

FULL COUNCIL

13 FEBRUARY 2019

REPORT OF THE DIRECTOR FOR CORPORATE SERVICES

REVENUE BUDGET 2019/20 AND MEDIUM TERM FINANCIAL STRATEGY

1.0 PURPOSE

- 1.1 The purpose of this report is to provide information on the budget issues facing the Council in 2019/20 and beyond, seek a decision on the level of the budget including growth and savings and agree the level of Council Tax for Borough Council purposes.

2.0 RECOMMENDATIONS

It is recommended that:

- 2.1 The proposals for General Expenses and Special Expenses MM as set out in Appendix A (i) and (ii) and summarised in para 3.5.1 be approved for inclusion in the 2019/20 budget resulting in the estimates set out in Appendix B;
- 2.2 The revenue budget for 2019/20 for General and Special Expenses as set out in Appendix B be approved resulting in an overall council tax increase of 2.99%, the individual council tax levels being as set out in para 3.5.5;
- 2.3 That delegated authority is given to the Chief Executive to implement the necessary HR arrangements as a result of the savings and growth proposals including amendments to the permanent establishment and drawing any funding from the Corporate Priorities Reserve to meet any non-recurring HR costs that cannot be met from within the revenue budget;
- 2.4 Any increase or shortfall against the target working balance on General Expenses at 31 March 2019 be adjusted by transfers to/from the Corporate Priorities Reserve and for Special Expenses Melton Mowbray any surplus/deficit be transferred to/from the Special Expenses Reserve;
- 2.5 That members note the changes made to the risk categorisation of budgets as set out in para 3.6.3 and Appendix D;
- 2.6 That the Capital Strategy at Appendix G as recommended by the Corporate Committee be approved;
- 2.7 A Regeneration and Innovation Reserve is created as set out in para 3.8.5.

3.0 KEY ISSUES

3.1 Medium Term Financial Strategy (MTFS)

3.1.1 The key issues set out in the previously approved Budget Framework with respect to the 2019/20 budget are as follows:

- The retention of the target working balances for General Expenses of £640k, for Special Expenses Melton Mowbray of £50k and £750k for the HRA;
- The Council retains its objective of setting a balanced budget for the life of the Medium Term Financial Strategy;
- 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;
- The Senior Leadership Team continue to identify options and provide advice in relation to the relative priority of growth and savings options so as to enable members to consider and allocate funding based on priorities set out in the Corporate Delivery Plan.

3.2 Local Government Finance Settlement 2019/20

3.2.1 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 in 2016 with the announcement that where a council 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 as approved by the Policy Finance and Administration Committee in 2016 by the deadline and received notification that this had been accepted by the government.

3.2.2 The provisional local government finance settlement was announced on 13th December 2018. The settlement was subject to consultation which closed on 10th January 2019 and the final figures released on 29th January were in line with the provisional ones. The settlement is broadly in line with the four year settlement (2016/17 to 2019/20) finalised on 8th February 2016 with as expected Revenue Support Grant no longer being payable. When the four year figures were originally announced an adjustment was intended to be made to the business rates retained in order to continue with the reductions to funding following the end of Revenue Support Grant. However, as part of the recent 2019/20 technical consultation the Government indicated that it was reviewing this issue and that a reduction was no longer expected. The settlement has confirmed this is the case. The Rural Services Delivery Grant was increased to be in line with the amount in 2018/19 which had been expected to fall. No

further changes to the New Homes Bonus were made which following previous announcements was unexpected. For information the figures contained in the settlement are set out in the table below:

	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000
Settlement Funding Assessment	1,791	1,490	1,329	1,306
-Revenue support Grant	576	251	52	0
-Baseline Funding Level	1,215	1,239	1,277	1,306
Rural Services Delivery Grant or equivalent	181	146	181	181
Transitional Grant	28	28	0	0

- 3.2.3 As previously reported this four year settlement results in an overall loss of grant of £919k between the baseline financial year 2015/16 and 2019/20, representing a 41% reduction. This is in addition to the previous reductions of £1,859k or 57% over the period 2010/11 to 2015/16. In previous settlements it was expected that for 2019/20, once Revenue Support Grant no longer exists an adjustment would be made to the business rates retained in order to continue with the reductions to funding, however this recent settlement has announced that this adjustment is now removed.
- 3.2.4 The Leicestershire submission to be a 75% business rates pilot was successful which will see circa £14m of additional resources being retained within the Leicestershire area rather than passed to central government in addition to the monies retained within the pool. Melton's share of this is yet to be finalised with its partners but will provide much welcome additional funding to contribute to its regeneration initiatives and sustainability issues. As part of this pilot retained business rates will be calculated across the pilot area and a number of grants such as rural services delivery grant for Melton will no longer be payable by the Government as an increased portion of business rates are retained. The first call on the retained rates will be to financially put each council back into the position it would have been had the pilot not existed.
- 3.2.5 The referendum criteria for district councils has remained at an increase in council tax of up to 3% or an overall increase of up to £5 for a Band D property. This means that any overall council tax increase above this limit will require a referendum to be held providing the local electorate with the opportunity to approve or veto the increase, in a binding referendum.
- 3.2.6 Consultation papers were also issued with the settlement relating to the review of local authority relative needs and resources and business rates retention reform. The council is finalising its response to these. Some of the key issues set out in these documents are:

- Proposals for a full business rates baseline reset. This would mean any growth retained since the system was introduced in 2013/14 would be lost and due to the proposals regarding future calculations there could be little reward for districts following the new system in 2020;
- Little detail of how the split of business rates is to be made between lower and upper tier authorities with Government looking to the sector to provide some views, however the move is certainly for upper tier authorities to retain a higher share than currently;
- No fixed costs element in the funding formula which is valuable to small councils such as Melton;
- Greater recognition of the costs of rurality;
- The potential for income from on and off street parking to be considered in the funding formula;
- Uncertainty over how business rates relief will be accounted for which is a concern for rural districts where a larger proportion of businesses are eligible for small business rate relief.

A key factor is how any damping mechanism will work and over what time period in order to mitigate the impact on any individual council in the early years.

3.3 Policy Framework and Budget Process

- 3.3.1 All Members were given the opportunity to have early sight of the council's financial position at the Development Day in October 2018. Following this detailed scrutiny by the Senior Leadership Team was undertaken with regular updates to the council's Policy Forum.
- 3.3.2 The Strategic Planning Development Day was held on 16th January 2019 to which all Councillors and Directors were invited, to provide their views on the budget proposals and financial position of the Council for the current, next and future years. This exercise enabled Members knowledge of the Council's financial position to be enhanced and also resulted in a steer being provided regarding the assumptions to be made in the budget and the Council Tax increase for Council funds.

3.4 Estimated Year End Position 2018/19

- 3.4.1 The estimated year end position for the current financial year 2018/19 is shown in Appendix B. This has been compiled on the basis of the 'best estimate' of income and expenditure for the year provided by budget holders and includes requests for supplementary estimates that have been approved by the Corporate Committee.
- 3.4.2 The estimated year end position for General Expenses results in overspend of £63k. 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 2017/18. The estimated year end position assumes an additional contribution from the Corporate Priorities Reserve of this amount in order to balance the budget. In year monitoring is showing a break even position and should this be the final position at year end this will mean this £63k contribution from the Corporate Priorities Reserve will not be required.

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

- Additional income generated from treasury management investments;
- Rent Allowances/ HRA Rent Rebates income is forecast to be higher based on the mid-year estimates plus additional admin subsidy grant to be received;
- Public Conveniences – Due to the delay in the public conveniences re-development this has resulted in additional running costs over that expected with the current facilities being in operation longer than expected;
- Loss of car parking, cattle market, building control and development control income over that originally estimated;
- Additional savings from the new waste contract over that budgeted offset by additional costs from reduced recycling values relating to the last 6 months of the old contract followed by increased costs due to contamination of loads incurred following the start of the new contract and the redirection costs relating to the change of green waste disposal contractor;
- Funding has been allocated to develop a masterplan and feasibility for the Councils leisure vision as approved by members;
- The council has allocated resources to develop a full business case around a development company as approved by members;
- Salary savings have been generated across the council due to a number of vacancies as the council transitions into its new resource structures.

3.4.4 For Special Expenses (Melton Mowbray) there is a minor overspend of circa £3k forecast after allowing for the approved carry forward of budgets from 2017/18.

3.4.5 With regard to the parish special expenses the estimated year end position is broadly in line with the 2018/19 budgeted levels.

3.4.6 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 an overspend officers will continue to work on identifying savings with the aim of bringing the budget back into balance by the year end. District councils have been awarded additional funding of £35k spread across both 2018/19 and 2019/20, however it has been assumed that the Impact of this will be cost neutral in both years until there is more certainty regarding the position and its impact on the council's finances.

3.4.7 The Senior Leadership Team continue to monitor budgets closely on a monthly basis and will be looking to end the financial year as close as possible to the approved budget. It is proposed that any surplus/deficit over the approved working balances at 31st March 2019 be adjusted by transfers to/from the Corporate Priorities Reserve and Special Expenses Reserve as appropriate.

3.5 Proposed Budget 2019/20

3.5.1 There are no growth and savings proposals for Special Expenses Melton Mowbray. The budget proposals for General Expenses are as below:

	£
G E Budget Deficit Based on 2.99% Council Tax Increase	45,512
Savings as set out in appendix A (i)	
Clockwise Credit union	-8,160
Bottesford Youth club	-6,440
CAB and Shop Mobility	-18,500
Civic Arrangements	-33,000
Growth Proposals as set out in Appendix A (ii)	
Physical Activity Officer	0
Commercial Investment	10,000
HR and comms Apprentice	11,700
Environmental Health Technical Officer	32,100
Trainee Solicitor	25,000
Scrutiny Officer	13,000
Welland Procurement Unit Resource	0
ICT contract support	8,000
Savings in Base budget	<u>-30,000</u>
Revised Net Deficit on General Expenses	49,212
Funded By:	
Corporate Priorities Reserve	23,348
Spending Pressure Reserve	25,864

These proposals along with a proposed overall 2.99% council tax increase result in the estimates set out in Appendix B. These are as proposed following the Strategic Planning Development Day and their consideration at the Corporate committee at their meeting on 30th January 2019.

- 3.5.2 The budget for 2019/20 has been prepared on the basis of maintaining services at their agreed levels except where the Council has already agreed to a change in which case any change in cost has been incorporated into the base budget.
- 3.5.3 All service budgets have been subject to scrutiny by both the Senior Leadership Team and considered at the Policy Forum. In accordance with the MTFs no inflation has been provided for general prices unless adjusted by budget holders for known increases or contractual commitments. Pay inflation has been provided based on the current pay proposals.
- 3.5.4 A number of principles and assumptions have been applied when preparing the summary set out in Appendix B as follows:
- That the Council sets a 2.99% overall council tax increase. General Expenses has been set at 2.99%, Sproxtton and Frisby Special Expenses at the level required to balance the budget, Special Expenses Melton Mowbray at 2.99% in order to bring the overall level to 2.99%;

- The approved establishment has generally been budgeted for in full, but no provision has been made for recruitment costs as a result of any vacancies;
- The capital programme as set out elsewhere on this agenda is approved. The revenue implications of which have been considered when preparing the budget;
- Assumptions have been made in respect of a number of service related income streams in addition to assumptions over the level of interest from investments. The actual position could differ significantly from that estimated. Those services that continue to be particularly affected are retained business rates, building control, development control, car parking, and industrial unit rents. Assumptions have also been made relating to price increases which could also differ to that estimated;
- Estimated retained business rates income has been based on the Council's NNDR1 form (Non Domestic Rating Income Calculation and Estimate of Collection fund Surpluses and Deficits). As experience has shown the actual amount can vary significantly in and between years as a result of levy calculations. A business rates equalisation reserve is held to smooth out some of these implications between years;
- Estimates of maintenance requirements for council assets is based on best estimates provided by the property team and as set out in the Council's capital strategy full stock condition surveys are essential in order to assess the ongoing impact on both revenue and capital budgets;
- No allowance has been made for funding required for either the housing or development Company nor the place survey all of which are included in the Corporate Delivery Plan which may be required following the completion of business cases or further finalisation of costs;
- Provision has been made for the impact of the review of members allowances following the changes to the governance structure contained elsewhere on this agenda;
- No provision has been made for any non recurring costs or ongoing changes required to the base budget as a result of the planning review which has yet to be finalised and considered;
- Limited provision has been made for the transition to a new IT service by the Leicestershire IT Partnership;
- The additional income from bin charges has been retained within the waste management budget with additional costs being incurred over that estimated relating to redirection costs in particular as well. No allowance has been made for costs arising from the contamination of recycling as this has been considered to be now under control due to recent actions taken;
- Assumptions have been made regarding grant income and charges for services provided by other partners, where certainty surrounding these costs and income, have not yet been provided;

- To compensate for the reduced council tax base, as a result of the council tax support scheme, an element of Revenue Support Grant was previously allocated to each special expense and parishes on the basis of the estimated loss that would have been incurred following the policy introduced in 2013/14. This amount has been on a reducing basis to reflect the reduction in RSG. 2019/20 is the first year where grant is no longer being payable;
- Any balance on the General Expenses revenue budget is transferred to/from the Corporate Priorities Reserve and Special Expenses Melton Mowbray is transferred to/from the Special Expenses Reserve.

3.5.5 The proposals and assumptions set out above result in the proposed Council Tax levels for each fund as set out below:

Fund	Council Tax at Band D £	Change over 2018/19 %
General Expenses	173.73	2.99
Special Expenses - Melton Mowbray	59.69	2.99
Special Expenses – Sproxtton Nos. 2 & 4	51.38	-15.9
Special Expenses - Frisby	19.73	-17.7
Average	202.64	2.99

3.5.6 For information, a summary of the parish precepts is set out at Appendix C.

3.6 Budget Monitoring

3.6.1 For the purpose of budget monitoring, services are designated as one of three categories which determines the level and frequency of budget monitoring.

These are:

- High risk and complex budgets.
- High risk budgets.
- Lower risk budgets.

3.6.2 The categorisation of the various services has been reviewed for 2019/20 and is set out in Appendix D.

3.6.3 Following consultation with the Senior Leadership Team changes have been made to the risk profile with sports income being added to link with the need to generate income to fund the growth item. Three services have been removed, these being Environmental Maintenance (revenue budget has become more stable), Planning professional fees (as spend hasn't been as complex as initially envisaged and Wheels to Work (due to service being ceased).

3.7 Financial Projections for Future Years

3.7.1 The estimates in Appendix B contain forward projections for the financial years 2019/20 to 2021/22. This is based on the estimated likely position for these future years. In drawing up this projection a number of assumptions have been made regarding service expenditure and income following discussions with budget holders, and scrutiny by the Senior Leadership Team and Policy Forum. Some of the key assumptions that have been made in preparing these forward projections as follows:

- That an overall increase in council tax of 2.99% will be set in 2020/21 followed by further overall increases of 2.99% to 2022/23;
- The expected position is based on the current level of service provision with assumptions incorporated regarding inflation changes to income streams and demand. No allowance is made as part of the projections for the delivery of savings or income generation which would require a change to service levels/policy. This is to enable the true surplus/deficit to be identified that will require management intervention in order to address the position;
- The full extent of any financial impact arising from Welfare Reform including Universal Credit has not been allowed for due to insufficient information;
- Due to the fair funding review and review of business rates the outcome of which will not be known for some time later in the year the projection is based on the retention of the current system in the absence of any other reliable estimates;
- No allowance has been made in the forward projection for income that may need to be utilised to support the Melton Distributor Road as the detail of any funding is still being finalised and any shortfall in funding is not certain;
- NHB projections have been based on the housing growth figures provided by the local plans team based on the current grant criteria.

3.7.2 The forward projection for General Expenses based on the likely position is as follows:

Year	Projected Deficit / (Surplus) £000
2020/21	£79k
2021/22	(£34k)
2022/23	£110k

3.7.3 In order to address this funding gap a Budget Management Strategy is in place. A prudent approach has been taken with regard to values being assigned to projects. The strategy needs 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.

3.7.4 The projections have been subject to sensitivity analysis which shows that any changes in the assumptions primarily relating to income, staffing costs and

government grants could significantly alter the forward projections both positively and negatively.

3.8 Reserves

3.8.1 A Statement of Revenue and Capital Reserves is attached at Appendix E and this is based on the following assumptions:

- The capital programme and the contribution from the reserves and balances is approved as set out earlier on this agenda and the revenue budget as set out in Appendices A and B is approved;
- Any increase or shortfall against the target working balance on General Expenses 31 March 2019 be adjusted by transfers to/from the Corporate Priorities Reserve and for Special Expenses Melton Mowbray any surplus/deficit be transferred to/from Special Expenses;
- Transfers are made from and to the business rates equalisation reserve in order to mitigate the financial implications between years of the levy payments and collection fund surplus/deficits. This follows the establishment of a reserve at the end of 2014/15.

3.8.2 With regard to the revenue reserves the council has three main categories. These are earmarked for a specific purpose, general where the use is flexible and working balances which are in effect a contingency for unforeseen but risk assessed events. A brief description of the purpose and future intention with regard to each reserve and provision held by the Council is set out in Appendix F.

3.8.3 With regard to the general reserves which are not earmarked there are a range of projects for which these reserves may be required for the Council to deliver particularly those included in the Council's Budget Management Strategy as well as being available to support capital expenditure should that be necessary due to a low level of capital receipts being held. In 2019/20 these are being utilised to meet items of a non recurring nature as well as the small budget deficit and if the council's financial position should worsen and further savings in net expenditure to bridge the current projected gap are not identified it will be necessary to draw on these again until alternative savings or income are identified and delivered.

The key unallocated revenue reserve is the Corporate Priorities Reserve.

Corporate Priorities Reserve

As the table below highlights, there has been reduction in this reserve over recent years which are due to a combination of budgets that have been carried forward which prior to 2017/18 went into this reserve at year end and supplementary estimates agreed in year. In 2017/18 the drop from 2016/17 was primarily the Carry Forwards of £630k indicating that aside from 2015/16, when the council underspent its budget and reduced its working balance, thereby increasing the Corporate Priorities Reserve, the balance on the Corporate Priorities Reserve has generally held at circa £1.5m. As a result of the financial environment that the council is currently operating within this reserve is under some pressure to maintain the previous higher balances the council has

seen. The estimated reduction from 2017/18 to 2019/20 consists of one off change costs arising from spend to save initiatives for redundancy and pension (£188k), one off investments in services and aspirations as set out in the Corporate Delivery Plan (£138k), non recurring pipeline IT projects (£330k), balancing the budget (£68k) and Elections (£75k).

£'000	2014/15 Actual	2015/16 Actual	2016/17 Actual	2017/18 Actual	2018/19 Projection	2019/20 Estimate
Closing Balance	£2,003k	£2,507k	£2,004k	£1,432k	£1,017k	£588k

As outlined above, based on the current financial projections over the medium term, the forecast deficits would require funding to be drawn from the Corporate Priorities Reserve in order to balance the budget in 2020/21 and 2022/23 with much uncertainty regarding government funding. Should there be a need to utilise the reserves to balance the budget this would put this reserve under considerable pressure; hence the importance of minimising any ongoing structural budget deficit. Therefore, it is critical for the future funding of Council priorities that the increased income and savings outlined in the Budget Management Strategy are delivered. It will also be necessary that when the Council considers its new Corporate Plan post May 2019, that it is clear on its priorities and where necessary further re-focusses its resources away from non-priorities and towards priorities.

3.8.5 During the setting of the estimates it has been identified that there is a surplus that is being held on account which was intended to cover the overheads associated with the delivery of Neighbourhood plans as well as some unused grant funding being held in reserve. These plans have been delivered and therefore the amount of £48k is surplus. Rather than utilising this to support the revenue budget as a one off it is proposed that a new Regeneration and Innovation reserve is created, this reserve will be available to provide funding for feasibility studies or business cases to unlock external funding or to support projects that will result in economic growth, commercial return or support inward investment. It would also enable the allocation of match funding associated with external funding bids and to provide funding to support development and implementation of service improvement and innovation (including improvements in becoming more commercial, digital and customer-focused). In addition it is intended that unused funding in year from the Business Rates Pilot be added to the reserve so its use can be tracked and monitored. Where the Corporate Priorities Reserve has had to be used to support change costs over the last 2 years, it is anticipated that in future this fund will be primarily utilised for this purpose

increasing the likelihood that the Corporate Priorities Reserve will be maintained broadly at its current level. The mechanism for accessing this fund via delegated authority will be proposed as part of the review of the scheme of delegation as part of the governance review and considered at the next Council meeting in April alongside other constitutional changes.

Capital Strategy

- 3.8.6 The revised CIPFA Prudential Code for Capital Finance in Local authorities published in 2017 introduced the requirement to produce a capital strategy in 2019/20 and for the Chief Finance Officer to report explicitly on the affordability and risk associated with it. The Council has had a capital strategy for a number of years but in light of these changes this has been updated and refreshed and was presented to the Corporate Committee at its meeting on 30th January 2019 and is presented as Appendix G for approval by the Council.
- 3.8.7 The purpose of the capital strategy is to tell a story that gives a clear and concise view of how a local authority determines its priorities for capital investment, decides how much it can afford to borrow and sets its risk appetite. It need not duplicate other documents but should include cross references where relevant. It should provide enough detail to ensure that all members understand how the authority is delivering stewardship of the authority's resources, prudence and sustainability and meeting the authority's reporting requirements.
- 3.8.8 The strategy sets out the links to external influences and partners as well as the linkages to the council's own priorities and planned activities. In terms of the financial implications and links to affordability as set out in the strategy there is work that needs to be undertaken on stock condition surveys, the council's investment strategy which will then feed into Asset Management Plans for both the General fund and the HRA. Until this work is completed the need in terms of capital funding cannot be fully assessed. As such the forward projections for capital expenditure set out in the strategy are low and do not represent fully the council's needs in capital terms of both maintaining the condition of existing assets as well as investment in further asset acquisition and improvement. With the limited capital resources at the Council's disposal it is highly likely that future funding needs will have to be met from borrowing which will impact on the council's revenue budget unless investment is met by savings in expenditure or additional income being generated.
- 3.8.9 CIPFA (the Chartered Institute of Public Sector Finance and Accountancy) have issued a Financial Resilience index for all councils, this is in response to concerns regarding the viability of council's. This has only been issued to Chief Finance Officers at present however it is to be released to external auditors after the current round of budget setting and for future years will be available publically. It is however suggested that Chief Finance Officers should comment on the results as part of their statement on the adequacy of the reserves as part of their budget reports before this becomes a requirement under the Financial Management Code they are developing. This index includes the following indicators:
- The level of reserves both allocated and unallocated and the changes to these;
 - The depletion rate of the reserves based on historic data;
 - Grants, council tax and business rates in relation to net revenue expenditure.
- 3.8.10 In comparison to both our nearest neighbours group (those authorities whose profile is the most similar to Melton) and all non metropolitan districts the index for Melton is indicating a number of areas of higher risk. These relate to the level and change in reserves overall but lessor so relating to the unearmarked reserves. If the reserves were to be used at the average level in the future that

they have been over the period 2014/15 to 2017/18 they would be depleted in just under 12 years which whilst a much longer period than the MTFs is at a much faster rate in comparison to other authorities, hence the higher risk rating. However it is the unallocated reserves that provide the most flexibility and in this category the council is more in the median range. It should also be recognised that the use of the reserves to balance the budget as opposed to funding specific items of expenditure is very low. With regard to our income in relation to net expenditure our lower level of business rates in proportion to net expenditure and higher reliance on council tax is indicating a higher risk, conversely the council ranks much lower in terms of risk as it is less reliant on government grants.

3.8.11 In terms of what this means for Melton with regard to its financial strategy it confirms the need to work to reduce the requirement to draw on the reserves to balance the revenue account of which increasing the level of income would reduce the reliance on grants, council tax and business rates making the council more resilient as these sources of income are less susceptible to changes in government policy. As is already recognised the council has limited reserves both allocated and unallocated and therefore investment in capital and revenue projects that reduce net revenue spend though reducing costs or generating income should be the greater priority. Whilst not covered by the resilience index, as set out in the capital strategy, the Council is vulnerable due to its low level of capital receipts to the need to invest in existing assets that have needs identified through stock condition surveys. If assets are not identified for sale that will generate additional receipts that can be invested elsewhere, opportunities for which are limited, then the council will need to identify revenue it can use to fund such capital expenditure directly or to fund the costs of borrowing.

3.8.12 Section 25 of the Local Government Act 2003 imposes a duty on the Chief Finance Officer to report formally to council on the following:

- The robustness of the estimates utilised to set the Council Tax
- The adequacy of the proposed financial reserves.

With regard to the robustness of the estimates by their very nature estimates are not factual they are the best estimate of the likely position taking into account the various risks associated with items of income and expenditure. Savings targets have been built into the estimates and these will need to be achieved if there is not to be an overspend on the budget, as one is linked to a growth bid these could be as much as £90k. Assumptions have had to be made in bringing together the estimates for 2019/20 and these are set out elsewhere in the report along with the key risks set out in Section 9. As the council moves forward there is a need to address the challenges that continue to be faced in balancing the budget however the uncertainty associated with the funding of local government from 2020/21 does support a cautious position being taken at this time until the financial future is more certain. Subject to these concerns I am satisfied with the robustness of the 2019/20 base budget estimates.

3.8.13 With regard to the adequacy of the reserves the council does review the level of working balance required based on an assessment of risk which is the minimum revenue reserve required on an annual basis. A statement of the reserves is attached at Appendix E. The council does have a good track record of

maintaining spend within budget however the council does have a history of using reserves in year to fund unexpected or additional planned events. However, should the changes in assumptions regarding the future financial position, particularly relating to the funding review affecting 2020/21 onwards, result in a worsening position this would mean the council having to utilise these reserves to either invest to save or to balance the revenue budget until savings are identified or to fund any one off costs of delivering against savings plans. In such an event such limited reserves would quickly be depleted. The council's low level of capital receipts are also a concern which due to the outstanding stock condition surveys are difficult to quantify in the capital strategy. The level of the reserves against the future financial uncertainties and capital requirements remains a concern.

4.0 POLICY AND CORPORATE IMPLICATIONS

4.1 Following approval of the budget, the MTFs and budget book will be published as a joint document and it is intended this will be available for circulation to members at the Council meeting on 27th February 2019.

4.2 There are no further policy and corporate implications directly arising as a result of this report other than those set out above.

5.0 FINANCIAL AND OTHER RESOURCE IMPLICATIONS

5.1 There are no further financial and resource implications other than those set out above.

6.0 LEGAL IMPLICATIONS/POWERS

6.1 Under S151 of the Local Government Act 1972 a local authority has to make proper arrangements for the administration of its financial affairs.

6.2 Under S28 of the Local Government Act 2003 a local authority has to review its budget calculations from time to time during the financial year and take appropriate action if there is any deterioration in its budget.

6.3 The Council is required under statute to fix the level of council tax for 2019/20 by 11th March 2019 and in order to do so will have to agree a balanced budget by the same date taking into account a range of factors, including consultation feedback, and decisions must also be taken in accordance with the Council's duties under the Equality Act 2010.

6.4 The budget approval process is separate from individual decisions which would be incidental to the budget setting process. Legal implications will be considered in implementing budget proposals.

7.0 COMMUNITY SAFETY

7.1 Individual budgets could have links to community safety issues. These are covered in any associated reports and financial forms that refer to these budgets as they progress through the decision making process. One of the budget saving options relates to the potential reduction in funding provided to Bottesford Youth Club. Discussions are underway with Bottesford Parish

Council and the Community Safety Partnership about potential alternative sources of funding, however if these are not found and the youth club closed there would be a reduction in the amount of provision for young people which could have community safety implications. Discussions are planned for the next Community Safety Partnership which is due to take place on 8th March 2019. These discussions will include an understanding that the initiative originally came from the partnership and it is only relatively recently that the Borough Council has absorbed the cost as most years it has been met from external funding.

8.0 EQUALITIES

- 8.1 When considering the MTFs, and any savings and investment proposals, the Council must have due regard to the public sector equality duty (PSED) contained within section 149 of the Equality Act 2010 which requires the Council to have due regard in its decision-making processes to the need to: eliminate discrimination, harassment, victimisation or other prohibited conduct, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't.
- 8.2 Should it be considered that elements of the budget proposals may have equalities issues then these have been considered by the service area and assessed accordingly. Impact assessments have been undertaken by Officers on the basis of information available relating to the proposals to reduce a number of community grants. With regard to Clockwise and Bottesford Youth Club no concerns were raised through this process. With regard to Citizens Advice Bureau they have now indicated that the loss of £17k will make the service unviable and that the impact will be to close the service in Melton. In this scenario there could be an impact on people with protected characteristics where they need to interact with the Citizen's Advice Service but we have insufficient information from them to fully assess this and whether there would be more impact on those with protected characteristics than those without. For Shopmobility impact information was requested but hasn't been provided. As this service targets people with disabilities there is likely to be impact, but from what officers have been told during consultation with Shopmobility this is most likely to be denial of expansion of the service rather than reduction in existing service.

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 corporate planning and budget framework 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 are contained in the Council's MTFs and were presented to the Corporate Committee at its meeting on 25th September 2018.
- 9.2 There are a number of budgets where assumptions have had to be made which are of higher risk than others and these could impact on the robustness of the

estimates. The level of budget monitoring in year is based on the risk assessment undertaken and the frequency and extent of in year monitoring and reporting reflects the relative risk of each budget.

9.3 There are a number of financial pressures and uncertainties which have been highlighted earlier in the report which could affect the estimates particularly in future years. Collectively these indicate significant financial pressure on the council's resources. The forward projections have been subjected to sensitivity analysis in light of the potential risks associated with particular items and assumptions. These do indicate potential wide fluctuations in any year which could see the likely surplus/deficit being substantially different to that expected. This emphasises both the high level and impact of the risks that face the Council's finances in the future. In recognition of the significance of these risks there is a risk contained within the Council's corporate risk register relating to finance as set out in the following table. As a corporate risk an action plan is in place and is actively managed. Other key areas of risk which would impact on the council's financial position are also set out in the table below.

L I K E L I H O O D	A	Very High				
	B	High		8	1	
	C	Significant		3,5,14	2,6,7,9,10	
	D	Low		11,12	4,13	
	E	Very Low				
	F	Almost Impossible				
			Negligible 1	Marginal 2	Critical 3	Catastrophic 4

	Risk Description
1	Failure to secure financial stability in the medium term.
2	Assumptions around demand and usage resulting in fees and charges and other income not being achieved in areas such as planning fees, property rents and service charges, cattle market (Brexit a particular concern) and car parking.
3	Grant incomes for supporting service delivery are withdrawn or reduced; funding is provided in areas such as benefits administration, and subsidy, sports commissioning,

	homelessness, Me and My Learning, falls prevention.
4	A shortfall in funding for the MMDR reduces the council's income streams to a level that impacts on the council's future financial sustainability.
5	Assumptions made for retained business rates aren't achieved resulting in reduced income over that estimated. This could be the result of less growth, changes in reliefs and discounts over that estimated, closure of businesses, successful and backdated appeals being higher than estimated, changes to baseline assumptions.
6	Uncertainty over the impact and potential cost pressures arising from projects set out in the Budget Management Strategy and other high priority areas.
7	Projections for Housing growth used to calculate the New Homes Bonus and council tax are inaccurate.
8	Withdrawal of children centre funding cause financial pressure on special expenses
9	Target savings included in the revenue budget are not achieved.
10	Works needed to assets as identified by stock condition surveys impact negatively on the revenue budget.
11	New waste contract in early stages impact of variations could affect the revenue budget negatively.
12	BREXIT could impact on the council's budget particularly areas such as the cattle market which relies on exports.
13	Universal credit impacts on the council's financial position and the estimates for benefits subsidy.
14	Waste contamination levels are under control resulting in additional costs not being incurred in disposal of contaminated recycling.

9.4 Offset against the above risks are the level of reserves and balances the Council holds. Whilst the Council does have a good level of unallocated reserves this should be taken in the context of the future significant cuts that are set to continue and the recent draw on these. In addition financial resilience as set out earlier is a concern. Should the Budget Management Strategy not be achieved these would soon be depleted. As such the council needs to develop a range of lower priority areas it would be able to disinvest from should the need arise. In addition the council's non earmarked capital resources are now almost depleted and with no firm planned asset sales the only source of capital funding aside from borrowing will become the Corporate Priorities Reserve.

10.0 CLIMATE CHANGE

10.1 Individual budget heads could have climate change issues but these are considered individually as they progress through the approval process.

11.0 CONSULTATION

11.1 The Council's corporate priorities were approved following consideration of national priorities, local intelligence, partner's priorities, community views, internal requirements and future challenges. These have been taken into account as part of the budget setting process.

- 11.2 The corporate planning and budget framework sets out the Council's approach to consultation and its links to the budget setting process. All Directors and Members are involved in the process at various stages.
- 11.3 Union representatives were invited to attend the Strategic Planning Development Day in order to facilitate communication with staff representatives although opted not to attend. In addition proposals that had staffing implications were considered by the Joint Staff Working Group. Potentially affected staff have been consulted on the proposals.
- 11.4 Business ratepayers have been consulted on revenue and capital spending plans via the council's website. No comments have been received to date but should any be received prior to the meeting the Council will be updated verbally.
- 11.5 Specific Consultation has been undertaken relating to savings proposals and in particular the proposals regarding Bottesford Youth Club and community grants. The Council has discussed the proposals and potential implications with the relevant stakeholders including:
- Bottesford Youth Club;
 - Bottesford Parish Council;
 - Clockwise Credit Union;
 - Citizen's Advice Bureau;
 - Shopmobility.

In relation to all of these consultations there could be further update information available by 13th February 2019 that will be reported separately if appropriate.

- 11.6 There has been some media interest in the youth club funding withdrawal instigated by a petition launched by the Youth Club to request reconsideration of this decision. The Council have noted the petition (although it was not submitted as a petition under the Petitions Scheme) and are monitoring the comments. We have offered support to the Youth Club around looking at alternative funding options including the Lottery and possible support via the Parish Council. We have also received two letters of support for the Youth Club from Bottesford residents, as well as the Parish Council, all urging the Council to continue with the funding. The Melton Community Partnership were also consulted and the Police put forward their support for the club and the service it provides. Further work will be undertaken during 2019/20 regarding the remaining community grants.
- 11.7 The revenue proposals were considered by the Corporate committee at its meeting on 30th January 2019 alongside the treasury management strategy and capital strategy. At that meeting a number of concerns were expressed by some members relating to the saving proposed regarding the civic budget. It was highlighted that the proposal is not to remove the mayoral function but to remove dedicated support to the role with support being provided by the democratic services team. A number of members also expressed concern regarding the need to make savings in order to secure the council's future financial stability and reduce the need to utilise reserves to balance the budget in the future. The committee approved the capital strategy for submission to the Council for approval.

12.0 **WARDS AFFECTED**

12.1 All wards are affected.

Contact Officer: Dawn Garton

Date: 31 January 2019

Background Papers: Budget Working Papers
Strategic Planning and Budget Development Day' notes.

List of Appendices:
Appendix A(i) an (ii) – Savings and Growth Proposals
Appendix B- Summary of Proposed Committee Estimates
Appendix C - Parish Council Precepts
Appendix D - Risk Assessment of Budgets
Appendices E and F - Statement of Revenue and Capital Reserves and Purpose and Future Intentions of Reserves
Appendix G – Capital strategy

Reference: X: Council, C'tee & Sub-C'tees/Council/2018-19/13-02-19/Revenue Budget 2019/20