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**Meeting of the Cabinet – 26<sup>th</sup> October 2017**

**Joint Report of the Chief Executive and Chief Officer Finance and Legal Services**

**Medium Term Financial Strategy**

**Purpose**

1. To consider the latest General Fund revenue position for 2017/18 and provisional Medium Term Financial Strategy (MTFS) to 2020/21.
2. Cabinet is not being asked to make final decisions. The proposals in this report will be the subject of public consultation and will be considered by Scrutiny Committees before returning to Cabinet on 8<sup>th</sup> February and going to Full Council for final decisions on 26<sup>th</sup> February. Proposals about the Council Tax Reduction scheme have already been through public consultation and scrutiny and final decisions will be made by Full Council in December.

**Recommendations**

3. That Cabinet notes:
  - (a) The actions of the External Auditors as set out in paragraph 8.
  - (b) The forecast variances to budget in 2017/18 set out in paragraphs 9 to 11.
  - (c) The various issues and risks which will need to be taken into account in finalising Budget proposals for 2018/19, and the Medium Term Financial Strategy.
  - (d) The process to identify services to be funded from Public Health Grant (PHG), as set out in paragraph 33.
4. That Cabinet approves:
  - (a) The preliminary financial strategy outlined in this report as a basis for scrutiny and consultation.
5. That Cabinet recommends to Council:
  - (a) That in respect of the Council Tax Relief (CTR) scheme, after considering the outcomes of the consultation, member scrutiny, the equality impact assessment and the Council's financial position:
    - the minimum payment of Council tax be increased from 22% to 23%;
    - a new vulnerable category of "care leaver" be created and where a CTR claim is made by a care leaver and their CTR award is calculated to be 100%, they would receive 100% and not have to pay council tax.

- (b) That the proposal to document the CTR scheme in such a manner that any personal allowances, premiums, disregards and non-dependent deductions are automatically linked to equivalent annually up-rated values published by central government in either Housing Benefit Legislation or the prescribed Council Tax Reduction Scheme for pensioners (including any other miscellaneous amendments to the aforementioned legislation that are relevant to our local scheme) be approved, thus allowing any approved scheme locally to be automatically carried forward to future years, without the need for annual public consultation and re-approval, until such time that further scheme changes are considered.
- (c) That the Chief Officer Finance and Legal Services be authorised in consultation with the Cabinet Member for Finance and Legal Services to:
- pay over to the Combined Authority (CA) funding received from Department for Communities and Local Government (DCLG) in respect of growth in the central share of business rates for 2016/17, as set out in paragraph 24;
  - agree final details and make payment to the CA of Dudley's contribution from business rates for 2017/18, subject to all authorities agreeing to contribute on the same basis, as set out in paragraph 25.
- (d) The delegation for approval of voluntary and compulsory redundancies to the Cabinet Member for Corporate Transformation and Performance and the Chief Officer for Corporate Transformation and Performance up to the maximum provided for in the budget forecasts for direct redundancy costs and the capitalised cost of pension strain in respect of redundancies required to achieve the proposed savings set out in this report.
- (e) That progress with the review of procurement be noted, as set out in paragraph 29.

## **Background**

6. The Council approved the General Fund budget for 2017/18 and the MTFs to 2020/21 on 6<sup>th</sup> March 2017.
7. Further reports on the 2016/17 outturn and 2017/18 budget were considered by Cabinet on 29<sup>th</sup> June 2017 and Council on 10<sup>th</sup> July 2017. Where relevant, matters considered in those reports are repeated in this report. The 2017/18 budget was updated to include the use of £7.2m additional funding allocated to support Adult Social Care in the Chancellor's March Budget – the Supplementary Improved Better Care Fund (SiBCF).

## **External Audit**

8. The External Auditors (Grant Thornton) presented their Audit Findings Report to the Audit and Standards Committee on 26<sup>th</sup> July 2017. They gave an unqualified (i.e. favourable) opinion on the Financial Statements for 2016/17. As regards their Value for Money opinion, they noted an improvement in the Council's position compared to the position at the time of their previous audit. However, they did not find this to be sufficient to remove their qualification (i.e. their adverse opinion) in respect of financial sustainability.

## Forecast 2017/18 Position

9. The Council started the year with a very low level of revenue reserves. As at 31<sup>st</sup> March 2017 unringfenced revenue reserves as a proportion of the net revenue budget were 17% (compared to the national average of 39%). The original budget for 2017/18 was set at a level that would further reduce general reserves by £1.5m. Forecast variances compared with budget are shown in Appendix A and summarised below.
- The People Directorate is facing pressures of £1.0m from high cost placements, agency, whole life disability services and home to school transport. However, these are being managed and the Directorate is targeted to break even by the end of the financial year.
  - The Place Directorate is anticipating that current pressures on green care and the extension of the free car parking trial will cost £0.5m. Other pressures of £0.4m are targeted to be managed within budget by the end of the financial year.
  - The Chief Executive's directorate is forecasting a favourable variance of £0.2m as a result of additional income from recovery of benefit overpayments and benefits related New Burdens grants.
  - Treasury / Corporate savings of £1.5m are anticipated as a result of a review of support service recharges, better than expected cash flow, and improved airport dividends.
10. The current budget for 2017/18 includes provision of £2.5m for severance costs to deliver staff savings for 2018/19. This provision has been reviewed in the light of previous trends and the proportion of savings likely to come from staffing reductions. It is now forecast that these costs can be reduced to £1.5m, enabling £1.0m to be released.
11. The current West Midlands 100% Business Rate retention pilot is constructed in such a way that individual councils benefit from the real terms growth in what was previously the central government share from 2013/14. When setting the budget for 2017/18, the £2.4m windfall gain for Dudley was earmarked pending clarification of how it would be shared between the individual councils and the Combined Authority. Whilst discussions are still ongoing, it is anticipated that Dudley's contribution will be around £0.3m enabling £2.1m to be released. Further detail is contained in paragraphs 23 to 26 below.

## General Fund Balances

12. The latest forecast General Fund Balances position, compared to the original Approved Budget for 2017/18 is therefore as follows:

	<b>Original Budget £m</b>	<b>Latest Position £m</b>
Forecast balance at 31 <sup>st</sup> March 2017	18.0	18.0
2016/17 outturn (as reported to Cabinet in June)		+1.9
<b>Balance at 31<sup>st</sup> March 2017</b>	<b>18.0</b>	<b>19.9</b>
Planned use 2017/18 approved by Council in February	-1.5	-1.5
Place pressures - green care and car parking (para 9)		-0.5
Chief Executive's variances (para 9)		+0.2
Treasury / Corporate variances (para 9)		+1.5
Change in provision for redundancy costs (para 10)		+1.0
Provision for share of Business Rates with CA (para 11)		+2.1
<b>Forecast balance at 31<sup>st</sup> March 2018</b>	<b>16.5</b>	<b>22.7</b>

## Medium Term Financial Strategy to 2020/21

13. In updating the Council's Medium Term Financial Strategy, Members will need to consider carefully:
- (a) the levels of Government support allocated to the Council;
  - (b) spending pressures, opportunities to free up resources (including savings), and Council Plan priorities;
  - (c) the implications of spending levels in later years as part of the Council's medium term financial plan;
  - (d) the views of consultees;
  - (e) the external factors and risks inherent in the Strategy;
  - (f) the impact on Council Tax payers.
  - (g) the potential impacts on people with protected characteristics as defined in the Equality Act 2010. Members will need to have due regard to the public sector equality duty under the Equality Act 2010. (Further details are set out in the Equality Impact section below.)

## Government Funding

14. The 2016/17 Local Government Finance Settlement included indicative figures up to 2019/20, together with an offer to enter into agreement with individual councils to give a guaranteed minimum level of funding<sup>1</sup> up to 2019/20 subject to having an efficiency plan for the period. The Government subsequently accepted our expression of interest in such a guarantee, which is reflected in the forecasts below. At this point there have been no specific announcements about the precise system of local government finance to operate from 2020/21 onwards, or about the underlying level of funding that Dudley will receive under that system. We have therefore rolled forward our forecast on the basis that the underlying impact of any new system is neutral. This is noted as a significant area of risk and uncertainty and will be kept under close review.
15. Forecast New Homes Bonus (NHB) income continues to reflect Government projections up to 2019/20 and assumes that 2020/21 income will be similar to that for 2019/20, although final figures will depend on actual net new home completions (and empty properties brought into use) locally compared with national totals. Latest figures indicate that net new home completions in Dudley are currently less than previously anticipated.

## Council Tax

16. Latest forecasts indicate:
  - a Collection Fund surplus for the current year of £0.7m, resulting mainly from a reduction in Council Tax Reduction (CTR) claimant numbers, together with better than anticipated collection rates;
  - an ongoing increase in income of £0.7m per year resulting mainly from the reduction in CTR claimant numbers more than offsetting the impact of new home completions being fewer than previously anticipated.

The position will continue to be monitored closely and any updated forecasts reported to Cabinet in February

17. Proposals to amend the CTR scheme were initially considered by Cabinet on 19<sup>th</sup> July and subsequently by the Corporate Scrutiny Committee on 26<sup>th</sup> September. After considering the outcomes of consultation, member scrutiny, the equality impact assessment and the Council's financial position, it is proposed that:
  - the minimum payment of Council tax be increased from 22% to 23%;
  - a new vulnerable category of "care leaver" be created and where a CTR claim is made by a care leaver and their CTR award is calculated to be 100%, they would receive 100% and not have to pay council tax.

A summary of options and consultation responses is set out at Appendix B. Forecast figures for Council Tax income in paragraph 41 take account of the proposals.

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<sup>1</sup> Underlying values of Revenue Support Grant and Top-Up Grant, recognising necessary amendments to reflect changes such as business rate uplifts and revaluation, or moves to 100% business rate retention including local pilots. Our understanding is that the Government's guarantee does not extend to the windfall gain from our 100% Business Rates pilot (see paragraph 11) and this is noted as a risk.

18. It is also proposed to document the CTR scheme in such a manner that any personal allowances, premiums, disregards and non-dependent deductions are automatically linked to equivalent annually up-rated values published by central government in either Housing Benefit Legislation or the prescribed Council Tax Reduction Scheme for pensioners (including any other miscellaneous amendments to the aforementioned legislation that are relevant to our local scheme). The Council may wish to consider further scheme changes next year or in subsequent years. By documenting the scheme in the proposed way, it will not need further public consultation or re-approval until such time that further scheme changes are considered.
19. The Government has consulted on technical issues relating to the 2018/19 settlement. These include proposed Council Tax referendum principles for 2018/19 the same as those set in 2017/18 – i.e. a core limit of less than 2% plus an Adult Social Care precept increase of up to 3% (provided that precept increases do not exceed 6% between 2017/18 and 2019/20). It should be noted that these are the proposed general principles and are subject to the monitoring of individual authorities and their use of the Adult Social Care (ASC) precept in the current year. As part of this monitoring regime, Dudley has been requested to provide additional information to DCLG to support our use of the precept. We have provided further detail on 2017/18 efficiency savings, cost and performance comparisons with other councils and details about our use of reserves to protect Adult Social Care, demonstrating the need to raise the precept in order to reduce that reliance on reserves. We are still awaiting the final outcome of this monitoring.

### Business Rates

20. The current year is the first following the revaluation of all properties effective from 1<sup>st</sup> April 2017. The original budget was set against the background of uncertainty concerning the impact of this revaluation on our business rate and grant income. The Council is also taking part in the West Midlands pilot of 100% local retention of business rates on the basis of no detriment to individual authorities.
21. There is in particular considerable uncertainty concerning the impact of appeals following the revaluation and the introduction of the new “Check, Challenge, Appeal” process. At the time of writing this report, information about appeals has only just started to be provided by the Valuation Office Agency (VOA). Further work will now be required to assess the potential impact of this information and compare it with the provision for appeals built into the budget.
22. Latest forecasts indicate:
  - a Collection Fund surplus for the current year of £1.0m, resulting mainly from better than forecast trends in net reliefs;
  - an ongoing increase in underlying income of £1.0m per year for the same reason.

The position will continue to be monitored closely (in particular the emerging impact of appeals) and any updated forecasts reported to Cabinet in February.

## Combined Authority

23. The West Midlands Combined Authority (CA) receives three elements of funding via the constituent authorities as follows:
- The Transport Levy (formerly set by the Integrated Transport Authority) to fund its transport functions, allocated by statute on a population basis.
  - Real terms growth in the central share of business rates from 2016/17 onwards to fund its regeneration activities, under the terms of the Devolution Deal.
  - A further contribution to fund its non-transport functions. A contribution was made in 2016/17 to cover two years (2016/17 and 2017/18) and was by agreement on an equal shares basis between the authorities. As has previously been reported to Cabinet and Council the default position, in the absence of an agreement, is that these contributions would be shared on a population basis.
24. The growth in the Business Rates central share for 2016/17 (received by the Government under the retention arrangements then in operation) will, subject to agreement with DCLG, be paid to individual authorities. It is proposed that the Chief Officer Finance and Legal Services be authorised in consultation with the Cabinet Member for Finance to pay such funding received over to the CA.
25. For 2017/18 onwards, the 100% retention pilot gives effect to the Devolution Deal by allowing authorities to retain all business rate growth, including that in the former central share. As set out in paragraph 11 when setting the budget for 2017/18, the £2.4m windfall gain for Dudley arising from the pilot (of real growth in the central share since 2013/14) was earmarked pending clarification of how it would be shared between the individual councils and the Combined Authority, in particular the calculation of real growth from 2016/17 onwards. This measurement has proved to be particularly difficult as a result of the impact of the 2017 revaluation and uncertainty about the impact of appeals. It is proposed that, as an interim solution for 2017/18, the seven constituent authorities make a total contribution from business rate income of £3m (as estimated in the Devolution Deal), shared on the basis of Rateable Values. This would mean a Dudley contribution of around £0.3m. It is proposed that the Chief Officer Finance and Legal Services be authorised in consultation with the Cabinet Member for Finance and Legal Services to agree final details and make payment to the CA, subject to all authorities agreeing to contribute on the same basis.
26. On the basis of this proposal we are able to release £2.1m in the current year. Consistent assumptions have been made concerning the future years of the MTFs. Work will continue to determine the basis for sharing business rates growth with the CA for 2018/19 onwards. We are also awaiting further details from the CA in terms of its proposals for the Transport Levy (current forecast based on previous strategy) and funding requirement for its non-transport budget. Further details will be reported to Cabinet in February.

## Base Budget Forecasts

27. The Base Budget reflects the impact on spending of forecast inflation and other anticipated changes, before directorate spending pressures or savings proposals are taken into account. Details are as follows.

	2018/19	2019/20	2020/21
	£m	£m	£m
2017/18 base	215.9	215.9	215.9
Pay ( <i>note 1</i> )	1.6	3.8	6.0
Transport Levy ( <i>see para 26</i> )	-0.2	-0.2	-0.2
Income uplift ( <i>note 2</i> )	-1.0	-2.1	-3.5
MRP Policy ( <i>note 3</i> )	11.4	13.0	13.0
Pensions ( <i>note 4</i> )	0.7	1.1	3.4
Combined Authority ( <i>see para 25</i> )	0.3	0.3	0.3
Treasury ( <i>note 5</i> )	-1.3	-1.6	-3.2
Fallout of one-off 2017/18 pressures and savings etc.	-1.2	-1.2	-1.2
Other adjustments ( <i>note 6</i> )	0.6	0.3	0.3
<b>Base Budget Forecast</b>	<b>226.8</b>	<b>229.3</b>	<b>230.8</b>

### Notes:

- (1) Recent pay awards for local government have been settled at low levels in line with the public sector pay cap, with larger increases on the lower pay points to comply with the National Living Wage. Our current estimates allow for a 1.4% average increase in 2018/19, 1.7% in 2019/20 and 1.8% in 2020/21 consistent with a continuation of those recent trends. However, it should be noted that there is emerging pressure on the public sector cap as well as increasing pressure for a more fundamental review of pay scales in light of the National Living Wage and its impact on differentials between pay points. There is therefore a risk that a higher allowance for pay inflation will be required and if necessary this will be reflected in the final budget report in February.
  - (2) Assumes an increase of 2% per year on fees and charges.
  - (3) The Council will recommence making Minimum Revenue Provision (MRP) for repayment of debt from 2018/19 as required following the review of MRP Policy in 2015/16.
  - (4) Reflects the uplift in pension contributions agreed up to 2019/20 following the last triennial valuation in 2016. The funding level and contribution requirements from 2020/21 will be reviewed again in 2019; we have currently forecast 2020/21 contributions on the basis of no underlying changes arising from that review.
  - (5) Impact of Capital Programme and treasury management and investment income changes.
  - (6) Enterprise Zone funding requirements and other minor adjustments.
28. Note that there is no provision for general price increases on non-pay budgets. With the exception of specific directorate pressures (see paragraph 30 and Appendix C) all non-pay budgets will be cash limited and any inflationary pressures will need to be managed within directorate budgets and through efficient procurement.



29. Council on 6<sup>th</sup> March 2017 passed a resolution calling on the Chief Executive to procure a private company to be targeted to deliver savings of 5% from procurement over the next three years and to be paid by results. A procurement exercise was subsequently undertaken and the bids that were received raised significant concerns about the level of consultancy cost that could be incurred and how in practice the payment by results mechanism would be controlled. In light of these concerns, a further exercise has been undertaken to engage a Strategic Procurement Advisor (initially for six months) to review the Council's procurement capacity and make recommendations for an appropriate procurement structure to drive forward further savings in line with the Medium Term Financial Strategy. It is proposed that Cabinet recommend to Council to note progress with the review of procurement as set out above.

### Spending Pressures

30. Spending pressures provided for are as follows. These are detailed in Appendix C.

	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
People	5.6	7.9	9.8
Place	1.9	2.1	2.2
<b>Total</b>	<b>7.5</b>	<b>10.0</b>	<b>12.0</b>

### Savings

31. In total the following saving proposals have been identified as the basis for scrutiny and consultation. Details are set out in Appendix D.

	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
People	1.7	2.8	2.8
Place	1.5	1.8	1.8
Chief Executive's	0.8	1.0	1.0
<b>Total</b>	<b>4.0</b>	<b>5.6</b>	<b>5.6</b>

### Public Health

32. The Chancellor's Autumn statement in 2016 confirmed that for 2018/19 and 2019/20 the indicative cash reduction to the PHG will be 2.6% each year. There is currently no further reduction in cash terms forecast for 2020/2021.
33. Headroom between base budget forecasts and expected PHG allocations can be used to fund services that are currently funded by the General Fund and that meet the criteria for use of the grant and support wider Public Health initiatives. Directorates will identify such potential areas of existing and ongoing expenditure to be funded from PHG up to a value of £0.5m per year. These will be reviewed by the Chief Officer Health and Wellbeing) to ensure that they meet the grant criteria, and detailed proposals will be brought back to Cabinet and Council in February for final approval along with the overall deployment of 2018/19 PHG funding.

34. The overall forecast position for the Public Health Grant funded budget can be summarised as follows:

	2018/19	2019/20	2020/21
	£m	£m	£m
Base budget forecast	20.2	19.7	19.7
One-off spending plans	1.5	0.8	0.2
Existing General Fund services	0.5	0.5	0.5
<b>Total spend</b>	<b>22.2</b>	<b>21.0</b>	<b>20.4</b>
Forecast grant	20.7	20.2	20.2
<b>Deficit</b>	<b>1.5</b>	<b>0.8</b>	<b>0.2</b>
Reserve brought forward	2.5	1.0	0.2
<b>Reserve carried forward</b>	<b>1.0</b>	<b>0.2</b>	<b>0.0</b>

### Leisure Centres

35. The budget report to Cabinet in November 2016 outlined the intention to review provision and consider options to meet the need for leisure facilities with a view to removing or substantially reducing the level of subsidy from local taxpayers. This review became the subject of a petition and debate at Full Council in April 2017. During the debate it was reported that the aspiration was to retain three leisure centres in the towns of Dudley, Halesowen and Stourbridge subject to consideration of the future financial implications. The Council noted that the review of Leisure Centres would be referred to the appropriate Scrutiny Committee, prior to consideration by the Cabinet in due course.
36. Further analysis has been undertaken and, following consideration by the Overview Scrutiny Management Board Working Group in September, it is now proposed to develop an option to build a new leisure centre in Dudley and to carry out backlog repairs and refurbishment so as to modernise the facilities within the existing buildings in Halesowen and Stourbridge. Further work will now be required to fully develop this proposal, including the identification of a site for the new centre in Dudley, ground condition surveys, options for the disposal and redevelopment of the existing Dudley site, etc. This work will be subject to scrutiny and further details will be reported to Cabinet in February.
37. Initial working assumptions have been made about timescales, costs of borrowing for construction, repair and refurbishment and the impact on running costs and income. Based on these assumptions, this report allows for an additional net revenue cost of £0.6m in 2019/20 rising to £1.2m by 2020/21. These costs will be reviewed as further detailed work is undertaken.

### Human Resource Implications

38. Redundancy costs required to achieve the proposed savings, including those relating to pension strain, are dependent on the proportion of savings to be met from staffing reductions and the age and length of service of the individuals being made redundant, and therefore cannot be precisely calculated at this stage. In addition to provision of £1.5m in the current year (see paragraph 10) a further £0.5m has been provided for in 2018/19. These are estimates based on previous trends and the proportion of savings likely to come from staff reductions.

39. It is proposed to recommend to Council the delegation for approval of voluntary and compulsory redundancies to the Cabinet Member for Corporate Transformation and Performance and the Chief Officer for Corporate Transformation and Performance up to the maximum provided for in the budget forecasts for direct redundancy costs and the capitalised cost of pension strain in respect of redundancies.

Supplementary funding to the Improved Better Care Fund (SiBCF)

40. The March 2017 budget announced supplementary funding to the original Improved Better Care Fund (iBCF) to reflect adult social care pressures over the three years 2017/18 – 2019/20. Dudley’s share of the extra funding for 2017/18 was £7.218m, and it was agreed by Council in July that the 2017/18 People Directorate budget be increased by £7.218m, and that the Strategic Director People in consultation with the Cabinet Member for Adult Social Care be authorised to allocate the additional budget to specific initiatives in accordance with the grant conditions and to ensure that any monitoring arrangements are complied with. Dudley’s allocations of the extra funding for 2018/19 and 2019/20 are £4.461m and £2.209m respectively.

Medium Term Financial Strategy

41. The MTFs reflecting the revised spending proposals set out above, and forecasts of likely resource availability can be summarised as follows.

	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Base Budget Forecast</b> - see para 27	226.8	229.3	230.8
<b>Pressures</b> - see para 30	7.5	10.0	12.0
<b>Savings</b> - see para 31	-4.0	-5.6	-5.6
<b>Public Health Grant funding</b> - see para 33	-0.5	-0.5	-0.5
<b>Leisure Centres</b> - see para 37		0.6	1.2
<b>Redundancy costs</b> - see para 38	0.5	-	-
<b>Adult Social Care spend funded from SiBCF</b> – see para 40	4.5	2.2	-
<b>Total Service Spend</b>	<b>234.8</b>	<b>236.0</b>	<b>237.9</b>
Retained Business Rates	86.3	89.3	91.5
Top-Up Grant / Tariff	3.1	-5.6	-6.0
Business Rate Grant (inc. in respect of EZ)	8.6	9.1	9.7
New Homes Bonus (inc. adjustment grant)	3.3	3.2	3.2
Improved Better Care Fund (iBCF)	7.2	12.4	12.4
Supplementary iBCF (SiBCF)	4.5	2.2	-
Collection Fund Surplus – Council Tax	0.7	-	-
Collection Fund Surplus – Business Rates	1.0	-	-
Council Tax	113.9	119.4	122.9
<b>Total Resources</b>	<b>228.6</b>	<b>230.0</b>	<b>233.7</b>
<b>Deficit funded from Balances</b>	<b>6.2</b>	<b>6.0</b>	<b>4.2</b>
Balances brought forward	22.7	16.5	10.5
<b>Balances carried forward</b>	<b>16.5</b>	<b>10.5</b>	<b>6.3</b>

42. The table above assumes that Council Tax increases by just under 3% in 2018/19 (including the Social Care Precept), just under 4% in 2019/20 and just under 2% in 2020/21. Based on current referendum limits, this would not require a referendum in accordance with Chapter 4ZA of Part 1 of the Local Government Finance Act 1992. However it should be noted that these referendum limits are subject to Government monitoring of our use of the Adult Social Care Precept in the current year. We are awaiting final feedback on the outcome of this monitoring.
43. Based on the forecasts, pressures and savings proposals set out above, we are forecasting deficits in all future years. While these deficits can be met from reserves over the next few years, this is unsustainable in the longer term and members should also note the significant risks and uncertainties listed in paragraph 45 below and elsewhere in this report. There is therefore a need to identify further savings and/or additional income in order to ensure that prudent balances are maintained.
44. Work is ongoing on a number of strands of transformation to address these financial challenges:
- Customer Connect – led by the implementation of a new digital customer services platform to deliver additional savings through better management of customer contact, self-service and automation of end to end processes.
  - One Public Estate – an exercise to identify additional savings and/or generate additional income to the Council by reducing the size of the operational estate, sharing buildings with partners and releasing sites for regeneration.
  - Commercial – a review of the Council's procurement capacity and structures (see paragraph 29), review of the financial sustainability of our existing traded services and development of a corporate commercial strategy to guide the development of future initiatives.
  - Community resilience – implementation of a new social care IT system, new models of care for whole life disability and children looked after and consideration of alternative service delivery vehicles in order to improve productivity and efficiency.

We are also looking to the Combined Authority to support our transformation, in particular where it can help us to work at scale, obtain freedoms and flexibilities from government and share services. This will be in addition to its role of improving transport links and driving economic growth, thus increasing Council Tax and Business Rates income.

#### Estimates, Assumptions & Risk Analysis

45. The proposals in this report are based on a number of estimates, assumptions and professional judgements, which are subject to continuous review. These may lead to further increases in expenditure and, therefore, the need to identify alternative funding sources, and include:

- (a) pay inflation does not vary materially from current forecasts, noting in particular the emerging pressure on the public sector cap as well as increasing pressure for a more fundamental review of pay scales in light of the National Living Wage and its impact on differentials between pay points;
- (b) underlying Revenue Support Grant (taken into account in the adjustments to Top-up to reflect the 100% Business Rates retention pilot), is in line with Government indications in accordance with the guaranteed minimum level of funding up to 2019/20 and the underlying effects of any changes to the system of local government finance in 2020/21 are neutral;
- (c) income from Business Rates (net of appeals etc.) including grant in respect of the EZ will be in line with current forecasts;
- (d) the cost of Council Tax Reduction awarded will not substantially exceed forecasts, and the tax base will continue to grow as anticipated;
- (e) New Homes Bonus funding is in line with Government indications.
- (f) Unequal Pay Back Pay costs are no more than estimated;
- (g) cash limited non-pay budgets will be managed so as to absorb any price inflation not specifically provided for;
- (h) income and expenditure relating to treasury management activity are in line with forecasts;
- (i) there will be no other unplanned expenditure (including any resulting from demographic, legislative or case law pressures) or shortfalls in income, which cannot be met from reserves;
- (j) there will be no changes to government policy on maximum underlying Council Tax increases without the need for a referendum, and the general referendum principles will apply to Dudley's increases in Council Tax (including the Adult Social Care Precept) as set out in paragraphs 19 and 42;
- (k) Improved Better Care Funding (iBCF) is unfettered and received directly by the Council as anticipated and will continue into 2020/21;
- (l) the Adult Social Care market is able to absorb National Living Wage pressures within the proposed provision;
- (m) there will be no underlying change in the level of employers' pension contributions in 2020/21.

### Consultation

46. Following the high profile and extensive Big Question budget consultations held over the previous five years more than 16,000 residents have taken part to have their say. Through this engagement, a significant number of residents are now subscribed to the council's e-bulletin service and to minimise costs, for the last three years, the consultation has been carried out predominantly online through the e-bulletin service, website and social media. The proposal for this year's consultation is to focus

engagement around options for the council tax levels to be raised via increases to the adult social care precept. Again, it is proposed the consultation would utilise the successful online channels of the e-bulletin, internet and social media. We will again also make hard copy, printed versions available in borough libraries and Dudley Council Plus and also consult with existing community networks such as the Children and Young People's Alliance. Scrutiny committee meetings will also be held during the consultation period which will run through November, December and January

47. Detailed consultation will also be undertaken with groups identified as being potentially affected by the specific savings proposals, with a particular emphasis on equalities issues. Further information is set out in the Equality Impact section below.
48. A consultation document will be distributed to representatives of Non-Domestic Ratepayers setting out the provisional budget proposals in this report. Consultees will be offered the opportunity for a meeting to be held if there is sufficient interest. Further detailed information (as required in pursuance of the statutory duty to consult) will be distributed in February for comment before the Council Tax setting meeting.
49. In accordance with the Council's Constitution, the Scrutiny Committees will be asked to consider the issues set out in this report and any related specific issues relevant to their Council Plan and service responsibilities in the November cycle. In framing their responses, the Scrutiny Committees will be asked to consider both the spending and funding implications (including the impact on Council Tax) of any observations they may wish to make.

## **Finance**

50. This report is financial in nature and relevant information is contained within the body of the report.

## **Law**

51. The Council's budget setting process is governed by the Local Government Finance Acts 1988, 1992, and 2012 and the Local Government Act 2003.
52. The Local Government Act 2003 requires the Chief Financial Officer to report on the robustness of estimates made for the purpose of final budget calculations, and the adequacy of the proposed financial reserves and this will be included in the final budget report.
53. The Localism Act 2011 introduced a new chapter into the Local Government Finance Act 1992 making provision for council tax referendums to be held if an authority increases its council tax by an amount exceeding principles determined by the Secretary of State and agreed by the House of Commons.
54. The Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006 are designed to enable a local authority to compensate employees whose employment terminates on grounds of redundancy or in the interests of the efficient exercise of the authority's functions. Any local arrangements in place must also be compliant with the Employment Rights Act 1996 and the Equality Act 2010.



## Equality Impact

55. Section 149 of the Equality Act 2010 - the general public sector equality duty - requires public authorities, including the Council, to have due regard to the need to:
- eliminate discrimination, harassment and victimisation and other conduct that is prohibited by the Act;
  - advance equality of opportunity between people who share a protected characteristic and those who don't;
  - foster good relations between people who share a protected characteristic and those who don't.
56. Having due regard to the need to advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:
- remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic
  - take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it
  - encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.
57. The legislation states that "the steps involved in meeting the needs of disabled persons that are different from the needs of persons who are not disabled include, in particular, steps to take account of disabled persons' disabilities." In practice, this means that reasonable adjustments should be made for disabled people so that they can access a service or fulfil employment duties, or perhaps a choice of an additional service for disabled people is offered as an alternative to a mainstream service.
58. Having due regard to the need to foster good relations between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:
- tackle prejudice, and
  - promote understanding.
59. Compliance with the duties in this section may involve treating some persons more favourably than others; but that is not to be taken as permitting conduct that would otherwise be prohibited by or under this Act.

The duty covers the protected characteristics of age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

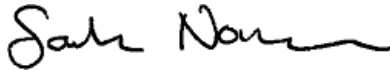
60. An initial assessment of the budget proposals has been made. Where proposals are likely to have a significant equality impact, they will undergo an equality impact assessment informed by consultation with the protected groups who may be adversely affected, during the autumn. The results of this process and any steps which emerge that might help to mitigate any potential impact of the budget proposals on the protected groups will be reported to Members so that they can pay due regard to the Public Sector Equality Duty in making decisions on the budget. In making decisions on budget proposals, Members will need to weigh the Public Sector Equality Duty against the forecast financial position, risks and uncertainties set out in this report.



61. With regard to Children and Young People, a substantial element of the proposed budget for the People Directorate will be spent on maintaining and improving services for children and young people. The expenditure of other Directorates' budgets will also have a significant impact on this group.

### **Human Resources / Transformation**

62. Human Resources implications are set out in paragraphs 38-39.
63. Transformation issues are set out in paragraph 44.



.....  
**Sarah Norman**  
**Chief Executive**

.....  
**Iain Newman**  
**Chief Officer Finance and Legal Services**

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### **List of Background Papers**

Budget and Council Tax setting 2017/18 report to Council, 6<sup>th</sup> March 2017

Revenue Outturn 2016/17 report to Cabinet, 29<sup>th</sup> June 2017

Local Government Finance Settlement 2017/18 – including indicative figures to 2019/20

## 2017/18 Forecast Outturn position

	Latest Budget £m	Latest Outturn £m	Variance £m	Comment
Chief Social Worker	1.0	0.9	-0.1	£0.1m reduced spend on training
Lead for Education Outcomes	5.3	5.6	0.3	Home to School SEN Transport £0.3m
Adult Social Care	91.9	90.9	-1.0	Net savings resulting from fewer placements, reduced cost of placements and increased income.
Integrated Commissioning, Performance and Partnerships	7.0	6.8	-0.2	Including vacancies £0.1m
Children's Services	60.3	62.3	2.0	Pressures: cost of care placements £1.2m; agency staff covering social worker vacancies £0.8m.
Health and Wellbeing	6.9	6.9	0.0	
Target Savings	0.0	-1.0	-1.0	Targets in place to achieve a balanced outturn across the People Directorate
<b>Total People</b>	<b>172.4</b>	<b>172.4</b>	<b>0.0</b>	
Environmental Services	43.3	43.8	0.5	Pressures: extension and variation of free car parking trial £0.3m, additional capacity within street and green care £0.1m and inflation costs on waste contract £0.1m.
Planning and Economic Development	8.7	9.2	0.5	Pressures on income targets (£0.5m) across Bereavement, Dudley Market, and Corporate Landlord Services
Housing	2.4	2.3	-0.1	Reduced consultancy fees of £0.1m
Target savings	0.0	-0.4	-0.4	Targets in place to reduce overspend
<b>Total Place</b>	<b>54.4</b>	<b>54.9</b>	<b>0.5</b>	
Transformation and Performance	0.7	0.7	0.0	
Finance and Legal Services	4.2	4.0	-0.2	Benefits related New Burden grant income £0.1m, and Benefits overpayment recovery £0.1m
Levy etc	15.2	15.2	0.0	
<b>Total Chief Executive's</b>	<b>20.1</b>	<b>19.9</b>	<b>-0.2</b>	
Treasury / Corporate	-21.3	-22.8	-1.5	Review of support service recharges (£0.6m), better than expected cashflow (£0.6m), and additional airport dividends (£0.3m).
<b>Grand Total</b>	<b>225.6</b>	<b>224.4</b>	<b>-1.2</b>	



### Localised Council Tax Reduction Scheme 2018/19 – Consultation results

The proposals initially considered by Cabinet on 19th July were:

#### **Proposal 1**

Increase the cut in CTR from 22% to 23% - £108,000 additional income (of which real net gain to Council £76,000 allowing for collection losses and share to Fire and Police).

#### **Proposal 2**

Introduce a new “vulnerable category” for care leavers aged between 18 to 24. The effect of this would be that where a care leaver lives alone or is jointly liable for council tax they would not attract the cut in CTR. Based on information held by Children’s Services and comparisons with similar local authorities, the cost in terms of reduced income is likely to be less than £20,000 per year.

Consultation concluded on 15th October with the following questionnaire results:

<b>As at 15/10/17</b>	<b>Strongly agree</b>	<b>Agree</b>	<b>Disagree</b>	<b>Strongly disagree</b>
<b>Proposal 1</b>	<b>65</b>	<b>62</b>	<b>44</b>	<b>56</b>
<b>Proposal 2</b>	<b>77</b>	<b>49</b>	<b>45</b>	<b>54</b>

In percentage terms 56% of respondents agree/strongly agree with both proposals.

Additionally, the following responses were received from preceptors.

Police:

*This email acknowledges receipt of the consultation document and have no comments.*

Fire:

*As indicated in previous responses, the options provided in the document you forwarded affect some of the most vulnerable members of the community. Unfortunately, these people are often those at most risk from fire related incidents and so for the modest amounts of additional funding the Fire Authority would receive I don’t support increasing the cut from 22% to 23% as proposed in Section 22 of the report but do support the introduction of a “vulnerable category” for Care Leavers.*

## Appendix C

### Spending Pressures

<b>People</b>	<b>2018/19 £'000</b>	<b>2019/20 £'000</b>	<b>2020/21 £'000</b>
Living wage - residential care providers	930	1,879	2,946
Living wage - care at home providers	550	1,112	1,743
Living wage - direct payments	12	24	38
Older people (dementia)	539	1,078	1,078
Living wage - sleep-ins	37	75	117
Children's Services - internal fostering fees	108	216	332
Education Outcomes - existing premature retirement costs	20	40	60
Fall out of Education Services Grant	704	704	704
Connected persons – this will equalise the payment arrangements to all ranges of Dudley foster carers	900	918	936
Children Looked After external residential placements - increased costs of provision	930	930	930
Special Guardianship Orders (SGOs) - – increased costs as more Children Looked after achieve permanency through SGO's	312	312	312
Voluntary Sector saving of £1m from 2015/16 not fully achieved	300	300	300
SEN Transport Home to School -increased costs due to rising need and implications of delivering national 0 - 25 SEND Reforms	300	300	300
<b>Total</b>	<b>5,642</b>	<b>7,888</b>	<b>9,796</b>

<b>Place</b>	<b>2018/19 £'000</b>	<b>2019/20 £'000</b>	<b>2020/21 £'000</b>
Waste Disposal - contractual cost increases, Landfill Tax, and pressure on recycle commodity prices.	554	727	891
Impact of National Living Wage on outsourced cleaning contract for administrative buildings	40	80	80
Increase Public Rights of Way maintenance	10	10	10
Increase litter collection in Parks & Open Spaces	10	10	10
Increase weed spraying on shrub beds	62	62	62
Increase cutting grass on 131 amenity sites	25	25	25
Maintain non Council owned land	20	20	20
Reinstate maintaining parcels of Green Space which were previously considered for disposal	40	40	40
Increase maintenance regime in parks	50	50	50
Introduction of 1 hour free parking on all Pay & Display Car Parks	400	400	400
Increase number of grit bins to previous levels	30	30	30
Reintroduction of 2 mechanical sweepers	180	180	180
Dudley Market - unachievable income target	150	150	150
Construction & Design fees budget	200	200	200
Corporate Estates - cessation of lease premium income	50	50	50
Planning - change notification of planning applications from statutory minimum.	24	24	24
<b>Total</b>	<b>1,845</b>	<b>2,058</b>	<b>2,222</b>

## Proposed Savings

<b>People</b>	<b>2018/19 £'000</b>	<b>2019/20 £'000</b>	<b>2020/21 £'000</b>
Increase the investment in preventative services to support adult social care client carers, focusing on the high risk caring relationships, in order to reduce or mitigate admissions to residential and nursing care with the aim of overall service savings.	67	376	376
Target interventions to people most at risk of falls to make people safe and prevent high cost social care and primary care interventions.	117	376	376
Managing Money – Integrate functions involved in assessing and managing financial contributions and payments for clients in order to produce service efficiencies.	140	140	140
Assessment & Review - Implement outcome based commissioning and assessments for all community-based adult social care packages costing more than £500 per week to provide services efficiencies.	346	509	509
Assessment & Review - Review all residential and nursing care packages for working age adults costing over £500 per weeks with a particular focus on identifying whether individual needs can be met within the current setting more effectively and economically.	127	127	127
Assessment & Review - Review the S117 policy.	244	408	408
Shared Lives - Expansion of the Shared Lives service in respect of adult fostering scheme to achieve additional shared lived placements, enabling more people to be able to continue to live in the community, with independence of public services maximised	220	470	470
Alignment of contract prices at New Bradley Hall with market conditions.	354	354	354
Integrated Commissioning, Performance and Partnership team restructure	50	50	50
<b>Total</b>	<b>1,665</b>	<b>2,810</b>	<b>2,810</b>

<b>Place</b>	<b>2018/19 £'000</b>	<b>2019/20 £'000</b>	<b>2020/21 £'000</b>
Invest to Save programme to install LED lights on main roads	150	150	150
Private sector litter enforcement	50	50	50
Street maintenance: issue highway permits	250	500	500
Ensuring efficient highway maintenance service by streamlining pothole repair process and focussing carriageway re-surfacing on strategic highway network	310	310	310
Undertake review of current winter service provision in order to ensure key strategic routes are treated as required while ensuring best value is delivered in provision of the service.	0	50	50
One Public Estate - savings from ending leases	200	200	200
Review of events programme and associated land and building assets in order to deliver self financing service by 2019	205	205	205
Review use of halls borough wide to reduce annual subsidy. Review rental income and realise efficiencies at Red House Cone.	102	102	102
Maximising efficiency in Bereavement Service. Review charging policy and implement a package of measures in order to maximise take up of the service while providing high quality bereavement services across the borough.	246	246	246
<b>Total</b>	<b>1,513</b>	<b>1,813</b>	<b>1,813</b>



<b>Chief Executive's</b>	<b>2018/19 £'000</b>	<b>2019/20 £'000</b>	<b>2020/21 £'000</b>
Financial Services - Processes are continually being reviewed to produce further efficiencies. These efficiencies, alongside increasing the risk based approach to budget monitoring processes, will result in staff savings across the service.	190	365	365
Savings arising from reductions in software costs, rationalisation of Multi Functional Devices (MFD), and removal of all documents from offsite storage.	65	65	65
Creation of an Organisational Development service, combining Human Resources (HR) and the Transformation Team: In conjunction with our Digital Transformation strategy / approach, a review and service re-design has been completed involving HR and Transformation services. This will involve merging the HR and Transformation services to create a multi specialist business change team for the Council and transfer of a number of specific HR transactional services to Dudley Council Plus. This will be a more efficient delivery model and therefore will lead to a reduction in posts.	470	470	470
Remodelled Communications & Public Affairs and Civic support and increased Graphic Design income generation, as well as self-financing Town Centre Events (e.g. Christmas) through income generation.	38	38	38
<b>Total</b>	<b>763</b>	<b>938</b>	<b>938</b>