

Cabinet

12 February 2020

Report of:

Portfolio Holder Corporate
Finance and Resources

GENERAL FUND REVENUE BUDGET 2020/21 AND MEDIUM TERM FINANCIAL STRATEGY 2020/21 TO 2023/24

| 1.0 Corporate Priority: | Decision Type: |
|--|----------------|
| 1.1 OG3 Becoming a more agile and commercial Council; securing our financial future | Key Decision |
| 1.2 All Corporate Priorities contained within the proposed Corporate Strategy 2020 to 2024 | |

| 2.0 Summary: |
|---|
| <p>2.1 As part of the Council's budget monitoring procedures all budget holders are asked on a quarterly basis to provide details of service and financial performance.</p> <p>With regard to the latest position on the revenue budget for 2019/20 budget holders are predicting the following forecast outturn position:</p> <p>General Fund - £98k overspend</p> <p>Special Expenses - £31k underspend</p> <p>Should the overspend on the General Fund materialise at the year end it will be necessary to draw on reserves to ensure the working balance is in line with the minimum set; though efforts continue to bring expenditure back into line and there is confidence that any actual overspend against the approved budget will be lower than this.</p> <p>2.2 The 2020/21 draft budget has been prepared based on the Council's proposed new Corporate Strategy 2020 to 2024. It allows for an overall increase in council tax of £5 across all Council funds in line with the Government's referendum limit. Growth and investment in housing, enforcement and service improvement is proposed in line with the draft Corporate Strategy but through redirecting resources and anticipated additional income and efficiencies delivered, it is proposed that there will be no draw on reserves to fund ongoing expenditure.</p> <p>2.3 As previously reported reserves have been depleted over recent years but the position has stabilised with the draft budget proposed being a balanced one with no draw on reserves to fund ongoing expenditure. However, the level of revenue and capital reserves, remain a concern as highlighted by the CIPFA financial resilience index. This is particularly the case when considered alongside the uncertainty regarding the funding of local government finance from 2021/22.</p> |

3.0 Recommendations

3.1 That the year end forecast and financial position for the General Fund and Special Expenses for 2019/20 be noted

3.2 That Cabinet recommend to Council that subject to any amendment arising from the final finance settlement that:

- a) The proposals for General Expenses and Special Expenses MM as set out in Appendix A (i) and (ii) and summarised in paras 6.10 to 6.12 be approved for inclusion in the 2020/21 budget resulting in the estimates set out in Appendix B;**
- b) The revenue budget for 2020/21 for General and Special Expenses as set out in Appendix B be approved resulting in an overall council tax increase of £5, the individual council tax levels being as set out in para 6.12;**
- c) That the permanent establishment be updated in line with the growth proposals;**
- d) Any increase or shortfall against the target working balance on General Expenses at 31 March 2020 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;**
- e) That members note the changes made to the risk categorisation of budgets as set out in para 6.14 and Appendix D.**

4.0 Reason for Recommendation:

4.1 The Council, having set a Budget at the start of the financial year, needs to ensure the delivery of this Budget is achieved. Consequently, there is a requirement to regularly monitor progress so corrective action can be taken when required which is enhanced with the regular reporting of the financial position.

4.2 To propose a general fund budget and level of council tax for the 2020/21 financial year for Council's consideration and approval that takes into account the proposals set out in the draft Corporate Strategy, also presented for approval. The proposals take into account the net amount of expenditure that the Council expects to spend in the next financial year to deliver services to our customers. The report also includes recognition of efficiencies secured and details of the funding and income received to support these services to ensure a balanced budget is proposed.

4.3 The Council also holds a number of reserves which the Council can draw upon to fund future expenses. The level of reserves is considered within this report, as is the future outlook for spending in the years ahead in order for the Council's future financial resilience to be considered as part of the proposals.

4.4 Cabinet and Council are required to consider and approve the General Fund Revenue Account budget proposals in order to set the budget and Council Tax for the forthcoming year.

5.0 Alternate Options Considered

- 5.1 The Council is required to set its budgetary requirement and for the Council to consider the opinion of the S151 Officer as to the robustness of the proposed budget and the levels of reserves and balances being adequate.
- 5.2 Alternative options for services and the financial implications have been considered as part of the development of the Corporate Strategy for 2020 to 2024.

6.0 Report Detail

6.1 Forecast Year End Position 2019/20

The forecast year end position for the current financial year 2019/20 against the approved budget is set out below. 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.

SUMMARY OF 2019/20 FORECAST YEAR END POSITON

| | Approved Budget at Dec '19 £'000 | Year End Forecast £'000 | Year End Variance* £'000 |
|--|---|----------------------------------|--------------------------------|
| GENERAL FUND | | | |
| Corporate Priority Area: | | | |
| People | 1,268 | 1,266 | (2) |
| Place | 3,672 | 3,912 | 240 |
| Corporate | 1,144 | 1,065 | (79) |
| Total Service Cost - All Portfolios | 6,084 | 6,243 | 159 |
| Other Expenses | (1,014) | (1,075) | (61) |
| Net Expenditure Requiring Funding | 5,070 | 5,168 | 98 |
| Funded by: | | | |
| Ctax, NNDR, NHB and General Grants | (4,781) | (4,781) | 0 |
| Corporate Reserves** | (289) | (289) | 0 |
| NET UNDER/OVERSPENDING* | 0 | 98 | 98 |

| | | | |
|---|------------|-------------|-------------|
| SPECIAL EXPENSES | | | |
| Melton Mowbray | 650 | 619 | (31) |
| Sproxtton | 5 | 5 | 0 |
| Frisby | 6 | 6 | 0 |
| Total Service Costs - Special Expenses | 661 | 630 | (31) |
| Other Expenses | | | |
| Other Expenses | (106) | (106) | 0 |
| Net Expenditure Requiring Funding | 555 | 524 | (31) |
| Funded by: | | | |
| Council Tax | (540) | (540) | 0 |
| Carry forwards | (7) | (7) | 0 |
| Reserves** | (8) | (8) | 0 |
| Total Funding | (555) | (555) | 0 |
| NET UNDER/OVERSPENDING* | (0) | (31) | (31) |

* Underspending (-), Overspending (+)

** Use of Reserves (-) Contribution to Reserves (+)

6.2 The forecast year end position for General Expenses results in an overspend of £98k. This takes into account approved contributions from the reserves, supplementary estimates, and approved carry forwards from 2018/19. Efforts continue to bring expenditure back into line and there is confidence that any actual overspend against the approved budget will be lower than this, however should this overspend be realised at the year-end it will mean the council will need to draw on its reserves. To minimise the projected overspend and any potential draw on the Corporate Priorities Reserve it will not be possible to make a contribution to the Investment Income Reserve fund in 2019/20; established by Council on 18th December 2019 in order to offset the potential risk of fluctuating values of property funds in any one financial year. It will however be possible to make a higher contribution to this reserve as part of the 2020/21 budget.

6.3 Explanations for the more significant variances against the approved budgeted and the forecast position at the year-end are as follows:

People Priority Area:

- Rent Rebates – Subsidy percentage predicted in the mid-year estimate is slightly higher than budget representing an improved income position.
- Sports and Leisure – the budget for 2019-20 included an ambitious new income target which whilst partially met will not be fully achieved. The service is continuing to investigate new income sources but the income budget in 2020/21 has been adjusted down accordingly.

Place Priority Area:

- Car Parking - Shortfall in income which is primarily due to short stay parking. Some of the predicted shortfall is offset by additional income from increased sales of season tickets.
- Cattle Market – The primary reason for the expected shortfall is loss of income on the car boot arrangement as well as the general throughput of livestock within the Market being down. Officers are redirecting resources to more fully

understand the implications associated with this position both in terms of the Council's agreement with Gilstream and the market performance more generally.

- Development Control - Planning application numbers have reduced and larger schemes have not yet been submitted in accordance with expectations. Benchmarking with other Local Authorities in the area has shown that the situation in Melton is mirrored elsewhere. A significant reduction in projected fee income is now being forecast.
- Building Control – income is performing better than budget which is primarily attributed to building notices.
- Economic Development - Salary savings have been achieved within the service due to staffing changes.

Corporate Priority Area:

- NNDR Collection – there have been a number of adjustments relating to prior years which have resulted in a more favourable position along with some New Burdens funding being received with no associated expenditure expected.
- Communications – A number of savings has been generated within the service on professional fees and salaries.

Other Expenses:

- Due to a higher level of reserves than originally forecast and better interest rates being obtained, additional investment income has been achieved.

Special Expenses:

- Income from Children's Centres is higher than budgeted as all three centres are being managed until May 2020 whereas budget assumed only one centre would be open.

6.4 The forecast 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 forecast 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. The Senior Leadership Team continues 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 2020 be adjusted by transfers to/from the Corporate Priorities Reserve and Special Expenses Reserve as appropriate.

6.5 Key Budget Principles for 2020/21

Key principles were set out in the previously approved MTFS and it is considered that these are still appropriate moving forward::

- 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 2020/21 budget at service budget level, other than fees and charges which has been provided for at the rate of 2%, unless adjusted for known cost increases by budget holders and 2% for pay.

6.6 **Local Government Finance Settlement 2020/21**

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 which the council complied with.

6.7 The Government also issued consultation papers with the 2019/20 finance settlement relating to the long standing review of local government finance. This covered proposals for a full business rates baseline reset meaning any growth retained since the business rates retention system was introduced in 2013/14 would be lost. Consideration of how the split of business rates was to be made between lower and upper tier authorities; with the concern being that the funding pressures of upper tier authorities would result in a greater share allocated to this class of authority. Uncertainty was also raised regarding 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. Alongside the business rates reform, other funding streams are also being reviewed, including consideration regarding the costs of rurality and the future of New Homes Bonus. Whilst any changes to these funding streams have the potential to impact on the council and therefore create a degree of uncertainty, it is also unclear how any damping mechanism would work and over what time period in order to mitigate the impact on any individual council in the early years. This review was expected to be completed in time for the 2020/21 finance settlement.

6.8 In August 2019 the Chancellor announced that the more fundamental review had been delayed and instead there would be a one year spending review for 2020/21. This was followed by the spending review announcement, a subsequent technical consultation paper and the announcement of the general election towards the end of 2019. This meant that the provisional finance, previously expected to be provided by 5th December was delayed until 20th December 2019.

6.9 The key elements set out in the 2019 provisional finance settlement are as follows:

Business Rates - Following the successful bid by Leicestershire authorities to be a 75% business rates pilot for 2019/20 Central Government has announced that there will no 75% pilots for 2020/21 pending the review of Local Government finance. This is disappointing as these significant sums of monies won't be retained within Leicestershire but passed back to Central Government instead. However, the Leicestershire pool will continue in 2020/21 which still retains sizeable sums within Leicestershire.

Revenue Support Grant (RSG) - No funding is provided for RSG as a result of previous government policy which has seen this reduce since 2010. Negative RSG has not been applied as with 2019/20. This is where when authorities are no longer in receipt of RSG the government planned to continue reductions in funding through reducing an authority's retained business rates.

Rural Services Delivery Funding for Sparse areas - The Efficiency for SPARSE services grant has been confirmed as £182k in line with that received in 2019/20.

Council Tax - The settlement has confirmed there will be a change to the referendum criteria, in that district Councils will only be allowed to increase council tax by up to 2% (previously 3%) or an overall increase of up to £5 for a Band D property.

New Homes Bonus - 2017/18 saw significant changes to the calculation of NHB with the government reducing legacy payments from 6 to 5 years in 2017/18 and to 4 years in 2018/19 onwards. In addition local authorities whose housing growth is less than 0.4% receive no NHB payment; otherwise authorities will only receive the payment on amounts over the 0.4%. The settlement has confirmed the proposals set out in the technical consultation to remove NHB funding from 2021/22 onwards. This would mean 2020/21 would be the last year of in-year NHB payments but these wouldn't form part of any future legacy payments. Melton would continue to receive legacy funding from previous years with all NHB payments ending in 2022/23. For Melton this results in a NHB payment for 2020/21 of £305k, which is then phased out with £152k in 2021/22 and final payment of £82k in 2022/23. If this funding stream is not replaced in full or in part it has the potential to create a financial challenge for the council over the life of the MFTS. The Government is intending to consult on the future of the housing incentive in the spring with the aim of moving to a new more targeted approach that rewards local authorities that are ambitious in delivering homes, and which is aligned to other measures concerning planning performance.

Fair funding and Future Business Rates Changes - These are still being considered by the Government with further information due to be released next year but the impact is still unclear at present and represents a key risk for the MFTS.

6.10 **Proposed Budget 2020/21**

The budget for 2020/21 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. The proposed budget aligns with the draft Corporate Strategy included elsewhere on the agenda and where approval has already been given for individual proposals the financial implications have been incorporated into the budget. Growth emerging from the draft Corporate Strategy which has yet to be approved is set out in Appendix A and in summary is as follows:

General Expenses

Recurring Expenditure (not approved by previous decisions) £46,780

Non Recurring Expenditure £158,750

Special Expenses Melton Mowbray

Non Recurring £10,000

Aside from the match funding for the two LLEP funded projects totalling £100k, all other growth, both ongoing and non-recurring, is able to be met from within the revenue budget; representing a balanced position. This does provide some

flexibility when these non recurring items could, relatively painlessly, be removed from the budget in 2021/22 to meet any financial challenges the change in funding from central government may bring.

6.11 All service budgets have been subject to scrutiny by both the Senior Leadership Team and considered by the Scrutiny Committee. 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 for at 2%. 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 £5 overall council tax increase. General Expenses has been set at 3.21%, Sproxtton, Gaddesby and Frisby Special Expenses at the level required to balance the budget, Special Expenses Melton Mowbray a reduction of 3.47% in order to bring the overall level to £5;
- The approved establishment has generally been budgeted for in full, but no provision has been made for recruitment costs or savings 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;
- 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. 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 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 incorporated. These will come forward during the year;
- 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;
- 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.

6.12 The proposals and assumptions set out above result in the proposed Council Tax levels for each fund as set out below. It can be seen that the council has taken on responsibility for the closed Churchyard for Gaddesby following the transfer of this responsibility from Gaddesby Parish Council with 2020/21 being the first year a charge has been levied.

| Fund | Council Tax at Band D £ | Change over 2019/20 % |
|---|--|--|
| General Expenses | 179.31 | 3.21 |
| Special Expenses - Melton Mowbray | 57.62 | -3.47 |
| Special Expenses – Sproxtton Nos. 2 & 4 | 66.52 | 29.46 |
| Special Expenses - Frisby | 19.46 | -1.41 |
| Special Expenses - Gaddesby | 47.27 | New charge |
| Average | 207.64 | 2.47 |

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

6.14 **Budget Monitoring**

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.

The categorisation of the various services has been reviewed for 2020/21 and is set out in Appendix D. Following consultation with the Senior Leadership Team changes have been made to the risk profile with sports income being removed from the list with the budget now being reduced to reflect the forecast for 2019/20. Legal income has been added with the additional income from drafting S106 agreements being linked to additional resources and the need to ensure the income covers the associated costs.

6.15 **Financial Projections for Future Years**

The estimates in Appendix B contain forward projections for the financial years 2020/21 to 2023/24. 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. Some of the key assumptions that have been made in preparing these forward projections as follows:

- That an overall increase in council tax of £5 will be set in 2020/21 followed by further overall increases of £5 to 2023/24;
- 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 is now delayed, the projection has been made based on reasonable assumptions and known funding streams only. The projections, therefore, include the phasing out of the NHB grant as set out by the government, but does not include any assumption made for any replacement growth incentive funding. It is anticipated that the Council will benefit from some form of housing growth incentive in the future but to include any replacement funding at this stage would be purely speculative and therefore it is important to note that the position shown represents the worst possible position in relation to the loss of NHB. The current business rates retention methodology is assumed to continue though should previous proposals regarding the resetting of the business rates baseline proceed it would further exacerbate the loss of funding and increase the financial challenge beyond current assumptions.
- It has also been assumed Rural Services Delivery Grant will continue at its current level with no adjustment made to what may arise from the fair funding review and any potential acknowledgement of rurality as a spending pressure;
- The only allowance that has been made in the forward projection for income that may need to be utilised to support the Melton Distributor Road is in respect of council tax with the phasing out of NHB which is the main element of funding to be allocated as part of the proposed agreement;
- Growth projections for residual NHB and council tax growth have been based on the housing growth figures provided by the local plans team based on the current grant criteria.

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

| Year | Projected Deficit £000 |
|---------|---------------------------|
| 2021/22 | 87 |
| 2022/23 | 296 |
| 2023/24 | 631 |

6.17 Without the outcome of the funding review, and in particular the clarification highlighted above regarding NHB and Business Rates, it is extremely challenging to project the council's financial position into these later years. The figures above should therefore be taken with some caution and it is not advisable to make future policy or service decisions, at this stage, based upon them. Rather what they represent is the potential gap in funding the Council will face should the Fair Funding review and replacement of NHB fail to adequately compensate for the

funding previously received. If this happens the Council will have to address this funding gap through efficiencies and other savings.

- 6.18 Other key issues affecting future years' projections are inflation, both general and pay, and increased pension costs. Specific allowances have been made for the possibility of the transfer of the land charges service to the Land Registry in 2022/23 and the potential introduction of mandatory food waste collection in 2023/24 which is currently being consulted upon and considered as part of the governments Resources and Waste Strategy. 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.

6.19 Reserves

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 movement in the reserves and balances is as reflected in the budget;
- Any increase or shortfall against the target working balance on General Expenses at 31 March 2020 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.

- 6.20 With regard to the revenue reserves the council has three main categories. These are either '*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.

- 6.21 In relation to the non-earmarked, general reserves, they are available to support a range of projects which may be required for the Council to deliver, as well as being available to support capital expenditure should that be necessary due to a low level of capital receipts being held. In 2020/21 these reserves being utilised to match fund grant funded projects of a non recurring nature. The reserves have in recent years been utilised to support non recurring expenditure in support of structural changes; though the Corporate Priorities Reserve level has stabilised. If the council's financial position should worsen and further savings in net expenditure are required which have a lead time to achieve it will be necessary to draw on these again until alternative savings or income are identified and delivered.

- 6.22 CIPFA (the Chartered Institute of Public Sector Finance and Accountancy) have issued a Financial Resilience index for all councils which is available publically this is in response to concerns regarding the viability of council's. It is 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. The key messages for Melton from this index are as follows:

- Compared to other district councils, and particularly similar district councils classed as being our “nearest neighbours” in terms of comparability, Melton is shown as being of higher risk due to our level of reserves being comparatively lower. In addition our reserves reduced in 2018/19 compared to 2017/18 whereas a large number of other council’s reduced by a lower amount or in a large number of cases increased in response to the financial risks facing local authorities from the uncertainty surrounding funding. When tracked over the previous 3 years Melton was also using its reserves at a comparatively faster rate than other similar authorities and district councils. As set out elsewhere the council has been addressing this and the proposed budget does not draw on reserves for any recurring expenditure;
- Melton is at a low risk compared to similar authorities and other districts as a result of having no general fund debt and therefore no interest being payable;
- Melton is at a lower risk compared to similar authorities and other districts as a result of generating a high proportion of income from fees and charges and council tax which we retain control over;
- Melton is at a lower risk compared to similar authorities and other districts as a result of having lower business rates growth. The implications being that with this source of funding being at risk of the baseline being reset, above which a portion of growth is retained, Melton has comparatively less to lose than other councils.

6.23 In terms of what this means for Melton with regard to its financial strategy it confirms the need to reduce the requirement to draw on the reserves. With a balanced budget being proposed in 2020/21 this represents a positive response to this need and in particular given some non recurring expenditure being funded from the revenue budget enabling some headroom for meeting deficits in future financial years. This demonstrates the Council is addressing the concerns raised in previous years. It does though also need to be recognised that should these reserves deplete further, the ability to support the financial implications of change and transformation from reserves – e.g. costs arising from changes to staffing structure - will be more difficult and such costs will have to be met from within the annual revenue budget. This would therefore require sufficient savings to be made in year or income generated to meet these costs. Should reduced funding from central government result in savings and efficiencies having to be made then there is a high risk that reserves would need to be drawn on to support the associated one off costs of achieving these. 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 and the ongoing 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.

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| 7.0 | Consultation and Feedback (including Scrutiny Committee) |
| 7.1 | Public consultation has been undertaken in relation to the proposals set out within the Corporate strategy and the outcome reported as part of that report elsewhere on this agenda. Specific attention was given as part of that consultation to car parking charges which is a key component of the budget proposals. |
| 7.2 | The Scrutiny Committee has considered the proposals set out in the Corporate Strategy and the budget proposals and the outcome of their consideration is set out elsewhere on the agenda. |
| 7.3 | All members were consulted on the proposals set out in the draft Corporate Strategy at an all Member Development Day held in October 2019 which was followed by an invitation to all members to attend the formal scrutiny meeting in January 2020 which considered the corporate strategy and the budget proposals. |
| 7.4 | Budget holders, managers and staff have been engaged at various stages in the process as the budget has been developed. |

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| 8.0 | Next Steps |
| 8.1 | The recommended budget and council tax proposals will be presented to the Council meeting on 26 th February 2020 alongside the council tax calculations including the various preceptor amounts as required by the regulations set out in the Local Government Finance Act 1992. Following their approval the budget book and council tax invoices will be finalised and raised. The budgets set will be monitored and reported on as appropriate during 2020/21. |

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| 9.0 | Financial Implications |
| 9.1 | <p>Section 25 of the Local Government Act 2003 imposes a duty on the Chief Finance Officer to report formally to council on the following:</p> <ul style="list-style-type: none"> • The robustness of the estimates utilised to set the Council Tax; • The adequacy of the proposed financial reserves. |
| 9.2 | 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. Planned efficiency savings have been built into the estimates and these will need to be achieved if there is not to be an overspend on the budget. Assumptions have had to be made in bringing together the estimates for 2020/21 and these are set out elsewhere in the report along with the key risks set out in Section 14. 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 2021/22 does support a cautious position being taken at this time until the financial future is more certain. Subject to these concerns the S151 Officer has confirmed that she is satisfied with the robustness of the 2020/21 base budget. |

9.3 With regard to the adequacy of the reserves the council does review the level of general fund working balance required based on an assessment of risk, which is the minimum revenue required, on an annual basis. A statement of the reserves is attached at Appendix E. In recent years it has been a challenge to maintain spend within budget with increasing limited financial capacity to meet unexpected overspends in year. In addition the council also has a history of using reserves in year to fund unexpected or additional planned events. Should the changes in assumptions regarding the future financial position, in addition to the uncertainty regarding the outcome of the funding review affecting 2021/22 onwards, result in deficits being realised 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.

10.0 Legal and Governance Implications:

- 10.1 The Chief Finance Officer has a personal duty under the Local Government Finance Act 1988 Section 114A to make a report to the executive if it appears to them that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources available to it to meet that expenditure.
- 10.2 Under S151 of the Local Government Act 1972 a local authority has to make proper arrangements for the administration of its financial affairs.
- 10.3 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.
- 10.4 The Council is required under statute to fix the level of council tax for 2020/21 by 11th March 2020 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.
- 10.5 Under the Local Government Act 2003 the Council's Section 151 Officer, is required to report to Members regarding the robustness of the budget proposals and to comment on the adequacy of the reserves. This provision is designed to strengthen the financial reporting requirements of local government and to reduce the risk of authorities getting themselves into financial difficulty. The reason for this is that there is no prospect, under normal circumstances, of levying a supplementary Council Tax once a Council sets its level of tax for the forthcoming year.
- 10.6 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.
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11.0 Equality and Safeguarding Implications:

- 11.1 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.
- 11.2 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.

12.0 Community Safety Implications:

- 12.1 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.

13.0 Other Implications

- 13.1 None

14.0 Risk & Mitigation:

- 14.1 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 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.
- 14.2 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.
- 14.3 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.
- 14.4 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 | | 11 | 1,2 | |
| | C | Significant | | 3,6,7,8,10 | 12,13 | |
| | D | Low | | 5,15,9 | 4,14 | |
| | E | Very Low | | | | |
| | 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 | 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 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 | Projections for Housing growth used to calculate the New Homes Bonus and council tax are inaccurate. |

| | |
|-----------|--|
| 7 | Target savings included in the revenue budget are not achieved. |
| 8 | Works needed to assets as identified by stock condition surveys impact negatively on the revenue budget. |
| 9 | Universal credit impacts on the council's financial position and the estimates for benefits subsidy. |
| 10 | Homelessness costs increase significantly above budget due to the high level of cases. |
| 11 | Costs of the planning review are not affordable. |
| 12 | The focus on the level of bad debts results in large write offs above the levels of provisions made. |
| 13 | Inflation provided for is insufficient for contractual increases and the pay award. |
| 14 | Resources set aside to support the new CRM system are still to be assessed and could remain insufficient |

14.5 Offset against the above risks are the level of reserves and balances the Council holds. Whilst the council does have a 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.

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.

Background Papers:

Report to Scrutiny committee 22nd January 2020
Budget book 2019/20

Appendices

Appendix A (i) and (ii) - 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

| Report Timeline: | | Date of sign-off: |
|-------------------------|---|--------------------------|
| | Equalities Check & Challenge | N/A |
| | SLT Sign off | N/A |
| | Previously Considered by Cabinet | N/A |
| | Director Approval | 07.01.20 |
| | Legal Approval | 09.01.20 |
| | Finance Approval | 07.01.20 |
| | Chief Finance Officer Sign Off | 07.01.20 |
| | Monitoring Officer Sign Off | 13.01.20 |
| | Chief Executive Sign Off | 13.01.20 |

| Report Author |
|--|
| Dawn Garton – Director for Corporate Services 📞: 01664 502444 |