

POLICY, FINANCE AND ADMINISTRATION COMMITTEE

28 SEPTEMBER 2016

REPORT OF HEAD OF CENTRAL SERVICES

BUDGET FRAMEWORK 2017/18

1.0 PURPOSE OF REPORT

- 1.1 To consider a number of key items which will feed into the Council's Medium-Term Financial Strategy (MTFS) and the 2017/18 budget and service planning preparation process.

2.0 RECOMMENDATIONS

It is recommended that:-

- 2.1 Committee approve the proposed corporate planning and budget framework timetable for 2016/17, in respect of the 2017/18 financial year, set out at Appendix A.
- 2.2 No inflation be provided for in the 2017/18 budget at service budget level, other than fees and charges which has been provided for at the rate of 2%, unless adjusted for known prices by budget holders and 1% for pay as reported to Members as part of the budget setting process for 2017/18.
- 2.3 Council retains its objective of setting a balanced budget for 2017/18.
- 2.4 Members consider the level of working balance they wish to set for General Expenses taking into account the revised calculations set out in Appendix B and the use of any surplus over that amount.
- 2.5 The existing target levels of working balance be retained for special expenses (Melton Mowbray) at £50,000 and the Housing Reserve Account (HRA) at £750,000.
- 2.6 The Programme Board continue to determine the relative priority of schemes for members to consider and allocate funding based on the information set out in the project mandates.
- 2.7 The key dates for the budget process be noted.

3.0 KEY ISSUES

Background

- 3.1 An updated timetable for the corporate planning and budget framework process is attached as Appendix A which has been reviewed by the Budget and Strategic Planning Working Group at its meeting on the 13th June 2016. There have been two main changes in the process for this year being the introduction of the Autumn budget away day with members in October and the removal of the individual service plans which has been replaced with the One Council Delivery Plan.

Local Government Finance Settlement

- 3.2 The finance settlement sets out the centrally allocated resources for all councils which are allocated within the context of the spending review. A Settlement Funding Assessment is awarded which consists of a Revenue Support Grant (fixed grant) and a Baseline Funding Level which is used to calculate the level of business rates that can be retained from that estimated to be collected locally. Figures were announced for the period 2016/17 to 2019/20 when the last finance settlement was confirmed early this year with the announcement that where council's desired the certainty of a guaranteed four year budget this would be available with the submission of an efficiency statement. The provisional sums announced for Melton are set out in the following table with the 2015/16 adjusted figure for comparison purposes.

	2015/16	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000	£'000
Settlement Funding Assessment	2,191	1,791	1,489	1,328	1,316
-Revenue support Grant	986	576	250	52	0
-Baseline Funding Level	1,205	1,215	1,239	1,276	1,316
Business Rates Adjustment	0	0	0	0	-169
Rural Services Delivery Grant	35	45	79	112	146

- 3.3 As can be seen from the table the Council is set to incur an overall loss of grant of £933k between the current financial year 2015/16 and 2019/20 representing a 42% reduction. This is in addition to the previous reductions of £1,859k or 57% over the period 2010/11 to 2015/16. It can also be seen that once Revenue Support Grant no longer exists an adjustment is made to the business rates retained in order to continue with the reductions to funding.
- 3.4 In order to address the budget gap of circa £900k as outlined in the MTFS which takes into account the loss of government funding and other services changes which may impact on the budget the council has developed an efficiency plan. The draft plan was approved by this committee at its meeting on the 12th July 2016 which sets out under 6 key themes how the Council planned to achieve a number of efficiency savings. An updated copy of this plan is included elsewhere on this agenda. At present the plan has identified potential savings and efficiencies to address this shortfall and this will need to be closely monitored and updated as projects proceed in order to ensure achievement of a balanced budget moving forward. This will be overseen by the Transformation and Efficiency Board task group which has been set up. The Council will also be submitting this document to the Government in order to meet the criteria for a guaranteed 4 year budget.
- 3.5 When the settlement for 2016/17 was announced the Government still had in place its plan to balance the Public Sector Borrowing Requirement in 2019-20 which was an ambitious target set by the then Chancellor. Following BREXIT the new Chancellor has announced this target will no longer be met but didn't outline any changes through an emergency budget which some economic commentators predicted. Therefore, it is uncertain what may happen until the Autumn statement is announced later in the year which is usually late November. This will outline any changes in the funding levels and

whether the Government will honour its pledge around the certainty of the four year settlement in light of BREXIT.

- 3.6 On the 15th September DCLG published a technical consultation paper on the 2017-18 local government finance settlement which covers a number of aspects including:
- the Government's commitment to the multi-year settlement offer and seeks views on expanding this offer
 - the proposed approach to distributing funding through the Improved Better Care Fund using a methodology that takes account of each council's capacity to raise resources through the adult social care precept
 - the Government's proposals for the council tax referendum principles for 2017/18 which for districts is either 2% or £5 if that is higher
 - the proposed approach for adjusting business rates tariff and top ups to cancel out, as far as is practicable, the impact of the 2017 business rates revaluation on local authorities' income
 - a proposed methodology for calculating the agreed changes in the local share of retained business rates and the level of tariff and top ups for local authorities piloting 100% business rates retention, designed to ensure that no authorities anywhere in the country are adversely affected by these pilots.
 - a mechanism which would allow places with a devolution deal to revisit the distribution of existing funding streams within their areas, if all affected councils agree

The consultation closes on the 28th October 2016 and officers will be fully engaged with compiling a response for Melton to ensure our views are known.

- 3.7 One of the significant changes to the Local Government finance regime is the move to 100% retention of business rates. A high level consultation document was released in July 2016 which covered a number of strategic issues and principles but didn't provide any detailed numbers to understand what it would actually mean in terms of funding positions. The consultation closed on 26th September and officers submitted a local response for Melton taking into account comments from bodies such as the Society of District Council Treasurers, SPARSE and our Local Government funding advisors. Further consultation is expected in due course which should provide more detail relating to Melton.
- 3.8 In addition to the core funding there has also been a consultation regarding New Homes Bonus (NHB) which could see further losses in funding of up to £894k over the next 4 years based on the amount received and included in the base budget for 2015/16. When the anticipated growth which was built into the MTFS over the period is taken into account the loss is even greater. There were a number of potential options being explored as part of the consultation around how the government may approach this with the main emphasis being on reducing the number of years calculated for the NHB from 6 to 4. The Council was fully engaged and responded to the consultation document but as yet nothing further has been published and the position remains unclear.

2017-18

- 3.9 The MTFS for 2017/18 onwards has modelled the reduction in RSG as outlined in the table above (para 3.2) which will form the basis for the forthcoming budget as officers start to format the estimates. This may need to be revised once the Autumn settlement has been announced and the settlement published in mid December.

- 3.10 In relation to Business Rate retention Melton decided to support the re-establishment of a County wide pool for 2016-17 and the intention is for this arrangement to continue for 2017-18. Whilst this does not impact directly on the level of rates retained by individual districts in the county it does mean any levies that would have been paid over to central government will be retained within the Leicestershire area. The future of business rate pools under the move to 100% retention is unclear but it is likely that they will no longer exist.

Council Tax

- 3.11 For 2016-17 members approved an average increase in Council Tax of 2.76% for the Melton Area. This was based on the Governments allowance for district councils to increase their Council tax by £5 of the basic amount of council tax when compared to 2015-16. As part of the recent Technical Consultation on the 2017-18 Finance Settlement the government are proposing that District Councils can again look to increase council tax by up to 2% or £5 whichever is the greater amount. The MTFs currently assumes Melton would look to apply a similar increase 2017-18 of increasing the average level of council tax by £5. Final details and confirmation of these proposals are expected to be contained within the settlement announcements.

Inflation Forecast

- 3.12 The Government's target for inflation is 2% CPI (Consumer Prices Index). Their inflation forecast remains unchanged with expectations that it will remain low for the rest of the year (0.8%), then rising in 2017 (1.9%) and return to the 2% target by 2018. Actual CPI was 0.6% in July up from 0.5% in June.
- 3.13 Pay increases will remain low with the chancellor's announcement as part of Budget 2015 that there will be an annual 1% cap on public sector pay rises for the 4 years from 2016/17.
- 3.14 In light of the inflation forecasts remaining low for 2017-18 and low use of the contingency in the past, no contingency budget is proposed for 2017-18 but 1% for pay will be incorporated and reported to members as part of the budget setting exercise for 2016-17. On this basis no inflation has been set at service budget level other than 2% for fees and charges as already provided for in the fees and charges reports considered by committees in the September committee cycle. However, where budget holders have knowledge of price rises, adjustments can be made to these budgets to reflect actual price changes.

Working Balance

- 3.15 The Council's budget strategy for a number of years has been to set a balanced budget. This ensures that the net revenue expenditure, with the exception of funding for capital/new initiatives, is met from Council tax and Government grants. This strategy was also based on ensuring that working balances were retained at a sufficient level to meet any unforeseen expenditure that could not reasonably be budgeted for.
- 3.16 When calculating budget requirements, relevant authorities are required (by The Local Government Finance Act 1992) to have regard to the level of reserves needed for meeting estimated future expenditure (e.g. for emergencies), or as specific (i.e. "earmarked") funds. A clear protocol (covering purposes, utilisation, management, and review) exists for each reserve held in line with the guidance. The level of working balance an authority agrees is an individual matter for them based on their own unique circumstances, risk profile and risk appetite. It is not appropriate to compare/benchmark against other authorities in order to assess an appropriate level.

- 3.17 The current projection for the level of working balances is set out in the following table. Where the actual balances at the year-end for general and special expenses have differed from the target level the balance has been restored either by taking from or adding to the general reserves. This does not take any account of predicted year end over/underspends that have not been formalised through supplementary estimate requests. Budgets are closely monitored throughout the year and spend is proactively managed with every effort made to manage costs within budget.

	General Fund General Expenses £	General Fund Special Expenses £	Housing Revenue Account £
1 April 2016	640,000	50,000	1,460,026
Budgeted Increase/reduction (-) 2016/17	0	0	(292,980)
Estimated Balance 31 March 2017	£640,000	£50,000	£1,167,046

- 3.18 The target working balance for general expenses was reduced in 2016-17 to its current level of £640k. The calculation has been updated for any changes in assumptions and is set out in Appendix B. It can be seen that the revised figures produce a mid-point of £655k. This is broadly in line with the current balance and therefore it is proposed to retain the working balance at its current level.
- 3.19 With regard to the £50k working balance for special expenses (Melton Mowbray) there is no justification for amending this amount based on previous years supplementary estimate history. As shown above the current and projected balance at this target.
- 3.20 The Housing Revenue Account (HRA) working balance was last increased from £500k to £750k by this committee in a meeting held on 23 January 2013 with a requirement to review annually. The increase was needed to address the risks associated with running the HRA as a going concern and ensure the sustainable and continuous maintenance and improvement of the housing stock. A further change is not proposed.
- 3.21 It has been previously agreed that, should there be a surplus over the HRA working balance then this is available to support the requirements of the HRA business plan.

Programme Board

- 3.22 The Programme Board was allocated responsibility in 2008-09 to determine the relative priority of schemes submitted for funding as part of the budget setting process for member's consideration and final approval for funding by Full Council at the budget setting meeting. No issues were encountered from this approach and therefore it is recommended that this procedure continue.

Key Dates

3.23 For Members information the key dates in the budget process are as follows:-

Members Autumn Away Day – initial high level budget review and consideration of efficiency plans	13 October 2016
Budget and Strategic Planning Working Group meet to consider draft MTFS and budget submissions	9 November 2016
Spending Review published by Government	Late November 2016
PFA Committee consider first draft of revenue estimates	30 November 2016
Settlement Announcement for Local Government	Mid December 2016
Strategic Planning Away Day (All Councillors)	11 January 2017
PFA Committee consider outcomes from the Strategic Planning Away Day	25 January 2017
Full Council determines the budget	8 February 2017
Full Council sets Council Tax and approves the budget book and the MTFS	23 February 2017

4.0 POLICY AND CORPORATE IMPLICATIONS

4.1 The key items considered as part of this report will inform the Council's MTFS. The MTFS is an overarching strategy within the Council's Corporate Policy Framework and draws together the financial consequences of all the Council's strategies and policies.

5.0 FINANCIAL AND OTHER RESOURCE IMPLICATIONS

5.1 The financial implications of each of these key decisions will feed into the MTFS along with the detail around the Council's reserves and balances which will be submitted for approval to the November meeting of this Committee.

6.0 LEGAL IMPLICATIONS/POWERS

6.1 There are no specific legal implications as a result of these proposals.

7.0 COMMUNITY SAFETY

7.1 There are no specific community safety issues as a result of these proposals however as a corporate priority specific funding will be allocated as part of the service and budget setting process to this area.

8.0 **EQUALITIES**

8.1 There are no direct links to equalities as a result of these proposals.

8.2 As in all our service areas and in supporting our corporate priorities ensuring equality of access for all sections of the community and in particular those that are vulnerable is a key factor for all officers to consider and improve.

9.0 **RISKS**

9.1

L I K E L I H O O D	A	Very High			1	
	B	High				
	C	Significant				
	D	Low		2		
	E	Very Low			3	
	F	Almost Impossible				
			Negligible 1	Marginal 2	Critical 3	Catastrophic 4

IMPACT

Risk No	Risk Description
1	Risk of achieving a balanced budget as a result of government funding cuts without resulting in significant cuts in service provision
2	Budget overspend
3	Depletion in level of working balances and reserves

9.2 There are a number of uncertainties surrounding local government finance and the Council’s financial position. The budget is the best estimate of likely income and expenditure for the year that it covers. The proposals contained within this report attempt to quantify some of these unknowns in order to produce a best estimate. To mitigate some of these risks the working balance is provided which itself is based on a risk assessment of likely need.

10.0 **CLIMATE CHANGE**

10.1 There are no direct links to climate change.

11.0 **CONSULTATION**

11.1 As part of the Corporate Planning and Budget Framework provision is made to undertake consultation on budget disinvestment. This helps inform the budget setting process and allocation of resources.

11.2 All Heads of Service and the Budget and Strategic Planning Working Group are involved in finalising the document.

12.0 **WARDS AFFECTED**

12.1 As these proposals inform the MTFS then potentially all wards are affected.

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Date: 12 September 2016

Appendices: A – Service and Financial Planning Timetable
B– Level of Working Balance from MTFS

Background Papers: MTFS working papers

Reference: X: C'tees, Council & Sub-C'tees/PFA/2016-17/28-09-16/Budget Framework 2017/18