AGENDA ITEM NO 11

REVENUE BUDGET, CAPITAL PROGRAMME AND COUNCIL TAX 2018/19

Committee: Resources and Finance Committee

Date: 29 January 2018

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[S219]

1.0 ISSUE

1.1 This report sets out the Council's proposed revenue and capital budgets, and the required level of Council Tax in 2018/19. The report assesses the robustness of the budgets, the adequacy of reserves and updates the Council's Medium Term Financial Strategy (MTFS).

2.0 RECOMMENDATION(S)

2.1 To recommend to Council:

- That the draft 2018/19 revenue budget as set out in Appendix 1 be approved, including a proposed Council Tax freeze.
- That the Statement of Reserves as set out in Appendix 2 be approved.
- That the 2018/19 Fees and Charges as set out in Appendix 3 be approved.
- That the capital programme and financing as set out in Appendix 4 be approved.

2.2 To approve, that as we are still awaiting final Settlement figures and completion of the NNDR1 return, should the numbers change between Resources and Finance Committee and Full Council, that officers adjust the use of the surplus savings reserve (as necessary) so that the net budget and Council Tax remains unchanged.

3.0 BACKGROUND / OPTIONS

3.1 At the Full Council meeting on 23rd February 2017, members approved a 2017/18 net budget of £8,658,815 and a frozen Council Tax. The budget had a planned draw of £772,222 from the Surplus Savings Reserve. The Medium Term Financial Strategy at that time showed a balanced budget in 2018/19 (using resources from the Surplus Savings Reserve), but then a budget deficit in 2019/20 with then a significant budget deficit in 2020/21.

3.2 The outturn position for the 2016/17 was reported to the Resources and Finance Committee on the 19th June 2017. This showed that due to the proactive actions taken by management to reduce the Council's cost base prior to and during 2016/17, and prudent estimates in the budget for government grants and business rates, that a net contribution of £1,717,004 was made into the Surplus Savings Reserve.

3.3 Management has continued to reduce the Council's cost base during the current financial year. This work has lead to further one-off and on-going savings being made; which both contribute to the projected outturn underspend for this financial year and also provide savings throughout the term of the MTFS. The current yearend forecast underspend for 2017/18 is £589,000, this has been reflected in the figures in this report.

3.4 The Council's strategy for responding to the budget challenges in the medium to long term remain focused on the Council's commercialisation agenda, channel shift in the delivery of services and the use of reserves to fund initiatives with revenue benefits.

4.0 PROVISIONAL GRANT SETTLEMENT

4.1 The Provisional Settlement was announced on Tuesday 19th December 2017.

4.2 The Provisional Settlement confirmed the four year funding deal previously offered by Government, this allowing local government greater certainty on the level of grants it is to receive from Government over the length of the parliament. The Council resolved to be involved in the four year deal process and had submitted the necessary efficiency plan in line with the requirements.

4.3 The provisional Revenue Support Grant figures are therefore the same as were used in preparing the MTFS this time last year.

	2017/18	2018/19	2019/20
Provisional Settlement	£659,999	£353,703	£11,576

4.4 The allocation for 2017/18 will be confirmed in the final Settlement in February 2018.

4.5 Following consultation over the summer, the Provisional Settlement made no further changes to the criteria for awarding New Homes Bonus grant. However the changes made in the 2017/18 Settlement remain, which mean that the timeframe over which New Homes Bonus is payable reduces from five years in 2017/18 to four years in 2018/19 (it had been six years in 2016/17). The baseline for housing growth set at 0.4% of the Council Tax base, below which no Bonus allocation is received, set in 2017/18 remains unchanged. Therefore the grant for 2018/19 has two years using this new baseline, where the 2017/18 grant only had one year.

4.6 Consequently the provisional allocation for this Council in 2018/19 is £716,357. This compares unfavourably with the assumption made in last year's MTFS of £1,017,358 and the actual in 2017/18 of £1,330,730.

4.7 The provisional settlement includes details of other specific grants, including the Rural Services Delivery grant, an allocation to the most rural authorities, which amounts to £129,684 in 2018/19 (this is the same value as in 2017/18 and an increase of £29,927 compared to that forecast for 2018/19 in last year's MTFS); Housing Benefit administration grant of £205,111 (a reduction of £1,498 compared to 2017/18) and Council Tax administration grant £74,323 (a reduction of £34 compared to 2017/18).

4.8 The Business Rate retention scheme continues as previously. The baseline has been uplifted by CPI inflation. Growth in this Council's business rates remain positive, however, there is always a risk that appeals against business rates can be lodged and, if successful, can be backdated for some years. However, the MTFS currently assumes the full benefit of current business rate in future years.

4.9 The Provisional Settlement identified the local authorities who will be involved in the new 100% Business Rates Retention pilot scheme in 2018/19, unfortunately Cambridgeshire was not amongst those councils selected.

4.10 Cambridgeshire previously had a deal in place with Government which meant that business rate receipts relating to growth during the period of the deal were retained locally, rather than 50% being returned to Government. This pilot deal started in 2015/16 and was for three years, meaning that 2017/18 is the final year. The Provisional Settlement is silent on this deal, so the assumption is that it will finish in March 2018 and as such there will be no on-going benefit to the Council.

4.11 The provisional settlement makes provision for shire districts to increase Council Tax by up to 3% or £5, whichever is greater, in 2018/19 and 2019/20, without the need for a referendum. To put a value to this, if we were to increase Council Tax by £5 in 2018/19 and a further £5 in 2019/20, this would generate additional income of £442,000 over those two years. The MTFS currently assumes, and the Council's Corporate Plan promises, that Council Tax will remain frozen at £142.14 during those two years.

4.12 As highlighted earlier, Government are piloting 100% local retention of Business Rates and have for some time been promising local government that this would happen in 2020/21. The Provisional Settlement however changes this, now stating that while the change will happen in 2020/21, the share to be retained locally will be around 75%, not the 100% previously discussed. The process for this, however still remains far from clear, with uncertainty about what grants will be withdrawn to make the scheme fiscally neutral. Revenue Support Grant, public health grant and Rural Services Delivery grant have already been highlighted, but it is still thought that others may be added. The other uncertainty at this point, is the split between tiers of local government and this is one of the reasons for the current pilots to determine which percentages provided the best results.

4.13 Linked to the above, the Provisional Settlement also launches a consultation on the Fair Funding Review, with the aim of introducing a new funding methodology in 2020/21. Fair Funding is the process operated by Government to determine how much funding each local authority needs, this is done by giving a cash value to different measurable criteria, which when added together determine the total need of each council. Government can then control the amount that each authority receives by applying tariffs and top-ups to the amount calculated from the tier split calculation detailed in 4.12 above.

4.14 The final notable element of the Provision Settlement was the announcement that Planning Fees chargeable by local authorities, which are set nationally, will go up by 20% from the 17th January 2018. The consultation on this during 2017 had suggested that this increase would be at the discretion of individual local authorities, but the published legislation removes this option and requires all councils to use the nationally published fee scale.

5.0 THE 2018/19 BUDGET

5.1 The key aspects influencing the budget are the proactive action taken by management to reduce costs and generate new sources of funding and the Provisional Settlement - as set out above. The impact of these issues is that the revenue budget for 2018/19 and 2019/20 are funded; but there are significant budget deficits remaining in subsequent years.

5.2 The draft budget for 2018/19 is set out in Appendix 1 to this report.

5.3 The following key assumptions have been made in preparing the draft budget:

- The national employers have made an offer of a staff pay award of 2% effective from 1st April 2018, with higher increases at the bottom end of the scale. Budgetary provision has been made for this and indeed an expectation of 2% becoming the norm each year through the MTFS period;
- Following the Pension Fund revaluation as at 31st March 2016 the fund manager requested that the contribution rate be increased from 17% to 17.2%, this increase has been actioned in 2018/19, with in addition, the lump sum contribution being increased by £50,000 in both 2018/19 and 2019/20;
- Inflation on other expenditure has only been included where there is a contractual inflationary increase for example utilities and insurance. Other budgets have not been increased by inflation;
- The Housing Benefit budget reflects the latest information from Anglia Revenues Partnership (ARP);
- The budget makes no allowance for any potential dividends being paid to the Council from its Trading Companies;
- The budgetary implications of the new Leisure Centre have been incorporated into the budget. However, as the funding strategy for the Leisure Centre is that it should be revenue cost neutral then there is no impact on the funding requirement for Council Tax purposes. (See paragraphs 9.4. to 9.6);
- The Planning fee income budget has been increased by £150,000 to reflect the additional income expected from the nationally agreed increase in fees;
- A budget of £330,000 has been created in 2018/19 to take forward work on the Local Plan, the majority of the work on the Plan will be undertaken in the budget year, with then a reduced funding level of around £90,000 in each subsequent year to ensure that the Plan is continually reviewed;
- The IT budget has had a one off injection of cash in 2018/19 (£170,000) to facilitate enhancements in service delivery, with the planned rollout of mobile working; ensuring that core financial and planning systems remain fit for purpose and the whole Council remains Public Service Network (PSN) Compliant.

6.0 COLLECTION FUND AND COUNCIL TAXBASE

6.1 The MTFS assumed that the Collection Fund for Council Tax would be in balance as at 31st March 2018. However, an increased number of houses give a forecast surplus as at 31st March 2018, of which £92,400 will come as income to this Council.

6.2 The taxbase for 2018/19 estimated in last year's budget at an equivalent of 29,209.9 Band D properties. However, the real growth in housing between October 2016 and October 2017 and an estimation of future growth in 2018/19 means that the current forecast for 2018/19 is 29,260.5 Band D properties.

6.3 Business Rate forecasts are difficult until after the NNDR 1 return is produced at the end of January. Pixel Financial Management Limited have produced initial estimates for us, as they have done in previous years, and these figures are used in this report at this time. It is intended to up-date these figures in advance of Full Council once the NNDR1 is complete.

6.4 The MTFS assumed that the Collection Fund for Business Rates would be in balance as at 31st March 2018, but again a clearer position will be known with regard to this, once the NNDR1 is completed.

7.0 RESERVES

7.1 The Council holds reserves, at levels which remain prudent. It is important to review the level of reserves on a regular basis, in particular to ensure that potential liabilities not in the Council's base budget can be funded from earmarked reserves; and that unearmarked reserves are at a sufficient level to cover any unforeseen events.

7.2 As part of the process of preparing this budget, officers have reviewed each reserve to ensure its purpose and level is appropriate. A Statement of Reserves is attached at Appendix 2.

7.3 The sole unearmarked reserve is the General Fund. This stands at £1,000,000. There is no statutory minimum level set for a local authority's reserves; it is a matter for each local authority's own judgement after taking into consideration the strategic, operational and financial risks it faces. Typically, local authorities set the level of the unearmarked reserve at around 10% of their net operating budget, which for us is £10,120,051. This would give a minimum level of unearmarked reserve at £1,012,006. It is therefore recommended that an additional £12,006 be put into the General Fund, this being a transfer from the Change Management Reserve, rather than a draw form Council Tax.

8 FEES AND CHARGES

8.1 Officers have reviewed the fees and charges, and details of the proposals are shown at Appendix 3. The proposed budgets include increases as a result of both volume and price.

8.2 As external funding from Government grants is projected to reduce over the term of the MTFS, the Council's approach to fees and charges will become more prevalent.

8.3 It is planned to introduce a new charge in 2018/19 in relation to re-rating visits for food establishments. Re-ratings can be applied for by any food business that has been inspected and not received the top rating of 5 (conditions for agreeing to re-rating visits do apply). The standard charge for this service will be £130 (no VAT is payable). This new charge is allowed with reference to the Foods Standards Agency Food Law Code of Practice; Practice Guidance and Brand Standard.

9 CAPITAL PROGRAMME

9.1 The capital programme has been reviewed, and is attached at Appendix 4. The programme is largely a continuation of the previous programme, with a number of additional projects as detailed below. The total value of the programme in 2018/19 is £9,672,239.

9.2 With the Waste Services transferring to one of the Council's trading companies from the 1st April 2018, there is the need for cleansing fleet to be purchased in 2018/19 and work to be undertaken to bring the depot up to an appropriate standard. These costs have been included in the budget for that year. The fleet will then be leased to the Company.

9.3 The other new area of spend in 2018/19 relates to Housing Infrastructure Grant for Soham Eastern Gateway. This is not a district council scheme, but instead a County scheme. However, the grant allocation process required the lower tier authority to appear on the grant application and as such, it needs to go through our books. We will only pay onto the County Council funding that we have already received from Government, so there is very little risk to this Council in this.

9.4 The capital programme includes the remainder of spend on the Leisure Centre, which is due to open in early summer 2018.

9.5 The Council previously held cash balances which were invested in short and fixed term deposits, however as agreed in last year's budget, these have now been deployed to fund the expenditure on the Leisure Centre and the loan to the Company. The current expectation is that external borrowing will probably be required in 2017/18, but definitely in 2018/19. Borrowing will only be undertaken when necessary. More details of the borrowing requirement are detailed in the Treasury Management Strategy (also on the agenda for this meeting).

9.6 The debt costs associated with the Leisure Centre project are being met from a combination of New Homes Bonus (currently held in reserve) in the early years and the management fee to be paid to us by the operator in future years.

9.7 The loan arrangement with ECTC is that the loan must be repaid within five years (March 2021). It has been agreed with our Auditors that the Council does not need to make any annual revenue provision to repay this loan in the short-term, but simply use the Company's repayment to repay the Council's loan. Officers will continue to monitor this, to ensure that the Council is not required to set aside annual revenue provisions in future years and that the Company will have the cash reserves by March 2021 to repay the loan.

10 COUNCIL TAX

10.1 It is proposed that the Council freezes its Council Tax for a Band D property at the current level of £142.14, based on the Council Tax Requirement of £4,159,087 divided by the taxbase of 29,260.5 properties.

10.2 The County Council, Fire and Police budgets and precepts will be considered following the date of this Resources and Finance Committee meeting. It is envisaged that notification of the precept requirements will be in time for their inclusion in the report which goes to this Council on the 22nd February 2018.

10.3 The parish precepts which have been notified to the Council to-date are attached at Appendix 5. These will be reflected, along with the precepts set out in paragraphs 10.1 and 10.2, in the resolution which goes before Council on the 22nd February 2018.

11 RISK AND SENSITIVITY ANALYSIS

11.1 The Local Government Act 2003 places two specific requirements on an authority's Section 151 officer in determining the Council's budget and Council Tax. Under section 25, the Section 151 officer must advise on the robustness of the estimates included in the budget. The advice given to the Council on these issues is that the estimates have been produced on a prudent basis, with a strong emphasis on ensuring all cost pressures are included. Budget estimates have been developed with senior officers, with regular updates and discussions at Management Team.

11.2 The key risks are around funding of the Council. The provisional settlement provides clarity around grant funding in the earlier years (2018/19 and 2019/20), but there remains insufficient information to put forward a MTFS based on confident assumptions looking further ahead. The risks, particularly from 2020/21, are significant; there is limited information on likely sources of funding and indeed the value of any funding to be received.

11.3 The government has announced that it intends for local authorities to retain 75% of all business rates generated in 2020/21- but there will continue to be the need to share resources across the country - and there will also be additional new burdens placed on local authorities - which are unclear at this time.

11.4 To mitigate the above risk, officers will continue to report on a frequent basis to Management Team and members. With the greater risk around funding, emphasis will be given to income being generated through Council Tax, Business Rates, and the broader commercial agenda.

11.5 The Section 151 officer is also required to report on the adequacy of reserves. The projected levels of reserves, and their use in 2018/19, are **prudent** and show how these will sustain the functions of the Council in that year. However, the budget for 2020/21 assumes the remaining balance on the Surplus Savings Reserve is utilised, which will reduce the overall levels of reserves to **adequate**. The Council has a track record of delivering additional savings and generating extra income in advance of the budget requirement, so work done during 2018/19 will hopefully lead to a reduced draw from the Surplus Savings Reserve in that and later years through the MTFS period.

11.6 A key risk around reserves is the risk exposure the Council can afford to take in loan funding the ECTC. Should ECTC encounter any financial difficulties, then the Council, as sole shareholder and guarantor, will be liable. In such an event, the Council would need to draw on reserves to meet such a liability.

12 MEDIUM TERM FINANCIAL STRATEGY

12.1 The Council's Medium Term Financial Strategy is to set a robust financial framework for the Council's plans over the next four years which support the delivery of the Council's priorities within a context of an annual balanced budget. Specifically, the MTFS:

- Looks to the longer term to help plan sustainable services within an uncertain external economic and funding environment;
- Maximises the Council's financial resilience and manage risk and volatility, including managing adequate reserves;
- Helps ensure that the Council's financial resources are directed to support delivery of the Council's priorities over the medium term.

12.2 The Government is currently undertaking a considerable piece of work to develop a new Business Rate retention scheme to come into effect from 2020/21. This creates considerable uncertainty for local authority funding; and is an issue which will require monitoring; this so that the Council can adjust its MTFS as new information becomes available. Due to the uncertainties, the MTFS has only reflected reasonable and prudent growth assumptions around business rates in the MTFS period up to 2020.

12.3 The MTFS covers the period 2018/19 to 2021/22. The 2019/20 financial year is the final year of the current government core grant scheme. Any plans to develop a robust MTFS to cover the period 2020/21 and beyond would require information around the new Business Rate Retention Scheme and new burdens, which is not available at this time.

12.4 The assumptions used in the MTFS include:

- Government funding through Revenue Support Grant continues to fall and ends in 2019/20, as per the provisional settlement;
- New Homes Bonus reduces to levels projected in the provisional grant settlement;
- The Council's Business Rate growth continues;
- No increase in the cost of the Waste contract when the contract transfers to one of the Council's trading companies on 1st April 2018;
- The Council has a track record of delivering cost reductions; it is anticipated therefore that a contribution to the budget deficit forecast in future years will be achieved during the term through general efficiencies and income generating opportunities; however, to be prudent, no account of these are shown within the forecasts within this report.
- Further, the ECTC is anticipated to start making profits in the period of the MTFS, but no account of this income being paid back to the Council as a dividend is assumed at this stage.

12.5 The impact from the above assumptions is attached at Appendix 1. This shows the budgets for 2018/19 and 2019/20 are fully funded based on those assumptions. However, there are significant budget shortfalls projected in the subsequent years. Clearly many things will change between now and then, so members should not focus on the precise numbers. What is more important is that members appreciate the direction of funding facing this and all local authorities, and the likely scale. It will be necessary to develop a plan to meet these shortfalls, although the Council does have time to put the necessary plans in place. The Council also has access to a good level of reserves, as described in section 7 of this report.

12.6 While noting the uncertainty that is highlighted in this report about the 2020/21 financial year, it is considered unlikely that the quantum of funding from Government will increase and as such, this Council will need to identify measures to bridge the budget gap. A comparison between this year's MTFS and last year's does highlight an increasing need to identify savings in the medium term, to ensure that the Council's budget can be balanced in future years.

2017/18 Budget	
2017/18 – budget year	Balanced
2018/19 – MTFS year 1	Balanced
2019/20 – MTFS year 2	Savings to find £420,335
2020/21 – MTFS year 3	Savings to find £2,505,243
2018/19 Budget	
2018/19 – budget year	Balanced
2019/20 – MTFS year 1	Balanced
2020/21 – MTFS year 2	Savings to find £2,584,904
2021/22 – MTFS year 3	Savings to find £3,323,910

12.7 Options to resolve the budget shortfalls in future years come from:

- Reductions in service costs / levels
- Increased Council Tax
- Increased income
- Increased commercialisation via its trading companies

12.8 It is recommended that plans focus on the latter two bullets above, with a quickening of the pace of commercialisation and the review of all income generating opportunities. However, if insufficient progress is made, discussions around service levels and increased Council tax will be necessary.

13.0 ARGUMENTS/CONCLUSIONS

13.1 The proactive actions taken have lead to a balanced budget for 2018/19 and 2019/20. The budget for 2018/19 therefore has minimal risks attached to it, although the Medium Term Financial Strategy and the new funding regime post 2020/21 do contain significant uncertainty. While there is little this Council can do to remove this uncertainty at this point, it does need to look for opportunities within its control now, which will bridge some part of the funding gap currently forecast.

14.0 FINANCIAL IMPLICATIONS

14.1 The proposed net operating budget of £10,120,051 will be financed by Revenue Support Grant, retained Business Rates, Council Tax and the Surplus Savings Reserve.

15.0 APPENDICES

Appendix 1 - Draft Budget 2018/19
Appendix 2 - Statement of Reserves

Appendix 3 - Schedule of Fees and Charges
Appendix 4 - Capital Programme
Appendix 5 – Parish Precepts

Background Documents	**Location**	**Contact Officer**
	Room 104 The Grange Ely	Ian Smith Finance Manager (01353) 616470 E-mail: ian.smith@eastcambs.gov.uk