

POLICY, FINANCE AND ADMINISTRATION COMMITTEE

30 NOVEMBER 2016

REPORT OF HEAD OF CENTRAL SERVICES

REVENUE ESTIMATES 2017/18 AND MEDIUM TERM FINANCIAL STRATEGY

1.0 PURPOSE OF REPORT

- 1.1 To report on the latest position regarding the estimates for 2016/17 and 2017/18 and the Medium Term Financial Strategy (MTFS) following the Budget and Strategic Planning Working Group (BSPWG) meeting held on 9th November 2016.

2.0 RECOMMENDATIONS

- 2.1 That Members note the estimated year end position for 2016/17 as set out in section 3.2.
- 2.2 That Members note the position with regard to the 2017/18 estimates and the forward projections for 2018/19 to 2020/21 at this stage in the process and the issues yet to be resolved as set out in section 3.3.
- 2.3 That delegated authority is given to the Head of Central Services in consultation with the Chief Executive, the Chair and Councillors Holmes being the political groups' nominated consultees for the Policy Finance and Administration Committee, to withdraw from the Leicestershire pool for business rates should the modelling demonstrate there is no longer a financial benefit to the Council and update the legal agreement with any required changes that arise.

3.0 KEY ISSUES

3.1 Background

- 3.1.1 The Management Team scrutinised all budget submissions prior to submission for member scrutiny. The Budget and Strategic Planning Working Group (BSPWG) met on 9th November 2016 to consider the draft estimates and to provide guidance on a number of areas for both General and Special Expenses. A copy of the Working Group minutes for this meeting can be obtained from Central Services. The Town Area Committee met on 21st November 2016 to also consider special expense (Melton Mowbray) budgets.
- 3.1.2 The emphasis of these meetings was to achieve a balanced budget for 2017/18 as this was a key principle agreed by this committee at its meeting on the 28th September as part of the Budget Framework. As well as this they were also held to scrutinise all service growth and savings put forward, including their fit with Council priorities and to ensure only those that fit such criteria move forward through the budget process. In addition, the Members present considered the ongoing issues experienced in balancing the budget and the particular pressures and risks faced as a result of the financial implications in relation to the ongoing significant cuts in central government grants both this council and our partners are experiencing. These were discussed with a view to considering how best the Council could manage these impacts and plan for the future and by doing so minimise the likelihood of cuts in services being necessary.

3.1.3 In addition to the above a Members Autumn Away Day was held on the 13th October to consider an initial high level review of the budget and also consideration of the efficiency plans which are a key feature of Melton's MTFS.

3.2 Estimated Year End Position 2016/17

3.2.1 The position for the current financial year, 2016/17 is estimated to be as set out in the following table:

Estimated Year End Position 2016/17

	Original Estimate 2016/17 £'000	Estimated Year End Position 2016/17 £'000
General Expenses		
Net Cost of Services	6,314	7,051
Non Specific Service Items	(655)	(625)
Funding	(5,659)	(6,396)
	<hr/>	<hr/>
Surplus (-) / deficit for year	0	30
Special Expenses (MM)		
Net Cost of Services	628	614
Non Specific Service Costs	(122)	(122)
	<hr/>	<hr/>
Total Special Expenses (MM)	507	492
Special Expenses (Sproxtton)	5	5
Special Expenses (Frisby)	6	6

3.2.2 The estimated year end position for General Expenses shows a deficit of for year of £30k. This takes into account approved contributions from the Corporate Priorities Reserve relating to non-recurring expenditure as included in the original budget, supplementary estimates, and approved carry forwards from 2015/16 as set out below.

	£
Approved Revenue Carry Forwards from 2015/16	632,260
Supplementary Estimates 2016/17 - Corporate Priorities Reserve	105,000
Budgeted contribution from / (to) Corporate Priorities reserve	(21,762)
Total contribution from the Corporate Priorities reserve	<hr/> <u>715,498</u>

3.2.3 The variances between the in year approvals and the estimated year end position primarily relate to:

- Increase in planning application fees including two large applications that have been received in year which is being partly used to fund some additional expenditure relating to local plans.
- Salary savings have been achieved within the licencing and customer services teams, which has been offset by additional staffing costs relating to the supporting people service.

- Housing benefit subsidy income has increased along with the recovery of overpayments.
- Increase in car parking income over that originally estimated
- Additional income from Leicestershire Partnership Trust as they are continuing their occupation at Parkside at the present time when they were expected to vacate in September 2016.
- Implementation of a number of saving initiatives including, move from laptops to thin clients, remote access software and external audit fees.

These are offset by increased costs relating to the delivery of the homelessness service for use of temporary accommodation and transformation savings which will no longer be achieved in 2016/17. There has also been a shortfall in income from land charges as well as a settlement for a legal claim, along with reduced income estimated from comingled waste. The figures are the best estimate based on information available at this time.

3.2.4 For Special Expenses (Melton Mowbray) there is an underspend of £11k forecast due to various savings within the Town Area Community Centres, the Town Area Committee Chair allowance being lower than budgeted for and part year vacancy for the committee admin support post.

3.2.5 With regard to the parish special expenses the estimated year end position is for lower balances than originally estimated as a result of the lower deficits balances brought forward from 2015/16 over that estimated. There continues to be a stepped increase in the Special Expense council tax rates in 2017-18 which for Frisby was as agreed to recover the deficit over a 3 year period.

3.2.6 The estimated year end position is only an indication of the likely position at the year end and budget holders can only spend at this level if they seek approval through virements and supplementary estimates. Whilst the estimated year end position for General Expenses is showing a minor potential over spend there is still some pressure on increased costs in some areas which are estimated to be covered by the savings elsewhere.

3.3 Proposed Budget 2017/18

3.3.1 Following amendments to the proposed budgets both during and following the BSPWG and Management Team meetings, the latest position on the General Fund and Special Expenses is summarised in the table below. At this stage in the process there are always a number of uncertainties with some budgets remaining unclear:

Latest Proposed Budget 2017/18

	General Expenses	Special Expenses (MM)
	£000	£000
Latest Proposed Budget 2017/18	5,082	483
Retained Business Rates	(1,261)	0
Revenue Support Grant (RSG)	(238)	(12)
Council Tax Income	(2,932)	(510)
New Homes Bonus	(457)	0
Collection Fund Deficit	25	0
Corporate Priorities Reserve	0	0
Special Expenses Reserve	0	59
Budget Shortfall/Surplus (-)	219	20

3.3.2 The above figures show a budget deficit at the present time on general expenses which reflects the difficult and challenging economic environment the council is operating within and the significant cuts being applied to grants from central government. Whilst the net cost of services has reduced by just over £500k over the original budget for 2016/17 this has not been enough at this stage to cover the estimated reduction in Revenue Support Grant and New Homes Bonus. The MTFs previously identified a deficit of £350k for 2017/18 so the council has looked to respond to this and taken decisions as part of this budget setting in order to start addressing this deficit. There are a number of growth proposals, attached as Appendix A which would further increase the budget deficit if approved although the majority are non-recurring and therefore these could be funded from the Corporate Priority Reserve. The Head of Central Services will continue to work with Management Team to review the budget estimates in order to identify further savings or potential budget reductions which could contribute to reducing the deficit further and also meet the future financial challenges the Council faces. There are still a number of key estimates that are awaiting further information and these could increase or reduce the estimated deficit further. One saving proposal has also been proposed attached as Appendix B. The final list of prioritised budget growth and reductions will be presented to members for consideration at the Strategic Planning Away Day in January 2017.

With regard to special expenses (Melton Mowbray) there is a budgeted deficit for 2017/18 which is based on a contribution to the special expense reserve of £60k in order to reduce the working balance to its target level as a result of the underspend estimated for 2016/17, however members may wish to move any surplus on this fund at the current year-end directly into the reserve. This is in line with the previous decision to provide funds to support non recurring revenue and capital expenditure. No growth or savings proposals have been made. The current estimated level of the reserve assumes the pavilion at the country park will be built but if this is doesn't go ahead the level of the reserve will be at a very healthy level to support investment going forward.

3.3.3 The following assumptions have been made with regard to the estimates set out above:

- Formula Funding used to calculate retained business rates and RSG is in line with the final settlement for 2016/17 which set out a 4 year settlement as part of the deal for submitting an efficiency plan.
- Council tax will be increased by £5 on the average band D in line with the MTFs as currently assumed with parish special expenses being set at a level to balance the budget, special expenses at a level of 1.99% and the balance being allocated to General Expenses.
- RSG allocated to special expenses and parish councils to compensate for the impact of localised council tax support on the tax base is reduced in line with the estimated reduction in RSG for the council as previously agreed.
- Pay increases have been budgeted for at a 1% increase for the 4 years from 2016/17 in line with the chancellor's announcement as part of Budget 2015 on public sector pay.
- In light of the inflation forecasts remaining low for 2016-17 and low use of the contingency in the past, no contingency budget is proposed for 2016-17 as agreed by this committee at its meeting on 28 September 2016 as part of the budget framework.
- The structure of the Council Tax Support Scheme is currently under review and there is a separate report on this agenda which provides more detail around the proposed changes. If agreed this will result in savings of up to £28k which will help in addressing the current budget deficit.
- Structural changes as set out in a separate report on this agenda with regard to Me and My Learning and People services are approved.

3.3.4 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 authority 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 closed on the 28th October 2016 and officers submitted a response for Melton to ensure our views were known.

3.3.5 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.

3.3.6 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.

3.3.7 We are expecting further details to be announced on the financial assumptions and uncertainties outlined above in the Autumn Statement which is due to be announced on the 23rd November 2016. A verbal update will be provided at the meeting of any key issues arising from the statement.

3.3.8 The estimates are still being checked and refined and this will result in a number of changes in service costs as the Council progresses through the process. The key areas to note are in addition to those set out in the above paragraphs:

- The balance on the collection fund will not be determined until January 2016 following the calculation of the council tax base, which is also an estimate at this stage, and is therefore based on estimates.

- Business Rates estimates have yet to be calculated and as set out above no allowance has been made for the proposed changes to the 100% retention of business rates income locally.
- Support cost recharges to the HRA and between funds are based on current year's estimates and will be subject to change although an allowance has been made for anticipated transfer between funds.
- Assumptions have been made relating to externally funded services where the continuation of funding remains uncertain at the present time. As such any reductions in funding from partners such as Leicestershire County Council could result in a reduction in the estimated surplus or see the need to incur non-recurring expenditure in order to facilitate any withdrawal from current externally funded services or whilst alternative sources of funding are explored. One key area this applies to is the provision of the Wheels to Work Scheme which relies heavily on external funding.

3.3.9 Figures will continue to be refined until the Full Council meeting in February 2017 when the budget and Council Tax are formally set.

3.3.10 The Medium Term Financial Strategy is again being developed as part of the budget this year. As with the budget for 2017/18 the figures are still being refined as the process progresses and more information is received. The latest estimates show the following projected position. These figures are cumulative so any change to the 2017/18 position i.e. by approving and including on-going growth will reduce the expected surplus in 2018/19. The MTFs has incorporated the savings outlined in the Council's efficiency plans which are the main driver for the expected surplus over the medium term.

Financial Year	Expected Position Surplus (-)/Deficit	Optimistic Scenario Surplus (-)/Deficit	Prudent Scenario Surplus (-)/Deficit
	£000	£000	£000
2018/19	(168)	(499)	1,437
2019/20	(390)	(1,017)	1,830
2020/21	(325)	(980)	2,215

The current approved deficit within the MTFs is £876k but after taking into consideration the total forecast savings from the efficiency plans of £1.080m plus other changes to our assumptions (£179k) this has resulted in an expected surplus in 2019/20 of £383k.

3.3.11 The key factors impacting on these forward projections are:

- Income projections
- Anticipated service changes including loss of dry recycling credits
- New waste management contract
- Formula Funding projections
- Assumptions relating to the Retained Business Rate scheme and potential changes to the system as a whole including the 2017 revaluation
- Changes to employer NI and pension contributions including auto-enrolment and future triennial reviews
- Delivery of the efficiency plans
- Inflation assumptions and actual cost increases
- Council tax levels
- Achievement of Transformation programme savings
- Welfare Reform and Universal Credit
- Changes to the living wage levels and associated increased in salary costs
- Utilisation of Council Assets
- Changes to occupancy at Parkside

- Impact of new agreement for Cattle Market lease
- Leisure Vision procurement
- Elections and Electoral Registration
- Local plan costs and associated implications such as housing and infrastructure
- Changes to the Local Council Tax Support scheme
- Running costs associated with the Lightbulb project

3.3.12 The figures show that despite large reductions anticipated in Formula Funding and potential changes to the Business Rate system the Council has developed plans through the efficiency programme to meet the future financial challenges. Whilst there is a deficit predicted for 2017/18 over the medium term if the efficient plans are delivered the previously predicted shortfall in funding can be addressed and a surplus is estimated based on the expected position for 2018/19 moving forward. However, with the fundamental changes to the Local Government finance system and proposals around Retained Business Rate this medium term position is subject to change. This would support the Council using reserves to balance any remaining deficit on the 2017/18 budget as a short term measure whilst efficiency plans are achieved.

3.3.13 The expected position has been subject to sensitivity analysis resulting in the optimistic and prudent cases set out in the table above. The key reasons for such large variations are as follows:

- Variations in the need for inflationary increases due to economic uncertainty
- Risk associated with achieving transformation and efficiency savings
- Lack of information surrounding the impact of NI changes and the increase in membership of the pension scheme due to the implementation of auto enrolment.
- Waste services with the potential loss of dry recycling credits alongside the procurement of a new waste management contract which will have a key impact in 2018/19.
- Changes to the tenants and occupation rates at Parkside with the potential loss of or reduction of office space utilised by LPT.
- Impact of the changes to the living wage levels and associated increased in salary costs
- Fluctuations in significant income streams – mainly planning fee income and Cattle Market which is linked to the redevelopment of the site.
- The extent to which the efficiency plans are delivered
- Income levels from planning application fees

3.3.14 The Council is currently a member of a business rates pool consisting of all Leicestershire districts, Leicestershire County Council, Leicester City Council and Leicester, Leicestershire and Rutland Combined Fire Authority. In summary the pooling agreement allows for increases in business rates that would otherwise have been paid over to central government in the form of a levy to be retained within the pool area. Surpluses up to an agreed level will be retained within the pool as a contingency sum to cover safety net payments and monies retained above this level will be available to support priority economic projects within the whole Leicestershire/Leicester area and distributed by the LLEP. The financial position of the pool is monitored on a quarterly basis across the area however the final position will not be known until after the end of the financial year. The estimated levy the pool would retain is based on Formula Funding for each authority as well as forward projections of business rates income. As such it is difficult to finalise these estimates for each financial year until the provisional settlement is received in approximately December each year. As such authorities are given 28 days following the release of the provisional finance settlements to withdraw from a pool should they wish to do so. Any member of the pool withdrawing would cause the pool as a whole to cease. As such it is recommended that delegated authority be given to the Head of Central Services in consultation with the Chief Executive and the political groups' nominated consultees for

this committee to withdraw from the pool should the finance settlement indicate that continued pooling would not be in the best interests of this Council.

However, based on the current expected position of the pool this is not anticipated that any changes will be required. The final position of the pool for 2015/16 (including previous years) was a surplus balance of £3.4m off which it was agreed to make a contribution to the LLEP of £2m in accordance with the pooling arrangements. The position for 2016/17 looks equally as positive with another in year surplus is predicted in the region of £4m.

4.0 POLICY AND CORPORATE IMPLICATIONS

4.1 The process followed with regard to the setting of the Council's budget is in line with the Service and Financial Planning timetable.

5.0 FINANCIAL AND OTHER RESOURCE IMPLICATIONS

5.1 With the future uncertainty and risks facing local authorities due to both the funding cuts and also the changes to the funding regime relating to business rates and other core grants it is essential the council looks to how this can be managed in a planned way. The development of efficiency plans is a key element in how Melton is looking to address the funding gap and it is essential for the long term health of the authority these are delivered. This is evident with the latest position for 2017/18 estimating a deficit but in later years a surplus is estimated based on the delivery of the efficiency programme.

5.2 The council does hold a good level of revenue reserves which if required could be used to balance the budget in any financial year whilst plans are put in place to reduce expenditure. A Spending Pressure Reserve has been established which has an expected balance of £158k at the end of 2016/17 with the aim of it being utilised to help balance the budget whilst steps are taken to generate the necessary efficiencies required for a longer term sustainable solution. However whilst these balances are healthy the size of the potential future funding cuts and the risks associated with some of the grants and partnership funding received would mean that these balances could quickly be depleted. The level of capital resources by way of capital receipts is also much depleted with limited scope for realising future receipts from asset sales. As such the Corporate Priorities Reserve is likely to have to be utilised to fund capital expenditure in the future.

6.0 LEGAL IMPLICATIONS/POWERS

6.1 There are no other legal implications other than those set out above.

7.0 COMMUNITY SAFETY

7.1 Community Safety is a key priority of the Council and the budget proposals need to take account of the requirements to support that strategy.

8.0 EQUALITIES

8.1 There are no direct links to Equalities, though some elements of the budget proposals will relate to Equalities issues. Any savings proposals will need to have equality impact assessments completed as appropriate by the service lead.

9.0 RISKS

- 9.1 There is always the risk that an item of income or expenditure is not adequately reflected in the budget for any financial year. The process followed as set out in the Service and Financial Planning timetable is aimed at mitigating this risk. However, the Council has a working balance which is annually reviewed and calculated on a risk based approach. This working balance is there to provide for any variations in actuals against budget that could not have been anticipated at this stage. The detailed calculations were presented to this committee as part of the budget framework report approved in September 2016. In addition, the Council has a process for enabling budgets to be moved from one area to another to help ensure the overall position is not affected. The assumptions set out in paragraph 3.3.3 provide an indication where assumptions have been made at this stage and where there is less clarity surrounding the financial implications.
- 9.2 Risks are more fully assessed when the budget is presented to Full Council based on the position at that time.
- 9.3 The Council has a corporate risk relating to the availability of government funding and the impact on the Council's finances. An action plan is in place to support this risk as reported to the Governance Committee.

10.0 CLIMATE CHANGE

- 10.1 Climate change and our response to this could impact on a number of budgets and this should be considered as part of the service planning process.

11.0 CONSULTATION

- 11.1 The Service and Financial Planning timetable sets out the Council's approach to consultation and its links to the budget setting process. In addition, all Heads of Service and Members are involved in the process at various stages. Consultation with Business Ratepayers will be held via the website following advertisement.
- 11.3 Union representatives were invited to attend the members Autumn Away day held in October and the BSPWG meeting held in November in order to facilitate communication with staff representatives although this offer was not taken up this year. A representative will also be invited to the Strategic Planning Away Day in January 2017 when budget proposals are discussed in more detail.
- 11.4 The Town Area Committee was also consulted on proposals for Special Expenses Melton Mowbray at their meeting held on 21 November 2016.

12.0 WARDS AFFECTED

- 12.1 All wards will be affected.

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Date: 14 November 2016

Appendices: Appendix A – Growth Proposals General Expenses
Appendix B – Savings Proposals General Expenses

Background Papers: Medium Term Financial Strategy working papers
Budget Book 2016/17
Budget Working Papers
Minutes from BSPWG 09/11/16

Reference: X: C'tees, Council & Sub-C'tees/PFA/2016-30-11-16/DG-Revenue budget
2017/18 and medium term financial