long standing deprivation issues and to unlock the potential of the city and its residents.
63. The key goal of the City Plan is to create 7,500 Jobs and achieving this will also make a huge impact on health, income and skills levels in the city. The work to achieve this will focus on 5 specific priorities:-
- Put Hull on the map as a leading Energy City
  - Make Hull a top place to visit
  - Reduce the financial pressure for residents
  - Reduce critical need through Early Support and Intervention
  - Safeguard the most vulnerable
64. Part II of this report details the proposed Capital Programme and includes details of £66 million investment in the Visitor Destination programme of Council which represents the key element of the City Plan strategy.
65. The 2017/18 revenue budget includes £0.205 million earmarked to support the 2017 City of Culture Programme. Taking into account £1million to support the Legacy Programme, the Council contribution to the City of Culture project will be £5 million in total.

### **Reserves**

66. General Balances at April 2016 were £7.97 million and the 2016/17 budget, as approved in February 2016, assumed no movement in the reserve during the year. However, as set out in the Period 8 Outturn Report considered at Cabinet on 23 January 2017, Council is facing a significant revenue overspend in 2016/17 and an anticipated shortfall in Business Rate Income arising from appeals against valuations.

67. As set out in the January 2017 report and shown in the Table below, the anticipated overspend in 2016/17 (£6.9 million) and the impact of Business Rate Appeals (£3.8 million) will be funded by utilising the benefit of the back dated MRP adjustment and the temporary use of the Re-organisation budget as noted at paragraph 52 above. As a result General Balances will be protected at current levels at April 2017 and 2018 and are projected to grow in the following years.
68. A detailed risk assessment for the level of reserves is attached at Appendix G. In the light of the required aggregate savings value of c£41 million over the next 3 years, the shortfall in delivery in 2016/17 and the very real challenges faced by the Council in maintaining services whilst suffering cuts in funding, the Risk Assessment reflects the need to bolster General Reserves to c£20 million by 2020/21. Similarly given on-going concerns over Business Rate Income highlighted in the January report, there is a need to set reserves aside to meet the potential impact of Appeals in the future years.

**Table 6 Allocation of Back Dated MRP Provision Adjustment**

	2016/17	2017/18	2018/19	2019/20	2020/21	Total
	£m	£m	£m	£m	£m	£m
Release MRP Provision	5.8	7.0	8.0	8.4	2.6	31.8
Use of Re-Organisation Budget	4.9	-4.9				0.0
<b>Total Resources</b>	<b>10.7</b>	<b>2.1</b>	<b>8.0</b>	<b>8.4</b>	<b>2.6</b>	<b>31.8</b>
To Fund						
Business Rate Appeals	3.8	2.1	3.0	3.0		11.9
2016/17 Overspend	6.9					6.9
General Reserves			5.0	5.4	2.6	13.0
<b>Total Use</b>	<b>10.7</b>	<b>2.1</b>	<b>8.0</b>	<b>8.4</b>	<b>2.6</b>	<b>31.8</b>

69. A schedule of Reserves movements is included at Appendix H.

### **Statutory Officer Comments**

70. Under Section 25 of the Local Government Act 2003, and CIPFA Code of Practice, the Authority's Chief Financial Officer (s151 Officer) is required to report on the robustness of the estimates made for the purposes of the budget calculations and the adequacy of the proposed reserves.

Members are required under the 2003 Act to have regard to the Chief Financial Officer's report when making decisions about the budget calculations.

71. **The Interim Director of Finance and Transformation (section 151 Officer) has made the following statement:**

The robustness of the budget estimates and the adequacy of the reserves are largely dependent on the levels of risk and uncertainty. The principal financial assumptions made in the budgets are noted in this report and attached appendices.

Budget monitoring throughout the year will be an important tool in identifying at an early stage potential problems so appropriate action can be taken.

The delivery of the planned savings and major business projects is critical to the successful delivery of the Council budget strategy. Current activity provides adequate assurance as to the deliverability the 2017/18 budget with future year forecasts representing realistic planning assumptions which will be subject to review as part of the annual budget setting process.

The budget has been prepared through detailed reviews by City Managers of pressures and savings opportunities.

A risk based approach to consideration of the level of reserves is a component of the Council's overall risk management framework. Operational risks should be managed within Services' bottom line budgets and thus will not normally result in a call on the Council's reserves.

Appendix G summarises the significant financial risks applicable to Unearmarked Reserves. The total potential cost to the Council is estimated to be £8.0 million in 2017/18. The Authority's Unearmarked Reserve was £8 million at 31 March 2016 and is presently envisaged to be at the same level at 31 March 2017.

My assessment of the process that has been undertaken set alongside the risk assessment above is that the budget calculations used in the preparation of the budget estimates are fair and robust and reserves are adequate to reflect known circumstances.

**72. The Town Clerk (Monitoring Officer) has made the following statement:**

The case of R (Buck) v Doncaster MBC [2012] the High Court confirmed that the role of Full Council in relation to the budget process is limited to the allocation of resources to meet the authority's potential expenditure for the next financial year, which enables it to set an appropriate level of council tax.

The Town Clerk considers that the Leader's proposals fulfil the statutory requirements set out below with regard to setting the amount of Council Tax for the forthcoming year and to set a balanced budget:-

**S30 (6) Local Government Finance Act 1992 (the 1992 Act)**

This section requires that Council Tax must be set before 11 March, in the financial year preceding that for which it is set. Failure to set a budget by this date does not of itself render the Council Tax invalid.

**S31A the 1992 Act**

This section sets out the calculations to be made in determining the council tax requirement, including contingencies and financial reserves. Failure to undertake the required calculations renders any Council Tax void and unenforceable.



### S31B the 1992 Act

This section sets out the detail of the calculations required to meet the Council's obligations as at S31A.

### S25 (1) Local Governance Act 2003 (the 2003 Act)

The Chief Finance Officer of the Authority (i.e. being the appointed S.151 Officer) must report to it on the following matters:-

- a) the robustness of the estimates made for the purposes of the calculations; and
- b) the adequacy of the proposed financial reserves.

### S25 (2) the 2003 Act

When the Council is considering calculations under S31A, it must have regard to a report of the Chief Finance Officer (being the appointed Section 151 Officer) concerning the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves.

### The Local Authorities (Functions & Responsibilities) (England) Regulations 2000 (as amended)

These Regulations set out what are to be the respective functions of Council and of the Executive. With regard to the setting of the budget and Council Tax for the forthcoming year, Regulations provide that the Leader formulates the plan or strategy (in relation to the control of the Council's borrowing or capital expenditure) and the preparation of estimates of the amounts to be aggregated in making the calculations under S31A of the 1992 Act. The approval of such plan or strategy/calculations is the responsibility of full Council.

## **73. Comments of City Manager for Human Resources**

The proposed budget savings this year indicate that there will be redundancies across services. This impacts on the organisations ability to provide services and impacts on those staff who remain in the Council. A full equality impact assessment has been completed for this budget proposal.

## **74. Comments of Overview and Scrutiny**

This report will be considered at the combined Value for Money and Overview and other Scrutiny Commissions on 17 February 2017.

## **Collection Fund and Council Tax Implications**

75. The Local Government Finance Act 1992 (as amended by the 2003 Act and the Localism Act 2011) sets out the powers and duties of the Council in setting the annual Council Tax. The key requirements are that:-

- i) Council Tax is set at Full Council.
- ii) Council Tax is set at a sufficient level to meet its proposed budget requirements for the ensuing year (see Sections 31A and 31B of the Act).

- iii) The level of Council Tax is set before 11 March to enable circulation of Council Tax bills to enable people to pay on and after 1 April (see Section 30(6) of the Act).
  - iv) The Chief Finance Officer must report on the robustness of estimates and the proposed adequacy of reserves (see Section 25 of the Act and paragraph 71 above).
76. The Council is required to set a Council Tax sufficient to balance the Collection Fund account it maintains. Based on the projections at January 2017 and looking back at the income received in 2016/17, it is forecast that there will be a surplus on this account at year end. The balance is required to be distributed to the contributing or precepting authorities (the Council, Police and Fire & Rescue). Hull City Council's net surplus is forecast to be £4.7 million and will be used in funding the 2017/18 budget as per Appendix E.
77. Under section 52ZB of the Act, each billing authority must determine whether its relevant basic amount of council tax for a financial year is excessive. If an authority's relevant basic amount of council tax is excessive, a referendum must be held in relation to that amount. Using the Governments' principles determined by the Secretary of State under section 52ZC of the Act, the Councils' relevant basic council tax for 2017/18 is not excessive and therefore no referendum is required.
78. The Council approved a Council Tax Base of 58,838 (Band D equivalents) for 2017/18 at its meeting on the 19 January 2017. Given the Council Tax requirement, as shown in Appendix I, of £74,616,586, the Band D Council Tax proposed for 2017/18 is £1,268.17. This represents an increase of 4.99% over the 2016/17 charge and includes an additional 3% precept for Adult Social Care. This is below the limit of 5%, above which the Government require a local referendum to take place to confirm such an increase.
79. The precept for the Humberside Police and Crime Commissioner for 2017/18 is £11,022,123. When this amount is divided by the approved Council Tax base of 58,838, it gives a Council Tax charge for a Band D property in the Kingston upon Hull area of £187.33. This is an increase of 1.99% on the 2016/17 charge.
80. The precept for the Humberside Fire Authority for 2017/18 is £4,715,866. When this amount is divided by the approved Council Tax base of 58,838, it gives a Council Tax charge for a Band D property in the Kingston upon Hull area of £80.15. This is an increase of 1.6% on the 2016/17 charge.

## **Equality Impact Assessment Analysis**

81. Section 149 of the Equality Act imposes a Public Sector Equality Duty on 'public authorities' when exercising public functions to have due regard to the need to:
- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act
  - (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it

- (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
82. Relevant protected characteristics are – age, disability, gender reassignment, pregnancy and maternity, race, religion and belief, sex and sexual orientation and, to a more limited extent, to the protected characteristic of marriage and civil partnership.
83. To 'have due regard' means that in making decisions and in its other day-to-day activities the Council must consciously consider the need to do the things set out in the general equality duty: eliminate discrimination, advance equality of opportunity and foster good relations.
84. The Council will only be able to comply with the general equality duty in relation to a decision, if the ultimate decision maker:
- understands the Council's obligations under the general equality duty
  - has sufficient information
  - demonstrably takes this information fully into account throughout the decision-making process.
85. The courts have stressed the importance of having due regard before and at the time that a particular policy is being considered, and of exercising the duty with an open mind.
86. Appendix J demonstrates the actions the Council is taking to ensure due regard is taken before, and at the time that a particular approach is being considered.

## **Capital Programme 2017/18 to 2019/20**

### **Purpose of the Report and Summary**

87. This report sets out the details of the proposed Capital Programme 2017/18 to 2019/20. The programme has been compiled in the light of the latest funding assumptions and the financial implications are appropriately reflected within the revenue budget projections contained within Part I of this report relating to the MTFP and also to the Housing Revenue Account (HRA) Budget which is a separate report on the agenda.

### **Introduction**

88. Following a review of capital funding streams it has been possible to identify £50.4 million of additional resources, of which £17.5 million of funding is anticipated to be available beyond the 2019/20 timeframe, which can be allocated to support capital investment in the city.
89. This report sets out proposals for the allocation of the available capital resources in the period 2017/18 to 2019/20 and presents an updated Capital Programme at Appendix K for approval. The programme provides for:
- A fully funded Visitor Destination Programme.
  - Funding of annual demands including maintaining the Council's assets.
  - Support for one-off projects over the next three years.

90. The report details £28 million of investment in annual capital demands and specific investment programmes, and an additional £22.4 million to support the Council's commitment to the Hull World Class Visitor Destination Priority and Legacy Programmes. See Table 7 below
91. The report also summarises additional allocations of confirmed and anticipated Ringfenced grants totalling £5.4 million which are cannot be used for alternative purposes. See Table 8 below

### Capital Resources

92. The following tables presents a summary of the ringfenced resources and additional resources available in the medium term to support the capital proposals:

**Table 7 – Available Resources**

Source of Available Resources	£m
Unringfenced grant allocations 2019/20	4.500
Capital Receipts 2019/20	2.000
Flexible Use of Capital Receipts ( <i>Appendix F</i> )	4.800
Prudential Borrowing (additional borrowing capacity)	9.100
Prudential Borrowing (Self-Funded Schemes)	5.680
Revenue (NNDR Uplift re Enterprise Zones)	6.786
Revenue (NNDR Uplift re Enterprise Zones) – 2020/21 and beyond	17.538
<b>Total</b>	<b>50.404</b>
Resources to support Annual Capital Demands	27.980
Resources to support Hull World Class Visitor Destination – Priority and Legacy Programmes	22.424
<b>Total</b>	<b>50.404</b>

**Table 8 – Ringfenced Resources 2017/18 to 2019/20**

Source of Ringfenced Resources	£m
River Hull + (ERDF)	3.500
Devolved Formula Capital (Schools) 2019/20	0.250
Disabled Facilities Grants (Better Care Fund) 2019/20	1.700
<b>Total</b>	<b>5.450</b>

93. The Council's capital programme is funded as follows;
- Ring fenced Grants for specific purposes which cannot be used for alternative projects
  - Targeted Grants which are provided for specific purposes but which are not ring fenced and can be used for any 'general capital purposes'.
  - Capital Receipts arising from the sale of fixed assets owned by the Council. The current programme assumes disposals of £2 million per annum until 2019/20.
  - Capital Receipts Flexibility of Use to Support Revenue Transformation Schemes as per Government Direction.

- Prudential borrowing for investment purposes – where the loan interest and repayments are funded from revenue.
- Self Funded schemes - funded from revenue resources as revenue savings are directed to fund loan repayments and interest.
- Revenue Contributions - Revenue resources used to fund capital purchases/schemes.

94. Following a review of the programme and the funding assumptions the following available resources have been identified for allocation to new schemes.

i) Unringfenced capital grants - £4.5 million

Recent Council practice has been to “passport” Targeted Grants to fund associated programmes and the proposals included in this report reflect the continuation of this practice to the associated programmes for 2019/20, i.e. Schools and Transport. These are unconfirmed allocations and are therefore indicative.

ii) Capital Receipts (general land & buildings) - £2 million

A review of the Council’s asset holdings suggests that disposals of £2 million per annum continues to be achievable in the short term which is consistent with current assumptions underpinning the existing programme. However, whilst disposals above this level are possible it would not be prudent to rely on additional sales at this time.

iii) Capital Receipts Flexibility of Use (general land & buildings) - £4.8 million

As detailed in the Flexible Use of Capital Receipts Policy at Appendix F, the Secretary of State for Communities and Local Government has issued a direction to enable Local Authorities to treat service revenue transformation costs as capital and therefore be funded from Capital Receipts, received in the period 1 April 2016 to 31 March 2019.

iv) Prudential Borrowing - £9.1 million

As part of developing the Council’s 2017/18 MTFP additional revenue funding of £0.1 million per annum has been identified which will provide additional borrowing capacity of £9.1 million over 3 years to support capital investment in the City.

v) Prudential Borrowing (Self-Funded Schemes) - £5.7 million (Customer Enablement)

To reflect the capital investment required to support the above scheme to be funded from associated ongoing revenue savings, as per Cabinet approval in July 2016.

vi) Revenue (Business Rates Uplift from Enterprise Zones) - £24.324 million

The following table represents the anticipated NNDR uplift over the next 10 years (to 2025/26) to be received from the new Enterprise Zones within the City. A proportion of this is to support the Medium Term Financial Plan with the remaining element to support the Capital Programme.

<b>Table 9 – Estimated Enterprise Zone Business Rates Uplift</b>	<b>2017/18 £m</b>	<b>2018/19 £m</b>	<b>2019/20 £m</b>	<b>2020/21+ £m</b>	<b>Total £m</b>
RV Uplift	2.200	3.400	5.186	44.944	55.730
To fund General Fund Services (MTFP)	1.000	1.500	1.500	9.000	13.000
<b>Balance to Fund the Capital Programme</b>	<b>1.200</b>	<b>1.900</b>	<b>3.686</b>	<b>17.538</b>	<b>24.324</b>
Unallocated balance	-	-	-	18.406	18.406
<b>Balance</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>

### **Proposed New Allocations**

95. The following table details proposed allocations of the available resources with an indicative profile of spend with supporting narrative below.

**Table 10 – Proposed Allocation of Available Resources identified in Table 7 – 2017/18 to 2019/20**

<b>Scheme</b>	<b>Ref</b>	<b>2017/18 £m</b>	<b>2018/19 £m</b>	<b>2019/20 £m</b>	<b>2020/21+ £m</b>	<b>Total £m</b>
Passporting of targeted unringfenced grants ( <i>Note 1</i> )	A	-	-	4.500	-	4.500
Corporate Building Maintenance ( <i>Note 1</i> )	B	-	-	0.750	-	0.750
Corporate Buildings Maintenance – additional funding to support backlog maintenance	C	1.500	1.500	1.000	-	4.000
Green Port Hull	D	-	-	-	1.900	1.900
Highways SCOOT (Split Cycle Offset Optimisation Technique)	E	0.600	-	-	-	0.600
ICT	F	1.000	1.000	1.000	-	3.000
Local Community Initiatives ( <i>Note 1</i> )	G	-	-	1.000	-	1.000
Private Sector Housing ( <i>Note 1</i> )	H	-	-	0.750	-	0.750
Private Sector Housing – additional targeted funding on top of annual allocation	I	-	0.250	0.750	-	1.000
Self-Funded Scheme - Customer Enablement	J	3.800	1.600	0.280	-	5.680
Service Transformation	K	3.700	1.100	-	-	4.800
<b>Sub Total</b>		<b>10.600</b>	<b>5.450</b>	<b>10.030</b>	<b>1.900</b>	<b>27.980</b>
<b>Visitor Destinations – Legacy Programme</b>						
Hull Venue	L	-	0.638	2.786	-	3.424
Investment in Museums	M	1.000	1.000	0.700	7.100	9.800
Riverside Berth/Cruise Terminal	N	0.200	0.262	0.200	8.538	9.200
<b>Sub Total</b>		<b>1.200</b>	<b>1.900</b>	<b>3.686</b>	<b>15.638</b>	<b>22.424</b>
<b>Grand Total</b>		<b>11.800</b>	<b>7.350</b>	<b>13.716</b>	<b>17.538</b>	<b>50.404</b>

Note 1 – the table above identifies the additional resources available. Allocations arising from passported targeted grants and allocations for Local Community Initiatives, Corporate Building Maintenance and Private Sector Housing for 2017/18 and 2018/19 are already built into the programme as shown at Appendix K.

96. Additional commentary to provide some background to the proposed allocations on Table 10 above is as follows:

### **A - Passporting of Targeted ‘unringfenced’ Grants**

The continuation of “passporting” Targeted Grants to fund associated Schools and Transport related programmes for 2019/20. These are indicative allocations only as grants are unconfirmed at this stage.

### **B - Corporate Buildings Maintenance**

Continuation of the annual funding stream to support prioritisation of repairs based on ensuring health and safety and other statutory compliance and service need.

### **C - Corporate Buildings Maintenance**

Additional targeted funding to support backlog maintenance and to support priority health and safety works and improvements required to corporate and public buildings.

### **D – Green Port Hull**

To ensure the Council’s commitment to deliver the scheme is fully funded to support ongoing enabling and infrastructure works.

### **E – Highways SCOOT (Split Cycle Offset Optimisation Technique)**

Funding to support the procurement of SCOOT (Split Cycle Offset Optimisation Technique), a tool for managing and controlling traffic signals in urban areas.

### **F - ICT**

The creation of an annual funding stream to support priority ICT network and infrastructure works to ensure they remain robust and fit for purpose.

### **G - Local Community Initiatives**

Provides capital for each ward to support community based projects which improve local facilities, support Council priorities and improve the quality of life for local residents. This funding stream is a continuation of the current programme allocation for one further year.

### **H - Private Sector Housing**

Continuation of the annual funding stream to tackle category one hazards in privately owned homes through local assistance.

### **I – Private Sector Housing**

Additional targeted funding into areas with poor quality private sector stock has been provided on top of the annual allocation.

### **J – Customer Enablement**

The project enables the delivery of online systems, associated implementation resource and initiatives to enable wider internet use, which form the key elements of the Council’s Customer Programme.



## **K – Service Transformation**

To reflect the identified service transformation schemes within Adults and Social Care, Streetscene and Children's Services which are able to be capitalised and funded by Capital Receipts in line with Government Direction.

## **Visitor Destination – Legacy Programme**

### **L – Hull Venue**

To ensure the Council's commitment to deliver the scheme is fully funded. The venue will be designed to host small and medium events, with a capacity of 3,500 people. The main contractor was appointed (subject to break clause) in December 2015. Planning permission was granted for the Venue in March 2016 and OJEU procurement for an operator is progressing and an appointment is expected in the coming months.

### **M – Investment in Museums**

To ensure the Council's commitment to deliver the scheme is fully funded. This project has been developed to cover several elements including the Maritime Museum and its internationally important collections. Project costings have been developed, a comprehensive project plan is in place and Council capital funds have been committed to the project. Work is ongoing to develop a fundraising plan.

### **N – Riverside Berth/Cruise Terminal**

To ensure the Council's commitment to deliver the scheme is fully funded. The project meets a proven growing demand for European cruise ship growth and capitalizes on the economic benefits to the local Hull and regional economy.

Following demand and feasibility studies, an option appraisal and Environmental Impact Assessment is being completed due to the status of the Humber as a Site of European Importance under Habitats Regulation.

## **Councillor Stephen Brady, Leader of the Council**

Contact Officer – David Bell      Tel. 01482 613084

Officer Interests:      None

### Background Documents:

- (i) Cabinet Reports on Savings and Consultation:  
July 25 2016  
August 22 2016  
November 28 2016
- (ii) Cabinet Report Period 8 Outturn Projection – 23 January 2017

- (iii) Local Government Financial Settlement (Final) released 8 February 2016 (DCLG)
- (iv) Leaders Budget Consultation Report to Cabinet 23 January 2017
- (v) Quarter 3 Capital Monitoring Report 2016/17 to Cabinet 20 February 2017