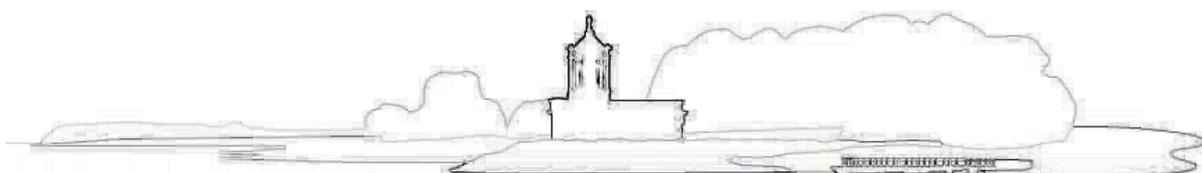




Rutland County Council

The Budget 2017 - 18



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1 EXECUTIVE SUMMARY

1.1 Overview from s151 Officer

- 1.1.1 In December 2015 the Government offered the Council a 4-year funding settlement which was accepted in September 2016. In the 17/18 Finance Settlement, the Government confirmed the offer and therefore the Council's government core funding position is similar to that reported in the prior year in that RSG will fall to 'zero' by 19/20 with the Council handing over an additional £1m to Government in business rates. Unfortunately, the settlement brought with it no major additional funding other than an adult social care grant of £136k but it did confirm changes to New Homes Bonus which will result in further losses of funding of in excess of £800k (the actual amount will depend on the number of properties built) to 20/21.
- 1.1.2 Whilst the Government is revamping the system for business rates (100% Business Rates Retention) and is reviewing the 'needs' formula and funding allocation method (Fair Funding Review), the finance settlement indicates that there is very unlikely to be additional government funding for existing duties although this Council and the LGA continue to lobby based on undoubted pressures that local government is facing. In addition to a loss of central government funding, council tax and business rates income will also be under pressure with the closure of St George's Barracks in 2020/21.
- 1.1.3 Alongside funding cuts and uncertainty, the Council continues to experience pressure on its base budget, not from new investment, but from increased demand for existing services (adoption and fostering, children's social care and transport) and changes in the economic environment which continue to have a negative impact on costs (waste management).
- 1.1.4 The medium term funding outlook therefore remains unchanged in that Government funding will reduce over the next few years with Elected Members expected to raise revenue locally through council tax to make up the shortfall at the same time as having to oversee reductions in net spending against a backdrop of demand and cost pressures. The key change in the settlement is that Councils will be allowed to raise a social care precept of up to 3% in 17/18 and 18/19 (but still cannot exceed 6% over the next three years). This would mean that Councils can levy more council tax for social care in 17/18 and 18/19 if they have an urgent need.
- 1.1.5 In the Quarter 2 MTFP, the Council estimated that by 20/21 the financial gap would be in the region of £2.8m. Following confirmation of the funding settlement, review of financial planning assumptions and the detailed budget work, the gap is now estimated at £1.878m. The Quarter 2 MTFP assumed that the Council would be using just over £1m of General Fund reserves to balance the budget in 17/18 but this has been reduced to £19k. Whilst there is still an overall funding gap, further savings proposals and investment opportunities are being developed for 18/19 and 19/20 which will reduce the gap further.

- 1.1.6 In terms of General Fund balances, the reduced 17/18 budget deficit has had the impact of slowing down the attrition of General Fund balances. Last year, it was predicted that by 20/21 balances would be at £1.785m but now they are expected to be at £5.548m. A combination of new savings, greater housing growth and additional business rates has slowed down the anticipated reduction in General Fund balances. Whilst the position is still not tenable in the medium term, the Council has more time to tackle the challenge.
- 1.1.7 For the next few years therefore the Council's remit remains the same: to work towards reducing its deficit position so that it can live within its means by:
- focusing its resources on priority areas in line with the new corporate plan;
 - continuing to ensure that it focuses on achieving value for money/best value;
 - continuing with its plans to identify and deliver savings;
 - looking for opportunities to be more commercial and generate revenue income from investments; and
 - embracing the flexibility given by the Government to raise council tax.
- 1.1.8 As noted in its efficiency plan, approved by Council in September 2016, given that the Council has already made substantial savings and that its service costs per head are the lowest amongst unitary councils, there is a low likelihood of the Council being able to meet the challenge without an impact on front line services. Future savings proposals are likely to involve some difficult decisions including:
- withdrawing service provision in non-statutory areas;
 - reducing or rationalising service provision in some areas; and
 - asking stakeholders to contribute more to the cost of service delivery.
- 1.1.9 Following the outcome of consultation and further to announcements from Government, confirmation of grant funding and completion of the forecast for business rates income, some changes have been made to the draft budget. These changes result in a reduction in use of the General Fund of £48k compared to the draft budget.
- 1.1.10 My summary of the position for the proposed 17/18 budget is as follows:
- 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 of £330k funded from reserves or new grants; and
- The budget includes £817k of new savings and savings planned from previous years of £770k.

1.2 Key questions and answers

1.2.1 Delivering Council Services within the MTFP is a key priority for the Council. The remainder of this report gives Members answers to some of the key questions relevant to the budget setting process. Further detail can be found in individual sections.

Key questions	Status	Ref
<i>Statutory and constitutional requirements (section 8)</i>		
1. Overall Position – Is the Council on track to meet its constitutional and statutory requirements?	Statutory requirements yes, but the draft budget was pushed back to January 2017 to give an opportunity for the detailed local government settlement to be processed.	Section 8
<i>Funding and MTFP (section 2)</i>		
2. What resource does the Council have available in 17/18 and over the next few years and how certain is it?	The Council's resources have reduced from 16/17 and are predicted to reduce further. Total available resources in 19/20 (the last year of the 4 year offer) will be less in cash terms than those available in 16/17.	2.2 and Appendix 2 MTFP
3. 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. The	2.7

Key questions	Status	Ref
	short term position affords the Council time to reduce expenditure to match funding levels.	
4. What choice does the Council have over the level of Council tax?	The Council can decide to keep Council tax at the current level or increase it by up to 4.99% (including 3% for social care). The budget assumes a 3.99% increase in council tax. Whilst Members do have a choice, not embracing a 3.99% increase would have a significant impact on balances.	2.5
5. Is the Council in a healthy financial position?	In the short term the position is stable and the budget for 17/18 has improved the financial position. The Council's current forecasts indicate that spending plans exceed available resources and therefore action is still required before General Fund reserves are reduced significantly.	2.8
<i>17/18 budget (section 3)</i>		
6. What does the overall budget look like and how does it compare to prior year?	The 17/18 final budget is in cash terms 0.6% higher than 16/17. In achieving this position a number of uncontrollable pressures have been absorbed.	3.2
7. Priorities – how does the proposed budget support the Council's priorities?	The Council's spending plans continue to promote the Council's priorities in line with the new corporate plan. The Corporate Plan includes some key financial targets which this budget contributes towards.	3.6
8. What new savings is the Council planning to make in 17/18?	The budget includes £1.58m of savings. £817k are new savings and £770k relate to savings already built into the MTFP. None of the savings are deemed to have a significant impact on front line services.	3.4
9. What pressures is the Council facing in 17/18?	The Council continues to experience pressure on its base budget (new pressures of £807k and already known pressures of £185k). Pressures arise from increased demand for services (adoption and fostering, children's social care and transport) and cost pressures (waste management).	3.5
<i>Capital (section 4)</i>		
10. Are there any additions/amends to the current capital	Most schemes continue into 17/18. Some funding, e.g. highways, has been set aside and spending plans will be presented and approved in due course.	4

Key questions	Status	Ref
programme?		
<i>Consultation (section 7)</i>		
11. How has the Council consulted on the budget?	Through Scrutiny Panels, on-line consultation, a meeting with local business and the local parish council forum. Results are shown in Section 7 and Appendix 12	7.1

2 FUNDING AND MEDIUM TERM FINANCIAL PLAN (MTFP)

2.1 Overview

2.1.1 This section sets out the financial context for the 17/18 budget and in particular the financial position over the MTFP, taking into account:

- The finance settlement and available funding (2.2);
- Funding issues and risks beyond 17/18 (2.3);
- Indicative spending plans and risks (2.4);
- Council tax choices (2.5 including the Collection Fund– 2.6); and
- Level of General Fund reserves needed (2.7).

2.1.2 The Council has a rolling MTFP where all funding assumptions and spending plans are reviewed and updated. The table below summarises how the MTFP has changed since that published at Quarter 2 and the impact this has had on the overall position. The detail is explained further in this report and the position is summarised in 2.8. This table has been updated since the draft budget was produced to reflect various changes as listed in Appendix 11.

	Detail	17/18 £m	18/19 £m	19/20 £m	20/21 £m
Pre budget report position (Q2) gap		1.0273	2.1549	2.7721	2.8313
Net cost of Services	Section 3	(0.2158)	(0.4194)	(0.5772)	(0.6918)
Misc government grant	2.2.3	(0.1792)	0.0033	(0.0456)	0.0160
New Homes Bonus	2.2.5	(0.0400)	0.1954	0.2976	0.3586
Better Care Fund	2.2.7	0	0	0	0
Council Tax/Social Care Precept	2.5	(0.1504)	(0.2993)	(0.4039)	(0.5054)
Collection Fund	2.6	(0.1700)	0	0	0
Rural Delivery Grant	2.2.1	0	0	0	0
Transitional grant	2.2.1	0	0	0	0
Business rates	2.2.8	(0.1080)	(0.1278)	(0.1464)	(0.1441)
RSG	2.2.1	0	(0.0307)	0	0
Earmarked reserves use	3.7	(0.1454)	(0.1544)	(0.0852)	0.0140
Post budget gap		0.0185	1.322	1.8114	1.8786
Change in Gap		(1.0088)	(0.8328)	(0.9607)	(0.9527)

2.2 The finance settlement - what is the available funding and overall position for Rutland?

2.2.1 The local government finance settlement for 16/17 included a 4-year settlement offer to local councils (as set out in the table below) which the Council accepted. In the 17/18 Finance Settlement, DCLG confirmed that the figures quoted in the 'offer' have not changed (the offer was subject to an annual refresh in the event of exceptional circumstances) although the extra tariff payable in 18/19 (worth £30,692) has now been removed.

	2016/17	2017/18	2018/19	2019/20
RSG	(2,353,919)	(888,716)	0	0
Transitional Grant	(339,932)	(336,573)	0	0
Rural Service Delivery Grants	(843,258)	(680,891)	(523,763)	(680,891)
Tariffs relating to Business Rates (extra payment to Government)	0	0	0	958,318
Total core government funding	(3,537,109)	(1,906,180)	(523,763)	277,427

2.2.2 In terms of core government funding, the Council therefore is receiving 45% less than in 2016/17. In terms of other government/external funding, the Council's key income streams are set out below with some commentary.

	2016/17	2017/18	2018/19	2019/20
Misc grants (2.2.3)	(350,641)	(351,128)	(117,728)	(115,728)
New Homes Bonus (2.2.5)	(1,230,024)	(1,214,332)	(1,266,270)	(1,265,755)
Better Care Fund (2.2.7)	(2,061,200)	(2,061,200)	(2,061,200)	(2,061,200)
Business rates (2.2.8)	(4,770,200)	(4,785,764)	(4,917,954)	(5,115,963)
Total other government funding	(8,412,065)	(8,412,424)	(8,363,152)	(8,558,646)
Ring-fenced government funding (e.g. public health)	1,359,000	1,326,000	1,291,100	1,256,000

2.2.3 The Council receives few **grants** from Government departments. In the draft 2017/18 budget, we assumed the following grants would be received: Adult social grant (£136k), a grant for social care in prisons from the Department of Health (£54k) and school improvement/Education services grant (£46k).

The final budget includes a Special Educational Needs reform grant (£28k), anticipated additional school improvement grant of £21k and an Independent Living Funding grant of £66k (this was assumed to be no longer available).

2.2.4 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. As the Council has not received a specific allocation no amount is included in the budget for now.

2.2.5 In terms of **New Homes Bonus (NHB)** various changes have been announced to the funding mechanism. Six year payments have been reduced to four (this was expected) albeit with a transitional five year payment in 17/18 but more significantly the Government has decided to implement a baseline of 0.4% growth (on existing dwellings) below which the bonus will not be paid. The loss over the period of the 4 year offer is £775k.

2.2.6 The MTFP assumes house building of c160 pa from 19/20 but a higher number in the next two years as shown below. The MTFP also includes a revised calculation for NHB. 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 a lower conversion rate therefore income assumptions have been revised downwards. The impact on the GF is £19k in 18/19, £37k in 19/20 and £37k in 20/21.

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Builds expected	274	252	158	158	158	158

2.2.7 In 2016/17 the Government indicated that this Council would see no increase in its **Better Care Fund** so the fund continues to be included at its 16/17 level. The BCF planning guidance for 17/18 has been issued but unfortunately the spending power summary includes no additional funding for Rutland. The BCF budget will be refreshed as part of Q1 when the budget for 17/18 has been agreed through NHS England.

2.2.8 Local government now retains 50% of the **business rates** collected. In Rutland, 1% is paid to the Fire Authority, and 49% is retained by the Council. This is known as the “business rate retention scheme”. Of the 49% retained, the Council pays a tariff to the Government (valued at £1m).

2.2.9 Whilst there have been substantial changes to business valuations this year resulting in local business paying £1.5m (before transitional relief and other discounts are applied) more in business rates, the Council will only keep a level of business rates commensurate with what the Government believes it needs – this baseline is £4.159m in 17/18. If the yield is above this level the Council will pay a levy of 20% (up from 16% last year).

2.2.10 Estimates of rates payable by businesses (and how much the Council will collect) have been based upon:

- the existing new rateable value;
- changes in rateable value for known significant developments;
- estimates of the cost of reliefs; and
- provision for successful appeals.

2.2.11 When the draft budget was produced, business rate estimates had not been completed but now this work has been done there is no reason to change the estimates. The most difficult element in estimating rates income is the effect of appeals by rate payers. If our appeals provision is lower than actually needed then the Council will take a loss on business rates income. Conversely, if the provision is higher than actually needed, there will be a notional gain on business rates income. The Government has estimated that the loss on appeals/change to the Rateable Value list could be c4.7% (the list has reduced by over £250k since it was published in December). Using that figure, which is broadly in line with the Council's expectations, the Council's business rate income will be c£4.785m (£100k more than expected in the Q2 MTFP reflecting net growth).

2.2.12 The Government will continue to compensate lost income to local authorities for small business rate relief by means of a separate grant, which has been included in the rates income figures.

2.2.13 In overall terms therefore the Council's government/external funding is reducing year on year with the MTFP assuming that Members will continue to raise council tax and levy the social care precept (discussed in more detail in 2.5).

	2016/17	2017/18	2018/19	2019/20
Core government funding	(3,537,109)	(1,906,180)	(523,763)	277,427
Other funding	(8,407,046)	(8,412,424)	(8,363,152)	(8,558,646)
Total government funding	(11,944,155)	(10,318,604)	(8,886,915)	(8,281,219)

	2016/17	2017/18	2018/19	2019/20
Council tax (inc collection fund and social care precept)	(22,172,000)	(23,412,155)	(24,513,100)	(25,745,200)
Total resources	(34,116,155)	(33,730,759)	(33,400,015)	(34,026,419)
Use of earmarked reserves	(1,446,000)	(270,200)	(279,200)	(163,800)

2.2.14 In summary, the overall settlement for 17/18 has not substantially changed the overall position from the prior year. In order for the Council to keep funding at a level commensurate with 16/17 cash levels (6-7% less after inflation) by 19/20 it needs to raise council tax by 3.99% each year.

2.3 Beyond the 2017/18 settlement – what funding issues are on the horizon and how do they impact the MTFP?

2.3.1 The table below goes into detail about a range of announcements/ongoing matters that could directly or indirectly affect local government and this council.

Issue	Impact
<p>By the end of the Parliament local government will retain 100 per cent of business rate revenues.</p> <p>The system of top-ups and tariffs which redistributes revenues between local authorities will be retained but will be reviewed.</p> <p>The Fair Funding Review is re-examining what the “needs” of authorities are and how funding may be allocated taking into account available resources. This review is unlikely to be concluded by the end of the Parliament.</p>	<p>As with any changes in funding systems there can be winners and losers. It is too early to assess the impact for the Council of 100% business rates retention. The MTFP assumes there will be no change for now.</p> <p>The Fair Funding Review is unlikely to lead to any material change to the Council’s funding as the review explains that the Council’s relative resource position will be taken into account. As this Council is deemed to have a high level of its own resources (i.e. council tax) then its share of any national pot is likely to be low.</p>
<p>The government is considering transferring additional responsibilities to local authorities and funding this through surplus rates.</p>	<p>The MTFP assumes no transfers of responsibility and funding for now. Historically, where there have been transfers, the Council has “lost” funding e.g. council tax benefit. The Council will only lose out if transfers are not cost neutral.</p>

Issue	Impact
<p>The social care precept continues to give local authorities the ability to raise new funding to spend exclusively on adult social care. Some changes have been made to allow Councils to bring forward increase to 17/18 and 18/19 – the detail is covered in 2.5.</p> <p>It is possible that amendments to the power could be made again in due course (i.e. beyond the period of the 4 year offer).</p>	<p>The MTFP assumes in line with Government expectations that the Council will take the opportunity to levy a precept of 2%. An additional 2% on Council tax is worth in excess of £400k pa.</p>
<p>From 2017 the Spending Review makes available social care funds for local government, rising to £1.5 billion by 19/20, to be included in an improved Better Care Fund.</p> <p>No changes to the BCF were proposed in the Autumn Statement or Settlement.</p> <p>Changes to how the BCF is used could create a pressure on the General Fund should funds be diverted from protecting core services to new areas.</p>	<p>The MTFP includes the BCF and expects to continue at its current rate. There is no additional funding for Rutland.</p> <p>The Council has a good working relationship with the CCG and both sides recognise that protecting existing social care services has had a beneficial impact on BCF outcomes such as the avoidance of non-elective admissions.</p>
<p>The Independent Living Fund (ILF) closed on 30 June 2015. From 1 July 2015, the funding and responsibility of ILF care and support needs transferred to local authorities.</p> <p>The Council received a grant to cover costs in 15/16 and 16/17 but it is not known whether this will be received this year.</p>	<p>The Council originally assumed no funding from 17/18 but funding will now be received for the next 3 years.</p>

Issue	Impact
<p>The Government remains committed to introducing the Dilnot reforms to social care, with funding provided in 19/20 to cover the costs of local authorities preparing for these changes.</p> <p>The cap on reasonable care costs and extension of means tested support will then be introduced and funded from April 2020.</p>	<p>The Council assumes that Dilnot reforms will be fully funded although there continues to be a £100k contingency built into the MTFP 18/19.</p> <p>It is not known whether future funding will cover all costs. When plans are set out in detail the Council will need to model the potential impact and use the results as a basis for assessing whether funding will be sufficient to cover marginal costs.</p>
<p>The New Homes Bonus continues albeit with revisions. The length of payments is reduced from six years to four years but there will be a five year transitional payment in 17/18.</p> <p>The key other change is that payments will only be made for growth above a baseline of 0.4% of existing dwellings.</p> <p>The Government also consulted on other changes including making reductions if local authorities do not have a local plan or using a lower tariff for homes built on appeal. Whilst no changes have been made for now the Government is committed to looking at NHB again if authorities are not delivering on housing growth or if growth is significant indicating that the baseline is too low.</p>	<p>The MTFP assumes there will be no further changes to the New Homes Bonus scheme and payments are based on housing trajectory numbers and the new payment method.</p>
<p>The Government made savings in local authority public health spending last year and indicated further savings would be made in 17/18 and beyond at an average of above 2% per annum. In year, the Government have produced a note setting out PH responsibilities and a description of 'what this means in practice' against which local areas can self-assess with a view to</p>	<p>PH funding announcements have been made and confirm a reduction in funding of £33k in 17/18 and likely reductions of c£35k in 18/19 and 19/20.</p> <p>The MTFP assumes that any public health funding reduction will be absorbed or met in the short term from the Public Health reserve.</p>

Issue	Impact
reviewing and improving.	
The Government is setting up a £2.3 billion Housing Infrastructure Fund up to 2020/21 to deliver infrastructure that will support the building of 100,000 new homes in high demand areas, which will be allocated to local government on a competitive basis	It is not known whether this Council will be able to access the fund as it will depend on the qualifying criteria.
The Government will award £1.8 bn to Local Enterprise Partnerships (LEPs) - £392m to the Midlands and £151m to the East of England.	The Council is part of the Greater Cambridge and Greater Peterborough LEP and may benefit from access to funding although funding is not expected until later in the Parliament.
Government remains committed to devolving powers to support local areas and is working towards various deals with Combined Authorities (CAs). More funding (skills, employment support, transport, adult education) will be routed through LEPs and CA and not being a member of a CA could give the Council a funding risk.	Council continues to monitor what the best approach is for Rutland and no decision has been made as to whether it will become a member or non-constituent member of a CA.
<p>Schools funding is outside of the Revenue Account and is ring fenced. All aspects of school funding are under consultation. Details are given in Section 5.</p> <p>The Government is pressing ahead with the planned cut to the Education Services Grant, despite deciding not to go ahead with the Education for All Bill which would have removed councils' school improvement duties. Councils will now receive a separate grant to allow authorities to play a transitional role, as the school-led system of school improvement continues to mature.</p> <p>The Council has received illustrative numbers for the Central Schools Block from 2018/19 which would</p>	<p>It is possible that the level and nature of funding could inadvertently place more pressure on the General Fund should the Council not be able to deliver its statutory duties or if it has to intervene to support schools.</p> <p>The Council's new Head of Learning and Skills is reviewing the Council's education service offer in light of the changes in school funding, government policy and local challenges around High Needs provision.</p>

Issue	Impact
<p>suggest that funding on retained duties (from the ESG) will continue to fall resulting in a continuing pressure on the General Fund.</p>	
<p>Local authorities continue to have flexibility to spend capital receipts from asset sales on the revenue costs of reform projects, subject to conditions.</p>	<p>The Council assumes that no capital receipts will be used to fund revenue over the life of the MTFP but will continue to keep this under review.</p>
<p>The Government has also confirmed the transitional scheme they will use for the 2017 Business Rates revaluation. Any rise will be capped at 5 per cent in the first year for small properties. This will be paid for by caps on reductions to businesses which gain from the revaluation, with smaller businesses having reductions phased in to a lesser extent than those for larger businesses, which will have their maximum increase in the first year reduced from 45 per cent to 42 per cent.</p>	<p>There will be no direct impact on Council funding as the transitional scheme will be paid for by Government.</p>
<p>The Local Plan is the plan for the future development of Rutland which is drawn up by the Council in consultation with the community.</p> <p>The Local Plan will identify how much additional new development will be needed in Rutland over the next 20 year period to 2036 and where this should be located.</p>	<p>Local plan information will impact income assumptions (council tax and new homes bonus) and may have an impact on spending plans including capital projects.</p>
<p>In November, the MOD confirmed that St George's Barracks will close in 2020/21. The Council receives both council tax and business rates from this site, c£500k pa.</p>	<p>The future use of the site is unclear and the Council will be monitoring developments closely and will aim, as far as possible, to mitigate any potential loss of funding.</p> <p>There is ongoing dialogue with the Defence Infrastructure Organisation (DIO).</p>

2.4 Spending plans and pressures – how may spending plans change over

time?

- 2.4.1 The MTFP at Appendix 2 sets out the forecast spending profile of the Council over the medium term. The MTFP has been regularly updated throughout the year and shows the baseline position, assuming a continuation of existing services with allowances for service pressures, inflation etc. The budget for 17/18 is discussed in Section 3.
- 2.4.2 This section focuses on the factors that may have a significant impact on spending plans over the next 5 years and covers:
- Assumptions, contingencies and risks (2.4.3)
 - Approach to reducing net expenditure (2.4.4).

Core assumptions, contingencies and risks

- 2.4.3 While the MTFP provides a useful modelling tool that can be used to demonstrate the effect of a range of variables on the Council’s financial stability over the medium term, there are a number of inherent risks that could impact on spending that are outside of the Council’s control (these are covered below).

Risk	Action to mitigate risk
<p>The apprenticeship levy will be introduced in April 2017 at a rate of 0.5 per cent of an employer’s pay bill, to deliver 3 million apprenticeship starts by 2020. The levy will be paid through PAYE. The cost of the levy c£40k is built into the MTFP.</p> <p>The MTFP assumes the levy will continue at 0.5%. An increase to this rate would create a new pressure.</p>	<p>Employers in England who pay the levy will be able to get out more than they pay into the levy.</p> <p>Levied employers buying training from May 2017 can get some costs reimbursed.</p> <p>The Council is looking into how it approaches apprenticeships so that it recoups the cost of the levy. Employing apprentices could offer savings in due course.</p>
<p>In the past few years, the national pay agreement has been settled at below the 2% rate of pay inflation built into the MTFP.</p> <p>With inflation expected to continue above 2%, it is expected that trade unions and others will continue to lobby for increases and the introduction of the Living Wage.</p>	<p>The MTFP assumes an annual 2% pay award and as the Council is part of the national bargaining agreement no change is proposed.</p>
<p>There is a risk that the Council will</p>	<p>Proactive monitoring of demand</p>

Risk	Action to mitigate risk
<p>bear the financial burden of any increase in the number of residents claiming council tax support, discretionary housing payments or crisis loans.</p> <p>In the last few years the number of people claiming support has reduced as the County has reached full employment. However, the Government's welfare reform changes (including the housing benefit cap) will reduce income of those receiving support and may increase the demand for council tax support, discretionary fund, crisis loans and discretionary housing payments.</p> <p>In addition, there is a risk that council tax collection levels will be lower than estimated particularly if council tax increases of 3.99% are applied with a subsequent impact on the future financial position of the Collection Fund.</p>	<p>for funding and collection levels for council tax will provide early indicators of any risks materialising.</p> <p>The Councils offer continues to be reviewed.</p>
<p>The MTFP assumes that some service pressures can be contained within the forecast budgets as growth is only built in where there is a degree of certainty. However there are a range of potential issues across different services that could have an impact:</p> <ul style="list-style-type: none"> • increase in the cost of care packages arises from a growing population of older people, and other vulnerable adults requiring care; together with growing numbers with complex care needs; • the increase in costs of children looked after with a significant number of the children requiring placements being very vulnerable, and some have complex 	<p>These will be monitored through the monthly monitoring process and quarterly reports to Cabinet. Variances identified as recurring are highlighted to Cabinet and the longer term implications assessed.</p> <p>As far as possible Directors will try to manage costs pressures within budget.</p> <p>It is proposed that a new earmarked reserve be set up to meet service pressures (discussed in section 2.7).</p> <p>Sufficient balances will also be maintained to cope with unforeseen cost pressures in the short-term.</p>

Risk	Action to mitigate risk
<p>behaviours; and</p> <ul style="list-style-type: none"> • extra costs of social worker employment arising from a national shortage of qualified social workers. Good progress has been made to recruit permanent staff but further incentives may be required to retain and recruit staff. 	
<p>Some budgets are demand led so whilst the Council will try and predict trends based on available information, there is an element of unpredictability where even a few cases can be financially significant. Demand led budgets include fostering and adoption, children's social care, adult social care and elements of transport budgets.</p>	<p>These will be monitored through the monthly monitoring process and quarterly reports to Cabinet. Variances identified as recurring are highlighted to Cabinet and the longer term implications assessed.</p> <p>Sufficient balances will be maintained to cope with unforeseen cost pressures in the short-term.</p> <p>A social care earmarked reserve is also in place to meet the costs of increases in demand in that area.</p>
<p>Whilst inflation has been low for some time and the Government target is to keep it below 2%, there are emerging issues that may cause pressure on prices the Council pays for goods and services.</p> <p>Notwithstanding the impact of Brexit, the new National Living Wage (NLW) set at £7.20 from April 2016 will increase to £7.50 in April 2017.</p>	<p>The Council will monitor the position on key contracts and has inflation built into the MTFP which has been revisited as part of the 17/18 budget. Some adjustments have been made to inflation rates post 17/18.</p> <p>The Council is tendering for services so it can ensure value for money and does allow for inflationary cost increases and will aim where possible to keep costs within the current budget.</p>
<p>Interest rates may change thereby</p>	<p>Regular review of the position</p>

Risk	Action to mitigate risk
<p>reducing the Council's ability to earn investment income.</p> <p>Advice from our Treasury advisors is that interest rates will stay below 1% for the next two years.</p>	<p>and consideration of the balance between investing surplus cash and using it to repay long term debt. Advice from Capita is used to forecast investment income.</p>
<p>Capital financing costs have been estimated based on the assumption that no further external borrowing is undertaken during the life of the MTFP.</p>	<p>Corporate analysis of existing and potential new projects indicates that no further external borrowing is required.</p>
<p>The Council can be impacted by changes arising from partner bodies such as the Police and Fire as they, like the Council, aim to reduce costs. Any decision to reduce or reconfigure services in this County could result in additional demands on the Council.</p>	<p>The Council is working with partners to understand the impact of any changes and support changes where possible.</p> <p>It has previously built in funding support to partners but this has been removed in the latest MTFP.</p>
<p>In October the UK Home Care Association calculated the minimum price councils should be paying was £16.70 per hour, but the average was over £2 less. This Council pays £16.46</p> <p>The UKHCA said the situation was threatening the future of the market and that agencies were struggling to recruit staff and maintain quality. Similarly residential care providers have expressed similar concerns with the National Living Wage and pension auto-enrolment creating pressures.</p> <p>The challenge is to negotiate a fair rate for the cost of care that allows the market to remain healthy and competitive. There is little doubt the Council will come under fee pressure. For Homecare, the next round of fee negotiations is not anticipated to be until 2018/19 unless providers write in</p>	<p>The Council will be seeking to ensure that any increases are limited to what is reasonable.</p> <p>Inflation rates in the MTFP have been reviewed for adult social care services in particular and some revisions made in anticipation of services being recommissioned.</p>

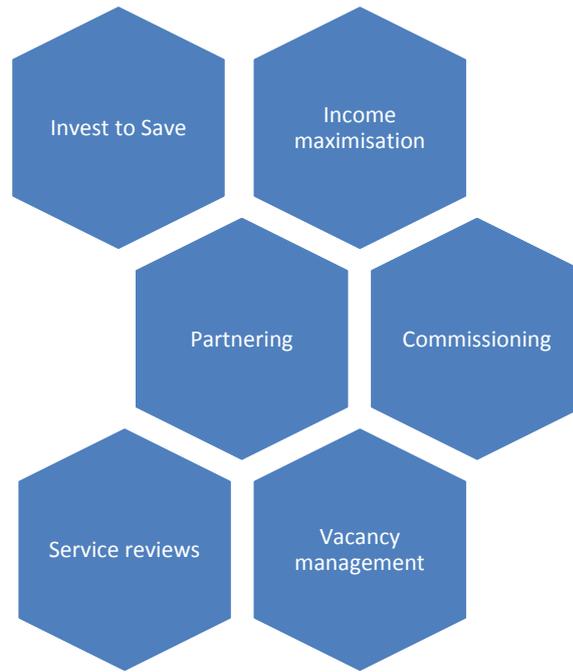
Risk	Action to mitigate risk
<p>and formally ask for a review in 2017/18. For residential care, the contracts allow for an increase based on CPIY. However, providers can write in and ask for this increase to be reviewed at any time.</p>	
<p>The Council has seen demographic changes over time and will do so again in the future. Changes in population and number of households have not always translated into increases in service costs.</p> <p>This issue is relevant to Adult Social Care where many authorities assume that increases in population and in particular in 65+ age groups will place extra demand on social care budgets. Future budgets therefore typically include an “allowance” to compensate for this.</p> <p>The Council is expecting to see population changes over the next 5 years but in line with its Adult Social Care strategy it will seek to respond to any changes by helping people to live independently as far as possible.</p>	<p>The Council continues to monitor trends of demands for service and how this links to population changes. Its analysis indicates that the 80+ population will increase by just under 50% in the next 10 years.</p> <p>The Council has a Social Care Reserve and a £250k Social Care contingency (an increase of £50k on the prior year) to allow it to respond to changes in demand in-year and changes to care costs.</p>
<p>In December 2015, the NHS outlined a new approach to help ensure that health and care services are built around the needs of local populations. Every health and care system (of which LLR is one) was asked to produce a multi-year Sustainability and Transformation Plan (STP), showing how local services will evolve and become sustainable over the next five years. As primary, secondary and social care are all under demand pressure this is an important plan.</p> <p>The LLR STP has been submitted and has been discussed at the Health and Wellbeing Board. Consultation will take place in 2017.</p>	<p>The Council is looking at all opportunities to deliver services efficiently and for the benefit of local people.</p> <p>Council officers have been working with Better Care Together (BCT) colleagues to assess the impact on Adult Social Care (ASC) of planned changes across a range of work streams and will make the case for funding should the situation arise.</p> <p>Alongside local action, the Council supports lobbying led by the LGA and others for more central government funding.</p>

Risk	Action to mitigate risk
<p>The approach being taken is a 'place based budget' one (single system control total) that looks across organisations at the 'LLR pound' and which focuses on new ways of working and models of care that manage demand and are more efficient. There are 5 big issues being tackled including:</p> <ul style="list-style-type: none"> a) Urgent & emergency care b) Integrated teams c) General practice resilience d) Service reconfiguration e) Operational efficiency <p>The Council is already working across LLR on joint commissioning opportunities and in some areas has joint teams. There is a strong likelihood that further integration is likely as "health and social care must have a plan" for integration by 2017, to be implemented by 2020.</p> <p>The Council is also aware of the risks of health activity being displaced to social care and the costs that could arise.</p>	
<p>The Council has a number of outsourced services and retendering of contracts can lead to price pressure depending on the number of interested suppliers and market conditions. Whilst key contract expiry dates are not imminent (Refuse – 2022, Residual Waste – 2021, Street Cleaning – 2022, Leisure – 2021), contract inflation rates are kept under review.</p>	<p>The MTFP has been updated to reflect the expected cost of services.</p>

Risk	Action to mitigate risk
<p>The Syrian Vulnerable Persons Relocation Scheme will require the Council to take in vulnerable persons as part of the Government's response to helping those at risk.</p> <p>Some funding is available but experience of other local authorities is that this is not sufficient to cover costs particularly if social care services are needed.</p>	<p>The Council will seek to maximise funding and lobby for additional funds if possible.</p>
<p>The Council's net pension liability for the Local Government Pension Scheme (controlled by Leicestershire County Council as the Pension Fund administrator) has decreased.</p> <p>Following the triennial review, the contribution rates have been amended upwards to close the gap.</p> <p>Should investment returns not narrow the gap in the future, it is possible that contribution rates may increase again creating a demand on the General Fund.</p>	<p>The position will be monitored but the Council's MTFP includes the revised rates.</p>

Reducing net expenditure

- 2.4.4 One of the key principles of delivering services within the MTFP is “living within your means” i.e. not spending more than the resources available. Whilst the Council has a very good track record of spending within its allocated annual budget, the MTFP shows that in 17/18 and beyond the Council is spending more than the funding it has available and is therefore reliant on using General Fund reserves to balance the budget. The Council has a plan to address this issue which comprises the following elements:



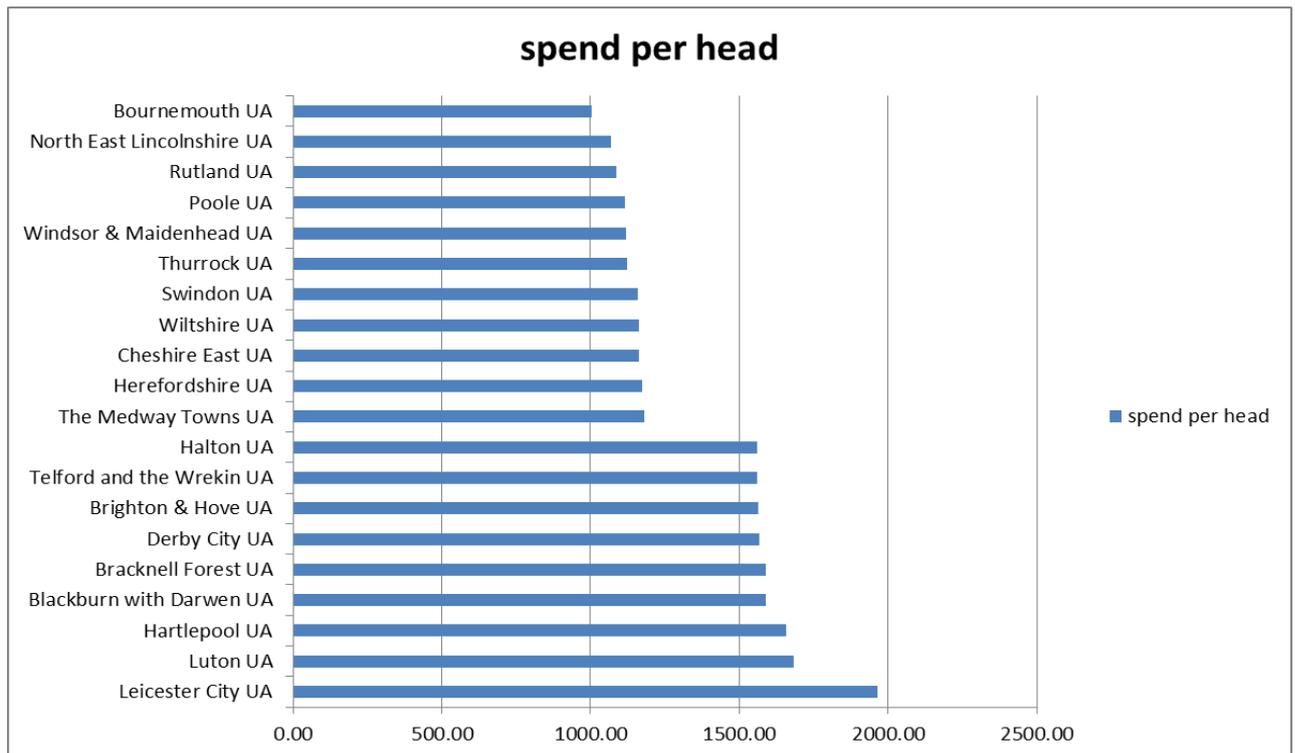
2.4.5 In its efficiency plan the Council stated that it would include a savings target in the MTFP. The Council has previously resisted including a target in the MTFP (other than for the PeopleFirst review) as in effect the forecast annual deficit is a clear indication of the extent to which the Council needs to reduce its spending. The annual deficit continues to signify a proxy “savings target”. The PeopleFirst expected savings are now included in Directorate base budgets.

2.4.6 Work has already begun in identifying future savings and income generating opportunities. Inevitably in this financial climate it is an ongoing task. All areas of council services are being examined. There are two key challenges the Council faces: a) its spend per head is low; and b) inevitably there are some areas where the potential for reductions to be made is low either because of savings already made, statutory obligations, current spend levels or other factors. The lists below are not exhaustive but highlight that all areas have to be examined.

Areas where it may be difficult to make savings	Areas where we may have to examine
<p>External audit – fee reduced from £180k to £65k over last 10 years</p> <p>Internal audit – very low cost at c£85k, service being delegated to LGSS</p> <p>National insurance – £1m, set by Government</p> <p>Pension contributions – c£2.3m per annum, set by Pension Fund,</p>	<p>Senior management costs - £750k, some options for sharing posts already explored and this will continue</p> <p>Waste management – £2.4m, refuse collection and recycling</p> <p>Road maintenance - £1m, rural road network is important and a high standard</p>

Areas where it may be difficult to make savings	Areas where we may have to examine
<p>unlikely to reduce given Pension Fund deficit</p> <p>Demand-led social care budgets - £5.8m, whilst demand can go up or down, it is to a large extent outside of Council control</p> <p>Social worker staffing -£2m – staff levels are a function of demand and a minimum level is required</p> <p>Insurance - £220k – tendered, cover levels reviewed and little scope for savings other than not having insurance</p> <p>Members expenses - £190k – level set externally</p> <p>Public Health – £1.3m, ring fenced sum, savings already made and allocation will continue to reduce</p> <p>Tourism/Economic development - £146k – key priorities and Council spend is already low</p> <p>Health and Safety - £40k – Council already meeting its statutory obligations at low cost</p> <p>Housing - £100k – statutory homelessness provision and floating support for those with a housing need</p>	<p>Parking - £230k – charges under review</p> <p>Commercial properties – (£213)k – key priority moving forward is to generate more income from existing portfolio</p> <p>Cultural services – Arts, Libraries, Museums and Sports - £1m - largely discretionary services which have been targeted for savings by other Councils</p> <p>Planning/development control - £600k – service delivery model options being considered</p> <p>Transport - £2.5m – all aspects under review, some savings already delivered</p> <p>Public protection - £400k – already a shared service with Peterborough</p> <p>Support services (Corporate support, Finance, Legal, HR and IT) - £3.1m – substantial savings taken in last few years and Business Support review underway</p> <p>Property services - £1m – targeted for savings in 17/18 and inevitably there is a residual level of spend required</p>

2.4.7 In terms of spend per head, the Council is ranked 3rd lowest amongst unitary authorities. Figures for some of the high and low spending Councils (based on 16/17 budget figures) are shown below.



2.4.8 Against this backdrop, future savings proposals are likely to involve some difficult decisions which may involve:

- withdrawing service provision in non-statutory areas;
- reducing or rationalising service provision in some areas; and
- asking stakeholders to contribute more to the cost of service delivery.

2.4.9 All Directorates have been through their budgets, and done an initial assessment of further areas for investigation in conjunction with Cabinet. No decisions have been made and in some cases further investigation may not lead to formal proposals being brought forward. In other cases, proposals will be worked up for consideration.

2.4.10 Areas being looked at include:

- Senior management structure - numbers and potential for sharing posts
- Banking contract
- Charging for green waste collection
- Library and museum provision and delivery model
- Transport provision
- Use and management of legal services
- Education services in light of academisation and changes to statutory responsibilities
- Planning shared services
- Models of delivery for care services

- Customer services operation
- Working with parishes on local services
- Use of Section 106 and CIL to support revenue
- Further development of commercial asset base

2.4.11 The list is not exhaustive but gives examples of the range of areas being considered.

2.5 Council tax – what choice does the Council have?

2.5.1 The Government has in recent years established a 2% limit on raising Council Tax before a referendum must be called. Last year local authorities were allowed to add a further 2% precept to Council tax for spending on adult social care.

2.5.2 In recognition of the particular pressures on adult social care services, councils will now be able to introduce the rise sooner. They will have the freedom to increase by up to 3% in 2017/18 or 2018/19, but still cannot exceed 6% in total over the three-year period. This means that the total rise in bills will be 6% but can be spread.

2.5.3 To ensure that councils are using income from the precept for adult social care, councils will be required to publish a description of their plans, including changing levels of spend on adult social care and other services. This must be signed off by the Chief Finance Officer (section 151 officer). Councils wishing to use the extra freedom to raise their precept by 3% instead of 2% in 2017/18 must also show how they plan to use this extra money to improve social care. DCLG will set out further details on the conditions of the scheme in the near future.

2.5.4 The MTFP assumes council tax rises of 3.99% in line with Government's expectations from 16/17 onwards and includes some tax base growth as described in Appendix 2. The table below shows the difference between:

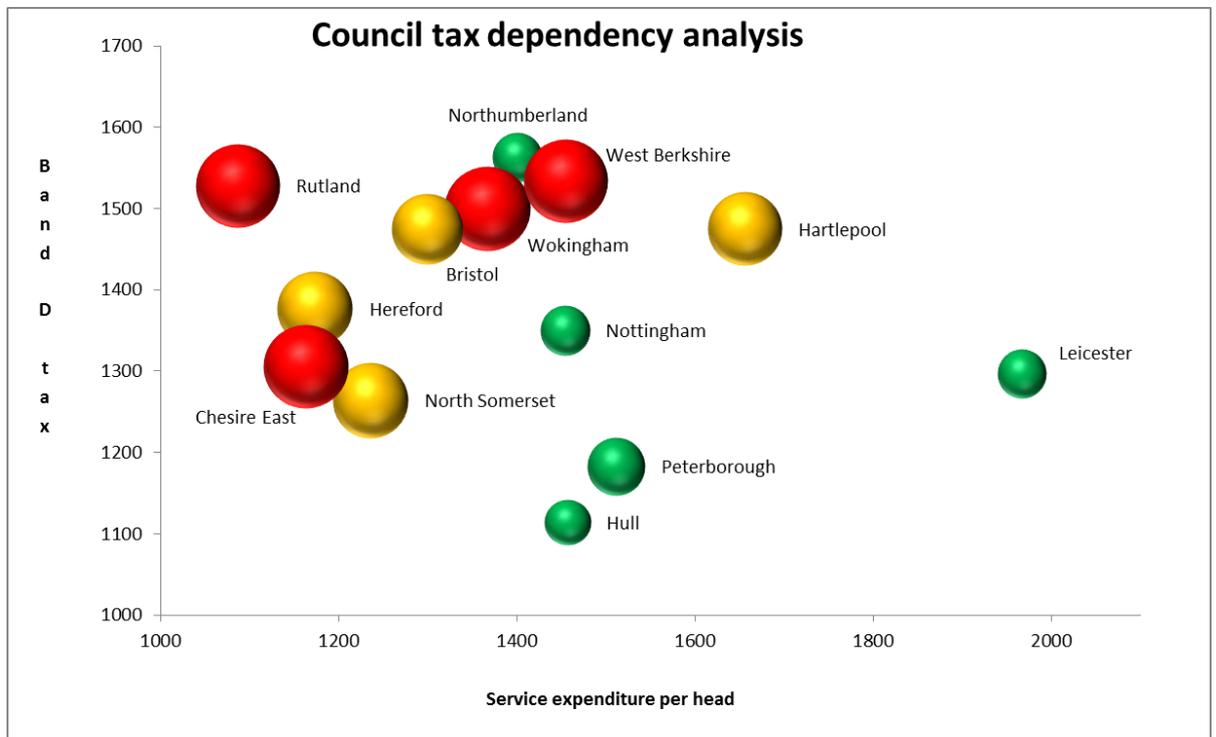
- the current MTFP - a 3.99% annual increase;
- an increase of 4.99% for two years followed by a 2% increase 19/20;
- a 2% annual increase; and
- a council tax freeze for the life of the MTFP.

	Council tax rate 17/18	17/18 council tax revenue £000	Size of gap in 21/22	General Fund balance 21/22
Band D – current	£1,487.59	£22,349	£6,597	(£10,550)
3.99%	£1,546.94	£23,242	£1,565	£3,983

	Council tax rate 17/18	17/18 council tax revenue £000	Size of gap in 21/22	General Fund balance 21/22
4.99% then 2%	£1,561.82	£23,464	£1,573	£4,657
2%	£1,517.34	£22,796	£4,173	(£3,458)

2.5.5 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 21/22 and would not be able to balance the budget unless of course substantial savings were made.

2.5.6 Members are aware that the Council's Band D tax levels are amongst the highest of all Unitary councils. As has previously been reported, this position does not mean that the Council is high cost or inefficient as its service expenditure per head is low but is a function of its high dependency on council tax because of its low level of government funding. The diagram below shows the relationship between Band D Council tax levels, Spend per head and Council tax dependency (a RED label indicates a high level of Council tax dependency and GREEN a low level). Unfortunately as the Government funding allocation takes into account relative resources (i.e. the amount Councils generate from council tax) this position is unlikely to change.



2.6 Collection Fund – what is the estimated surplus for 2016/17?

2.6.1 The Council, as a billing authority, is required to keep a special fund, known as the Collection Fund. The fund is credited with the amount of Council tax it collects. Expenditure from the fund is in respect of the Council's own demand (i.e. General Fund expenditure net of RSG and share of Business rates) and the precepts payable to the Police Authority and Fire Service.

2.6.2 If a surplus or deficit remains in the Collection Fund at the year-end it is subsequently distributed to, or borne by the billing authority (in this situation the Council) and the preceptors (Police and Fire Authorities). Billing authorities are required to estimate the expected Collection Fund balance for the year to 31 March in order that the sum can be taken into account by billing authorities and preceptors in calculating the amounts of Council Tax for the coming year. The difference between the estimate at 15 January, and actual position at 31 March will be taken into account in the following financial year.

2.6.3 The estimated financial position on the Collection Fund at 31 March 2017 is shown below.

Estimated surplus at 31 March 2017	£196,681
Share of surplus	
Rutland County Council	£169,487
Leicestershire Police Authority	£20,360
Leicestershire Fire Service	£6,834

2.6.4 The Regulations provide for the Council's share of the estimated surplus to be transferred to the General Fund in 17/18.

2.7 Reserves – What level of reserves does the Council have and should it retain?

2.7.1 Reserves can be held for three main purposes:

- a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves;
- a contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves; and
- a means of building up funds to meet known or predicted liabilities – these are known as earmarked reserves.

2.7.2 The level of reserves is set to take account of:

- strategic, operational and financial risks facing the Council;

- key financial assumptions underpinning the budget; and
- quality of the Council's financial management arrangements.

2.7.3 In the current climate, it is essential that the Council maintains General Fund reserves to deal with the unexpected. There are a range of risks that may arise that the reserves are held for in order to maintain the Council's sound financial position. These risks include the following:

Risk factor/issue	Potential cost
Loss of business rates income before Safety Net reached through appeals or economic downturn	£0 - £300k
General service pressures or overspends – 1%	£0 - £300k
Grant uncertainty – further reductions in funding	£0 - £500k
Education redundancies no longer paid for through DSG	£0 - £150k
Above inflationary increases including the Living Wage or shortfalls in discretionary income	£0 - £300k
Increase in demand led services	£0 - £500k
Failure of key service provider	£0 - £200k
Legislative or policy changes that may or may not be funded	£0 - £200k
Potential growth in demand for general services	£0 - £200k

2.7.4 The Council's minimum reserves target is currently set at £2m which equates to about 6% of net spending. Presently, the Council's general fund balances (and useable earmarked reserves) are above the minimum level at c£10m. Alongside this balance the Council has c£2.5m in earmarked reserves (detailed in Appendix 9).

2.7.5 A review of the reserves position has been undertaken. **It is proposed that the minimum reserve level is maintained at between £2m and £3m** – this level is deemed adequate based on professional judgement and a risk assessment taking into account the following factors:

- despite existing savings plans, the Council is still using reserves to balance the budget;
- there are potential cost pressures which are only partly factored into spending plans;
- whilst the Council has some savings targets built into the MTFP and has a very good track record of delivering savings, no savings are guaranteed.

2.7.6 **It is also proposed that £1m of General Fund reserves are transferred**

to earmarked reserves. 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. The table below shows that Rutland's overall position is healthy but also how its approach differs to that of other Councils with broadly the same level of overall reserves.

	Average General Fund Balance as % of Net Revenue Expenditure (NRE)	Average Earmarked Reserves as % of NRE	Total Reserves as % of NRE
Unitary average	3%	9%	12%
Rutland	21%	5%	26%
Cornwall	6%	20%	26%
Durham	3%	19%	22%
Leicester	2%	17%	19%
East Riding	1%	19%	20%

2.7.7 It is **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 £200k 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 the pressures in this year's budget.

2.7.8 It is also proposed that £500k is put into a new **pressures reserve** (with a ceiling of £1m) to meet the costs of:

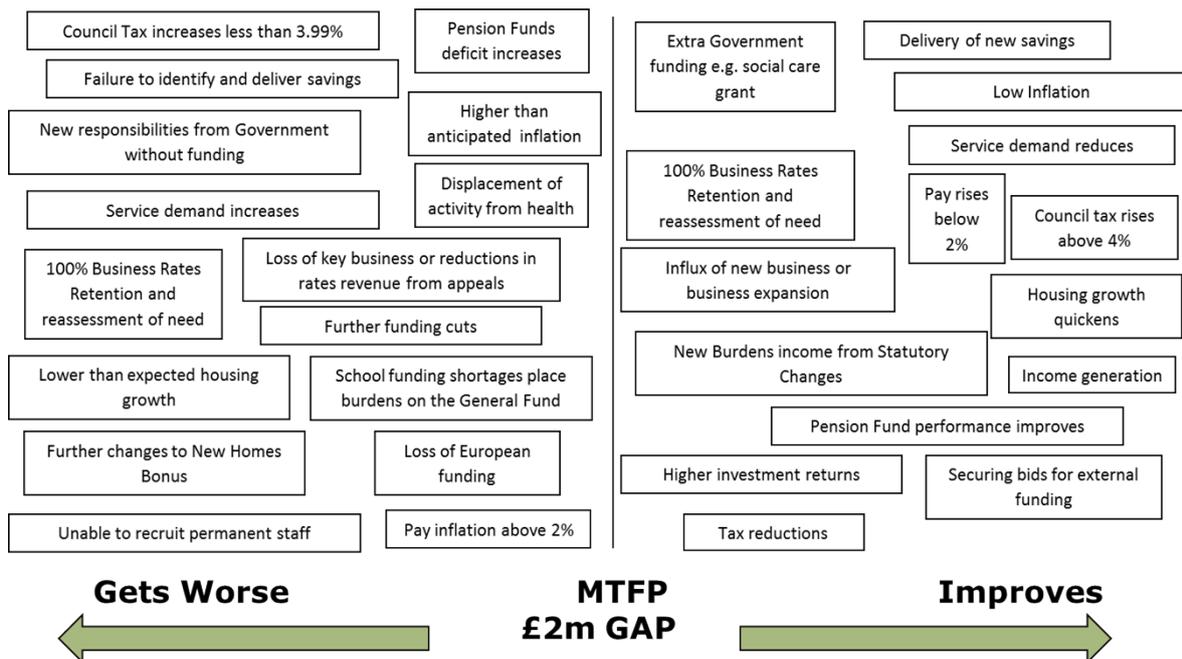
- price pressures (as seen with recycling costs in 16/17);
- uncontrollable demand for services outside of social care; and
- other one-off costs.

2.7.9 As officers submit pressures for consideration in the annual budget one of the key considerations when a pressure is accepted is whether it will be a one off pressure or whether it is likely to be recurring. Where pressures are clearly recurring then it is prudent to include them in the budget in full. In other cases, there may be uncertainty and one option is to not include the

pressure in the MTFP or not include it in full, but to set some funds aside in an earmarked reserve. In the event that the pressure materialises the contribution is made from the earmarked reserve thereby reducing the impact on the general fund.

2.8 The financial outlook – what is the overall position?

- 2.8.1 The medium term outlook remains largely unchanged in that Government funding will reduce over the next few years with Elected Members expected to raise revenue locally through council tax and the social care precept to make up the shortfall at the same time as having to oversee reductions in net spending against a backdrop of increased demand for services (adoption and fostering, children’s and adults social care) and cost pressures (e.g. waste management).
- 2.8.2 The reduced 17/18 budget deficit has had the impact of slowing down the attrition of General Fund balances. Whilst the position is still not tenable in the medium term, the Council has more time to tackle the challenge.
- 2.8.3 For the next few years therefore the Council’s remit remains the same: to work towards reducing its deficit position so that it can live within its means. This work will take place against a backdrop of funding reforms – changes to the business rates system, system for funding allocation and education reform.
- 2.8.4 The MTFP presents a position based on various assumptions and estimates about variables that are predominantly outside the control of the Council. The Council’s experience is that these can change over time and sometimes quite significantly. The picture below shows how the funding gap might “get worse” or “improve” according to events that could materialise.



3 REVENUE BUDGET PROPOSALS

3.1 Overview – what is the overall revenue budget?

3.1.1 The MTFP always includes provisional budgets for future years. The annual detailed budget work (explained in 3.2) updates that budget with latest information as shown in the table below. The draft budget has been amended following consultation and various updates – the full details are given in Appendix 11.

		Draft budget 2017/18 £000	Final budget 17/18 £000
3.1.2	People	16,135	16,379
3.1.2	Places	12,299	12,240
3.1.2	Resources	5,404	5,398
<i>A</i>	<i>Sub-Total Directorate budgets</i>	33,838	34,017
3.1.3	Headcount Saving	(121)	(121)
3.1.4	Pay Inflation contingency	45	45
3.1.5	Social care contingency	200	250
<i>B</i>	<i>Sub-Total Contingencies & Corporate Savings</i>	124	174
	Net cost of services	33,962	34,191
	Revenue contribution to capital	0	0
3.1.6	Appropriations	(1,897)	(1,897)
3.1.7	Capital financing costs	1,905	1,905
3.1.8	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

3.1.2 The **Directorate budgets** are detailed by functional areas in Appendices 3 to 5. The budgets include savings and pressures and more detail is given in 3.4 and 3.5 and Appendices 6 and 7. In reviewing the Directorate Budgets, readers can also refer to the functional budget monitoring workbooks available on the website that are available as part of budget monitoring for background information about services. These can be found on the following link:

http://www.rutland.gov.uk/council_and_democracy/council_budgets_and_spending/2016-17_budget_min.aspx

3.1.3 During 2017/18 a number of structure reviews including a review of the business support will be undertaken and it is anticipated that this could lead to savings. At this stage it is unclear as to which Directorate these savings will fall and therefore a **headcount** savings target of £121k has been included.

3.1.4 The budget includes a small contingency for **pay changes** (adjustment, re-

grades, staff opting in to pension fund etc). The pay contingency usually includes a 2% contingency for pay awards but this is not the case for 17/18 as Directorate budgets already include a 1% pay award as negotiated last year.

- 3.1.5 The budget includes a contingency for £250k for **social care**. This is the same approach as per the prior year with an increase of £50k following work completed on 80+ population projections and to allow for changes in the cost of care packages.
- 3.1.6 The **appropriations** figure represents adjustments the Council is required to make to its revenue position that are specified by statutory provisions and any other minor adjustments. It includes the reversal of the annual charge for depreciation on the Council's assets which is shown in Directorate budgets.
- 3.1.7 **Capital financing** costs of £1.905m comprise interest costs on loans of £1.033m and Minimum Revenue Provision (MRP) costs of £872k. MRP is a statutory charge to the revenue account which covers the repayment of debt (see 5.2).
- 3.1.8 **Interest income** reflects interest earned on investments. This is expected to reduce slightly compared to prior years because of the fall in interest rates.

3.2 Budget comparison – how does the final budget compare to prior year and MTFP expectations?

- 3.2.1 There are two questions that often arise in relation to the budget:
- How does the budget compare to the prior year?
 - How does the budget compare to the expected MTFP budget for 17/18?
- 3.2.2 For the purposes of this analysis capital costs are excluded. The **budget** for 17/18 at Net Cost of Services level is higher than 16/17. The key movements are:

Area	Amount £000	Detail
Net cost of services 16/17	33,993	Reported in the 2016/17 Budget Report (19/2016)
Less one off items in 16/17	(641)	Budgets funded from earmarked reserves £285k, removal of budgets approved for a fixed term £281k and removal of Fire contribution £75k
In year permanent adjustments	65	HR and Employment policies budget of £50k agreed for Chief Executive, further £15k adjustments following increase in BCF/other funding

Area	Amount £000	Detail
Savings	(1,353)	People First savings £497k; Savings identified by Directorates £817k; expected increased in OEP income £39k
Pressures	1,322	New pressures identified by Directorates of £807k, pressures funded from earmarked reserves or grants of £330k and pressures already in MTFP £185k
Adult Social Care Contingency	50	Increase of £50k following work completed on 80+ population projections and to allow for changes in the cost of care packages.
Pay and other inflation	830	1% pay award; 1% increase on superannuation; pay regrades, increments and pension auto enrolments and non pay inflation - typically 2%, less contract inflation contingency of £150k
Transfer of spending to DSG	(75)	As the Education Services Grant (ESG) is being transferred to the DSG, a recharge of costs supported by the grant is required.
Net cost of services 17/18	34,191	An increase of 0.6% or an increase of 2.52% if 16/17 one off items removed.

3.2.3 The **expected 17/18 Net cost of services** budget was £34.407m. This compares to the draft 17/18 budget of £34.191m - a net reduction of £216k or 0.63%.

Area	Amount £000	Detail
17/18 Net Cost of Services expected	34,407	Net cost of Services reported at Q1 (133/2016) including Inflation contingencies and People First Savings
Corporate Savings	(817)	New savings put forward by Directorates (see 3.4)

Inflation savings and changes to contingencies	(562)	<p>Savings on Inflation included within MTFP of £84k</p> <p>The pay inflation contingency included 2% for pay increases and an amount for regrades, additional pension costs etc. As the pay award was only 1%, £263k is no longer required.</p> <p>The three year actuarial review of the Pension Fund has taken place and the pension rate will increase by 1% per year for the next 3 years. The MTFP had included a 2% increase for 2017/18 and therefore £95k is no longer required.</p> <p>The pressures identified by the Directorates include inflation on contracts therefore the £153k contingency for contracts and £75k for the Living Wage are no longer required for 2017/18.</p> <p>The Adult Social care Contingency has been increased by £50k</p>
Pressures	1,137	Service pressures put forward by Directorates of £807k and one-off pressures funded from earmarked reserves or grants of £330k
Adjustments	101	Adjustments for Pay regrades and auto enrolment (£58k). The People First budget savings have been overachieved, however the forecast savings achievable for 2017/18 have reduced by £43k.
Recharge to Dedicated Schools Grant (DSG)	(75)	As the Education Services Grant (ESG) is being transferred to the DSG, a recharge of costs supported by the grant is required.
2017/18 budget	34,191	

3.3 The budget process – how has the revenue budget been developed?

3.3.1 The starting point is the Q1 approved Budget 2016/17 which is updated for any approved changes and adjustments as reported at Q1 financial monitoring. Minor adjustments are made to individual budgets as part of the normal annual budget process. These include changes to:

- employee costs to upgrade for increments or to align budgets to known pay rates of staff in post and corresponding employer National Insurance and Superannuation contributions;

- external funding streams resulting in adjustments to service spending levels;
- reflect use of reserves and external contributions which have been set aside for specific services;
- remove one-off budgets from 2016/17 and to reflect decisions made since the last budget setting relating to virements and budget additions;
- provide for inflation (the percentage applied depends on the type of budget);
- encompass agreed savings – details are provided in Appendix 6;
- meet service specific pressures – details are provided in Appendix 7;
- rebase budgets i.e. transfer costs between budgets without changing the overall budget.

3.4 **Savings – what savings are included in the budget?**

3.4.1 The 2017/18 budget includes:

- a) PeopleFirst savings of £732k. These were already included in the budget as a corporate contingency but have now been converted to achieved savings and are included in Directorate budgets;
- b) New savings put forward totalling £817k (Appendix 6). The only saving added since the draft budget was produced is an extra £85k to be achieved in car park income following a recommendation re increases to parking charges;
- c) Other savings built into service budgets pre 17/18 budget process giving further savings of £39k;
- d) Notional savings of £562k – additional amounts built into the 17/18 budget but now not required because of changes in circumstances or other action taken to control costs (see 3.4.3).

3.4.2 None of the savings put forward are deemed to have a significant front line impact – most relate to reductions in headcount, efficiencies or income generation. In respect of headcount, the Council has managed to deliver reductions largely through natural wastage avoiding redundancy costs.

3.4.3 The budget also includes savings on inflation, pay inflation (see 3.1.4) and superannuation costs compared to the expected MTFP 17/18 budget. The Pension Fund has been subject to its triennial review. This has resulted in revised employer contribution rates being set for the next 3 years. The revised rate for 2017/18 is 21.7% compared to a rate of 22.7% built into the MTFP. The Council has therefore made notional savings of £95k in 17/18

and has used the savings beyond 18/19 to amend inflation assumptions.

3.5 Pressures – what service issues or factors are causing pressures?

3.5.1 **Service pressures** may arise from increased demand from service users, legislative changes that place additional duties or responsibilities on the Council or from withdrawn funding which means the General Fund has to pay for services previously funded through other income e.g. grant. In some cases, service budgets are increased and funded by grant or earmarked reserves therefore there is no change to the net budget. The Council aims to contain service pressures within existing budgets where possible. In section 2, some of the areas where there are risks were discussed. Budgets have not been increased for 2017/18 for these pressures.

3.5.2 Budget pressures include:

- a) Pressures of £185k already built into service budgets pre 17/18;
- b) New services pressures of £807k which were in the draft budget; and
- c) One off pressures for which funds have been set aside in earmarked reserves (totalling £330k of which £119k was included in the draft budget) or funded by extra grant received – whilst these costs are shown as an increase in Directorate budgets, they do not increase the Council's overall budget as explained in 3.5.3.

3.5.3 There are a number of other pressures which are funded so do not impact on the net position:

- Cabinet is proposing to support the A47 Uppingham/Leicester Bus Service in 17/18 (cost £26k) pending a further review later using the Travel4Rutland earmarked reserve.
- The Council has received a SEND grant of £28k which will be used to implement the High Needs Action Plan (refer to report 22/2017).
- The Council also received an Adult Social Care 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 meet the costs of increased demand for care and to support officers in undertaking work to look at how care is delivered.
- The Council will use the additional school improvement grant to support the work required (as agreed with School Forum on 12th January) to review high needs provision within the County to ensure pupils are educated as close to home as possible.

3.5.4 The budget also includes two contingencies – one to meet any increase in social care costs of £250k and a small pay contingency of £45k to meet any pay regrades in year.

3.6 Corporate Plan priorities and targets

- 3.6.1 The Corporate Plan includes an objective to “*ensure that our medium term financial plan is in balance and is based on delivering the best possible value for the Rutland pound*”.
- 3.6.2 The financial targets related to the corporate plan financial objectives are covered below with an update to show how this budget contributes to the overall position.

Corporate plan target	Current position
Agree a savings target programme of between £1.5m and £2m by 31 March 2017 that delivers a reduced financial gap by 2019/20.	The 19/20 financial gap in the corporate plan was £2.5m, but has been reduced to £1.9m with the 17/18 savings programme. Further savings programme to be included in 18/19 budget.
Deliver the annual savings programme, to be reported at the end of each financial year.	The Corporate Plan included a PeopleFirst savings forecast of £774k. The actual amount delivered was £732k which is in excess of the original savings target of £684k.
Maintain reserve balances above minimum recommended level of £2m across the life of the MTFP	Balances remain above £2m over life of MTFP. Importantly projected balances by 20/21 are greater than those envisaged in the corporate plan MTFP.

3.7 Earmarked Reserves – how will they be used?

- 3.7.1 Earmarked reserves are used as a means of building up funds to meet known or predicted liabilities. Their establishment and use is subject to Council approval and movements are reported as part of the quarterly financial monitoring reports.
- 3.7.2 The balances held in Earmarked Reserves at 1st April 2016 and estimated balances as at March 2017 are shown at Appendix 9. The MTFP currently shows net transfers from reserves of £270k for 2017/18 which consist of:
- £14k for Tourism;
 - £20k from Highways to fund expenditure associated with the adoption of roads;
 - £36k from Commuted Sum reserves to fund grass cutting;
 - £36k from Adult Social Care reserve to fund a temporary contracts and procurement post;

- £67k to fund public health expenditure;
- £9k from Adult Social Care reserve to fund web based system maintenance;
- £15k from Invest to Save for library expenditure – which will release a revenue saving;
- £26k from Travel 4 Rutland reserve to fund the A47 Bus Service;
- £47k to fund the Digital Rutland manager post.

3.8 **Reserves and Estimates – how robust are they?**

- 3.8.1 Best practice requires me to identify any risks associated with the budget, and section 25 of the Local Government Act 2003 requires me to report on the adequacy of reserves and the robustness of estimates.
- 3.8.2 In the current climate, it is inevitable that the budget carries significant risk. In my view, although very difficult, the budget for 2017/18 is achievable subject to the risks and issues described below.
- 3.8.3 The most substantial risks are in demand led budgets and in particular social care, specifically the risks of further growth in the cost of care packages, and inability to contain the costs of children looked after. These risks are the ones which will require the most focussed management attention in 2017/18.
- 3.8.4 In the longer term, the risks to the budget strategy arise from:
- non-identification and delivery of savings;
 - unidentified and uncontrollable pressures; and
 - loss of future resources, particularly in the transition to 100% business rates retention.
- 3.8.5 A further risk is economic downturn, nationally or locally. This could result in changes to the 4-year offer, falling business rate income, and increased cost of council tax reductions for tax payers on low incomes. It could also lead to a growing need for Council services and an increase in bad debts.
- 3.8.6 The budget seeks to manage these risks as follows:
- a £250k contingency has been included in the 2017/18 budget. In addition to managing risk, this provides resource to be diverted should the need arise;
 - should the contingency prove insufficient, the Council can call on earmarked reserves;
 - a minimum balance of £2m reserves will be maintained.

3.8.7 Subject to the above comments, I believe the Council's general and earmarked reserves to be adequate. I also believe estimates made in preparing the budget are robust based on information available.

3.9 Equalities – does the budget impact adversely on any particular groups?

3.9.1 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.

3.9.2 The Council has completed EIA screening for all savings proposals and for the proposed tax increase. 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.

3.9.3 Some of the analysis relating to the Council tax increase is shown below:

Proposal
A Band D Council Tax increase of 3.99%, including Social Care Precept of 2% taking Band D Council Tax from £1,487.59 to £1,546.95 (Rutland County Council only). This proposal is linked to one aspect of local government funding where the Council has some discretion to raise additional funds by increases to Council Tax. However there are Council Tax rules in place that limit the extent of any Council Tax increases before a referendum is required, the limit for 2017/18 is 4.99%.
Initial impact
<p>This increase will be applied to all bands of council tax. This will impact on all residents who are eligible to pay Council Tax. The average cost per week on a Band D property is £29.74 for the general council tax rise and £29.74 for the social care precept.</p> <p>Since Council Tax is applicable to all properties it is not considered that the increase targets any one particular group; rather it is an increase that is applied across the board. At the same time because the increase is applied to all properties it is not possible to exempt any particular groups. By increasing Council tax, the Council is able to prevent further reductions in services to local residents and in so doing can continue to mitigate adverse impacts facing individual households.</p> <p>The Council tax increase needs to be considered in the Rutland context:</p> <ul style="list-style-type: none">• Average house prices are high in Rutland (Nov 2015): £228,858 (compared to national £186,325);• Affordability: an average house in Rutland costs almost 11 times annual salary.• Cost of renting is also higher in Rutland (£625pm) than comparators (£600

national)

- **Transport** costs are higher in rural areas: people need to travel longer distances to access basic needs – such as employment, education and health care - and pay more for fuel.

Whilst cost of living can be higher, out of 152 upper tier Local Authorities in England, Rutland ranks 148 in terms of Indices of Multiple Deprivation (1 is most deprived). Notwithstanding this comment, the Council recognises that there is potential for low income households to be affected and mitigation strategies have been put in place.

Actions taken to mitigate impact

The risk is mitigated through various support offered: Local Council Tax Support (LCTS), a Discretionary Fund and Advice.

The Council operates a local council tax support scheme which offers up to 75% discount for those on low incomes – those that are eligible for the full discount will see an increase of just 28p per week (14p p.w. for general council tax and a further 14p p.w. for social care). Most of those in receipt of LCTS are in Band A to Band C properties and would face total increases of between 19p to 25p per week. This could be reduced further if individuals apply for hardship funding.

On top of the 75% discount, the Council continues to offer further support to those who can demonstrate financial hardship. It has funds of £25k set aside and is prepared to increase this amount should the need arise.

The Council also provides some budgeting and financial advice and has a contract with Citizens Advice Rutland to provide more specialist support if needed.

The Council will be seeking views on the Council tax increase proposal as part of its budget and is also undertaking a review of poverty in Rutland which could lead to some further policy changes.

4 CAPITAL PROGRAMME

4.1 Overall Programme – what does the overall programme look like?

4.1.1 The Capital Programme is developed around specific projects. The programme comprises three strands:

- Approved projects: 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) and projects being delivered using ring fenced funding (e.g. disabled facilities grants);
- Approval required: New projects to be approved in the budget or in-year; and
- Funding available but not yet allocated.

4.1.2 The table below is an overview of the position for 17/18. Projects that make up the total £6.828m are listed in Appendix 10.

Portfolio	Spend to Date £000	Budget 2016/17 £000	Budget 2017/18 £000
Approved Projects			
People	388	554	3,708
Places	2,677	7,265	600
Resources	0	45	0
Total Approved	3,066	7,865	4,308
Approval Required			
People			0
Places			2,370
Resources			150
Total Approval Required			2,520
Total	3,066	7,865	6,828

	Budget 2016/17 £000	Budget 2017/18 £000
Financed By		
Grant Funding	5,115	6,051
Prudential Borrowing	1,130	400
Capital Receipts	779	377
Section 106	398	0
Oakham North Agreement	257	0
RCCO	186	0
Total Financing	7,865	6,828

- 4.1.3 One change has been made since the draft budget following a Government announcement regarding Roads Funding. The Council has received notification that it will receive:
- £153k for Pothole repairs;
 - £1.696m for general maintenance as determined through the existing needs formula;
 - £143k for incentive funding for local authorities to ensure they are following an asset management approach and adopting efficiency and best practice principles for local highway maintenance (the final allocation will be assessed upon completion of a questionnaire); and
 - £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.
- 4.1.4 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. The total Highways funding available is therefore £378k more than that assumed in draft budget.
- 4.2 **Approved projects – what approved projects continue into 2017/18 or have been approved already?**
- 4.2.1 Some of the capital projects will span across more than one financial year. Any projects already approved which are not yet completed will continue into 2017/18. The estimated spend in 2017/18 will depend primarily on the outturn (the amount spent) for 2016/17. The following capital projects are expected to request a carry forward budget to 2017/18.
- 4.2.2 Adult Social Care System Replacement – The replacement of the social care case management system for adults was largely completed early in 2016/17. The system is currently being supported by hardware on loan to allow for testing. It is expected that the purchase of the new hardware will be completed next financial year.
- 4.2.3 Digital Rutland – This project delivers superfast fibre broadband throughout the county to support economic growth and provide more affordable high quality broadband for all. The programme started in 2013/14 and has already achieved circa 95% coverage throughout Rutland. The project board is currently reviewing options to extend coverage further, one of which could be through a new procurement and subject to formal approvals. If this option is taken up the timescales for the required open market review, public consultation and procurement process is such that any Phase 3 deployment could not commence until summer 2017 at the earliest. The target for Phase 3 coverage throughout Rutland is circa 97%.

- 4.2.4 Schools Maintenance – Report numbers 82/2015 and 81/2015 have been approved by Cabinet covering a number of schemes on schools within the County. Project details were given in para 2.3.5 of the Q2 Financial Management Report (191/2016).
- 4.2.5 Oakham Castle Restoration – The restoration of Oakham Castle was completed in October 2016. This was predominantly funded by Heritage Lottery with the remainder funded by revenue contributions and Section 106. The programme will continue over the next couple of years to manage and support the development of the Castle.
- 4.2.6 OEP Phase 2 – £500k was approved in Report 100/2016 to develop the central area of the OEP site to maximise future business opportunities. The work has gone out to tender and is expected to be completed in 2017/18.
- 4.2.7 Oakham Library and the relocation of Visions Community and Children’s Centre – The combined capital programme is for essential works to Oakham Library and the relocation of the Children’s Centre. Work is expected to be completed by summer 2017.
- 4.2.8 Use of Barleythorpe as a business centre – The former Rutland County College will be vacant from August 2017. Cabinet has agreed to invest £200k from capital receipts to undertake works to transform the college into a Business Centre (Report 4/2017).

4.3 Approved projects – what projects will be delivered with ring fenced funding?

- 4.3.1 The Council receives Devolved Formula Capital funds which is pass-ported to maintained schools to help them support the capital needs of their assets. Schools will decide what projects to fund.
- 4.3.2 The Council receives Disabled Facilities grant which is part of the Better Care Fund. The full allocation is used to help residents remain in their home and be independent.
- 4.3.3 On 20th December 2016 Cabinet approved total projects for school places of £3.463m (Report 219/2016). All of the projects are included in the 17/18 budget but as the timing of some is not yet confirmed, some are likely to be delivered in 18/19 and possibly beyond.

4.4 New projects – what future projects will need to be approved?

- 4.4.1 The capital programme includes funding set aside pending further reports to Cabinet/Council to get formal approval for the use of these funds.
- 4.4.2 Future developments to the Council’s IT infrastructure – the Council has traditionally funded IT projects from Revenue but recognising the replacement costs associated with IT systems, provision has been set aside in the capital programme. It is requested that delegated authority be given to the Director of Resources in consultation with the appropriate Portfolio Holder(s) to allocate £150k and approve individual projects.

- 4.4.3 Highways – A cabinet paper will be presented in March highlighting the proposed capital programme for 2017/18, including a short term plan for future years. Included within the report will be a statement as to how the Council will use the funding allocated as this is required to be published.

4.5 Unallocated Funding – what funding do we have available?

Portfolio		Unallocated Funding	Estimated Closing Balance 31/03/17	Grant Awarded 2017/18	Possible Funding for 2017/18 Budget	Estimated Closing Balance 31/03/18
			£000	£000	£000	£000
People	Devolved Formula		0	32	(32)	0
People	Better Care		0	186	(186)	0
People	Basic Needs		2,079	1,134	(3,213)	0
Places	Highways		96	2,370	(2,370)	96
Places	Highways - ITB		831	458	0	1,289
Places	Schools		809	196	(70)	935
Other	Misc Grant		442	0	(180)	262
Other	Section 106		2,457	254	0	2,711
Other	CIL		131	549	0	680
Other	Oakham North		1,735	551	0	2,286
Other	Capital Receipts		882	204	(377)	710
Estimated Unallocated			9,462	5,934	(6,428)	8,968
NB: Indicative funding allocations for Highways and Integrated Transport have been confirmed and updated.						

- 4.5.1 Highway Grants – Unallocated funding (£1.385m). This grant is being held to fund future highways projects which is not ring-fenced however future allocations would be affected if the funding was not spent improving transport infrastructure within the County. The majority of the unallocated highways funding (£1.289m) relates to the integrated transport block which is given to local authorities for small transport improvement schemes.
- 4.5.2 LA Capital Maintenance – Unallocated funding (£935k) is ring-fenced and should be allocated to schools and children's centres based on the provision of sufficient numbers of school places and surplus place removal, also the repair, improvement and replacement of existing school buildings.
- 4.5.3 Misc Grant Funding – Unallocated funding (£262k) representing various balances from historic funding that the council no longer receives. This funding is not ring fenced.
- 4.5.4 Section 106 – Unallocated funding (£2.711m) representing the expected holding balance. Projects will be developed to deal with infrastructure demands from new/existing developments. Expenditure must be spent on the specific details within the individual agreements.

- 4.5.5 CIL - Unallocated funding (£680k) represents the expected Community Infrastructure Levy from developers; this will be replacing section 106, with the exception of the Affordable Housing element. This funding must be spent on items contained within the CIL123 infrastructure list.
- 4.5.6 Oakham North Agreement – Unallocated funding (£2.286m) representing the expected holding balance. £551k is due to be received for the next 2 years. The Council has flexibility on how this funding is used.
- 4.5.7 Capital Receipts – Unallocated funding (£710k) represents the balance of capital receipts held, e.g. Barleythorpe, Centrebuses sale and the annual payment received from Spire Homes.

4.6 Emerging projects – what projects might come forward?

- 4.6.1 Within the Council's long term financial plans, a number of capital projects may come forward. These are:
- Investment Opportunities – The Council is identifying a number of possible investment opportunities as a means of using capital resources to generate ongoing revenue income;
 - Integrated Transport Block – This funding provides support for transport capital improvement schemes. A number of schemes have already been identified, a Cabinet paper will be submitted once the capital schemes have been finalised.

5 TREASURY MANAGEMENT

5.1 Prudential indicators – what prudential indicators will we adhere to?

5.1.1 Local authority capital expenditure is based on a system of self-regulation, based upon a code of practice (the “prudential code”).

5.1.2 Council complies with the code of practice, which requires us to agree a set of indicators to demonstrate that any borrowing is affordable, sustainable and prudent. To comply with the code, the Council must approve the indicators at the same time as it agrees the budget. The indicators including the limit on total borrowing (currently set at £28m) are approved through the Treasury Management Strategy, taken separately to this report.

5.2 MRP – how will we calculate the Minimum Revenue Provision?

5.2.1 By law, the Council is required to charge to its budget each year an amount for the repayment of debt. This is known as “minimum revenue provision” (MRP).

5.2.2 CLG Guidance issued requires full Council to approve an MRP Statement in advance of each year. Council will be asked to approve the MRP Statement as part of the Treasury Management Strategy.

6 SCHOOL FUNDING

6.1 Overview – How are schools funded?

- 6.1.1 Schools are funded from ring fenced grants, the most notable of which is the Dedicated Schools Grant (DSG). This funding cannot be used for any other Council function, and essentially schools operate within their own fund with any under or over expenditure being taken forward into future years. The DSG for 2017/18 is divided into three blocks of funding:
- Schools block - approximately £22.0m for Rutland County Council which essentially funds schools' budgets. This includes approximately £18.8m for academies which is determined by the local Schools Forum and Council but paid to the Education Funding Agency (EFA).
 - High Needs block - approximately £3.8m which primarily supports Special Educational Needs expenditure including maintained special schools.
 - Early Years block - The new formula for Early Years will be implemented from 2017/18 and will result in a reduction in funding received by the Council to fund provision for 3 & 4 year olds. However, funding for the provision of 2 year old placements is set to increase.
- 6.1.2 Locally, the Schools Forum can make recommendations to the Council to transfer funding between the blocks, however, due to the changes being proposed in the future and the fact that the funding blocks were rebased to take into account the actual spending plans for 2016/17, it is not recommended to do so for 2017/18. Schools Forum can also recommend to the Council the funding formula that should be used to distribute monies to individual schools and Early Years Settings.
- 6.1.3 Schools are protected by a nationally set Minimum Funding Guarantee (MFG). This is set at -1.5% per pupil for 2017/18. This means that a school's budget cannot fall by more than 1.5% per pupil from the previous year, regardless of any formula changes that are made.
- 6.1.4 Schools have reserves they can call on, and the Council will work closely with any maintained school that is experiencing financial difficulty to draw up a recovery plan.

6.2 Allocations – What funding is received and how is it allocated?

DSG

- 6.2.1 The Schools Block allocation has been received from the Department of Education (DfE). The per pupil unit of funding has been calculated based on funds allocated to schools in 2016/17 plus the retained duties element of the Education Services Grant (ESG). This will be multiplied by the number of pupils as recorded on the October 2016 census to give an overall allocation. This will then be allocated to schools via the updated funding formula.
- 6.2.2 The High Needs block funding has been set such that no local authority will see a reduction (in cash terms) from its 2016/17 funding for high needs as set out in the spending baseline review carried out in March 2016. Rutland will receive £3.8m which will then be allocated to schools and specialist settings based on pupil

needs using a Place-Plus approach.

6.2.3 For Early Years, the new national funding formula for the allocation of funding for 3&4 year olds has been implemented for 2017/18. As well as changing the way that local authorities are funded, the DfE has imposed a limit on the amount of funding that can be retained centrally to support the Early Years Providers. For Rutland, this means that there has been a reduction in the centrally retained funding of £20k which has been funded from the General Fund. For the Early Years providers the hourly rate paid for the provision of free entitlement for 3&4 year olds has reduced from £4.60 per hour to £4.40 per hour.

6.2.4 The funding available for 2 year olds was already based on a national funding formula and therefore this funding formula has continued for 2017/18. The Government has given a commitment to increase the hourly rate paid to providers and as a result, Rutland will be able to offer providers £5.20 per hour in 2017/18 instead of the £4.85 per hour for 2016/17.

Pupil Premium Grant (PPG)

6.2.5 The DfE have yet to announce the level of Pupil Premiums for 2017/18 but they are likely to remain the same as for 2016/17, as follows:

- Primary disadvantaged pupil premium is £1,320 per pupil;
- Secondary disadvantaged pupil premium is £935 per pupil;
- Children looked after pupil premium is £1,900 per pupil;
- Children no longer looked after due to adoption, special guardianship order etc is £1,900 per pupil; and
- Service children pupil premium is £300 per pupil.

Universal Infant Free School Meals (UIFSM)

6.2.6 From September 2014 every infant (key stage 1) pupil is entitled to a free school meal. This is funded by an additional specific grant amounting to £2.30 per pupil. The funding for 2017/18 is yet to be announced.

New School Improvement Grant

6.2.7 The Government is continuing to review the statutory responsibilities of local authorities as part of its next step of ending local authorities' role in running schools. To this end, the General Rate of the Education Services grant is being withdrawn from September 2017. However, local authorities will receive a new separate grant covering services such as monitoring and commissioning of school improvement support. This grant will allow authorities to play a transitional role as the school-led system continues to mature. The grant was assumed in the draft budget to be c£29k but is expected to be a minimum of £50k.

6.3 Future of Education funding – what is changing and what are the issues?

6.3.1 The Department for Education is proposing to change the way local authorities are funded in future and have been consulting stakeholders on the best way forward for delivering a fair and transparent funding system where the amount of funding children attract for their schools is based on need and is consistent across the

country.

6.3.2 More information about the potential consequences can be found in Appendix 8 but issues include:

- The Council may not receive sufficient funding to deliver its responsibilities;
- There will no longer be the ability to flex funding as there is now;
- The overall amount of schools funding is likely to reduce (see para 6.3.3) but individual allocations to some schools may increase;
- Funding for high needs placements is likely to reduce over time and a system wide solution will need to be found if there is insufficient funding; and
- Early years providers will receive less per hour than they do today potentially putting at risk existing provision.

6.3.3 For the Schools and the High Needs Blocks, the second stage of consultation on proposed changes commenced on 14th December 2016 and closes on the 22nd March 2017. The consultation documentation includes illustrative allocations for comparison purposes (based on the 2016/17 funding proformas) and the table below shows the impact for Rutland and some neighbouring authorities:

	Baseline				New Funding - Fully Implemented				change
	Schools £m	High Needs £m	Central Schools £m	Total £m	Schools £m	High Needs £m	Central Schools £m	Total £m	%
ENGLAND	31,771.88	5,602.20	233.01	37,607.09	31,955.90	5,667.95	233.01	37,856.86	1.40%
Rutland	22.55	3.64	0.18	26.37	22.32	3.64	0.16	26.12	-1.00%
Leicester	218.16	46.69	1.65	266.50	226.86	46.69	1.58	275.12	3.20%
Leicestershire	359.62	60.90	2.24	422.76	368.80	60.90	2.67	432.37	2.30%
Peterborough	142.12	26.57	1.11	169.80	145.91	26.57	1.06	173.54	2.20%

6.3.4 Whilst the above table gives illustrative allocations, it is clear that compared to our neighbours, Rutland is likely to see a reduction in funding. However, a much clearer understanding of the detail behind the figures is required to provide a full assessment of the impact on Rutland and its schools. For example, the baseline figure submitted for Schools (£22.37m) and High Needs (£3.8m) have been adjusted by the DfE to reflect changes in treatment of pupils attending SEN units attached to schools.

6.3.5 The second stage National Funding Formula consultation proposes:

- The introduction of the formula from 18/19. At first, this will be a 'soft' formula, meaning that it will be used to calculate local authorities' allocations, who will then in turn apply their local formula.
- A 'hard' version of the formula for the Schools Block would then be introduced from 19/20, when a national formula would be used to distribute funding directly to schools.

- There will be transitional arrangements that will limit gains and losses at school level, and in 2018/19 the local authority will still use its own local funding formula to apportion funding between schools. The consultation makes clear that no school will lose more than 3% (a maximum 1.5% in 18/19 and the same in 19/20) as a funding floor will be introduced. However, this is only guaranteed until the next spending review after 2019/20. Schools gaining funding will be able to gain up to 5.5% over the two years (up to 3% in 18/19 and up to 2.5% in 19/20);
- The 12 factors proposed in the original consultation would be used, but an extra one – mobility – would be added, in light of consultation responses.
- A new fourth block – the Central Schools Services Block – will be allocated to LAs on a formulaic basis, to support some centrally provided local authority functions.

6.3.6 The High Needs consultation proposes:

- The use of a ‘historic spend’ factor. This would mean that around half of the total high needs allocation “would be allocated according to existing spending patterns”.
- The remainder of high need funding would be calculated according to a national formula.
- There would be a funding floor, so that the high need formula would not result in any local authority losing funding. The Government says this “replaces, and offers significantly more protection than, our previous proposals for a minimum funding guarantee.”

6.3.7 The DfE are proposing that the high needs funding formula is reviewed after 4 years, and therefore authorities receiving the funding floor, which includes Rutland, would not see any increase in funding over that 4 year period. As current forecasts would suggest that high needs costs are exceeding the budget, this is likely to create a pressure. The People Directorate are already working with schools to review SEN provision and how to reduce costs whilst still providing the support pupils need to ensure they maximise their potential.

7 CONSULTATION

7.1 Consultation – how will we consult and when?

7.1.1 The Council has a statutory duty to consult on its budget proposals with representatives of non-domestic ratepayers and local persons.

7.1.2 It is proposed that consultation for 17/18 includes:

- consideration by each of the Scrutiny Panels at special meetings in January 2017;
- a meeting with representatives of the local business community on 9th February 2017;
- a presentation of the budget to the Parish Council Forum on 30th January 2017; and
- consultation online, static displays at libraries and publicity through the local print and broadcast media.

7.1.3 The outcome of the consultation will be reported to Cabinet on 14th February 2017 or Council on 20th February depending on the timing of events to enable the Council to consider the views expressed when making its recommendation to Council on the budget.

7.2 Consultation – what key questions did we ask?

7.2.1 The Council asked one open question (below) to give the opportunity for respondents to add their own views on any issues of particular interest to them.

Have you any comments or suggestions about the Council's draft budget proposals?
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7.2.2 In order to gain an understanding of how much residents understand the Council's financial position, the Council also asked the following questions:

- a) Where do you think the Council ranks in terms of spending?
- b) Where do you think the Council ranks in terms funding from the government?
- c) How well do you feel you understand the Council's financial position?

7.3 Consultation – what feedback was received?

7.3.1 Public consultation

7.3.2 9 comments from public consultation were received online and through other means. A full copy of all comments with a general response from the Portfolio Holder for Finance is included in Appendix 12.

7.3.3 In relation to the understanding questions, 12 people responded:

- The majority thought the Council was “average” spending;
- Most residents understood that the Councils government funding is low;
- Most residents also believed that they have a good understanding of the financial position.

7.3.4 It is clear from the responses that the Council will need to do more to engage with residents and increase awareness and understanding of the Council’s spending and how it compares relative to others.

7.3.5 *Scrutiny meetings*

7.3.6 The budget proposals were discussed at Scrutiny Panels in mid-January. The minutes of Scrutiny meetings are available via the Council website.

7.3.7 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 with some members against the proposed changes to charges in Uppingham.
- 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 (DTC) – Members wanted to understand the Council’s 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 DTC (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 Council’s 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 Council’s 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.

7.3.8 Feedback from the Business Summit will be presented at Full Council.

8 STATUTORY AND CONSTITUTIONAL REQUIREMENTS

8.1 Constitutional and statutory requirements – will we meet them?

8.1.1 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.

Requirement	Status
<i>Statutory requirements under Local Government Finance Act</i>	
To levy and collect council tax	To be reported to Council 20/02/2017
To calculate budget requirements and levels of council tax	To be reported to Council 20/02/2017
To consult representatives of persons subject to non-domestic rates about proposals for expenditure	Discussed in Section 7 of this paper.
To approve the budget and set Council Tax by 11th March in each year	To be approved at Council 20/02/2017
<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.	Within this report, 3.7
<i>Statutory requirements under Local Government Act 1999:</i>	
To consider, as a matter of course, the possibilities for provision of information to, consultation with and involvement of representatives of local persons across all authority functions.	Discussed in Section 7 of this paper
<i>Requirements under constitution:</i>	
Cabinet to recommend the budget to the Council	Draft to Cabinet will be presented 14/02/2017

Requirement	Status
Council to approve the budget and set Council Tax	To be approved at Council 20/02/2017
The Chief Finance Officer shall report to Cabinet for consideration not later than 31st December in each year on draft budgets for the following financial year to be subject to consultation	The draft budget was pushed back to January 2017 with the agreement of Cabinet as the local government settlement was not received until 17 th December, leaving no time for that to be processed and the draft budget produced and presented pre the end of December.
After the completion of the consultation period the Chief Finance Officer shall report for consideration by Cabinet not later than 28th February in each year on draft budgets for approval by the Council.	To be approved at Council 20/02/2017

**A large print version of this document is available
on request**



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