

## CABINET

16 January 2018

### REVENUE AND CAPITAL BUDGET 2018/19 AND MEDIUM TERM FINANCIAL PLAN

#### Report of the Director for Resources

Strategic Aim:	All	
Key Decision: Yes	Forward Plan Reference: FP/070717	
Exempt Information	No	
Cabinet Member(s) Responsible:	Mr O Hemsley, Acting Leader	
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Ward Councillors	N/A	

#### DECISION RECOMMENDATIONS

That Cabinet:

1) approves for consultation:

- The General Fund Budget for 2018/19 detailed in Appendix 1, section 3
- The savings proposals set out in Appendix 6
- The service pressures contained within Appendix 7
- The Directorate budgets per Appendices 3 - 5
- Options to increase Council tax by either 3.99% or 4.99% including a 2% social care precept
- The capital programme as detailed in Section 4 of Appendix 1

2) notes:

- the budget report is written on the assumption that Council tax is increased by 4.99% although no decision has been made in this regard. Whilst the main report assumes a 4.99% council tax increase, the Medium Term Financial Plan at Appendix 2 includes two models (a version assuming a 3.99% increase and a version assuming a 4.99% increase).
- That the funding position may change when the NNDR (business rates) tax base are finalised and local government finance settlement is received

- That additional revenue or capital expenditure may be incurred in 2018/19 funded through 2017/18 budget under spends to be carried forward via earmarked reserves. The use of reserves for budget carry forwards is not currently shown in the budget but will have no impact on the General Fund
- The estimated deficit of £80,000 on the Collection Fund as at 31 March 2018 (2.6 of Appendix 1) of which £70,000 is the Rutland share
- That Council will be considering the Treasury Management Strategy and Capital Investment Strategy separately

## **1 PURPOSE OF THE REPORT**

- 1.1 The Council is required to set a balanced budget and agree the level of Council tax for 2018/19. This report presents a draft budget for consultation prior to the budget being formally set in February 2018.

## **2 BACKGROUND AND MAIN CONSIDERATIONS**

- 2.1 The detailed budget report is presented in Appendix 1. It covers:

- The funding position and Medium Term Financial Plan (section 2)
- The draft revenue budget for 18/19 (section 3)
- The draft capital budget (section 4)
- Funding for schools (section 6)

- 2.2 The medium term funding outlook remains largely unchanged following the provisional settlement and is summarised below:

- Government funding will continue to reduce over the next few years. Whilst there is still uncertainty beyond 19/20, further cuts are likely despite calls for additional funding.
- Elected Members will be expected to raise revenue locally through council tax to make up some of the shortfall. This principle is exemplified by the Governments decision to allow Councils to increase basic council tax by 3% (up from 2%) from 18/19 to raise additional revenue.
- Whilst the Government is revamping the system for business rates and is reviewing the 'needs' formula and funding allocation method (Fair Funding Review), it is very unlikely that this Council will see any increase in funding in the medium term.
- The Council will have to become less reliant on Government funding and generate its own resources at the same time as having to reduce spending.
- The Council will continue to face demand and cost pressures – adult social care, children's service, welfare support and homelessness – based on recent history.

2.2.1 Despite delivering nearly £1.3m in savings in 18/19, other pressures mean that the budget gap still exists. The Council's budget position for 18/19 (where there is a reliance on £0.247m from the General Fund to balance the budget) is manageable in the short term but not sustainable in the medium term which is why further action is underway.

2.3 The table below summarises some of the key points in response to the questions that Members and the public might ask. It also includes references to where more information can be found.

Key questions	Status	Ref (App 1)
<i>Funding and MTFP (section 2)</i>		
1. What does the 18/19 finance settlement mean for Rutland?	The local government finance settlement for 16/17 included a 4-year settlement offer to local councils. In the 18/19 provisional settlement, DCLG confirmed that the figures quoted in the 'offer' have been updated to include extra Rural Delivery grant of £57k (the extra amount means the grant will be the same as that received in 17/18). In simple terms, Government funding drops from £10.95m in 17/18 to £9.48m in 18/19 – a loss of just under £1.5m.	2.2
2. What funding does the Council have available for 18/19?	With Government funding of £9.48m, Council tax of £24.8m (assuming a 4.99% tax rise) then the Council has £34.289m funding available compared to £34.364m in 17/18. The Council can spend more than this by using earmarked reserves and/or general fund reserves.	2.2
3. How does the Medium Term funding position look?	This is uncertain as the Government funding position is not known from 20/21 but our estimates are that Government funding will decrease to £7.5m by 2022/23 from £9.48m in 18/19. Overall funding will increase assuming the Council continues with 3.99% council tax increases after 18/19.	2.2
4. How might spending plans evolve?	Spending plans from 19/20 onwards assume a c2-3% increase per annum. With general inflation at 3%, pay inflation for 18/19 expected to be c2.64% and 1.5% thereafter, continued pressures in social care and demand led budgets such as transport, there are risks which could result in costs increasing further.	2.4
5. Given existing spending plans, what does the overall position look like?	One of the Council's aims in setting the budget is to deliver services within its MTFP. In this regard, there are two key principles that the Council must achieve over the medium term: <ul style="list-style-type: none"> <li>• First, the Council must not spend more than the resources it has available – it must set a balanced budget and one that does not rely on the ongoing use of reserves;</li> <li>• Second, the Council must ensure that its level of General Fund balances remains above the minimum level of £2m</li> </ul>	2.2 and App 2 MTFP

Key questions	Status	Ref (App 1)
	<p>as advised by the Council's Chief Finance Officer In the medium term.</p> <p>The Council's MTFP shows that over the next 5 years the Council is projecting to spend more than funding available and will use reserves to support spending plans by between £1 - £1.5m per annum.</p>	
6. Is the Council in a healthy financial position?	<p>The Council is using reserves to support spending. In the short term this is sustainable as the Council has sufficient reserves to meet these costs but in the medium term this is not sustainable and action to address the position is ongoing.</p> <p>The Council could, if necessary, reduce net costs in a short time scale to bring the MTFP back into balance by mirroring the actions taken by other Councils. The Council does not need to do this because its level of General Fund balances give it time to close the gap in a measured way that minimises the impact on front line services. Moreover, whilst historically savings have been achieved through efficiencies, in the future the focus will shift to income generation.</p> <p>The Council's St Georges Barracks project with the Defence Infrastructure Organisation (DIO) and other projects are also expected to have a positive impact on the Council's financial position over the medium term. Whilst it is too early to financially model, the benefits of additional council tax, business rates and New Homes Bonus from new homes built could be significant.</p>	1.1 2.4 2.8
7. What level of reserves should the Council aim to retain?	It is proposed that the minimum level is retained at £2m but given the increased level of uncertainty and risk the Council will need to monitor this position. As indicated above, the short term position affords the Council time to reduce expenditure to match funding levels.	2.7
8. What choice does the Council have over the level of Council tax?	<p>The Council can increase general council tax by up to 3% (this was increased from 2% in the Finance Settlement). On top of this, the Council can increase it further by 3% for adult social care purposes (as long as the social care element does not exceed 6% over a 3 year period).</p> <p>The budget assumes a 4.99% increase in council tax with 2% for adult social care but, as indicated above, a 3.99% increase is also being considered (see also section 4.4 below). The Council has seen increases in children's social care in 18/19 but this is not the case for adults.</p> <p>Whilst Members do have a choice, not embracing increases would have a significant impact on balances.</p>	2.5
<i>18/19 budget (section 3)</i>		
9. What does the overall budget look like and how does it	The total budget is £35.752m which includes using £482k of General Fund reserves, £562k of earmarked reserves, £350k of ring fenced reserves and £303k of grants previously received.	3.2

<b>Key questions</b>	<b>Status</b>	<b>Ref (App 1)</b>
compare to prior year?	The year on year comparison is not straightforward as there are one off items which can distort the position. Analysis in Section 3 (Appendix 1) shows that the budget is c4.31% more than last year reflecting some of the pressures the Council is experiencing in fostering and adoption, children with disabilities and transport.	
10. What new savings is the Council planning to make in 18/19?	The budget includes savings of nearly £1.3m comprising £806k of revenue savings, £237k for changes in the calculation of capital financing charges and additional council tax of c£240k based on removal of discounts for empty homes. None of the savings are deemed to have a significant impact on front line services.	3.4 and App 6
11. What pressures is the Council facing in 18/19?	The Council uses the term “pressures” to describe increased spending at a service level. Some increased spending arises because the Council plans to spend earmarked reserves – funds it has set aside for a specific purpose. These “pressures” do not increase the Council’s base budget and are one off. Pressures that increase the base budget, “real pressures”, in 18/19 total c£1.013m and arise from the Council’s need to deliver its statutory duty in areas where the Council continues to experience increased demand and therefore costs in children with disabilities, fostering and adoption and SEN transport.	3.5 and App 7
12. Could there be further changes to the budget?	Yes, the draft budget will now be subject to consultation including review by Scrutiny Panels and other issues might also emerge. Cabinet will consider any revisions put forward by Members or officers prior to any Council decision.	N/A
<b>Capital (section 4)</b>		
13. What is the capital budget?	The capital budget includes £16.25m of ongoing projects and £14.242m of funds set aside for projects waiting approval.	4.4
14. Are there any additions/amends to the current capital programme?	Many schemes continue into 18/19. Some funding, e.g. highways, has been set aside and spending plans will be presented and approved in due course.  Capital plans include £10m set aside for commercial investment activity to be undertaken in line with the Capital Strategy to be presented for approval in January.	4.2 – 4.4
15. What capital resources are available?	The Council has capital resources which are not yet allocated of c£10.5m.	4.6

### **3 CONSULTATION**

3.1 The Council is required to consult on the budget as set out in Section 6 below and

has plans in place to meet those requirements. As per the prior year, it is proposed that consultation for 18/19 includes:

- consideration by each of the Scrutiny Panels at special meetings in January;
- a meeting with representatives of the local business community in February;
- a presentation of the budget to the Parish Council Forum in January; and
- consultation online, static displays at libraries and publicity through the local print and broadcast media from 17<sup>th</sup> January to 7<sup>th</sup> February.

3.2 The outcome of the consultation will be reported to Cabinet or Council in February depending on the timing of events to enable it to consider the views expressed when making its recommendation to Council on the budget.

## **4 ALTERNATIVE OPTIONS**

4.1 There are three key areas where the Council has choices: revenue savings/pressures, the capital programme, council tax funding and reserve levels. These are considered separately.

### **4.2 Revenue savings/pressures**

4.2.1 Option 1 - In terms of revenue savings/pressures Members could approve all savings/pressures for consultation – this is the recommended option. Where savings have been put forward Officers are of the view that these are achievable without impacting on front line services. The budget includes service pressures most of which arise from a need to respond to statutory requirements and/or unavoidable circumstances such as demand.

4.2.2 Option 2 - Members could reject all savings/pressures – this would mean that in those areas where savings have been put forward officers would revert back to original spending plans. In light of the future funding outlook this is not advisable. In terms of pressures, then where these are included to respond to statutory requirements, Officers would need to find alternative savings either before the budget was set or in-year; otherwise it is likely that the budget would be overspent. The rejection of all proposals is not recommended.

4.2.3 Option 3 – Members could approve savings/pressures with amendments. Members would need to be mindful of the financial implications of doing this on the overall financial position.

### **4.3 Capital programme**

4.3.1 The capital programme for 18/19 includes projects already approved by Cabinet/Council. Approvals for projects to be included in the programme will be sought in separate reports.

### **4.4 Funding**

4.4.1 The MTFP includes funding assumptions. The majority are based on the professional judgement of officers taking into consideration the settlement allocation and all other available information. The one key funding decision that

Full Council has to make is around Council tax levels.

4.4.2 The draft budget assumes a 4.99% council tax increase although both 3.99% and 4.99% are still being considered. In making this decision, Members need to be aware of the following issues:

- The Council accepted a 4 year funding offer in September 2016. This offer included a **significant reduction in Government funding** over the four year period.
- Government's funding allocations announced in 16/17 in the four year offer assumed **Councils will raise council tax** – this assumption has not changed with Councils now allowed to increase general council tax by 3%. Members should note that prior to 16/17 council tax was not increased for 6 years;
- **All decisions have a cumulative impact** – for example, the 'loss' of funding by retaining Council tax at its current level may be c£1m in 18/19 but over a 4 year period the loss is in excess of £5.1m (even if 3.99% increases are applied from 19/20 onwards). Members should note that even with Council tax rises of 2% for the next five years, the Council would have no General Fund balances remaining in 22/23 and would not be able to balance the budget unless of course substantial savings were made; and
- **Making savings is unlikely to compensate for loss of Council tax** – the MTFP already assumes substantial savings have to be made over the life of the MTFP.

4.4.3 A summary of the impact of the decision re council tax is given below.

<b>Impacts</b>	<b>3.99%</b>	<b>4.99%</b>
<b><i>On residents</i></b>		
Council tax per Band D property	£1,608.66	£1,624.13
Weekly cost (Band D)	£30.93	£31.23
Maximum weekly cost for those receiving council tax support	£7.73	£7.81
Number of households paying the full charge	9,665	9,665
Number of households receiving single persons discounts/ council tax support	7,418	7,418
Council tax support funding available for hardship cases	£25,000  Only £7k spent in 17/18 as number of applications has been low	£25,000

<b>Impacts</b>	<b>3.99%</b>	<b>4.99%</b>
<i>On MTFP</i>		
Council tax yield for 18/19	£24.633m	£24.870m
Extra yield (over 5 years)	-	£1.310m
Reliance on reserves in 18/19	£0.484m	£0.248m
Estimated reserves in 22/23	£2.819m	£4.129m

#### **4.5 Reserve levels**

- 4.5.1 The Councils Section 151 Officer (Assistant Director – Finance) is recommending that the minimum General Fund reserve level is maintained at £2m. More detail is given in Appendix 1, Section 7.

#### **5 FINANCIAL IMPLICATIONS**

- 5.1 The draft budget as presented relies on a contribution of £248k from the General Fund. This is affordable in 18/19 but in the medium term net expenditure needs to be reduced.

#### **6 LEGAL AND GOVERNANCE CONSIDERATIONS**

- 6.1 The Council is on course to agree its budget and set its Council Tax for 2018/19 within the timetable required by statute and the constitution.
- 6.1.1 In setting a budget and level of council tax, the Council has to meet a number of statutory requirements and also ensure compliance with its constitution. The table below sets out how the Council intends to meet those requirements.

<b>Requirement</b>	<b>Status</b>
<i>Statutory requirements under Local Government Finance Act 1992:</i>	
To levy and collect council tax	To be approved at Council in February 2018
To calculate budget requirements and levels of council tax	To be approved at Council in February 2018
To consult representatives of persons subject to non-domestic rates about proposals for expenditure	To be presented at Business event in February
To approve the budget and set Council Tax by 11th March in each year	To be approved at Council in February 2018



<b>Requirement</b>	<b>Status</b>
The Council is also required by the Local Authorities (Funds)(England) Regulations 1992 in exercise of the powers under section 99(3) of the Local Government Finance Act 1988, to make an estimate on 15 January of the amount of the deficit or surplus on the Collection Fund as at 31st March 2018. This report sets out an estimated figure.	Appendix 1, Section 2.6
<i>Statutory requirements under Local Government Act 2003:</i>	
Under section 25 of the Local Government Act 2003 the Section 151 Officer is required to report to the Council on the robustness of the estimates made for the purpose of setting the Council Tax and the adequacy of the proposed financial reserves.	Appendix 1, Section 3.8

## **7 EQUALITY IMPACT ASSESSMENT (EIA)**

- 7.1 In the exercise of its functions, the Council must have due regard to the Council's duty to eliminate discrimination, to advance equality of opportunity for protected groups and to foster good relations between protected groups and others.
- 7.2 The Council has completed EIA screening for all savings proposals and for the proposed tax increase (see Appendix 1, section 3.9). There are no proposals for decision on specific courses of action that could have an impact on different groups of people and therefore full EIAs are not required.

## **8 COMMUNITY SAFETY IMPLICATIONS**

- 8.1 There are no community safety implications.

## **9 HEALTH AND WELLBEING IMPLICATIONS**

- 9.1 There are no health and wellbeing implications.

## **10 CONCLUSION AND SUMMARY OF REASONS FOR THE RECOMMENDATIONS**

- 10.1 The Council is required to set a balanced budget and agree the level of Council tax for 2018/19.
- 10.2 The draft budget for consultation is affordable within the context of the MTFP and will allow the Council to meet service aims and objectives for the coming year.

## **11 BACKGROUND PAPERS**

11.1 There are no additional background papers to the report.

## **12 APPENDICES**

Appendix 1	Budget Report 2018/19
Appendix 2	Medium Term Financial Plan and assumptions
Appendix 3.1	People Directorate – functional analysis
Appendix 3.2	People Directorate – subjective analysis
Appendix 4.1	Places Directorate – functional analysis
Appendix 4.2	Places Directorate – subjective analysis
Appendix 5.1	Resources Directorate – functional analysis
Appendix 5.2	Resources Directorate – subjective analysis
Appendix 6	Savings
Appendix 7	Pressures
Appendix 8	Earmarked Reserves
Appendix 9	Capital programme

A Large Print or Braille Version of this Report is available upon request –  
Contact 01572 722577.