REPORT of
DIRECTOR OF RESOURCES

to
COUNCIL
8 FEBRUARY 2018

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

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 no later than 11 March. The Council has always aimed to approve the budget in advance of this to ensure prompt despatch of bills.

1.2 The revised 2017 / 18 and proposed 2018 / 19 budgets estimates contained in this report were considered by the Finance and Corporate Services Committee (F&CS) on 30 January 2018 and their recommendations are contained in this report for consideration and approval.

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 2018 / 19 core grant for the authority could potentially change. The final settlement is expected to be announced at the end of February.

1.4 The Council will have suffered a cumulative loss of approximately 52% (£1.272m) of core grant over the life of the Spending Review period (i.e. 2016 / 17 – 2019 / 20), see paragraph 3.3.1 below. This is a significant challenge to the Council and savings of £1.489m will need to be found to close the budget gap assuming Council Tax levels included in this report. Whilst the Council's focus remains on safeguarding front line services, it will be increasingly difficult to find recurring efficiencies of this magnitude.

1.5 Prior to the current spending review, the Councils core grant had already depleted by 43% (£1.858m) from 2009 / 10. Therefore when combined with the current reductions, core grant funding will have actually reduced by 73% (£3.137m).

2. RECOMMENDATIONS

(i) that the following be approved:

(a) the Summary Revised 2017 / 18 and Original 2018 / 19 General Fund Revenue Budget Estimates (**APPENDICES 1, 2 and 3**)

(b) an average Band D council tax of £192.97 (excluding parish precepts) (2.99% increase) for 2018 / 19 (**APPENDIX 1**);

(c) the policies on the designated use of financial reserves (**APPENDIX 5**);

(d) an increase in the minimum general fund working balance from £2,500,000 to £2,600,000 for 2018 / 19;

(e) the Capital Programme for 2018 / 19 to 2021 / 22 (**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 has continued to face further decreases in income received from central government whilst at the same time the demands on some of its services and inflation has increased. Consumer Price Index (CPI) has accounted for over a 5% increase in contracted spend over the period since 2015 / 16, and is forecast to affect our contracts by a further 3% in 2018 / 19.

3.2 The requirement to set a balanced budget requires robust processes to identify and deliver efficiencies, preserve as far as possible front line services, retain the ability to generate income and recognise the increasing demand for services.

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. 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	1.173
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, to 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 a proportion of the Business Rates income we bill and collect. Revenue Support Grant is no longer received and Transition Grant has been removed from 2018 / 19 onwards. In 2019 / 20 a new Tariff top up payment of £330,000 is due to be payable by the Authority.

3.3.4 The New Homes Bonus (NHB) Scheme was introduced in 2011 / 12 as a way to encourage local authorities to facilitate housing growth. For each 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, previously five years. We expect further changes to the NHB Scheme in future years.

3.3.5 The Council will see a reduction in funding as a consequence of the reduction to NHB legacy payments in 2018 / 19 of £158,000. The future of New Homes Bonus is not certain and historically the Council has used this funding as a core ongoing source of revenue to provide services. 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 Medium Term Financial Strategy (MTFS) has been updated to remove future years contribution of NHB for each of the next four years. Therefore, by 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	£	Date of approval
Maternity Cover for Solicitor	20,000	29/04/17
Temp Community Protection Officer	10,100	14/06/17
Corporate core - recruitment and other costs	30,000	14/06/17

Description	£	Date of approval
Planning Policy - recruitment and other costs	23,000	14/06/17
Economic Development - recruitment and other costs	17,800	14/06/17
Development Control - recruitment and other costs	13,700	14/06/17
Building Control - recruitment and other costs	6,300	14/06/17
GRAND TOTAL	120,900	

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 £7.951m and is therefore £0.832m (9.5%) 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. 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 (**APPENDICES 1** 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 (**APPENDIX 1**). The Budget Summary set out in **APPENDIX 1** 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:

	£
Maldon District Council Net budget to be Funded	7,020,000
Local Business Rates Retention	-2,192,183
Council Tax Collection Fund Adjustment	-159,000
Maldon District Council Council Tax Requirement	**4,668,517**

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 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 significant risks and budget gaps in the medium term.

3.9.8 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.

3.10 **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 1**.

3.10.2 Officers have been tasked with increasing the level of reserves and this budget allows the Council to increase 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 6** the latest MTFS assuming a 2.99% increase in Council Tax requires an estimated savings £475,000 in 2019 / 20, £723,000 in 2020 / 21 and £291,000 in 2021 / 22 and an overall medium term savings requirement of £1,489,000.

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

- In 2020 / 21 the Council will be required to make an additional contribution to the deficit on the defined benefit pension scheme. In 2017 / 18, a three year deficit payment was approved of approximately £1.7m.
- This budget assumes a pay increase of 2% on the basis that this is the increase proposed by the employer arm of the Joint Negotiating Committee. However, since this has been proposed it has been rejected by the Trade Unions who are requesting higher pay increases.
- The Council currently receives approximately £750,000 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.
- Some flexibility on Council Tax increases has been provided for 2018 / 19 but this is a one year offer and has not been confirmed for future years, in fact levels of increases could be brought down to much lower levels in future years.
- 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 requirement, this is deemed no longer necessary due to collection rates to date and therefore it is proposed that part of this reserve is released and transferred to a new Pension Deficit reserve.
- In 2017 / 18, a payment was made of £1.7m for three years pension deficit, which enabled revenue savings of £80,000 to be realised. This will become a decision for 2020 / 21 as to whether another three year forward funding arrangement is entered into. It is proposed that funds are set aside to enable this to happen and a Pension Deficit Reserve has been created for this purpose. The MTFS reflects the contribution to and use of this reserve.

3.10.5 A summary of the proposed use of reserves is summarised in the table below. This is based on our future budget projections. The Council's objective is to ensure that reserves do not fall below £2.6m.

Balances Movement (taking into account known movements in 2017 / 18 budget)	**2017 / 18**	**2018 / 19**
	£000	**£000**
Balance brought forward		
General Fund Reserves	4,339	3,171
Earmarked Reserves	2,653	2,048
Total	**6,992**	**5,219**
Projected Movement		
General Fund Reserves	-1,168	0
Earmarked Reserves	-605	228
Total	**-1,773**	**228**
Balance carried forward		
General Fund Reserves	3,171	3,171
Earmarked Reserves	2,048	2,276
Total	**5,219**	**5,447**

3.11 **2018 / 19 Capital Programme**

3.11.1 The 2018 / 19 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 2017 and by the Finance and Corporate Services Committee in January 2018. Total proposed capital expenditure for 2018 / 19 is £632,000 (this includes £420,000 of Disabled Facilities Grant related expenditure). Additionally there is £157,000 relating to projects from 2017 / 18. The proposed indicative 2018 / 19 to 2021 / 22 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). The borrowing related indicators have limited relevance to this Council at present and will be dealt with in the annual Treasury Management Strategy.

3.11.5 It is necessary to formally resolve a figure for the Council's Capital Financing Requirement, which is currently zero. The current 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 2018 / 19 to 2021 / 22 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.

	2017 / 18	**2018 / 19**	**2019 / 20**	**2020 / 21**	**2021 / 22**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Proposed Capital Programme (including carry forward from previous year)	1348	789	487	487	477
Financing					
Capital Receipts Reserve	858	369	67	67	57

	2017 / 18	2018 / 19	2019 / 20	2020 / 21	2021 / 22
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Funds and contributions	30	-	-	-	-
Government grant	460	420	420	420	420
Impact on Council Tax					
Full Year Band D impact of financing £ **(A)**	0.58	0.28	0.04	0.04	0.04

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 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.

3.12.4 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.

3.12.5 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 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.

3.12.7 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 and cost to the saving. The impact for the 2018 / 19 tariff is still unknown and remains a risk to budget setting.

3.12.8 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 9**).

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 Growth from 2021/22. As yet 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 2018 / 19 and the Council Tax Requirement of £4,668,517 (excluding parish precepts). The basic amount of council tax would be £192.97 an increase of £5.60 (2.99%) per band D equivalent. This is compliant with the Government's Referendum Principles threshold.

5. IMPACT ON CORPORATE GOALS

5.1 The budget for 2018 / 19 will underpin and resource the agreed actions plans to deliver the Corporate Plan goals.

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. An Equalities Impact Assessment has been carried out.

(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.

Enquiries to: Emma Foy, Director of Resources, (Tel: 01621 875762).