



REPORT of DIRECTOR OF RESOURCES

**to
COUNCIL
14 FEBRUARY 2019**

REVISED 2018 / 19 ESTIMATES, ORIGINAL 2019 / 20 BUDGET ESTIMATES AND COUNCIL TAX 2019 / 20

1. PURPOSE OF THE REPORT

- 1.1 The Council is required under the Local Government Finance Act 1992 to set the Council Tax for its area by the 11 March each year. The Council has always aimed to approve the budget in advance of this to ensure prompt despatch of bills to residents.
- 1.2 The revised 2018 / 19 and proposed 2019 / 20 budget estimates contained in this report were considered by the Finance and Corporate Services Committee (F&CS) on 29 January 2019 and any recommendations will be provided to the Council.
- 1.3 Members should note that at the time of writing this report, the Final Local Government Finance Settlement had not been announced and therefore the 2019 / 20 core grant for the authority could potentially change. The final settlement is expected to be announced at the end of February 2019, however following discussions with MHCLG and other Section 151 Officers we are not expecting either significant or material variances.
- 1.4 The Council will have suffered a cumulative loss of approximately 38.4% (£0.939m) of core grant over the life of the current Spending Review period (i.e. 2016 / 17 – 2019 / 20), see paragraph 3.3.1 below. This is a significant challenge to the Council and the Medium Term Financial Strategy (MTFS) approved by the Council on 8 February 2018 identified a budget gap of £1.4m. The Council on 9 August 2018 agreed to develop a programme of transformation to deliver these savings.

2. RECOMMENDATIONS

- (i) that the following be approved:
 - (a) the Summary Revised 2018 / 19 and Original 2019 / 20 General Fund Revenue Budget Estimates (**APPENDICES 1, 2 and 3**)
 - (b) an average Band D council tax of £197.40 (excluding parish precepts) (2.3% increase) for 2019 / 20 (**APPENDIX 1**);
 - (c) policies on the designated use of financial reserves (**APPENDIX 5**);

- (d) retain the minimum general fund working balance at £2,600,000 for 2019 / 20;
 - (e) the Capital Programme for 2019 / 20 to 2022 / 23 (**APPENDIX 8**);
- (ii) that the Council gives due regard to the Director of Resources statement on the robustness of budgets and adequacy of reserves in (**APPENDIX 9**).

3. SUMMARY OF KEY ISSUES

3.1 The Council no longer receives central grant funding from Central Government meaning the demands on some of its services and increasing inflation are now fully funded from income raised directly by the Authority. The two main sources of income are from Council Tax and Business Rates.

3.2 The requirement to set a balanced budget has required stringent processes to deliver efficiencies, preserve as front-line services as far as possible, retain the ability to generate income and to recognise the increasing demand for services during this period of austerity.

3.3 Provisional Local Government Finance Settlement 2019 / 20

3.3.1 The provisional 2019 / 20 local government finance settlement was announced on 13 December 2018. The below table shows the reduction in the Government's assessment of what we retain from Business rates.

	2015 / 16 Adjusted	2016 / 17	2017 / 18	2018 / 19	2019 / 20
	£m	£m	£m	£m	£m
Settlement Funding Assessment – Maldon	2.447	1.964	1.601	1.474	1.508
Annual % Change		-19.7%	-18.5%	-7.9%	2.3%
Cumulative % Change		-19.7%	-34.6%	-39.8%	-38.4%

3.3.2 The Council agreed to take up the multi-year settlement offer in the 2016 / 17, this gave greater certainty of funding until the end of the Spending Review period. This is the final year of the agreed settlement. The offer included:

- Revenue Support Grant (RSG);
- Business rates tariff and top up payments, which will not change for reasons relating to the relative needs of local authorities;
- Rural Services Delivery Grant; and
- Transition Grant.

3.3.3 For 2019 / 20, Central Government Funding is now limited to us keeping an element of Business Rates income. Revenue Support Grant (RSG) is no longer received and there is no transition Grant. Whilst the Autumn budget statement announced that the intended negative RSG payment for 2019 / 20 would be removed, however there is remains significant uncertainty over the post-2020 model of funding.

- 3.3.4 The New Homes Bonus (NHB) Scheme was introduced in 2011 / 12 to encourage local authorities to facilitate housing growth. For every additional property built or brought back into use, the government match funds the additional council tax, with an additional amount for affordable homes. There have been no changes proposed to the scheme for 2019 / 20.
- 3.3.5 The 2018 / 19 Medium Term Financial Strategy (MTFS) removed non-legacy New Homes Bonus from the central budget. Legacy payments are payable for four years, therefore the income will reduce to zero over the next three years. The reduction in 2019 / 20 is £61,000.

3.4 **Revised General Fund Revenue Budget Estimates 2018 / 19**

- 3.4.1 The Quarter Two (Q2) budgetary outturn report taken to the Finance and Corporate Services Committee (F&CS) on 27 November 2018 reported a significant underspend in salary budgets, this is the result of the Future Model implementation and the recruitment freeze currently in place. Other large variances to the original 2018 / 19 budget relate to a reduction in recyclables income of £90,000 due to a drop in market price and additional income of £47,000 in the revised estimates relating to additional garden waste subscriptions.
- 3.4.2 The Authority continue to receive additional income from growth in Local Business Rates and pooling arrangements within the Essex Region Business Rates Pool. For 2017 / 18, the Authority's benefit from being included within the pool was £132,000.
- 3.4.3 There have been Revenue Supplementary Estimates of £24,500 agreed during the year, these have been built into the core budget where required.
- 3.4.4 The revised budget includes the Future Model Implementation Costs of £1.375m and the corresponding use of reserves to fund these changes.

3.5 **General Fund Revenue Budget Estimates 2019 / 20**

- 3.5.1 The proposed 2019 / 20 net operating budget after adjusting for statutory adjustments, but before any non-service specific funding and use of reserves totals £7.884m and is therefore £0.067m (1%) lower than 2018 / 19 (£7.951m). The budget includes the second years implementation costs of £774,000, and £733,000 of savings for the year. There is also growth increase for inflation of £394,000, this is a 2% increase on pay budgets, and 3.4% and 2.5% for Retail Price Index (RPI) and Consumer Price Index (CPI) indexed expenditure. It is projected that in 2019 / 20, there will be a contribution to General Fund balances of £291,000, this is due to additional savings being identified in the Future Model project that will then be added to reserves due to higher savings being identified in year one. There is also a net £243,000 contribution to earmarked reserves to provide for the budgeted pension contribution to reserves for the forward funding payment in 2020/21. The Council Tax increase is considered in section 3.9.7. Proposals for the usage of earmarked reserves are discussed in more detail in Section 3.10.

3.5.2 2019 / 20 Budgets have initially been built up as follows:

- Zero based budget;
- Inflation assumptions on existing contracts, (2% for pay), contractual inflation on goods and services based upon CPI or RPI dependent of terms within contracts;
- Modifications to fee and grant income;
- Implications of statutory and contractual changes;
- Growth, as discussed later in this report.
- Savings as identified for the Future Model (see paragraph 3.7.4)

3.5.3 The MTFS includes a payroll inflationary increase of 2% for 2019 / 20. In line with the national agreement that the Finance and Corporate Services Committee agreed to implement on 30 January 2018. It is intended that the Council will continue to apply the UK Living Wage supplement which ensures that lower scale points are brought up to a national standard.

3.6 **Budget Growth, Savings and Income Generation in 2019 / 20**

3.6.1 The programme committees considered reports on the budget growth for 2019 / 20 in the previous cycle of meetings. These proposals have all been built into the core budget, and the proposals are at **APPENDIX 4**. If Members decide to not approve any of these proposals, then the bids will be removed from the budget, and the equivalent budget requirement will go back into Earmarked balances to be used against the Pension Deficit requirement in 2020 / 21.

3.6.2 Furthermore, the Finance and Corporate Services Committee on 27 November 2018 agreed non-recurring growth in 2019 / 20 in relation to repairs and renewals of Council assets which would not form part of the capital programme; this totals £108,000 and will be funded from a draw down from the Repairs and Renewals reserve (Minute No. 662 refers).

3.6.3 At this meeting for the 2018 / 19 budget settlement, the future of the Local Council Tax Sharing Agreement was raised as a risk as was due to be ending. It has been agreed that there will be a reduction in the 16p benefit, to 14p and then 12p. For 2018 / 19 and 2019 / 20 this is a cumulative loss of £70,000. There will be a further reduction of £33,000 in 2020 / 21.

3.6.4 The future model implementation requires £725,000 of savings in 2019 / 20. This is made up of salary savings that will be achieved through the future model, and non-staff efficiencies, strategy based reductions and commercial profit from organisation based proposals. Where these are already identified and do not require any further decisions, then the savings / income are shown in the relevant budget line. The balance will be subject to future approval / decision making, and has been included as a central saving.

3.7 **Essex Region Business Rates Pool**

3.7.1 As agreed by the Council on 29 October 2015, the Council joined the Essex Region Business Rates Pool in April 2016 (Minute No. 540 refers). The Pool will continue to operate in 2019 / 20, and the Council will continue to benefit by being in the Pool.

3.8 **Interest on Investments**

3.8.1 Interest from investment income is an integral part of the budget considerations. Bank of England base rate increased in March 2018 to 0.75%. The MTFS includes an estimates investment return of 1.6% compared to an actual investment return in 2017 / 18 of 1.41%.

3.9 **Council Tax**

3.9.1 The Council's net expenditure budget (excluding parish precepts but after service specific funding and contribution from reserves) for 2019 / 20 is £7,973,000 (**APPENDIX 1**).

3.9.2 The tax base to be used for setting the 2019 / 20 Council Tax was agreed by the Council at its meeting on 20 December 2018. The tax base consists of 24,536.1 "Band D equivalent" properties, after allowing for a non-collection rate of 1.7%. This tax base is now fixed for the purposes of setting the 2019 / 20 Council Tax.

3.9.3 In terms of the Collection Fund projection, Maldon District Council's share of the net surplus, which is used to reduce our Council Tax, is £290,000, comprised of a surplus distribution on Council Tax of £148,000 and a surplus distribution on Business Rates of £142,000.

3.9.4 The income raised from Council Tax (excluding parish precepts) required from council taxpayers in 2019 / 20 for Council services is summarised below:

	2.3%
	£
Maldon District Council Net budget to be Funded	7,973,358
Local Business Rates Retention	-2,981,865
Council Tax Collection Fund Adjustment	-148,000
Maldon District Council Council Tax Requirement	4,843,493

3.9.5 In accordance with the legislation under the Local Government Finance Act 1992, all parish precepts must be charged to the Council's General Fund. At the time of writing this report not all parish precepts had been received. It is envisaged that all the parish precepts will be reported at the Council meeting on 14 February 2019 for Council Tax setting purposes.

3.9.6 The Council Tax referendum threshold set by the Secretary of State for 2019 / 20 was announced as part of the Provisional Settlement; and for Maldon, the threshold has been set at 3% increase over 2018 / 19 or £5 whichever is the greater. Any Council proposing increases more than the threshold faces the substantial cost of conducting a local referendum and if it results in a 'No' vote, the rebilling cost as well.

3.9.7 The Budget estimates have been constructed on the basis that the Council is proposing to increase council tax by £4.43 (2.3%). This represents a below CPI increase having regard to the balance of the risks and opportunities facing the Council in future years with subsequent increases to be reviewed each year in the light of emerging risks. The budget for 2019 / 20 is balanced, and the MTFS shows that whilst savings are required in 2021 / 22, the budget is balanced over the medium term. There are several uncertainties still facing local government finance. There is currently a £330,000 contribution towards negative Revenue Support Grant that is included in the Medium Term Financial Strategy. This was removed for 2019 / 20, but is being reviewed for future years. The five year settlement funding agreement also ends in 2019 / 20, therefore the new funding arrangement will impact on the Authority and whilst it is anticipated that the impact will not be favourable, there is not yet any indication of what this may be. The Business Rates retention system will also be changing, which will allow Authorities to retain 75% of rates collected, however this will be delivered with a resetting of the baseline, which will remove the growth currently achieved.

3.9.8 Council Tax increases become part of the base of the MTFS income for future years. Paragraph 3.11.3 below shows that over the duration of the MTFS, the budget is balanced. The proposed increase in Council Tax generates an additional £109,000 of income compared to 2018 / 19. If the increase were not approved for 2019 / 20 then the gap in future years widens and any necessary Council Tax increase would then be greater.

3.10 **General Fund Balance and Revenue Reserves**

3.10.1 Detailed policy information for each earmarked revenue reserve and anticipated balances is set out in **APPENDIX 5**.

3.10.2 Based on the latest risk assessment it is considered that the Council retains the approved minimum working balance level at £2.6m, this will be regularly reviewed in the light of changing circumstances.

3.10.3 At **APPENDIX 6** the latest MTFS including a 2.3% increase shows a balanced budget for 2019 / 20 and 2020 / 21. There is a gap of £76,000 in 2021 / 22, however this could be met from reserves, as currently 2022 / 23 is showing a contribution to reserves. Overall the Medium Term Financial Strategy is showing a deficit of £6,000.

3.10.4 Looking forward over the current MTFS, significant pressures and risks on our revenue budget are detailed below:

- The Council currently receives approximately £730,000 per annum in business rates relating to renewable energy production across the District. There will be a new revaluation and Business Rates reset in 2021 / 22 and there is a risk at this point that they will not allow us to separately retain this additional business rates income as it is over and above our baseline.
- The Government is committed to a fairer funding review which will look to reallocate current levels of core funding between local authorities. Due to the pressures in funding both Child and Adult Social Care this Council could see a reduction in funding as funding is transferred to Councils with the greatest need and funding gap.

3.10.5 A summary of the proposed use of reserves is summarised in the table below and is based on a budget projection that includes aspects such as inflation and several priority and statutory growth pressures offset by savings identified. The overall aim is to ensure that General Fund reserves do not fall below £2.4m and the current projections keep within this target.

Balances Movement (taking into account known movements in 2018 / 19 budget)	2018 / 19	2019 / 20
	£000	£000
Balance brought forward		
General Fund Reserves	3,225	2,659
Earmarked Reserves	3,491	2,011
Total	6,716	4,670
Projected Movement		
General Fund Reserves	-568	291
Earmarked Reserves	-1,480	243
Total	-2,046	534
Balance carried forward		
General Fund Reserves	2,659	2,950
Earmarked Reserves	2,011	2,254
Total	4,670	5,204

3.11 2019 / 20 Capital Programme

3.11.1 The 2019 / 20 capital project bids set out in **APPENDIX 7** have been categorised by Officers into three main categories:

- Essential (E): Failure to carry out the project is likely to have health and safety implications and/or will have fundamental impact on service provision;
- Service failure (SF): Relating to an operational asset that requires capital funding to ensure continued reliability or service provision;
- Service improvement (SI): An asset that can be updated / upgraded to improve performance or function;

3.11.2 As part of the budget strategy the broad principles adopted in relation to capital are that expenditure is financed from existing capital reserves and not directly from revenue budgets.

3.11.3 The proposed capital projects were initially considered by the Programme committees in November 2018 and by the Finance and Corporate Services Committee in January 2019. Total proposed capital expenditure for 2019 / 20 is £701,200 (this includes £420,000 of Disabled Facilities Grant related expenditure and £93,000 relating to projects from 2018/19). The proposed indicative 2019 / 20 to 2022 / 23 capital programme is set out in **APPENDIX 8**.

3.11.4 The Council is required to have regard to the Prudential Code set out by the Chartered Institute of Public Finance and Accountancy (CIPFA) when setting its budget. The code prescribes that certain indicators are to be calculated relating to maximum

exposure to borrowing and impact of financing decisions on taxpayers (i.e. the affordability of these decisions by reference to the level of council tax that results). These indicators are detailed in the Capital Strategy that must be approved by Council.

3.11.5 It is necessary to formally resolve a figure for the Council’s Capital Financing Requirement, which is currently zero. The current confirmed capital spending plans for the next three years will not cause a requirement to borrow; therefore the capital financing requirement in accordance with the Prudential Code for 2019 / 20 to 2022 / 23 inclusive will be zero.

3.11.6 The Council’s capital expenditure plans and intended funding methods for the current and following four years are summarised in the table below with the revenue impact of the full programme.

	2018 / 19	2019 / 20	2020 / 21	2021 / 22	2022 / 23
	£’000	£’000	£’000	£’000	£’000
Proposed Capital Programme (including carry forward from previous year)	1772	701	487	477	477
Financing					
Capital Receipts Reserve	1303	281	67	57	57
Government grant	420	420	420	420	420
Impact on Council Tax					
Full Year Band D impact of financing £ (A)	0.05	0.01	0.01	0.01	0.01

3.11.7 As in previous years, the Council’s capital programme reflects the goals set out in the Council’s Corporate Plan as detailed below.

- Helping communities to be safe, active and healthy;
- Protecting and shaping the District;
- Creating opportunities for economic growth and prosperity;
- Delivering good quality, cost effective and valued services;
- Focusing on key projects.

3.12 View on Risks

3.12.1 Risks to the Council’s financial position could derive potentially from budget overspend, loss of investment income, contractual / legislative failure, shortfall in forecast business rates growth or challenge and emergency events. Historically, the Council’s outturn has been within budget and investment income has been above budget; therefore, this is not seen as a high risk to the Council and it is not necessary to make additional significant provision. However, robust budget management, monitoring and reporting will be a key discipline for all budget managers and ensuring that income levels included in the budget are achieved, will be a key focus.

- 3.12.2 The level of risk posed by contractual or legislative failure and emergency events is difficult to predict, but it would be a low probability with a potentially high impact. However, it is not appropriate to set aside large amounts of reserve against the possibility of this happening and that appropriate bond / Parent Company Guarantee have been built into large contracts.
- 3.12.3 It is important to recognise that with the introduction of the Business Rates Retention, there is a considerable degree of uncertainty in the forecast for business rates growth as much of it depends on external factors including the impact of successful appeals. The Council's own economic development policies can have an impact on business rates growth and therefore it is important that the planning services, economic development services and the business rates service have a co-ordinated approach to inward investment policies. It is important to ensure a high level of growth in the District, as any empty properties create a risk on the level of Business Rates income the Authority will receive.
- 3.12.4 The date for Brexit is due to be 29 March 2019. At the time of writing this report, there is still large uncertainty over what, if anything will be the fallout from this, and therefore this is a high-risk area until such time that a deal is made. Officers will continue to monitor to ensure that any developments are picked up as soon as possible.
- 3.12.5 In setting budgets and projections for individual years, it is important that the Council is not reliant on the use of reserves to support revenue expenditure thus creating an unsustainable future. To achieve this, it is important to note the requirement to meet the budget gap savings identified in the MTFS for future years.
- 3.12.6 Section 25 of the 2003 Local Government Act requires the Director of Resources to make a formal report to the Council on the robustness of the budget and adequacy of reserves (**APPENDIX 7**).

4. CONCLUSIONS

- 4.1 After including all items within the financial projections, general fund and earmarked reserves at the start of 2019 / 20 are expected to be £4.670m with all known movements considered. The government has set the referendum threshold for the increase in the average band D council tax in 2019 / 20 for district councils at 3% or £5 whichever is the greater. Due to the unknown impact of future changes to Local Government financing, it is proposed that the Council should take the opportunity to increase its financial base by increasing the average band D council tax, however this will be below current levels of CPI.
- 4.2 The Local Government Finance Settlement Statement by the Secretary of State gave an aim for Local Government to be retaining 75% of Business Rates from 2020. Currently nothing relating to any new Business Rates scheme has been factored into the MTFS.
- 4.3 Council approval is sought on the Council's budget proposals for 2019 / 20 and the Council Tax Requirement of £4,843,493 (excluding parish precepts). The basic amount of council tax would be £197.40 an increase of £4.43 (2.3%) per band D

equivalent. This is compliant with the Government's Referendum Principles threshold.

5. IMPACT ON CORPORATE GOALS

- 5.1 This strategy supports the Corporate Goal of "Delivering good quality, cost effective and valued services".

6. IMPLICATIONS

- (i) **Impact on Customers** – The budget process ensures that changes in service delivery resulting in budget changes are reviewed by Officers and Members so that any impact can be considered. In 2019 / 20, only essential budget growth has been considered.
- (ii) **Impact on Equalities** – The budget affects all residents in the District, it is not considered that the growth bids for 2019 / 20 individually impact negatively on an individual user group.
- (iii) **Impact on Risk** – The distribution of resources reflected in the revenue and capital budgets is designed to support the Authority's approach to risk management (i.e. to reduce all major corporate risks to a level within approved tolerances through the implementation of approved mitigation plans).
- (iv) **Impact on Resources (financial)** – This report details the impact on financial resources.
- (v) **Impact on Resources (human)** – The budget includes a pay inflationary increase.
- (vi) **Impact on the Environment** – None directly.

Background papers: None.

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