

CABINET

14 February 2017

REVENUE AND CAPITAL BUDGET 2017/18 AND MEDIUM TERM FINANCIAL PLAN

Report of the Director for Resources

Strategic Aim:	All	
Key Decision: Yes	Forward Plan Reference: FP/260816/01	
Exempt Information	No	
Cabinet Member(s) Responsible:	Councillor Tony Mathias, Leader and Portfolio Holder for Finance and Places (Highways, Transport and Market Towns)	
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Ward Councillors	N/A	

DECISION RECOMMENDATIONS

Cabinet recommends to Council that it:

- a) approves the revenue budget for 2017/18 shown in summary at Appendix 1, Section 3 and in detail at Appendices 3, 4 and 5
- b) approves that the minimum level of general reserves remains at £2m over the period of the medium term financial plan
- c) approves a council tax increase of 3.99% including a 2% social care precept
- d) approves the capital programme as detailed in Section 4 of Appendix 1
- e) notes the Medium Term Financial Plan at Appendix 2 and underlying assumptions
- f) increases the ceiling on the social care earmarked reserve to £1m and authorises the Assistant Director – Finance to top up the reserve to £1m as part of the 16/17 outturn
- g) creates a new “pressures” earmarked reserve with a ceiling of £1m as per Appendix 1 para 2.7.8, and authorises the Assistant Director – Finance to put

an initial contribution of £500k that reserve as part of the 16/17 outturn

- h) notes that additional revenue or capital expenditure may be incurred in 2017/18 funded through 2016/17 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
- i) approves a collection fund surplus of £196,000 for distribution of which £170,000 is the Rutland share
- j) notes that the Council is being asked separately to approve the Treasury Management Strategy, but that any implications from it are already covered in the final budget

1 PURPOSE OF THE REPORT

- 1.1 The Council is required to set a balanced budget and agree the level of Council tax for 2017/18. This report presents the final budget for Cabinet to recommend to Council for approval.

2 BACKGROUND AND MAIN CONSIDERATIONS

2.1 Overall position

- 2.1.1 The budget for 2017/18 is set within the context of the Governments 4-year settlement offer made in November 2015 and accepted in September 2016.
- 2.1.2 The Autumn Statement and 17/18 Local Government Finance Settlement resulted in little new funding for the Council. The Council did receive a new adult social care grant of £136k but this was outweighed by changes to the New Homes Bonus scheme which results in estimated losses of over £800k up to 20/21.
- 2.1.3 The reduction in New Homes Bonus funding was to some extent already anticipated as the Council's MTFP assumed a loss of £1.6m (up until 20/21) with the reduction of six year payments (of £1,540 per Band D equivalent) to four year payments. However, the introduction of a 0.4% baseline (c65 properties) below which no funding is received creates further losses of in excess of £800k as noted above.
- 2.1.4 The lack of any substantial new funding in the Finance Settlement coupled with the freedom Councils were given to bring forward council tax rises (for adult social care purposes) reiterates the Government's stance on local authorities needing to generate their own funding.
- 2.1.5 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:
 - 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;

- Second, the Council must ensure that its level of General Fund balances remains above the minimum level of £2m as advised by the Council's Chief Finance Officer (para 2.7 of Appendix 1 refers).

2.1.6 In the medium term, the MTFP shows the challenges facing this Council – namely that assuming the Council raises Council tax by 3.99% each year (including levying the additional 2% social care precept) we will still have to reduce net expenditure by c£2m to ensure that it is spending within its available funding. The earlier the Council takes action then the less severe it will need to be.

2.1.7 The revenue budget for 17/18 is therefore set in the acknowledgement that further reductions in net expenditure either through savings or income generation will be required in time without drastic action today.

2.2 Changes since draft budget - Revenue

2.2.1 Cabinet approved a draft budget for consultation (Report 08/2017) on 10th January. Since that date various amendments have been made – the full list is given in Appendix 11. The following key points should be noted:

2.2.2 **Funding settlement** - the final funding settlement is still awaited but unlike in 16/17, it is expected that there will be no new funding made available.

2.2.3 Specific grants

- In late December, the Council were notified that there would be a final year of Special Educational Needs Disabilities reform grant funding to support the transition to the new system for special educational needs and disability. The grant for 2017/18 is £28k and it is anticipated that this will be spent during the year. The revised budget includes the grant income and additional spend.
- In December, the Council also received notification of a new annual fund to tackle the problem of high levels of second homeownership in their communities. The Community Housing Fund will be targeted at the community-led sector and distributed to groups via local councils. The overall fund nationally will be £60m and will help almost 150 councils. Whilst allocations to individual councils have yet to be announced, a list of councils who will receive funding has been published. The funding allocated to the East Midlands is £2.69m with Rutland being one of four councils named as being the recipients of this funding. The budget does not include any allocation at present.
- The Council received an Adult Social grant of £136k. The draft budget included this grant in the social care earmarked reserve. This funding has now been included in the Directorate budget to support officers in undertaking work to look at how care is delivered and a review of direct payments.

2.2.4 **Business rates** - the Council has completed its NNDR1 return and business estimates to Government. There have been no updates to the draft budget but Members should note that business rate projections can be volatile as they are based on many variables (Appendix 1, 2.2.11 gives more details).

2.2.5 **New Homes Bonus** - the Council receives different bonus payments depending on the Banding of new properties with higher banded properties attracting more

bonus. The draft budget assumed that housing growth of 274 homes in 2017/18 would translate, on average, into Band D properties (a conversion rate therefore of 1:1). The build profile in Quarter 1 of the NHB year suggests that lower banded properties are being built and therefore income assumptions have been revised downwards. There is no impact in 17/18 but there is a £19k impact in 18/19 and £38k in 19/20 and 20/21.

- 2.2.6 **Collection fund** – the surplus on the Collection Fund is confirmed as £196k.
- 2.2.7 **Better Care Fund** – the 2017/18 budget process is yet to be confirmed and signed off by NHS England and will be updated in due course.
- 2.2.8 **Spending plans** – amounts to be spent by Directorates have changed to reflect the use of grants as explained in 2.3.3 and to reflect the proposal by Cabinet to increase parking fees. This will yield an estimated additional £85k above that declared in the draft budget.
- 2.2.9 Whilst there are always fluctuations in demand for services, no additional pressures have been recognised at this time.

	Draft budget 2017/18 £000	Final 2017/18 £000
People	16,135	16,379
Places	12,299	12,240
Resources	5,404	5,398
<i>Sub-Total Directorate budgets</i>	33,838	34,017
Headcount Saving	(121)	(121)
Pay Inflation contingency	45	45
Social care contingency	200	250
<i>Sub-Total Contingencies & Corporate Savings</i>	124	174
Net cost of services	33,962	34,191
Revenue contribution to capital	0	0
Appropriations	(1,897)	(1,897)
Capital financing costs	1,905	1,905
Interest income	(180)	(180)
<i>Sub-Total Capital</i>	(172)	(172)
Total Net Spending	33,790	34,019
Funding	(33,615)	(33,730)
Use of earmarked reserves	(108)	(270)
Use of General Fund reserves	67	19

2.3 Changes since draft budget - Capital

- 2.3.1 Two updates have been made since the draft budget. Following a Government announcement regarding Roads Funding the Council has received notification that it could receive £378k from the National Productivity Investment Fund for reducing congestion at key locations, upgrade or improve the maintenance of local highway assets to improve access to employment and housing, to develop economic and job creation opportunities.
- 2.3.2 Funding for the National Productivity Investment Funds will be confirmed once

details are submitted on how the funds will be spent. The project will be additional to Rutland's already planned maintenance service or other programmes. Details of the funding should be submitted by 31st March 2017.

2.3.3 Cabinet has agreed to invest £200k from capital receipts to undertake works to transform the Barleythorpe college site into a Business Centre (Report 4/2017). The site will be vacant from August 2017.

2.4 2017/18 budget summary

2.4.1 The draft revenue budget for 17/18 is therefore proposed in the acknowledgement that further reductions in net expenditure either through savings or income generation will be required in time without drastic action today.

2.4.2 The key points to note in the draft revenue budget are:

- The available funding resources to the Council is £33.730m compared to £34.121m last year with RSG reduced from £2.353m to £889k;
- Of the funding available, only £10.3m is from government funding (this includes business rates);
- The available funding of £33.7m assumes that Council increases council tax by 3.99% (including 2% for the social care precept);
- The Council is using £19k from its General Fund and £270k from earmarked reserves to balance its budget;
- The net cost of services is £34.191m, slightly higher than the 16/17 approved budget of £33.993m;
- The 17/18 budget includes a pay award of 1%;
- The 17/18 budget includes a contingency of £250k to meet in-year social care pressures if needed;
- Net capital financing costs are £1.903m;
- The budget includes £807k of new service pressures and other one off expenditure £330k funded from reserves or new grants; and
- The budget includes £817k of new savings and savings planned from previous years of £770k.

2.4.3 The capital programme for 17/18 comprises:

- Capital projects already approved that will span across more than one financial year. Any projects already approved which are not yet completed will continue into 17/18;
- Funding set aside for specific areas/projects – in these areas detailed plans will be brought forward in due course.

3 CONSULTATION

- 3.1 The Council is required to consult on the budget as set out in Section 7 of Appendix 1.
- 3.2 Comments from public consultation were received online and through other means. A full copy of all comments with responses from the Portfolio Holder for Finance is included in Appendix 12.
- 3.3 The budget proposals were discussed at Scrutiny Panels in mid-January. The minutes of Scrutiny meetings are available via the Council website. The then Acting Leader presented the budget and highlighted some of the key points underpinning the budget in particular the loss of central government funding. Scrutiny Panels understand the financial position facing the Council and are aware of the challenges facing the Council. Members questions focused primarily on different aspects rather than the overall financial position. Areas of focus included:
- New Homes Bonus – Members wanted to understand in more detail how the changes made by Government caused a financial loss. The then Acting Leader explained how the Council had made representations to Government asking for compensation.
 - Fees and charges – several questions were raised around fees and charges with the general view that the Council needed to try and be more ‘commercial’, within the boundaries of what is legally permissible. The then Acting Leader explained that Cabinet agreed with this approach and from 18/19 had requested that fees and charges were reviewed much earlier and in more depth. Proposals for parking charges in particular divided opinion.
 - Low cost of services – Members are aware that the Council is low cost in overall terms and wanted this message in particular to be communicated. Given the financial position, Members asked about relative service costs and Officers agreed to look into what additional work could be done in this area building on what has been done previously.
 - Conservation officer – the Council obtains support (1 day a week) from an officer employed by South Kesteven District Council. Whilst officers felt that this level of support was appropriate, some members expressed concern regarding capacity and whether more support was needed.
 - Impact of savings – Members wanted to understand whether savings would have a front line impact. The Directors views were that this was considered and this was not the case for existing proposals with some examples provided.
 - Bus services – an enquiry was made about the withdrawal of the A47 Uppingham/Leicester Bus Service. The Acting Leader explained that the Council would step in the short term to fund this route but that this would be reviewed later in the year based on usage.
 - Delayed Transfers of Care (DTOC) – Members wanted to understand the Councils performance in this area. It was explained that performance was strong and that this has a positive financial impact on the Council. The Council had reduced DTOC (arising from social care delays) by 80% and that the CCG had recognised the significant improvement.

- Education – various questions were asked about Education funding and the Councils education services provision. The Director explained that education funding is under national review and that changes to the national funding formula could have an adverse impact locally and the Council were lobbying in this regard. At the same time, alongside the national debate, the new Head of Learning and Skills would be reviewing the Councils provision.
- Homecare rates – Members had seen the UK Home Care Association report indicating that Councils should be paying £16.70 per hour for Homecare and noted the current rate is 24p under this amount. It was explained that the Council is re-commissioning this service so the rate will be reviewed again but also that the Council has one of the highest rates in the region and the average rate can be skewed by amounts paid in London for example.

3.4 The Council is holding a Business Summit on 9th February and feedback from this event will be presented at the Council meeting.

4 ALTERNATIVE OPTIONS

4.1 There are four key areas where the Council has choices: revenue savings/pressures, the capital programme, funding decisions 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.

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 17/18 includes projects already approved by Cabinet/Council.

4.3.2 Cabinet will be asked to delegate responsibility to officers in consultation with Portfolio Holders to work up the detail of projects and incur expenditure in relation to IT projects.

4.3.3 IT infrastructure spend can be incurred on a new system or upgrading existing

equipment. Delegation will be requested for reasons of expediency and to avoid bringing back requests for small value projects. Members could choose not to approve this delegation and require full Cabinet approval.

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 whether to increase Council tax.
- 4.4.2 This decision is fundamental to the amount of funding the Council will have available over the next five years given the cuts in Government funding. In making these decisions, 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 assume **Councils will raise council tax** – this assumption is not changed in the Finance Settlement – there is no new core funding for Council;
 - **All decisions have a cumulative impact** – for example, the 'loss' of funding by retaining Council tax at its current level may be c£800k in 17/18 but over a 4 year period the loss is in excess of £3m (even if 3.99% increases are applied from 18/19 onwards); and
 - **Making savings is unlikely to compensate for funding reductions** – the MTFP already assumes substantial savings have to be made over the life of the MTFP, over £2m by 19/20.
- 4.4.3 It is strongly recommended that the Council increases council tax by 3.99% (including the social care precept).

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 and that £1m of existing General Fund balances are transferred to earmarked reserves (para 2.7.6 of Appendix 1 explains in detail).
- 4.5.2 Many authorities keep a lower level of General Reserves and set funds aside in earmarked reserves. The rationale for this is that a high level of General Fund balances can give a distorted view of financial health. As authorities know that additional pressures or liabilities are inevitable creating earmarked reserves to cover these gives a better balanced view of the real level of General Fund balances.
- 4.5.3 It is therefore **proposed that the £1m transfer** includes a top up of £500k to the **social care reserve and that the ceiling is increased to £1m**. Other than a £250k contingency, the MTFP includes no additional contingency for increased demand for social care. Some Councils include an amount for unpredicted demand in spend forecasts. The Council is opposed to this approach as it can

discourage budget managers from taking corrective action or looking at alternative means of living within the budget. However, it is very likely that additional demand will be experienced at some point over the medium term as evidenced by work undertaken by the People Directorate which indicates that the 80+ population is expected to grow by just under 50% in the next 10 years.

- 4.5.4 It is also proposed that £500k is put into a new **pressures reserve** (with a ceiling of £1m) to meet the costs of price pressures (as seen with recycling costs in 16/17); uncontrollable demand for services outside of social care; and other one-off costs. As officers submit pressures for consideration in the annual budget a contribution would be made from the earmarked reserve thereby reducing the impact on the General Fund. There is no allowance in the MTFP for pressures at present.
- 4.5.5 Council could choose not to implement these changes. Technically, the overall position would not change but Members would need to bear in mind that all future non-social care pressures and any social care pressures above the existing reserve level would need to be funded from General Fund reserves.

5 FINANCIAL IMPLICATIONS

- 5.1 The draft budget as presented relies on a contribution of £19k from the General Fund. As set out above, this is affordable in 17/18 but in the medium term net expenditure needs to be reduced by just under c£2m.

6 LEGAL AND GOVERNANCE CONSIDERATIONS

- 6.1 The Council is on course to agree its budget and set its Council Tax for 2017/18 within the timetable required by statute and the constitution.
- 6.2 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. This report meets that requirement and comment is made in Appendix 1, Section 3.8.
- 6.3 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 2016. This report sets out an indicative figure to be formally confirmed in the February budget.
- 6.4 A full list of legal and governance considerations and how the Council meets them is covered in Appendix 1, Section 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 the 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 2017/18.

10.2 The budget 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 2017/18
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	Education Services Funding
Appendix 9	Earmarked Reserves
Appendix 10	Capital programme
Appendix 11	List of changes to draft budget
Appendix 12	Consultation responses

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