

**REPORT OF: FINANCIAL SERVICES MANAGER**

**TO: EXECUTIVE**

**DATE: 14<sup>th</sup> DECEMBER 2017**

**Contact Details:** Vince Green  
**Tel. No:** 01282 661867  
**E-mail:** vince.green@pendle.gov.uk

## **GENERAL FUND REVENUE BUDGET 2018/19**

### **PURPOSE OF REPORT**

1. The purpose of this report is to:-
  - a) update the Executive on elements of the Autumn Budget announced by the Chancellor on the 22<sup>nd</sup> November;
  - b) obtain approval for the Revised Budget for 2017/18 and to present the **draft** Base Budget for 2018/19 for initial consideration;
  - c) present a budget strategy (including savings proposals) as part of an approach to achieve a balanced budget in 2018/19 (along with outline proposals for 2019/21); and
  - d) request the Executive give consideration to the development of a budget for 2018/19 and for the Medium-term Financial Plan period (to 2020/21).

### **RECOMMENDATIONS**

2. The Executive is recommended to:-
  - a) agree, in view of the seriousness of the Council's forecast financial position, that this report be shared with all Councillors so that they are fully aware of the position;
  - b) approve the Revised Budget for 2017/18 including the additional in-year contributions to reserves (for the purposes stated in paragraphs 17 – 19 below ) as follows:

• Change Management Reserve	£300,000
• Growth Sites Development Reserve	£100,000
• NNDR Volatility Reserve	£100,000
  - c) provide delegated authority to the Financial Services Manager, in consultation with the Executive Member for Finance, to prepare and submit the Council's response to the consultation on the provisional Local Government Finance Settlement for 2018/19, details of which are expected prior to the festive period;

- d) note the draft Base Budget for 2018/19, the forecast Medium Term Financial Plan and the assumptions underpinning both;
- e) as part of the development of the Executive's Budget Strategy for 2018/19:
  - i) consider Management Team's initial proposals to achieve a balanced budget for 2018/19 and, in doing so, review the savings proposals shown at [Appendix F](#) with a view to submitting agreed proposals to Council in December;
  - ii) undertake a review of the draft Base Budget for 2018/19 to identify any areas where further savings proposals should be brought forward for consideration as part of the budget process;
- f) note the outline savings proposals for 2019/20 and 2020/21 and agree that, as a minimum, these options should form the basis of the further work necessary to achieve a balanced budget in these years;
- g) to support the work outlined in (f) above, agree to maintain the Budget Working Group and confirm this should continue as currently constituted (i.e. 2:2:2);
- h) note the financial planning assumption of a Band D council tax increase of £5 (+1.99%) for 2018/19 pending confirmation of the council tax referendum principles as part of the Local Government Finance Settlement for 2018/19;
- i) authorise the Corporate Director to conclude the transfer of the Muni in Colne to Colne Town Council and to agree the terms of transfer with the Town Council in consultation with the Leader and Executive Member for Finance;
- j) note the timetable for the remainder of the budget process as set out in the report.

## **REASONS FOR RECOMMENDATIONS**

- 3. To continue with the implementation of the Council's Financial Strategy and to inform the development of the Council's budget for 2018/19.

## **ISSUE**

### **Background**

- 4. This report focuses primarily on the Council's revised budget for 2017/18 and the draft base budget for 2018/19. Information is also provided on the Medium Term Financial Plan for 2018/21 to allow the Executive to consider budgetary decisions for next year in the context of the Council's projected medium term financial position. This is crucial given the significant funding reductions faced by the Council and the need for the Executive to take early action to significantly reduce the Council's net expenditure.
- 5. This report sets out the issues associated with this and proposes a budget for 2018/19 and the medium term for the Executive to consider and, if agreeable, to recommend for adoption by the Council in February. The Executive is advised that this report has been prepared in advance of the Provisional Local Government Finance Settlement for 2018/19.
- 6. In recent years the Settlement has been published in the run up to Christmas and once details are available this may result in changes to the Council's funding compared with the position outlined in this report. Given the 4 year funding offer, accepted by this Council, the key areas of uncertainty centre on whether any further changes will be made to the New Homes Bonus regime and the forecast of business rates income due to appeals post the 2017 Revaluation.

## Autumn Budget 2017

- The Chancellor delivered the Government's Autumn Budget on the 22<sup>nd</sup> November. However, there is little to report back to Councillors in terms of the direct implications for the Council.
- More information generally on the various measures set out in the Budget together with the response from the Local Government Association can be found on the LGA website. The LGA published its 'on the day briefing' in response to the Budget which can be viewed [here](#).

## Local Government Finance Settlement

### Funding for 2018/19

- Once the provisional settlement is published there is a period allowed for written representations. It is proposed to maintain the Council's established practice whereby the Finance Manager prepares and submits the Council's response in consultation with the Executive Councillor for Finance. If agreeable, the Executive is asked to provide delegated authority to the report author for this purpose.
- The level of revenue support grant should be consistent with the figures announced as part of the Government's 4-year funding offer but as mentioned above there remains uncertainty regarding New Homes Bonus and business rates income.
- Pending publication of the Settlement, the forecast funding position to 2020/21 is broadly as set out in the last report to the Executive in May. Table 1 below summarises the estimate of core revenue funding the Council is expected to receive over the next 3 years:-

**Table 1: Estimate of Core Revenue Funding for 2018/19 to 2020/21**

	Actual Funding 2017/18 £000	Estimated Funding 2018/19 £000	Estimated Funding 2019/20 £000	Estimated Funding 2020/21 £000
Estimate of Retained Business Rates	4,260	4,443	4,576	4,691
<b>Add</b> Revenue Support Grant	2,210	1,707	1,145	900
<b>Total</b>	<b>6,470</b>	<b>6,150</b>	<b>5,721</b>	<b>5,591</b>
<b>less</b> Council Tax Support Grant	-1,236	-1,236	-1,236	-1,236
<b>less</b> Homelessness Grant	-97	-97	-97	-97
<b>'Formula Grant' (equivalent)</b>	<b>5,137</b>	<b>4,817</b>	<b>4,388</b>	<b>4,258</b>
<b>Add</b> New Homes Bonus	995	475	236	100
<b>Estimate of Funding</b>	<b>6,132</b>	<b>5,292</b>	<b>4,624</b>	<b>4,358</b>
<b>Cumulative change since 2010/11</b>	<b>-54%</b>	<b>-60%</b>	<b>-65%</b>	<b>-67%</b>

### **Addendum to Table 1: Calculation of Estimate of Retained Business Rates**

	£000	£000	£000	£000
<i>Individual Authority Business Rates</i>	6,800	7,064	7,276	7,458
<i>Compensation via Section 31 Grant<sup>1</sup></i>	708	724	746	765
<i>Tariff Payment to Government</i>	(3,248)	(3,345)	(3,446)	(3,532)
<b>Estimate of Retained Business Rates</b>	<b>4,260</b>	<b>4,443</b>	<b>4,576</b>	<b>4,691</b>

1. Compensates for cost of Government policy decisions on business rates relief which suppress our income.

- As the table above indicates, it is currently estimated that the Council's funding on a like for like basis will fall from £6.132m in 2017/18 to £4.358m in 2020/21 a reduction of c£1.8m (and a cumulative reduction of 67% since 2010/11).



17. The first contribution is requested in support of the following staff related costs:
- one-off costs resulting from organisational change as the Council reduces the scale of its workforce in response to the need for significant savings in 2019/20 and 2020/21. There has been a period of stability over the last two years since the previous management restructure implemented in April 2015 but the scale of projected savings going forward is likely to mean further staff reductions will be required.
  - to fund the appointment of a Principal Project Engineer in Neighbourhood Services; this is required to provide internal capacity to support preparatory work on major projects linked to flood alleviation and flood defence (e.g. Barnoldswick, Earby and Lomeshaye, including ESIF funded schemes) as well as civil engineering consultancy to Craven District Council. Subject to approval, it is intended to fund the post for 2 years from the reserve as an invest to save initiative; the retention of the post beyond this period would be conditional on it being self-financing. The total cost of the initial period is estimated at £90,000.
18. The second contribution will help smooth out the volatility within the business rates system, due mainly to ongoing uncertainty over the level of business rates appeals and the time taken for them to be settled by the Valuation Office Agency. A contribution of £100k combined with the current balance on the reserve of £180k will provide a reasonable cushion and help reduce the risk of significant swings in business rates income.
19. The third contribution proposed links to the 'grow' strand of the Council's financial strategy. Work is required to assess the feasibility and suitability of specific sites for disposal and or development. Examples include land at Further Clough Head, Nelson and Halifax Road, Brierfield. In order to bring these sites to market and facilitate development it is necessary to carry out a variety of preparatory works (site investigation, surveys, planning preparation) and funds are required for this.
20. The Executive is asked to approve the above reserve contributions in the current year, for the reasons stated, as part of the revised budget, accepting that it may be necessary to adjust the contributions if the year-end position differs from what is currently projected.
21. The Revised Budget 2017/18 reflects the current best estimate of the likely outturn position for the year. Work will continue on the monitoring of the budget for the remainder of this financial year and any further variations will be reported as part of the periodic monitoring reports.

### **Base Budget 2018/19**

22. Work has been underway in the last few months on the development of the Council's Base Budget for next year. Table 3 below provides a summary of the draft base budget for 2018/19 compared with the approved budget in the current year:-

**Table 3: Base Budget 2018/19**

	Approved Budget 2017/18 £000	Base Budget 2018/19 £000	Change £000	Change %
Net Revenue Expenditure	13,530	14,085	555	4.1
Use of Specific Reserves	(1,170)	(257)	913	78.03
<b>Net Expenditure (after Specific Reserves)</b>	<b>12,360</b>	<b>13,828</b>	<b>1,468</b>	<b>11.88</b>

Source: Appendices A and C

23. The key changes in the budget are set out in [Appendix C](#). Throughout the development of the Council's Financial Strategy for 2018/21, a number of issues have been highlighted that will impact on the budget for 2018/19 (and future years) and which may need to be addressed. In some cases, progress has been made, and in others there is further work to be undertaken.
24. More detail is provided in [Appendix D](#). Amongst the most significant changes in 2018/19 is the loss of income from the County Council following their decision to end the cost sharing agreement on 31<sup>st</sup> March 2018. This results in the loss of £760k income. Another is the level of New Homes Bonus. This falls from £1m in the current year to £475k in next year due to a combination of legacy payments falling out combined with the impact of Government changes to the Bonus regime implemented last year.

### **The Strategy for Reserves and Balances**

25. An analysis of Balances and Reserves is provided at [Appendix E](#). At the meeting of the Executive in May 2017, the following strategy for using Balances and Reserves was proposed:-
- the Minimum Working Balance to remain at £1.0m over the period to 2020/21 with the balance on the Bond Reserve (£0.25m);
  - the use of £2.9m from the Budget Support Reserve over the next three years with £1.4m in 2018/19, £1.0m in 2019/20 and £0.5m in 2020/21;
  - Committed (Specific) Reserves will be used only for the purposes for which they have been set aside and will be subject to an annual review. The current Medium Term Financial Plan shown below assumes the use of £0.36m of specific reserves in the period to 2020/21;
26. Table 4 below provides an analysis of how non-committed reserves are estimated to be used over the next four years with a residual balance available as at 31/3/21 estimated at £1.75m of which the Minimum Working Balance and the Bond Reserve together account for £1.25m:-

**Table 4: Estimated Use of Non-committed reserves 2018/21**

	Estimated Opening Balance £000	Less Committed Reserves*2 £'000	Non-committed (Available) Reserves £'000	Approved / Proposed Budgeted Use (net) *3 £000	In-year Receipt *4 £000	Estimated Closing Balance £000
Reserves 31/3/17*1	8,968	(3,758)	5,210			
2017/18	5,210			(557)	0	4,653
2018/19	4,653			(1,100)	0	3,553
2019/20	3,553			(1,100)	0	2,453
2020/21	2,453			(700)	0	1,753
<b>Total</b>				<b>(3,457)</b>	<b>0</b>	

\*1 – Includes Minimum Working Balance and Liberata Bond Reserve and;

\*2 – More information on committed reserves is shown in Appendix E – value is shown net of the tfrs agreed in October 2017;

\*3 – Assumes contributions in para. 16 above are approved;

\*4 – None expected – the VAT sharing arrangement with Housing Pendle has now expired..

27. The profiled use of reserves has been revised in this latest update of the medium-term financial plan as shown below:

	May 2017 Report	December 2017 Report
	£'000	£'000
Proposed use in 18/19	1,400	1,100
Proposed use in 19/20	1,000	1,100
Proposed use in 20/21	<u>500</u>	<u>700</u>
Total over 3 years	2,900	2,900

28. The reason for the revised profile is to smooth the use of reserves whilst providing some time to effect the major decisions required to implement the necessary savings over the Plan period.

### Medium Term Financial Plan 2018/21

29. In developing the base budget for 2018/19, work has also been undertaken to update the Medium Term Financial Plan to 2020/21. The assumptions underpinning the development of the Medium Term Financial Plan are set out at [Appendix D](#). Table 5 below provides a summary of the latest financial forecast:

**Table 5: Medium Term Financial Plan 2018/21**

	Budget 2018/19 £000	Forecast 2019/20 £000	Forecast 2020/21 £000
Net Revenue Expenditure	<b>14,085</b>	<b>14,757</b>	<b>15,453</b>
<i>Less:</i>			
Government Grant (Revenue Support Grant)	(1,707)	(1,145)	(900)
Retained Business Rates (net)	(3,969)	(3,931)	(4,026)
Council Tax Income (incl. Colln Fund Surplus)	(6,338)	(6,404)	(6,525)
<b>Total Funding</b>	<b>(12,014)</b>	<b>(11,480)</b>	<b>(11,451)</b>
<b>Local Funding Gap</b>	<b>2,071</b>	<b>3,277</b>	<b>4,002</b>
Use of Reserves	(1,357)	(1,140)	(740)
<b>Cumulative Savings Required</b>	<b>714</b>	<b>2,137</b>	<b>3,262</b>
Previous Year's Savings (assumes all achieved)		(714)	(2,173)
<b>In-Year Savings Requirement</b>	<b>714</b>	<b>1,423</b>	<b>1,125</b>

30. As the table indicates, to achieve a balanced budget in 2018/19, requires ongoing savings of at least £0.71m, with a further £1.42m required in 2019/20 and £1.13m in 2020/21. **Cumulatively, on the basis of current forecasts, the savings required over the next 3 years total £3.26m.** Note the savings requirement shown for 2018/19 is net of those savings already agreed by the Executive (September) and Council (October).

### The Financial Strategy for 2018/21

31. The Council has a well-established financial strategy structured around four key themes, namely Growing, Charging, Saving and Stop with each summarised below:
- **Growing** the Council's income using the funding mechanisms now in place for local government, particularly the Business Rate Retention Scheme and the New Homes Bonus. This means that the Council must actively consider ways in which it can increase income from business and housing growth to ensure that funding for services can be maintained;
  - **Charging** for services, raising income which will mean that it is possible to continue providing services that resident's value. This will mean reviewing the level of fees and charges, reducing the subsidy on some services and considering the introduction of new

fees and charges. It may also include reviewing the level of discretionary reliefs / discounts and the local scheme of Council Tax Support;

- **Saving** costs by, for example, reviewing how the Council delivers services, doing things differently and more efficiently, scaling services to appropriate levels within the resources available to the Council and continually working with partners, including local town and parish councils to sustain local facilities;
- **Stop** – identifying what are no longer priorities for the Council or areas that are deemed lower priority and ceasing to spend resources on them. This theme resulted from the review by the LGA Peer Challenge Team who felt this was essential for the Council to address given the level of savings required.

## **Growing**

### Business Rates Income

32. The Business Rates Retention Scheme offers the opportunity to increase the Council's income by increasing the amount of retained business rates. This does, however, require growth in the business rates tax base, i.e. more business ratable properties to be provided in the Borough. There is, therefore, a clear link here with a strategic approach to economic growth and regeneration within the Borough.
33. To put this in context, the Council's business rates tax base is currently £53m. In broad terms, for every £1.5m growth in the Taxbase (equivalent to, say, an additional Superstore), the Council's share of business rate income would increase by c£290k per annum (assuming no other changes).
34. In April this year the new rating list came into force following the 2017 revaluation. Since the list came in to force the Government has also introduced a number of measures designed to provide relief to businesses who face the largest increases. Details of these have been reported previously to the Executive and some of the measures will carry on over the Plan period.
35. The Government says it remains committed to the 100% local retention of business rates income but it remains uncertain from when this will be implemented. Following the snap election in June 2017 it now seems more likely it will not be before 2020/21 although the detailed design of the scheme and the resource implications for Pendle remain unknown at this time.
36. The Council had to take a decision by the end of October on whether to remain in the Lancashire Business Rates Pool for next year. Our projections for the current year are that we will have to pay a levy to Government in the order of £230k to £300k. We avoid this by being in the Pool. Provisional estimates for next year also support remaining a member of the pool in 2018/19 and hence we have opted to remain in the Pool for 2018/19.
37. However, any member of the pool can opt out of the pool within a period of 28 days following publication of the local government finance settlement in December. If this does happen the whole pool would be revoked and the significant benefits accruing to all other pool members would be lost. Burnley Borough Council opted out of the Pool for this year but has been re-admitted by the Pool for next year subject to the approval of DCLG.



### New Homes Bonus

38. This has been a significant source of revenue income for the Council in recent years with £1.0m received in the current year. However, since the Bonus regime was revised for this year with the introduction of a minimum baseline the value of the Bonus to Pendle is projected to decline markedly over the Plan period.
39. Most of our entitlement to the Bonus has accrued from the positive work done to reduce the number of empty homes in the Borough rather than from new homes being built. However, for 2018/19 we estimate we will receive no additional New Homes Bonus. This is due to our change in housing numbers between October 2016 and October 2017 (including the change in number of empty homes) falling below the baseline requirement of 0.4%.
40. Based on the return made to Government in October 2017 the number of Band D equivalent units added to the Council Tax list over the previous 12 months was 106. The number of empty homes actually increased over the year equating to 41 Band D units. Therefore the net increase is 65 Band D units which is below the expected baseline requirement of 124 units.
41. This serves to highlight the importance of the Council's efforts to increase the housing stock in the Borough as any additional income generated from New Homes Bonus will reduce the level of savings required and help sustain key services.
42. However, there remains a concern that the baseline may actually increase in later years as the Government continues to prioritise funding for social care and diverts further funding from the New Homes Bonus. We may get more detail on this when the Provisional Local Government Finance Settlement is published.

### **Charging**

43. The Council reviews its fees and charges annually. The review for 2018/19 was reported to the Executive in September with a number of proposals agreed the most significant of which related to the Cemeteries service. The outcomes from the most recent review have been factored in to the draft budget for next year.
44. A number of other proposals that have been considered and rejected previously by Councillors are also resubmitted at [Appendix F](#). These include the introduction of charges for services that residents value, for example, for the collection of Bulky Household Waste; administrative charges for replacement Wheeled Bins. These options featured in the recent public consultation on a number of proposals for the delivery of Waste Services. The results and recommendations arising from the consultation are set out in a separate report elsewhere on this agenda.

### **Saving**

45. Whilst the Business Rate Retention scheme and New Homes Bonus offer opportunities to increase the Council's income, any growth in the near term will not make up for the significant reduction in core funding or resolve the Council's budget deficit.
46. Equally, the Council's ability to charge for services or reduce the extent of discounts will not, in isolation, generate sufficient income to make up for the funding shortfall. As a result the Council must continue with its efforts to reduce expenditure in other ways to ensure that it has a balanced budget over the medium term.

47. Work has been ongoing to identify potential savings options that could be implemented over the period to 2020/21. Given the magnitude of savings required, and bearing in mind the savings already achieved since 2010, an impact on frontline services is considered unavoidable.
48. An analysis of savings proposals for 2018/21 is provided at [Appendix F](#); these total £2.87m and a summary of the proposals is provided in Table 6 below:-

**Table 6: Savings Proposals**

	<b>Budget 2018/19 £000</b>	<b>Indicative 2019/20 £000</b>	<b>Indicative 2020/21 £000</b>	<b>Total 2018/21 £000</b>
Proposals from Management Team	742	1,028	1,098	<b>2,868</b>
Savings required per MTFP	<u>714</u>	<u>1,423</u>	<u>1,125</u>	<b>3,262</b>
Shortfall or (Surplus) of savings	(28)	395	27	<b>394</b>

49. The following issues should be noted about the savings proposals:-
- Savings already agreed in this year have been built in to the budgets now submitted. The remaining savings' target for next year is now estimated at £0.714m. The saving proposals shown in [Appendix F\(i\)](#) total £0.742m for next year;
  - a number of proposals linked to Environmental Services have been subject to public consultation which closed in late November. The results of this are reported separately on the agenda for this meeting together with recommendations in response;
  - details of the proposed savings from the Leisure Trust have been considered by the Budget Working Group which has met on two occasions with members of the Trust Board and Trust senior management. A package of measures has been proposed by the Trust. These are designed to absorb a reduction in the management fee paid by the Council of £150,000 in 2018/19. If agreed, this would result in the management fee reducing from £1.426m to £1.276m. Of the saving proposals submitted by the Trust, the following two are highlighted for the Executive:
    - transfer of the Muni in Colne to Colne Town Council* – initial discussions and sharing of information has taken place with the Town Council to determine the level of interest and feasibility of this. The Trust has identified a saving of £63,700 if the Muni is transferred. The Executive is asked to authorise the Corporate Director to conclude the terms of the transfer in negotiations with the Town Council with a target date of 31<sup>st</sup> March 2018 for completion of the transfer.
    - the redevelopment of Pendle Leisure Centre, Colne* to include a brand new, state-of-the-art fitness studio; a children's soft play area; refurbishment of the current dry side changing rooms; refurbishment of the existing Reception area and the introduction of a food and beverage facility. Details of the proposed redevelopment have been reported to the Executive and Council previously and it is currently out to public consultation; a public meeting is to be held on the 18<sup>th</sup> December at the Muni; the saving identified by the Trust in the first year following the redevelopment is £26k rising to £44k per annum thereafter.
50. A narrative supporting each savings proposal is provided at [Appendix F \(ii\)](#). The Executive is requested to consider these and advise which proposals it is willing to support at this stage and agree to recommend these to Council for approval when it meets later this month (*note the pro-formas for saving options linked to Waste Services are presented with the report on the recent public consultation exercise elsewhere on this agenda*).

## Council Tax

51. For the purposes of financial planning only, the medium-term financial plan assumes that Council Tax will increase by £5 in 2018/19 and each year of the plan period. An increase of 1.99% or £5 is the maximum permitted under current government constraints for District Councils and these limits are expected to continue over the plan period. We will not get confirmation of this until the local government finance settlement is announced. As with the current year it is not expected that any funding will be made available to Councils in return for a freeze in Council Tax. The reality is that the Government's own assessment of our core spending power assumes we will increase council tax by the maximum permitted each year.

## Localisation of Council Tax Support Scheme

52. The Council's local scheme of council tax support has operated without any fundamental change, save for the annual uprating of parameters, since 2013/14 when the scheme was first introduced. Whilst Pensioner claimants remain protected under the scheme those of working-age continue to receive support at a maximum of 80% of calculated entitlement.
53. The estimated cost of the scheme for 2017/18 was £6.97m. The latest scheme monitoring indicates that it is likely to cost £6.69m, an underspend of £280k. Pendle's share of this is estimated at £41k. This is primarily a result of a lower than estimated caseload.
54. The proposed scheme for 2018/19 is the subject of a separate report elsewhere on the agenda for this meeting. No change is proposed regarding the maximum level of support for working age claimants. Subject to approval, this will remain at 80% for next year. Council will be asked to approve the formal scheme for next year on the 21<sup>st</sup> December.

## ***Medium Term Capital Programme 2018/21***

55. A report elsewhere on the agenda for this meeting considers the Medium-Term Capital Programme and the capital project proposals for next year specifically.

## ***Budget Consultation***

56. The Budget Working Group considered options for public engagement earlier this year and felt it was important to get the message across to the wider community as to the financial challenge facing the Council as well as outlining the savings being considered by the Council. The resultant financial challenges leaflet has been updated in response and is available on the Council's website [here](#).
57. Other consultation on the budget is planned or has been carried out as follows:-
- budget papers will be referred to the Scrutiny Management Committee and Area Committees to ensure that the budget discussions are held in an inclusive manner;
  - in accordance with the statutory requirement to consult with the business community, consultation is planned with local industry and employers and will be conducted through the East Lancashire Chamber of Trade;
  - Waste Services – public consultation on various options for service delivery and frequency of collection (closed on 26<sup>th</sup> November)
  - Public consultation by the Leisure Trust on proposals to redevelop the Pendle Leisure Centre in Colne (runs until 24<sup>th</sup> January).

## Management Team's Budget Proposal for 2018/19 (and to 2020/21)

58. Subject to confirmation of the financial settlement for 2018/19, and further to the analysis above, Management Team proposes the following budget strategy for 2018/19 for councilors to consider:-

- an increase in Council Tax of £5 at Band D (equivalent to an increase of 1.99%);
- implementation of all of the savings identified at [Appendix F](#) which will reduce the Council's net expenditure by £0.742m in next year;
- use of reserves at a level sufficient to achieve a balanced budget albeit within the parameters of the Reserves Strategy set out above.

59. Table 7 below provides details of Management Team's initial budget proposal for 2018/19:-

**Table 7: Management Team's Initial Budget Proposals for 2018/19**

	<b>Budget 2018/19 £000</b>	<b>Indicative 2019/20 to 2020/21 £000</b>	<b>Total 2018/21 £000</b>
<b>Savings Requirement</b>	<b>714</b>	<b>2,548</b>	<b>3,262</b>
Growing	0	400	<b>400</b>
Charging	135	97	<b>232</b>
Saving	607	1,629	<b>2,236</b>
<b>Total Proposals</b>	<b>742</b>	<b>2,126</b>	<b>2,868</b>
<b>Shortfall / (Surplus)</b>	<b>(28)</b>	<b>422</b>	<b>394</b>

60. The Executive should note that the budget proposal set out above is not without its risks, including the following:-

- the level of savings required continues to pose a significant challenge for the Council. To achieve savings on the scale necessary is likely to require the Council to withdraw from some services and consider alternative service delivery models for others including further collaboration with the private as well as public and/or third sectors;
- using the Council's reserves to balance the budget simply postpones rather than prevents the need for savings. The longer the savings are put off, the greater the challenge will become with less time to react in a planned way;
- using reserves at a rate greater than that presently assumed exposes the Council to the risk of costs for which there are no identified resources; in this scenario the Council would be forced to make reactive savings to balance the budget.

### What if the proposed savings/income generation measures are not implemented?

61. If the Council fails to make the level of savings currently required the shortfall can only be made up from finite reserves. This simply pushes the balance of savings required on to the next year and will exhaust the available balance of non-committed reserves quicker than planned. This is illustrated in Table 8 below which sets out a scenario under which savings of only £500k per annum are achieved over the next 2 years:-

**Table 8: Achieving savings of only £500k in each of the next 2 years**

	Budget 2018/19 £000	Forecast 2019/20 £000	Forecast 2020/21 £000
Savings Not Achieved b/fwd	-	214	1,137
Minimum Level of Savings Required (see Table 5)	714	1,423	1,125
<b>Balance of Savings Required</b>	<b>714</b>	<b>1,637</b>	<b>2,262</b>
In Year Savings 2018/19	(500)	-	-
In Year Savings 2019/20	-	(500)	-
In Year Savings 2020/21	-	-	-
<b>Savings Not Achieved</b>	<b>214</b>	<b>1,137</b>	<b>-</b>
Additional Use of Reserves	(214)	(1,137)	(402)
<b>Budget Deficit</b>	<b>0</b>	<b>0</b>	<b>1,860</b>

**Addendum: Impact on Non-Committed Reserves**

	2018/19 £000	2019/20 £000	2020/21 £000
Opening balance of non –committed reserves (per table 4)	4,653	3,339	1,102
Net budgeted use of reserves (per table 4)	(1,100)	(1,100)	(700)
Additional use of reserves if savings <u>not</u> achieved	(214)	(1,137)	(402)
<b>Total</b>	<b>3,339</b>	<b>1,102</b>	<b>0</b>

62. As the table above illustrates, if lower savings are achieved, combined with no increase in funding, the only option left for the Council to balance the budget each year is to use additional reserves. However, owing to the scale of the projected shortfall the Council would exhaust all non-committed reserves in 2020/21 and still have a residual deficit to address of £1.86m. This position would also use in full the Council’s genuine ‘emergency’ reserve (i.e. the Minimum Working Balance) and is not sustainable. Hence, the Council must start to address this situation now as if it fails to do so it faces having to make drastic reductions in service with no time to plan for a managed transition to a lower cost base.

**Next Steps**

63. For the Executive’s information, Table 9 below provides a forward outline timetable for the remainder of the current service and financial planning process:-

**Table 9: Forward Timetable for the Development of the Budget 2018/19**

Date	Action	Status
May 2017	Update of Medium Term Financial Plan to Executive	Completed
June–Nov 2017	Development of Budget Strategy Options – Budget Working Group	On-going
Oct – Nov 2017	Public Consultation on service delivery options for Waste Services	Completed
Dec 2017	Conclude local scheme of council tax support for 2018/19	This meeting
Dec 2017	Refine Medium Term Financial Plan to 2020/21	Completed
Dec 2017	Executive considers initial budget submission	This report
Dec 2017	Provisional Local Government Finance Settlement 2018/19	Awaited
Dec-Jan 2018	Development of draft Budget 2018/19 completed	In Progress

Date	Action	Status
Jan / Feb 2018	Final Local Government Finance Settlement 2018/19	
7 <sup>th</sup> Feb 2018	Executive recommends Budget and Council Tax to Council	
22 <sup>nd</sup> Feb 2018	Council sets Budget and Council Tax for 2018/19	
Mar / Apr 2018	Service Plans completed and aligned with the approved budget	

## IMPLICATIONS

### Policy

64. The Council's General Fund Revenue Budget supports the delivery of services in pursuance of the strategic objectives set out in the Strategic Plan. The position reported for 2018/19 and the forward projections in the report represent a significant challenge to service provision in the longer term. There is a need, therefore, to put in place a strategic approach to future financial planning with a particular focus on a move to a more sustainable budget base over the medium term planning period. The Council will also need to review policies on the delivery of existing services to determine whether the existing policy direction is affordable within the resources available.

### Financial

65. The financial implications are as given in the report.

### Legal

66. In accordance with s32 and s43 of the Local Government Finance Act 1992 (LGFA 1992), annually the Council must calculate and approve its budget requirement for the forthcoming financial year.

67. Section 25 of the Local Government Act 2003 also requires the Financial Services Manager, as the officer having responsibility for the administration of the Council's financial affairs, to report to the Council on the robustness of the budget estimates and adequacy of financial reserves when determining its budget requirement under the LGFA 1992. This report will be submitted for consideration by the Council when it deliberates the budget submission from the Executive in February 2018.

### Risk Management

68. In relation to the financial risks faced by the Council, there needs to be a balance between maintaining and improving key frontline service delivery and the sustainability of the financial standing of the Council.

69. The Medium Term Financial Plan currently indicates a significant deficit that is unsustainable. Even using reserves to smooth the effect of expected reductions in funding, still requires substantial budget savings to be made to maintain a balanced budget. Using reserves in excess of the amounts set out in the budget strategy proposed would, in the absence of an increase in Government funding, present a real risk to maintaining basic levels of service and require significant savings to be identified in later years of the plan period.

70. The position on the Council's MTFP is recognised on the Council's Strategic Risk Register as the highest risk for the Council as such there is a continual review of the measures required to achieve a balanced budget.

### **Health and Safety**

71. There are no health and safety implications arising directly from the contents of this report. The budget does, however, include provision for ensuring the Council can meet its health and safety obligations as required.

### **Sustainability**

72. As with health and safety implications, there are no sustainability implications arising directly from this report but the proposed budget includes provision, where necessary, to progress issues of sustainability for the Council.

### **Community Safety**

73. There are no community safety issues arising directly from the contents of this report.

### **Equality and Diversity**

74. For all proposed savings proposals, an initial screening has been undertaken to assess at a high level the equalities impact against the recognised protected characteristics. This is provided for information at [Appendix G](#).

### **APPENDICES**

- Appendix A - Summary General Fund: Revised Estimates 2017/18 and draft Base Budget 2018/19
- Appendix B - Budget Variations 2017/18 – Revised Budget compared to Approved Budget
- Appendix C - Budget Variations – Approved Budget 2017/18 to draft Base Budget 2018/19
- Appendix D - Main Assumptions used to develop Base Budget 2018/19 and MTFP 2018/21
- Appendix E - Balances and Reserves
- Appendix F(i) - Proposed Budget Savings 2018/21
- Appendix F(ii) - Supporting Narrative for Proposed Budget Savings Proposals 2018/21
- Appendix G - Initial Screening of Budget Proposals for Equalities Impact 2018/19

### **LIST OF BACKGROUND PAPERS**

Papers held in Financial Services