Key Decision Required:	Yes	In the Forward Plan:	Yes

CABINET

5 AUGUST 2016

REPORT OF FINANCE, REVENUES AND BENEFITS PORTFOLIO HOLDER

A.5 FINANCIAL STRATEGY – GENERAL FUND INITIAL FINANCIAL BASELINE 2017/18

(Report prepared by Richard Barrett)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT
To present an initial General Fund financial baseline for 2017/18 against which the detailed estimates will be built upon over the course of the year.

EXECUTIVE SUMMARY

- The initial financial baseline for 2017/18 sets out an initial budget ‘gap’ of **£1.565m.** In continuing the move to self-sufficiency, this is based on a 1.99% increase in the level of council tax at this stage of the budget cycle. This will however be subject to further review over the course of the budget setting process and against the referendum limits for 2017/18 which will be announced by the Government later in the year. If the referendum limit was set at £5 for 2017/18, in a repeat of the 2016/17 limit, then this could provide the opportunity to raise additional on-going income of **£0.095m.**

- The initial budget ‘gap’ also reflects the provisional revenue support grant (RSG) figure of **£1.650m**, a reduction of **£0.914m** (36%) compared to 2016/17.

- As highlighted in last year’s budget reports, the Government announced provisional / minimum RSG figures for 2017/18, 2018/19 and 2019/20 on the basis of each Authority submitting efficiency plans to the Government by the Autumn this year. Although further discussion around this issue is set out later on in this report, the provisional settlement phases out RSG by the end of 2019/20 with only **£0.400m** receivable in that year.

- A number of savings strands are already being progressed which will be finalised as part of presenting the revised position to Cabinet in December. Work remains in progress in consultation with Portfolio Holders, Corporate Management Committee and Members to identify the level of savings required to meet the budget ‘gap’.

- Given current economic uncertainty following the EU referendum, it is difficult to forecast any knock on impact that may arise, which could include a more front loaded reduction in the RSG than already proposed. However the Government has recently announced that they will no longer be aiming for a budget surplus by 2019/20, which is hoped will limit any changes to the provisional RSG figures already announced. Although this will be monitored over the budget setting cycle with updates provided to members accordingly, the provisional RSG figures announced last year have therefore been included.

- The Council must continue to seek ways to grow its own funding through, regeneration, economic development etc. which will provide a strong position to move into the new era of 100% business rates retention from 2020. There are a number of critical 'core funding' risks around business rates, not only in the future but within the current partial retention regime, which are set out later in this report.

- The initial forecast does not include the final position for items such as cost pressures and potential further changes to budgets although estimates have been included where possible with further details likely to emerge over the course of the year. Therefore it is recognised that the budget 'gap' could increase further.

- A number of Essex Local Authorities continued to remain members of a Business Rates Pool in 2016/17. However given the uncertainty and risks surrounding business rates, it is not clear whether or not there will be a benefit in continuing an Essex Pool in 2017/18. Subject to the financial performance of the existing arrangements and future forecasts and risks, a decision to continue to remain in the pool will be required in the autumn.

- In continuing the principle of passing on the reduction in the Council's Government funding to Town and Parish Council's via the Local Council Tax Support Scheme Grant, it is proposed on reducing the grant by 5% in 2017/18

RECOMMENDATION(S)

(a) That Cabinet agrees the initial financial baseline for 2017/18 and requests Portfolio's, supported by Officers, to continue to facilitate the various savings strands and initiatives to deliver a balanced budget for presenting to Cabinet in December 2016;

(b) that Corporate Management Committee be consulted on the initial financial baseline for 2017/18;

(c) that the Local Council Tax Support Scheme grant to Town and Parish Council's be reduced by 5% in 2017/18, and

(d) the decision to remain in the Essex-wide pool for non-domestic rates in 2017/18 be delegated to the Finance, Revenues and Benefits Portfolio Holder in consultation with the Corporate Director (Corporate Services).

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

This report will have direct implications for the Council's ability to deliver on the commitments, objectives and priorities set out in the Corporate Plan, the Corporate Goals and the Community Strategy.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

The financial implications are fully considered in the body of the report.

Risk

There significant risks associated with the forecast such as cost pressures, inflation and changes to other assumptions that form part of the financial planning process.

The actual funding gap could therefore be greater than that anticipated which would require a corresponding increase in the savings etc. necessary to balance the budget.

The forecast continues to be risk-based. There are a substantial number of areas that could lead to additional expenditure being incurred, such as: -

- Economic environment / instability;
- Emergence of cost pressures;
- Changes to the local authority funding mechanism;
- New legislation placing unfunded duties on the Council or reducing the level of the Council's core funding;
- Local or national emergency;
- Income is less than that budgeted for, including business rate income retained locally.

It is important that the Council continues to maintain a sufficient level of reserves to support the strategy's risk-based approach. A risk reserve (the general balance) of **£4.000m** (including the **£1.600m** minimum working balance) remains in place to ensure against the eventuality that some of the events listed above actually occur.

The Council also maintains a NDR Resilience Reserve and Benefits Reserve of **£1.609m** and **£1.100m** respectively to act as a 'buffer' if associated risks arise during the year.

LEGAL

The arrangements for setting and agreeing a budget and for the setting and collection of council tax are defined in the Local Government Finance Act 1992. The previous legislation defining the arrangements for charging, collecting and pooling of Business Rates was contained within the Local Government Finance Act 1988. These have both been amended as appropriate to reflect the introduction of the Local Government Finance Act 2012.

The Local Government Finance Act 2012 provided the legislative framework for the introduction of the Rates Retention Scheme and the Localisation of Council Tax Support.

The Calculation of Council Tax Base Regulations 2012 set out arrangements for calculation of the council tax base following implementation of the Local Council Tax Support Scheme. The new arrangements mean that there are now lower tax bases for the district council, major preceptors and town and parish councils.

The Localism Act 2012 introduced legislation around the right of veto for residents on excessive council tax increases.

OTHER IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.
Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.

There are no other implications that significantly impact on the financial baseline. However, the ability of the Council to appropriately address these issues will be strongly linked to its ability to fund relevant schemes and projects and determination of the breadth and standard of service delivery to enable a balanced budget to be agreed.

An impact assessment will be undertaken as part of any separate budget decisions such as those that will be required to deliver the necessary savings to meet the budget 'gap'

PART 3 – SUPPORTING INFORMATION

FINANCIAL FORECAST 2017/18 – GENERAL FUND

The following table sets out the initial financial baseline for 2017/18. Although this will be subject to revisions and updates as the year progresses, it does set out the estimated initial funding 'gap' for the year.

Initial Financial Baseline 2017/18

	2016/17 Original £m	**2017/18 Initial Forecast £m**
Net Cost of Services	15.054	15.624
Revenue support for capital investment	0.400	0.300
Financing items	(0.779)	(0.779)
Net Expenditure	**14.675**	**15.145**
Contribution to /(from) Reserves	(0.677)	(0.040)
Total Net Budget	**13.998**	**15.105**
Business Rates *(excl. S31 Govt. Grant for rate reliefs and 2% 'Cap')*	4.599	4.599
Revenue Support Grant	2.564	1.650
Collection Fund Surplus	(0.020)	0.300
Council Tax Requirement (for Tendring District Council)	**6.855**	**8.556**

The council tax requirement figure of **£8.556m** above represents an increase of **£1.701m** compared to 2016/17. Although the referendum limits for 2017/18 will not be announced by the Government until later in the year, every 1% increase in the level of council tax would generate additional income of **£0.070m** per year. If the Government continue with the £5 referendum limit that was applied in 2016/17, this would generate income of **£0.225m** per year**.**

For the purpose of the forecast, an increase in council tax of 1.99% has been applied (**£0.136m**), which would be consistent with the self-sufficiency approach being imposed by the Government via its RSG reductions. However this will remain under review during the budget setting process with final recommendations decided later in the year.

A 1.99% increase in the level of council tax reduces the initial budget 'gap' from £1.701m to £1.565m

<u>Revenue Support Grant and the Economic Background to the Initial Forecast</u>

Although the UK economy was in a period of sustained growth, significant financial challenges remained for Local Authorities given the significant and front loaded reductions in RSG each year. Although the economic recovery supports income from sources such as business rates and fees and charges for example, these by no means meet the pace of the reductions in the RSG. The outcome from the EU referendum has added additional uncertainty to not only the wider economy but the knock on impact in RSG and other grant funding from the Government or our other partners.

Although the Council's medium term forecast already reflects the complete phasing out of the RSG by 2019/20, the Government may look to make cuts quicker and front load the reductions in RSG over 2017/18 and 2018/19.

The Government has however recently announced that they will no longer aim for a budget surplus by 2019/20, which may translate into the provisional / minimum RSG figures announced last year being 'protected' and therefore become the actual figures receivable rather than being subject to further reductions.

Although the situation will be closely monitored over the coming months, the current forecast reflects the minimum / provisional figures announced last year being **£1.650m** receivable in 2017/18 (reducing to **£1.070m** in 2018/19 and **£0.422m** in 2019/20). In 2017/18 this funding stream represents only 12% of the Council's overall 'core' funding. The Government have stated that each authority who accepts a longer term funding offer will need to submit efficiency plans to the Government. Although there is no guidance as to what needs to be included in these efficiency plans, officers are currently working on developing the necessary documentation to provide to Members later in the year to enable them to decide whether to accept the Government's offer or not.

The next section of the report takes each line of the forecast as set out in the table above and provides additional details / information.

Net Cost of Services

The initial forecast reflects a **£0.570m** increase compared to 2016/17. This is primarily due to inflation and a general allowance for cost pressures with additional details as follows:

Item	Adjustment Included	Comments
INFLATION		
Salaries and Increments	£0.200	A 1% general pay award has been included plus progression of staff along salary grades where appropriate.
Major Contracts	(£0.092m)	This is a negative amount as the inflation allowance provided for on some of the Council's major contracts in previous budget cycles has been more than actually required. Therefore a general inflation adjustment has been made in 2017/18.
NDR	£0.017m	This assumes an inflationary uplift for properties where the Council is liable for business rates.
TOTAL INFLATION ALLOWANCE	**£0.125m**	

OTHER ADJUSTMENTS WITHIN NET COST OF SERVICES		
Removal of one-off items in 2016/17	(£0.155m)	-
Initial allowance for Cost Pressures	£0.600	The Council continues to face a number of potential cost pressures such as: • Further Welfare Changes / Benefit Subsidy implications • Potential reductions in contributions from other Public Bodies who are faced with the same reductions in Government funding. • Triennial pension review • Apprenticeship levy • Business Rates revaluation 2017 The above list is not exhaustive and work remains ongoing to identify the potential impact and timing of such issues.
TOTAL	**£0.570m**	

Revenue Support for Capital Investment

The initial forecast includes a **£0.100m** reduction compared to 2016/17 to reflect the current capital programme and the amount funded from revenue rather than other sources of funding.

£0.300m is currently included in the 2017/18 base forecast as a revenue contribution to the Capital Programme that reflects IT Core Infrastructure activities that aim to maintain the Council's IT equipment / capacity on an on-going basis and crematorium and leisure facility schemes funded from the ring-fencing of net increased fees and charges that were introduced last year.

Financing Items

No adjustments have been made as part of the initial forecast.

Use of Reserves

The initial forecast includes a net change **£0.637m** compared to 2016/17 and reflects the following adjustments:

- Remove use of Building for the Future Reserve to fund a number of small one-off cost pressures in 2016/17 - **£0.025m.**
- Remove the one-off contribution from the NDR Resilience Reserve in 2016/17 - **£0.412m.**
- Remove the one-off contribution from reserves to fund the budget 'gap' in 2016/17 - **£0.200m.**

Business Rates – Locally retained share of Business Rates

The amount of income currently included in the forecast is **£4.599m** which represents 34% of the Council's overall 'core' funding.

At this stage of the budget setting process, no increases in the level of income from this funding source has been reflected within the forecast. This is due to the significant level of uncertainty and risk that surrounds this area of the budget with a number of risks summarised as follow:

- The level of rate appeals
- The national revaluation of business rates in 2017
- Future government announcements

The same risks will have an impact on the decision to remain in the Essex Business rates Pool in 2017/18.

Work will be undertaken over the coming months, which will take into account the performance over the first half of this year to identify a prudent budget that will take into account issues such as growth in the 'property base' and the impact from the risks highlighted above.

Collection Fund / Council Tax

The Council's Band D council tax for 2016/17 is **£152.64** which remains one of the lowest in Essex.

The council tax base for 2016/17 is **44,908.3** with a total council tax requirement of **£6.855m** which represents approximately 50% of the Council's overall 'core' funding.

As previously mentioned the initial forecast reflects a 1.99% increase in the level of council tax in 2017/18 at this stage of the estimates process. This would mean that the Band D council tax for the year would be **£155.68.**

In terms of the collection fund surplus for the year, a cautious approach is usually adopted where only a modest amount is included in the forecast pending a clearer picture emerging over the course of the year. In recent years this approach has resulted in a more favourable outturn position at the end of each financial year. Given the significant financial challenge that the current budget 'gap' poses, this approach has been reviewed to identify if it would be possible to take this 'saving' earlier in the budget process rather than at the end of the year, whilst still remaining prudent.

Based on last year's performance and that for the first quarter of 2016/17, it is estimated that an additional **£0.300m** will be available to take forward into 2017/18 to support the budget. This has therefore been included in the forecast but it will be kept under review over the remainder of the budget cycle.

It is also recognised that additional income will be receivable from the latest council tax sharing agreement with the major preceptors. The new arrangements could generate income in excess of **£0.150m** per year. This has not been included in the forecast at this stage of the budget cycle as the performance of this latest initiative will need to be reviewed later in the year before a robust estimate can be finalised.

Other Budget Considerations / Information

In following on from reductions in previous years, it is currently proposed to reduce the Local Council Tax Support Scheme Grant to Town and Parish Councils that ‘mirrors’ the level of funding reductions being experienced by this Council.

The total grant payable to Town and Parish Council’s is **£0.148m** In 2016/17, a reduction of 5% compared with 2015/16. Although this Council’s ‘core’ funding is forecast to reduce by over 12% in 2017/18, it is proposed to only ‘pass on’ a reduction of 5% in the level of grant funding in 2017/18. This will reduce the total grant to **£0.141m** in 2017/18.

2017/18 INITIAL FORECAST SUMMARY, CONCLUSIONS AND PROPOSED WAY FORWARD

Based on reflecting the adjustments to the base budget that the Council is currently aware of and taking into account the provisional Government grant settlement, an initial savings target of **£1.565m** has been identified for 2017/18.

Portfolio Holders and Officers need to continue to maintain the momentum of identifying the necessary savings targets year on year to enable a balanced position to be presented to Cabinet in December 2016.

However for 2017/18 the task of securing savings without having an impact on front line services will be significantly harder given the fact that over **£12.000m** of savings have already been taken out of the budget since 2011.

The necessary work required to identify savings is set against a context of the Council providing a significant range of services over a large geographical area with a significant elderly population. The Council must therefore ensure that its budget is sufficient to provide the wide range of services that its diversity and needs demand and also support new development, growth and investment. To balance the budget and provide the foundation to continue to invest in the district, a number of potential savings options / ideas have been identified for further investigation. These are set out in **Appendix A.** It is important to stress that these are ideas and options at this stage and by no means represent a definitive list of savings that will be taken. To reflect the scale of savings required, an indicative value of the potential saving from each activity is also included.

However it must be acknowledged that Members are faced with some difficult and challenging decisions to secure the savings required in 2017/18 and beyond. There will also be some significant lead in times to some of the savings decisions required so the timing of when the saving can be secured is also critical. This risk has been highlighted in the Council’s Corporate Risk Register as any delay in delivering the required savings will require one-off contributions from reserves or other one-off amounts to balance the budget.

Such an approach would potentially jeopardise the strong and robust financial foundations that have been put in place over recent years and would be against the advice of the Council’s Auditors who raised the use of reserves in such away (along with the level of council tax) as key issues that the Council must continue to remain alert to.

In terms of securing the significant savings required to balance the budget in 2017/18 and beyond, Portfolio Holders will be working with Officers and Members to shape and develop the options / ideas for consideration in September / October before the final budget proposals for 2017/18 are presented to Cabinet in December 2016.

The list should be viewed as a work in progress and as mentioned in introductions to previous budget reports earlier in the year, all members are encouraged to put forward their own savings ideas that can be reviewed and developed. However given the size of the budget ‘gap’, the Council must maintain a focus on securing savings of significant magnitude which will undoubtedly have a knock-on impact on the provision of services. Clearly the Council will look at alternative service delivery options first as part of the savings review, but it is acknowledged that reductions in service provision are unavoidable and therefore including all members in the debate about where and how these savings can be secured is essential. Therefore many of the saving ideas will aim to bring members together, such as part of Portfolio Holder led working groups or via consultation with scrutiny committees.

Portfolio Holders will continue to work on the various activities and facilitate the above approach to investigate / develop the ideas set out in **Appendix A**.

ASSESSMENT OF THE FINANCIAL POSITION FOR 2018/19 AND BEYOND

Although this report takes the pragmatic approach of focusing on the early / initial financial baseline for 2017/18 it is worth taking the opportunity at this stage to have a brief look to 2018/19 and 2019/20, which will be covered in more detail when financial planning updates are provided to Cabinet later in the year.

Some of the main considerations in respect of the 2017/18 have already been discussed, especially those surrounding the economy and the items set out in the risk section above.

Based on the current economic uncertainty and risks previously highlighted, the potential magnitude of the funding gap in 2017/18 and beyond is difficult to forecast. However based on early estimates the potential funding ‘gap’ in 2018/19 could be as high as **£1.700m** with further savings required of **£1.500m** in 2019/20. It is difficult to prepare a forecast beyond 2019/20 given the level of additional uncertainty that the new era of full retention of business rates will introduce. However this will be kept under review and updates provided as part of future budget reports.

BACKGROUND PAPERS FOR THE DECISION

None

APPENDICES

Appendix A - Savings Strands – Potential Ideas / Proposals for Review