



**REPORT of  
DIRECTOR OF RESOURCES**

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**to  
FINANCE AND CORPORATE SERVICES COMMITTEE  
30 JANUARY 2018**

**REVISED 2017 / 18 ESTIMATES, ORIGINAL 2018 / 19 BUDGET ESTIMATES AND  
COUNCIL TAX 2018 / 19**

**1. PURPOSE OF THE REPORT**

- 1.1 To note the Provisional Local Government Finance Settlement announced by the government on 19 December 2017.
- 1.2 To present to the Committee the revised 2017 / 18 and original 2018 / 19 General Fund Revenue Budget estimates for approval and recommendation to the Council on 8 February 2018.
- 1.3 To present the proposed level of Council Tax increase for 2018 / 19 for recommendation to the Council on 8 February 2018.
- 1.4 To present for approval and recommendation to the Council on 8 February 2018 the policy on use of Reserves.

**2. RECOMMENDATIONS**

- (i) That the following be approved:
  - (a) that the Committee notes the main details of the Provisional Local Government Finance Settlement 2018 / 19 described in section 3.3 of the report;
  - (b) that a pay award in line with national recommendations is approved of 2% for both 2018 / 19 and 2019 / 20.

To the Council:

- (ii) that the following be approved:
  - (c) the Summary Revised 2017 / 18 and Original 2018 / 19 General Fund Revenue Budget Estimates (**APPENDICES 1 (A and B), 2 and 3**)

- (d) an average Band D council tax of either:
- **Option One:** £192.97 (excluding parish precepts) (2.99% increase) for 2018 / 19 (**APPENDIX 1A**);
- OR
- **Option Two:** £187.37 (excluding parish precepts) (zero increase) for 2018 / 19 (**APPENDIX 1B**)
- (e) policies on the designated use of financial reserves (**APPENDIX 5**);
- (f) an increase in the minimum general fund working balance from £2,500,000 to £2,600,000 for 2018 / 19;
- (iii) that the Council gives due regard to the Director of Resources statement on the robustness of budgets and adequacy of reserves in **APPENDIX 7**.

### 3. SUMMARY OF KEY ISSUES

- 3.1 The Council continues to face further declines in income from central government whilst at the same time the demands on some of its services and inflation has increased.
- 3.2 The requirement to set a balanced budget has required stringent processes to deliver efficiencies, preserve as far as possible front line services, retain the ability to generate income and to recognise the increasing demand for services in these difficult times.
- 3.3 **Provisional Local Government Finance Settlement 2018 / 19**
- 3.3.1 The provisional 2018 / 19 local government finance settlement was announced on 19 December 2017.

	<b>2015 / 16 Adjusted</b>	<b>2016 / 17</b>	<b>2017 / 18</b>	<b>2018 / 19</b>	<b>2019 / 20</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Settlement Funding Assessment – Maldon</b>	2.447	1.964	1.601	1.474	1.173
Annual % Change		-19.7%	-18.5%	-7.9%	-20.4%
Cumulative % Change		-19.7%	-34.6%	-39.8%	-52.1%

- 3.3.2 The Council agreed to take up the offer in the 2016 / 17 Settlement for the opportunity for councils to accept a multi-year settlement offer, which would give greater certainty of funding until the end of the Parliament. The offer included:
- Revenue Support Grant;
  - 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 2018 / 19, Central Government Funding is now limited to us keeping an element of Business Rates income. Revenue Support Grant is no longer received and there is no Rural Services Delivery Grant or transition Grant. In 2019 / 20 a new Tariff top up payment of £330,000 is due to be payable by the Authority.
- 3.3.4 On 18 January 2017, Central Government announced that the Business Rate Tariff and Top-ups were being amended to reflect a change in data from the Valuation Office. This has been built into the revised budgets, the impact being £18,000 additional tariff. The impact for the 2018 / 19 tariff is still unknown.
- 3.3.5 The New Homes Bonus (NHB) Scheme was introduced in 2011 / 12 as a way to encourage local authorities to facilitate housing growth. In essence, 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. From 2018 / 19, the NHB rewards all net additions in an area for four years, this is an additional year's reduction from 2017 / 18. Other changes to the scheme had been consulted on, but the Finance Settlement confirmed that there would be no further changes to the 2018 / 19 scheme.
- 3.3.6 The Council will see a reduction in funding as a consequence of the reduction to NHB legacy payments in 2018 / 19 of £158,000. It is anticipated that this will be offset in some years by new housing growth that is currently in the pipeline, assumptions have been based on the same rate of growth as built into the Council Tax base and other property based budgets in the interests of consistency. The Council's Medium Term Financial Strategy (MTFS) has been prepared on this basis. The future of New Homes Bonus is not certain and the Council has used this funding to prop-up the Revenue Budget. This is not considered to be sustainable and therefore the Council is phasing out reliance on this funding stream to reduce the budget gap. The MTFS has been updated to remove additional years contribution of NHB for each of the next four years. Therefore, in 2021 / 22 this income stream is totally ringfenced and no longer a source of income for the budget.

#### **3.4 Revised General Fund Revenue Budget Estimates 2017 / 18**

- 3.4.1 The Quarter Two (Q2) budgetary outturn report taken to the Finance and Corporate Services Committee (F&CS) on 28 November 2017 reported a reduction in planning income. This drop in income of £230,000 combined with the repayment of additional Business Rate surplus of £241,000 reported in the 2016 / 17 outturn report has resulted in a predicted outturn taking £1,168,000 from General Fund Reserves, against the original approved budget of £695,000.
- 3.4.2 In addition to the variances report above, there has also been a reduction of £82,000 in the Building Control and Land charge fee income that is being received, and an increase in staff entered into the pension scheme resulting in £48,000 additional expenditure, Business Rates are also higher than that budgeted for due to the nationwide Business Rates Revaluation. These have been countered by £104,000 additional income from the Council Tax Sharing Agreement that has exceeded budget, and has now been built into the 2018 / 19 core budget.

3.4.3 Additional income is also being generated from growth in Local Business Rates and pooling arrangements within the Essex Region Business Rates Pool. For 2016 / 17, the Authority's benefit from being included within the pool was £175,000.

3.4.4 Revenue Supplementary Estimates agreed during the year, and now built in to the budgets, total £120,900 and are as follows:

Description	£
Maternity Cover for Solicitor	20,000
Temp Community Protection Officer	10,100
Corporate core - recruitment and other costs	30,000
Planning Policy - recruitment and other costs	23,000
Economic Development - recruitment and other costs	17,800
Development Control - recruitment and other costs	13,700
Building Control - recruitment and other costs	6,300
<b>GRAND TOTAL</b>	<b>120,900</b>

### 3.5 General Fund Revenue Budget Estimates 2018 / 19

3.5.1 The proposed 2018/19 net operating budget after adjusting for statutory adjustments, but before any non-service specific funding and use of reserves totals £7.978m and is therefore £0.805m (9.1%) lower than 2017/18 (£8.783m). The main reduction is due to the three year forward funding of the pension deficit, £1.7m was funded in 2017 / 18 that has given a zero budget in each of the 2018 / 19 and 2019 / 20 budget years. There is also growth included within the 2018 / 19 budget; for inflation at 1.03%, the allowance provided within the MTFS for this was £270,000, the provisional growth bid proposals of £352,000 and a net reduction in planning income since the 2017 / 18 original budget of £141,000. It is projected that in 2018 / 19, there will be no change to General Fund balances, and £201,000 contributed to earmarked reserves under Council Tax option one, or a contribution of £65,000 under option two. The two options for Council Tax increase are considered in sections 3.9.7 and 3.9.8. Proposals for the usage of earmarked reserves are discussed in more detail in Section 3.10 (**APPENDICES 1A and 1B and 3**).

3.5.2 2018 / 19 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 Consumer Price Index (CPI) or other indexes built into contracts;
- Modifications to fee and grant income;
- Implications of statutory and contractual changes;
- Growth and savings, as discussed later in this report.

3.5.3 The MTFS currently includes a payroll inflationary increase of 2% for the next two years. This is in line with the proposal that is currently being considered by the Local Government Unions. It is intended that the Council will continue to apply the UK

Living Wage which ensures that lower scale points are brought up to a national standard.

### **3.6 Budget Growth, Savings and Income Generation in 2018 / 19**

3.6.1 The programme committees considered reports on the budget growth for 2018 / 19 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 F&CS on 28 November 2017 agreed non-recurring growth in 2018 / 19 in relation to repairs and renewals of Council assets which would not form part of the capital programme; this totals £54,000 and will be funded from a draw down from the Repairs and Renewals reserve.

### **3.7 Essex Region Business Rates Pool**

3.7.1 As agreed by the Council in October 2015, the Council joined the Essex Region Business Rates Pool in April 2016. The Pool will continue to operate in 2018 / 19. The Council will continue to benefit by being in the Pool in 2018 / 19. .

### **3.8 Interest on Investments**

3.8.1 Interest from investment income is an integral part of the budget considerations. The current economic climate has seen the Bank of England base rate increase for the first time in ten years to 0.5%. The Treasury Management and Investment Strategy has been revised to enable Officers to increasingly diversify the Council's investment portfolio. In the last year, the Council's investment income now includes returns from a diversified income fund. The MTFs includes an estimates investment return of 1.6% compared to an actual investment return in 2016 / 17 of 1.18%,

### **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 2018/19 is £7,020,000 with option one (**APPENDIX 1A**) and £6,884,500 with option two (**APPENDIX 1B**). The Budget Summary set out in **APPENDIX 1(both A and B)** has been restated for 2017 / 18 to adjust for the removal of recharges between services.

3.9.2 The tax base to be used for setting the 2018 / 19 Council Tax was agreed by the Council at its meeting on 21 December 2017. The tax base consists of 24,193.2 "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 2018 / 19 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 £229,708, comprised of a surplus distribution on Council Tax of £158,864 and a surplus distribution on Business Rates of £70,844.

3.9.4 The income raised from Council Tax (excluding parish precepts) required from council taxpayers in 2018/19 for Council services is summarised below:

	<b>Option One</b>	<b>Option Two</b>
	<b>£</b>	<b>£</b>
Maldon District Council Net budget to be Funded	7,020,000	6,884,500
Local Business Rates Retention	-2,192,183	-2,192,183
Council Tax Collection Fund Adjustment	-159,000	-159,000
<b>Maldon District Council Council Tax Requirement</b>	<b>4,668,517</b>	<b>4,533,017</b>

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 8 February 2018 for Council Tax setting purposes.

3.9.6 The Council Tax referendum threshold set by the Secretary of State for 2018 / 19 was announced as part of the Provisional Settlement and for Maldon, the threshold has been set at 3% increase over 2017 / 18 or £5 whichever is the greater. Any Council proposing increases in excess of 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 Option One: Council Tax 2.99% increase

3.9.7.1 The Budget estimates have been constructed on the basis that the Council is proposing to increase council tax by £5.60 (2.99%). This represents a prudent approach 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. Whilst the budget for 2018 / 19 is balanced, there remain risks looking ahead to the medium term.

3.9.7.2 Council Tax increases become part of the base of the MTFS income for future years. Paragraph 3.10.2 below shows that over the duration of the MTFS, there is still a budget deficit that needs to be funded. The proposed increase in Council Tax generates an additional £136,000 of income compared to 2017 / 18. If the increase were not approved for 2018 / 19 then the gap in future years widens and any necessary Council Tax increase would then be greater.

3.9.8 Option Two: Council Tax 0% increase

3.9.8.1 The Budget estimates have been constructed on the basis that the Council is proposing to not increase council tax. This protects residents from additional financial burden.

### 3.10 General Fund Balance and Revenue Reserves

- 3.10.1 Detailed policy information for each earmarked revenue reserve is set out in **APPENDIX 5** and appropriations to and from them is detailed in **APPENDIX 1A and B**.
- 3.10.2 Based on the latest risk assessment it is considered that the Council increases the approved minimum working balance level from £2.5m to £2.6m, this will be regularly reviewed in the light of changing circumstances.
- 3.10.3 At **APPENDIX 6A** the latest MTFS including a 2.99% increase shows an estimated savings requirement of £475,000 in 2019 / 20, £723,000 in 2020 / 21 and £291,000 in 2021 / 22 and an overall savings requirement of £1,489,000 to balance the budget in these years.
- 3.10.4 At **APPENDIX 6B** the latest MTFS including a 0% increase shows an estimated savings requirement of £705,000 in 2019 / 20, £731,000 in 2020 / 21 and £298,000 in 2021 / 22 and an overall savings requirement of £1,734,000 to balance the budget in these years.
- 3.10.5 It was proposed in the 2017 / 18 budget to return the Local Council Tax Support Scheme (LCTS) Reserve to balances in 2018 / 19 to manage the savings gap, however this hasn't been necessary. Looking forward over the current MTFS, there is one main pressure on revenue budgets:
- In 2020 / 21 the pension deficit will become payable. In 2017 / 18, a three year deficit payment was approved. This generated savings of £80,000 against three years of annual payments. Currently the forecast General Fund balances are above the required working balances, and therefore it appear beneficial to consider entering into another three year funding arrangement if this is an option.
  - Additionally it would be prudent to have additional funds to balance the budget should Business Rates not perform as intended.
  - Therefore, where reserves such as the LCTS are no longer required, it is proposed that these are transferred into an equalisation reserve that can then be used towards the Pensions deficit, or to equalise any downturn in Business Rates performance as considered appropriate.
- 3.10.6 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 a number of priority and statutory growth pressures offset by savings identified. The overall aim is to ensure that reserves do not fall below £2.6m and the current projections keep within this target. The balances are based on Option one. Should Option two be chosen, the balance for earmarked reserves will be decreased by £136,000.

<b>Balances Movement (taking into account known movements in 2017 / 18 budget)</b>	<b>2017 / 18</b>	<b>2018 / 19</b>
	<b>£000</b>	<b>£000</b>
Balance brought forward		
General Fund Reserves	4,339	3,171
Earmarked Reserves	2,653	2,048
<b>Total</b>	<b>6,992</b>	<b>5,219</b>
Projected Movement		
General Fund Reserves	-1,168	0
Earmarked Reserves	-605	201
<b>Total</b>	<b>-1,773</b>	<b>201</b>
Balance carried forward		
General Fund Reserves	3,171	3,189
Earmarked Reserves	2,048	2,249
<b>Total</b>	<b>5,219</b>	<b>5,420</b>

### 3.11 View on Risks

- 3.11.1 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.
- 3.11.2 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.
- 3.11.3 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 the 2017 / 18 revaluation and the number of appeals that are successful. 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.
- 3.11.4 The date for Brexit has now been set as 29 March 2019. There is large uncertainty over what, if anything will be the fallout from this, and therefore this is a high risk area. Officers will continue to monitor to ensure that any developments are picked up as soon as possible.



- 3.11.5 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.
- 3.11.6 A key potential risk moving forward is in relation to the LCTS agreement. There is currently £275,000 of income included within the budget. The current agreement is due to end after 2018 / 19. Currently the budget has been retained as it is anticipated that due to the large returns that Authorities are generating from additional work on recovery, the existing arrangement will be retained in some form.
- 3.11.7 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 2018 / 19 are expected to be £5.219m with all known movements taken into account. The government has therefore set the referendum threshold for the increase in the average band D council tax in 2018 / 19 for district councils at 3% or £5 whichever is the greater. Due to the loss of the Revenue Support Grant in 2018 / 19 coupled with budget pressures arising from the legislation changes and contractual obligations, it is proposed that the Council should take the opportunity to increase its financial base by increasing the average band D council tax
- 4.2 The difficult financial environment for the Council will continue in future years with the added uncertainty in the move to the 100% Business Rates Retention system. 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. As yet nothing relating to any new Business Rates scheme has been factored into the MTFs.

#### **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 2018 / 19, only essential budget growth has been considered. There has been no reduction in services.
- (ii) **Impact on Equalities** – The budget affects all residents in the District, it is not considered that the growth bids for 2018 / 19 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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