

CORPORATE COMMITTEE

25 SEPTEMBER 2018

REPORT OF DIRECTOR FOR CORPORATE SERVICES

BUDGET FRAMEWORK 2019/20

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 2019/20 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 2018/19, in respect of the 2019/20 financial year, set out at Appendix A.
- 2.2 No inflation be provided for in the 2019/20 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 cost increases by budget holders and 2% for pay.
- 2.3 Council retains its objective of setting a balanced budget for 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 Senior Management Team continue to determine the relative priority growth and savings options for members guidance to consider and allocate funding based on priorities set out in the corporate delivery plan.
- 2.7 The key dates for the budget process be noted.
- 2.8 That Members note the exercise of the Chief Executives delegated authority in consultation with the Leader using urgency powers by reason of limitation of time as set out in para 3.5 to become a business rate pilot as part of the Leicestershire business rates pool.

3.0 KEY ISSUES

Background

- 3.1 An updated timetable in respect of 2019/20 for the corporate planning and budget framework process is attached as Appendix A.

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	1,305
-Revenue support Grant	986	576	250	52	0
-Baseline Funding Level	1,205	1,215	1,239	1,276	1,305
Business Rates Adjustment	0	0	0	0	-169
Rural Services Delivery Grant	35	181	182	112	146

- 3.3 As can be seen from the table subject to the announcement of the 2019/20 settlement the Council is set to incur an overall loss of Central Government grant of £661k between the financial year 2015/16 and 2019/20 representing a 30% 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 when the 4 year figures were originally announced once Revenue Support Grant no longer exists an adjustment was intended to be made to the business rates retained in order to continue with the reductions to funding. However, as part of the recent 2019/20 technical consultation the Government is reviewing how it deals with this issue.
- 3.4 The approved MTFS identifies a budget gap of £728k over the period 2019/20 to 2021/22 as presented to members at the Council meeting in Feb 2018. In order to address this funding gap a Budget Management Strategy has been developed and was presented to members at the same meeting. A prudent approach has been taken with regard to values being assigned to projects identified at this stage in the strategy as the council works through its prioritisation of services. The strategy strikes a balance of needing to be realistic in terms of the reductions to net expenditure that could arise from the projects it contains as well as the ability to resource and deliver the projects on time. Further work has been undertaken based on the outturn for 2017/18 and any other known changes which has identified a more healthy balance, however there are still some areas of risk from the funding review due in 2020/21 and the agreement that has yet to be reached with LCC regarding the funding for the road. In addition at this stage, as set out elsewhere on this agenda, the current financial year is proving particularly challenging and some of the pressures that are ongoing will influence future years projections. The MTFS will be developed as part of the budget setting process and presented with the budget to council in February 2019.

3.5 Business Rate Retention

The government's intention is to move to 75% business rate retention in 2020/21 as part of the significant reforms to the local government finance system, including an updated, more robust and transparent distribution methodology to set baseline funding levels, and resetting the business rates baseline. Prior to these reforms in 2020/21, the Government seems committed to testing aspects of the new system through the use of Business Rate Retention Pilots.

A number of 100% business rates pilots were agreed in both 2017/18 and 2018/19 of which a bid to establish a Leicestershire Business Rates Pool last year was unsuccessful. The government have announced a further round of pilot's bids that can be made for 2019/20 of which another joint bid is being discussed across the county for which Melton has confirmed its participation with the Chief Executive exercising his delegated authority in consultation with the Leader. A verbal update at the meeting will be provided as the submission is due on the 25th September. However, there have been some changes made for 2019/20 regarding the key features of any new pilots, namely that only 75% of business rates will be retained locally rather than 100% as in the previous year. High level modelling still suggests even at this reduced rate there is still a net benefit to the areas as whole of circa £14m. Adjustments are made to the financial calculations that apply to recognise these changes but the effect is that more growth is retained locally but it does come with some additional risk as the new pilots will not have the safety feature that was previously included called the "no detriment" clause. This clause ensures that no authorities in the pilot are worse off in the pilot than they would have been in the existing 50% scheme but for 2019/20 the Government have decided to remove this. Sensitivity analysis has indicated that the risk of being worse off in the pilot is extremely low.

As in previous years there is an application process of which it is very unlikely that all applications for pilot status will be successful because of affordability constraints. There will be a competitive process, with the key features of the prospectus being:

- The overall objective to focus on the learning necessary for transition into the proposed new scheme in 2020/21;
- As with the 2018/19 100% Business Rate Retention Pilot Participating authorities would agree to forego Revenue Support Grant (RSG) and Rural Services Grant , plus other grants that authorities may volunteer to forego as part of their pilot application. 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.;
- Authorities would still be expected to operate as part of the business rate pool;
- MHCLG expect applicants to set out how the benefits of additional business rates growth would be shared; this should cover 'financial stability and sustainability' and investment in future economic growth;
- Pilot participants are expected to show how they would manage risk hence the removal of the no detriment clause
- Pilot participants from "two-tier" authorities need to show a tier split as part of the application process. This differs from the 2018/19 bidding process as this was only open to two-tier authorities – this process is open to all authorities.

All authorities covered by the proposed pilot will have to give their agreement. All districts in Leicestershire have supported the bid. The deadline for applications is the 25th September 2018. Decisions about successful pilots will not be made until potentially the provisional settlement itself and then authorities have 28 days to confirm their agreement to continue with the pilot based on the figures announced. 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. In addition to the amount retained from the pilot the pool is estimated to also retain £9m of funding within the

pool area that would have been passed over in the form of levy payments to the Government.

In relation to Business Rate retention Melton is intending for the current Leicestershire business rates pool to continue for 2019/20. 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 2018/19 the estimated year end position is a net gain of circa £6.8m. At the end of 2017/18 the pool contingency was £2m after making contributions to the LLEP of £6.057m.

3.6 Medium Term Funding for Local Government

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).

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. A number of technical consultations have been published as we slowly get a better understanding 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 as baselines above which growth is retained will be adjusted to redistribute benefits to areas that have not benefited from this increase 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 potential damping. Work on the Fair Funding Review continues and there is a lot of development work required if a 2020/21 implementation is to be achieved. In terms of support for rural district councils such as Melton SPARSE are actively involved in the review and will be representing our interests.

3.7 2019-20 Local Government Finance Settlement - Technical Consultation

The consultation document outlines the Governments proposed approach to the 2019/20 settlement which the Council has responded to. The key proposals affecting Melton are:

Multi-year Settlements

The 2016/17 settlement offered Councils a 4 year settlement to provide greater certainty of funding until the end of this spending period which Melton accepted through the publication of an efficiency plan. The Government have confirmed they propose to confirm the funding figures previously outlined in currently built into the MTFs.

New Homes Bonus

The final settlement for 2017/18 also announced significant changes to New Homes Bonus (NHB). The government reduced its 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%. For 2019/20 as part of the technical consultation the Government is retaining the option to increase the baseline depending on the review of the published Council Tax base data in November. If housing growth has increased then it is likely the baseline will increase also.

Government have also outlined their intentions regarding NHB from 2020 onwards. With 2019/20 representing the final year of settlement they are going to explore how to incentivise housing growth most effectively as the general feeling is that they aren't convinced NHB is a cost-effective way of incentivising housing growth. Further consultation around any proposed changes will be forthcoming prior to implementation

Council Tax

For 2018/19 members approved an average increase in Council Tax of 2.99% for the Melton Area. This was based on the Governments allowance for district councils to increase their Council tax by 3% or £5 of the basic amount of council tax when compared to 2017/18 (whichever is the greater amount). The MTFS currently assumes Melton would look to apply a similar increase in 2019/20 by 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 however the technical consultation paper indicates that there will be no changes to these limits.

Negative Revenue Support Grant

An element of funding which also needs to be addressed by government is the impact of negative RSG in 2019/20 which for Melton is £169k resulting in a £84k loss in funding as outlined in table 3.2 above. This relates to a downward adjustment to the local authorities business rates top-up or tariff. This has occurred due to the changes in the distribution methodology adopted in the 2016/17 settlement. The Government have explored a number of possible options for addressing this issue of which their preferred method is to balance this up through a direct elimination via business rates receipts as a one-off adjustment for which the Government will fund through their share of the national business rates income. Therefore, this may result in some additional one-off grant income for Melton in 2019/20.

3.8 2019/20

The MTFS for 2019/20 will be refined and updated as the budget process develops. The impact of the technical consultation paper will be incorporated with the final settlement not due until December 2018 which is late in the process.

Inflation Forecast

- 3.9 The Government's target for inflation is 2% CPI (Consumer Prices Index) of which it is currently running at 2.4%. Their inflation forecast is expecting inflation to remain above the 2% target for the next 3 years with it dropping to 2% by 2021.
- 3.10 Pay increases have remained low over previous years with the chancellor's placing an annual 1% cap on public sector pay rises. However, from 2018/19 this has been lifted to 2% from 2018/19 coupled with an increase in national living wage level which led to an overall increase of 2.707% on the national pay bill. With regard to pay costs for 2019/20 there will be another 2% headline increase with a higher percentage for some of the lower points as Local Government Employers respond to the increase to the national living wage. This means that the council has to consider a new pay structure to implement for

April 2019 which the council is currently modelling to understand the impact it has across the board. This could place additional financial pressures on the Councils finances.

- 3.11 In light of the inflation forecasts remaining low for 2019/20 and the council's ability to manage without a contingency in the past, no contingency budget is proposed for 2018/19 but 2% for pay will be incorporated and reported to members as part of the budget setting exercise for 2018/19. 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

- 3.12 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. As part of the 2018/19 budget setting process the Council took a slightly different approach to produce a balanced budget over the lifetime of the MTFs. As a result of this approach and on the basis of developing the Budget Management Strategy the spending pressure reserve has been used in 2018/19 to balance the budget leaving a minor balance on the reserve.
- 3.13 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.
- 3.14 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 2018	640,000	50,000	1,438,359
Budgeted Increase/reduction (-) 2018/19	0	0	(488,390)
Estimated Balance 31 March 2019	£640,000	£50,000	£949,969

- 3.15 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 £525k. Given the previous year was above the current mid-point level and with the continued financial uncertainty as this point it is proposed to retain the working balance at its current level.
- 3.16 The Council has developed its budget strategy in light of the review of the Councils Budget Management Strategy 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. The outcome of the waste contract and the savings this has generated has improved the financial outlook for the Council which will be outlined in the updated MTFs when it is presented later in the year.
- 3.17 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.
- 3.18 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.
- 3.19 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. A review of the business plan is due to be undertaken later in this financial year.

Senior Management Team

- 3.20 The Senior Management Team have responsibility for determining 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. SMT are also supported in the review by providing guidance on the growth and savings options during the budget process via the relevant internal review boards which have been developed as part of the Councils new ways of working.

Key Dates

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

Members away day to consider budget growth and savings plans	11 October 2018
Policy Forum meets to consider draft MTFS and budget submissions	5 th November 2018
Spending Review published by Government	Late November 2018
Corporate Committee consider first draft of revenue estimates	28 November 2018
Public Consultation if applicable on growth and savings plans	Late November to Mid December 2018
Settlement Announcement for Local Government	Mid December 2018
Strategic Planning Away Day (All Councillors)	9 January 2019
Corporate Committee consider outcomes from the Strategic Planning Away Day	30 January 2019
Full Council determines the budget	13 February 2019
Full Council sets Council Tax and approves the budget book and the MTFS	27 February 2019

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				
	B	High			1	
	C	Significant		5,6,7	3	
	D	Low		2		
	E	Very Low		4		
	F	Almost Impossible				
			Negligible 1	Marginal 2	Critical 3	Catastrophic 4

IMPACT

Risk No	Risk Description
1	Failure to secure financial stability in the medium term
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
5	Lack of finance expertise due to loss of staff resulting in less robust estimates
6	Lack of knowledge in service areas to set realistic budgets
7	Change in committee remits and corporate realignment add complexity to the budget setting process resulting in less robust estimates

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. However it should be noted that it is estimated that the draw on the unearmarked reserves, being the spending Pressures Reserve and the Corporate Priorities Reserve, is £390k in 2018/19 which has informed the risk score in the above table

9.3 Members should note that there has been a high turnover in staff within the finance team during the year which has resulted in a loss of experience and capacity. Temporary resources are currently in post as well as staff new to the local government sector. Coupled with the changes to the committee and staffing structure and key budget holders in service areas this brings significant change into the process and also adds complexity in comparing year on year estimates. This has resulted in 2 new risks as set out above.

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 Senior Management Team and staff representatives have been involved in finalising the document.

11.3 Consideration will be given to public consultation on the growth and savings options in line with any relevant timetables.

12.0 **WARDS AFFECTED**

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

Contact Officer: David Scott

Date: 10 September 2018

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/CORPORATE/2018-19/25-09-18/Budget Framework 2019/20