POLICY, FINANCE AND ADMINISTRATION COMMITTEE

26 SEPTEMBER 2017

REPORT OF CORPORATE DIRECTOR

BUDGET FRAMEWORK 2018/19

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 2018/19 budget and corporate planning preparation process.

2.0 RECOMMENDATIONS

It is recommended that:-

2.1 Committee approve the proposed corporate planning and budget framework timetable for 2017/18, in respect of the 2018/19 financial year, set out at Appendix A.

2.2 No inflation be provided for in the 2018/19 budget at service budget level, other than fees and charges which has been provided for at the rate of 2.5%, unless adjusted for known prices by budget holders and 1% for pay.

2.3 Council retains its objective of setting a balanced budget for over the life of the Medium Term Financial Strategy.

2.4 That the level of working balance for General Expenses, taking into account the revised calculations set out in Appendix B, is maintained at £640k.

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 Management Team 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.

2.8 That delegated authority be given to the Corporate Director in consultation with the committee chair to become a 100% business rate pilot as part of the Leicestershire business rates pool should it be in the best interests of the Council.

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 7th June 2017.

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 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 council submitted its efficiency statement to DCLG in October 2016 which was subsequently approved. 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 previously 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. This plan was formally approved by this committee at its meeting on the 28th September 2016 which sets out under 6 key themes how the Council plans to achieve a number of efficiency savings. 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 Task group which has been set up. During 2016/17 the Council delivered £57k against it efficiency plan for the General Fund, provisions of £60k have been included in the 2017/18 budget.

3.5 The post-election fall out has created more uncertainty for local government about the future funding for this sector. The uncertain outcome of the election, and in particular the fall out of the Local Government Finance Bill, has made it unclear whether the new government will go ahead with key policies such as the 100% business rate retention or change the direction on others (austerity for public sector funding).

3.6 The funding for Local Government over the medium term will be largely determined by the health of the UK economy and public finances. The pace of economic growth or indeed recession will determine the tax revenues that are received by HM Treasury. It is these tax revenues, together with the Governments policy over how quickly to close the budget deficit, which will determine how much is available to spend on public services. Analysis from the Institute of Fiscal Studies show's that seven years of austerity has only managed to bring public finances back to where they were in 2007-08. The budget deficit has shrunk largely because of the reduction in spending and (to a lesser extent) the increase in taxation. Below par economic growth is the main reason that successive governments in recent years have been unable to close the budget deficit. Economic experts believe there are structural problems in the UK economy which might reduce the economy's long term ability to expand and that we need to be wary about the potential for another recession in the near term. The Monetary Policy Committee voted in August 2017 to maintain bank rate at 0.25% as they concluded "GDP growth remains sluggish in the near term as the squeeze on households real income continues to weigh on consumptions". Recovery from the effects of the recession has been much slower than the Government has expected since 2010. Tax revenues have not recovered as quickly and arguably real-terms cuts in spending have been more difficult to achieve. In the latest iteration of the fiscal policy, the Chancellor has given the Government some room for manoeuvre without abandoning the pledge to eliminate the budget deficit. However, we will have to wait until the chancellors next budget statement (late in Autumn) to find out for certain how the Government wants to shape its fiscal policy moving forward.

Business Rate Retention

3.7 The previous government's intention had been to introduce 100% business rate retention in either 2019-20 or 2020-21, with the later year looking increasingly more likely. 100% retention was going to be introduced via the Local Government Finance Bill, however the new Government has announced that it will not be introducing that Bill to Parliament and that it is reassessing its policy on business rate retention. There have been some comments from DLCG which suggest the prospect of 100% retention is still possible, and that Government are considering what can be implemented without primary legislation. The view from the CIPFA Funding Advisory Service is that most of the elements for 100% retention don't require legislation such as the baseline, levy and safety net anyway but clearly the Government will need to take a legal view about what is and isn't possible without legislation. Without a formal commitment to 100% retention the current 50% arrangements are likely to continue over the medium to long term.

A number of 100% business rates pilots were agreed in 2017/18 and more are planned for 2018/19 with an invitation to apply having been issued by the Government. Initial discussions have shown that authorities in the Leicestershire Business Rates Pool are keen to express an interest in becoming a pilot for 2018/19 subject to the detail some of which is now becoming clearer. Key features of the pilots that are in operation for 2017/18 are that 100% of business rates are retained locally with certain funding streams or responsibilities devolved. Experience to date is that these pilots are seeing significant financial benefits from being a pilot authority. Adjustments are made to the financial calculations that apply to recognise these changes but the effect is that more growth is retained locally at no additional risk as the pilots have had a safety feature included called the "no detriment" clause. This ensures that no authorities in the pilot are worse off in the pilot than they would have been in the existing 50% scheme. This would operate across the pilot area meaning that a collective arrangement would need to exist across the pool area to ensure no member authority is worse off as a result of the pilot.

For 2018/19 there is an application process. It is very unlikely that all applications for pilot status will be successful because of affordability constraints. There is likely to be a competitive process, with applications measured against the following criteria:

- **Applications should cover a functional economic area**. The invitation talks about covering a "functional economic geography". This might be a current pool area or county, but could also extend further than this
- **Preference for applications from two-tier areas**. Pilots will not be limited to two-tier areas, although the split between counties and districts is something the DCLG clearly wants to explore. The 2017-18 pilots only included single-tier authorities. For applicants in two-tier areas, deciding on the tier split for counties and districts will be a very important and potentially difficult decision.
- **Proposals would promote financial sustainability**. The DCLG wants pilots to show how they can be more self-reliant and require less support from the national safety net. There is some concern that 2017-18 100% pilots are a one-way bet for authorities, with massive potential upside and no downside. The next round of pilot applications will need to say whether they will need the "no detriment" provision to continue. Furthermore, the DCLG is proposing that the safety net (whilst increasing) will apply at the pilot level rather than individual authority level (as it does for the first round of pilots). The DCLG is not confirming one way or another whether there will be a "no detriment" clause.
- **Evidence of how pooled income from growth will be used across the pilot area.** The DCLG wants to see how financial gains will be used. Of principal concern, is that gains are used within the pilot to mitigate risk, and to reduce the reliance of individual authorities on the national safety net. Applications for pilot status will need to demonstrate that there would be arrangements in place to share risk and reward. Additionally, the DCLG wants to see how pilots would invest "some retained income from growth … to encourage further growth across the area". This was not something that the first round of pilots were asked to demonstrate, but clearly the DCLG wants the next round of pilots to deliver something more to justify their existence.

The DCLG is looking for a wide spread of different types of pilot. There will be particular focus on applications from rural areas and from two-tier areas.

Authorities selected as pilots for 2018/19 will be expected to forego Revenue Support Grant (RSG) and Rural Services Grant. The value of the grant foregone will be taken into account in setting revised tariffs and top-ups, which will be used to ensure that the changes are cost neutral, except for the value of any growth retained.

All authorities covered by the proposed pilot will have to give their agreement.
The deadline for applications is the 27th October. Decisions about successful pilots will not be made until potentially the provisional settlement itself. For any authorities who would wish to continue with their pool (under the current 50% system), if their pilot application is unsuccessful, will need to make arrangements in parallel.

The emphasis on financial sustainability and risk is new for this round of 100% pilots. Proposed changes in "no detriment" and the safety net are really important because they place much more risk on authorities. As a result, decisions by authorities will need to be supported by some very careful modelling. Crucially, it is possible that an authority or the whole pilot could be worse-off as a result of the changes in "no detriment" and the safety net. A financial assessment would need to be undertaken to ensure this was in the Council's best interests most likely with the support of external advice.

<u>Medium Term Funding for Local Government</u>

3.8 The current spending review covers the period from 2016-17 to 2019-20. Detailed spending plans have been agreed and published for this period, including guaranteed funding to individual local authorities that submitted efficiency statements. In recent statements, the Chancellor has given an indication of the direction of travel for public spending, but no detailed plans as yet (even for departmental spending).

Since the Election there has been discussion amongst all parties – and commentators – that austerity is over or will have to be scaled-back. If this is the case, then it potentially heralds a period of more-limited cuts in funding for local government. However, indications are that the Treasury and the current Chancellor are still very concerned about the budget deficit. The budget deficit is still forecast to be around 3% of GDP in 2017-18, and there are early indications of a downturn in the economy.

A review is being undertaken of the funding formula and this Fair Funding Review remains difficult to assess in terms of its impact on the future funding for local authorities. There are a number of areas to be considered each of which are moveable parts such as demography, focus on adult social care and children services. The next technical consultation paper is due to be published shortly which should contain more detail about the potential approach. It is expected there will be shift in funding towards areas with population growth, especially where there has been above average growth in the over-65 population. There is also likely to be a shift from districts to counties to reflect the increased importance of funding for social care. For the first time, the review will also have to take into account changes in retained business rate growth which for many districts, the loss of above-baseline funding will be the biggest change in their funding and this will need to be taken into account in any damping. Work on the Fair Funding Review is not very well advanced and there is a lot of development work required if a 2020-21 implementation is to be achieved. Shifts in funding are certain but it is envisaged this will not be that radical and damping will cap the largest changes. In terms of support for rural district councils such as Melton SPARSE are actively involved in the review and will be representing our interests.

<u>Other Grants</u>.

3.9 The continuation of 50% business rate retention means that most existing grants will continue to be paid to local authorities (rather than funded from a higher share of retained rates). The assumption is that these grants will continue to be funded at their 2019-20 level, and that they will be funded within the overall “funding envelope” that we have identified above in para 3.2.

The final settlement for 2017/18 also announced significant changes to New Homes Bonus (NHB). The government is reducing legacy payments from 6 to 5 years in 2017/18 and to 4 years in 2018/19. In addition local authorities whose housing growth is less than 0.4% will receive no NHB payment; otherwise authorities will only receive the payment on amounts over the 0.4%. Also in the original consultation were proposals to not award NHB if houses were built on appeal and also for authorities who did not have an adopted local plan. Further consultation was expected on these two elements but nothing has been published to date. For Melton this results in a NHB payment for 2017/18 of £558k, which is £33k above that included in the MTFS when the budget was set in 2016. Due to the 0.4% threshold only £10k of this relates to the 2016/17 award. For 2018/19, based updated housing growth projections from the local plan team where are expecting a total NHM payment of £376k of which £188k relates to growth in 2018/19 specifically. This does not assume any loss of the grant due to houses built on appeal or the council not having an adopted local plan. Therefore, should the further consultation result in these adjustments being approved, and the Council were to have houses built on appeal and the local plan were not adopted, then this figure would be reduced further. The updated housing growth projections have also been included in the revised MTFS, and have had a positive impact on the projections for future years.

<u>2018-19</u>

3.10 The MTFS for 2018/19 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 statement has been announced and the settlement published in mid December.

3.11 In relation to Business Rate retention Melton is intending for the current Leicestershire business rates pool to continue for 2018-19. 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. As at Q1 2017/18 the estimated year end position is a net gain of circa £6m. At the end of 2016/17 the pool contingency was £1.424m after making contributions to the LLEP of £5.048m.

Council Tax

3.12 For 2017-18 members approved an average increase in Council Tax of 2.69% 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 2016-17. As part of the 2017-18 Finance Settlement the government for the second year in a row proposed that District Councils could 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 2018-19 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

3.13 The Government's target for inflation is 2% CPI (Consumer Prices Index) of which at Q2 2017 is currently running at 2.7%. Their inflation forecast is expecting inflation to remain above the 2% target for the next 3 years with it dropping to 2.3% by 2020.

3.14 Pay increases are likely to 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.

3.15 In light of the inflation forecasts remaining low for 2018-19 and the council's ability to manage without a contingency in the past, no contingency budget is proposed for 2018-19 but 1% for pay will be incorporated and reported to members as part of the budget setting exercise for 2017-18. On this basis no inflation has been set at service budget level other than 2.5% 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

3.16 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.

3.17 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.

3.18 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 though 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 2017	640,000	50,000	1,186,019
Budgeted Increase/reduction (-) 2017/18	0	0	(59,910)
Estimated Balance 31 March 2018	**£640,000**	**£50,000**	**£1,126,109**

3.19 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 £630k. This is broadly in line with the current balance and therefore it is proposed to retain the working balance at its current level.

3.20 Whilst the Council has had a strategy for a number of years to balance the budget it may be that following a review of the Councils efficiency plans it would be more appropriate to aim for a balanced budget over the life of the MTFS. It may be more sustainable to utilise appropriate reserves to balance the budget in a more managed way whilst the Council develops a more commercial approach to address the future financial pressures.

3.21 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.

3.22 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.

3.23 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

3.24 The Programme Board has had the responsibility for a number of years now 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 have been encountered from this approach since Programme Board have taken on responsibility and therefore it is recommended that this procedure continues.

Key Dates

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

Budget and Strategic Planning Working Group meet to consider draft MTFS and budget submissions	8 November 2017
Spending Review published by Government	Late November 2017
PFA Committee consider first draft of revenue estimates	29 November 2017
Settlement Announcement for Local Government	Mid December 2017
Strategic Planning Away Day (All Councillors)	10 January 2018
PFA Committee consider outcomes from the Strategic Planning Away Day	24 January 2018
Full Council determines the budget	7 February 2018
Full Council sets Council Tax and approves the budget book and the MTFS	21 February 2018

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

LIKELIHOOD

A	***Very High***				
B	***High***			***1***	
C	***Significant***				
D	***Low***		*2*		
E	***Very Low***			*3,4*	
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 and non achievement of the efficiency plan, and growth estimates without resulting in significant cuts in service provision
2	Budget overspend
3	Depletion in level of working balances and reserves
4	The Council is financially worse off as part of the business rate retention pilot

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. The process for reviewing and updating the MTFS is now underway. A key element of this process will be to review and update the assumptions made in the efficiency plans, the impact of which will inform the MTFS. This will crystallise risk 1 set out in the above table. It may be necessary to consider using reserves to support the revenue budget in the interim period whilst income generation and savings are achieved.

9.3 Proposals for the Business Rate pilot will need to give due consideration to the risk sharing amongst partners.

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.

Contact Officer:	David Scott
Date:	12 September 2017
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/2017-18/26-09-16/Budget Framework 2018/19