

COUNCIL

6 FEBRUARY 2018

REPORT OF CABINET

A.1 EXECUTIVE'S PROPOSALS – GENERAL FUND BUDGET AND COUNCIL TAX – 2018/19

(Reference prepared by Richard Barrett)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To present to Council the Cabinet's General Fund budget proposals including the Council Tax for District and Parish / Town Council Services for 2018/19.

EXECUTIVE SUMMARY

- The information and recommendations set out in this report reflect the Cabinet's budget proposals approved for submission to Council at their meeting on 19 January 2018.
- For 2018/19, the Cabinet's budget proposals set out a Council Tax requirement of **£7.602m** (total net revenue budget of **£13.902m**) and a General Fund capital programme totalling **£0.857m**.
- The overall revenue budget reflects a Band D Council Tax of **£162.64** in 2018/19, an increase of **£5** (3.17%).
- The budget recommended by Cabinet for approval by Council includes only the District and Parish elements of the Council Tax rather than those from the major precepting authorities. The formal approval of the 'full' Council Tax levy for the year, including the precepts from Essex County Council, Police and Fire, is delegated to the Council Tax Committee which is due to meet on 21 February 2018.

RECOMMENDATION(S)

That having had regard to the Chief Finance Officer's (S151 Officer) report on the Robustness of Estimates and Adequacy of Reserves in accordance with the requirements under Section 25 of the Local Government Act 2003, and having taken account of the responses to the budget consultation process the Council approves the budget proposals (based on a £5 Band D council tax increase for district services) and agrees:

- i) That the total General Fund net revenue budget for 2018/19 be set at £13.902m and revised net budget for 2017/18 of £13.487m (a council tax requirement of £7.602m and £7.229m respectively excluding parish precepts).
- ii) That the General Fund capital programme be approved totalling £0.857m in 2018/19.
- iii) That the detailed General Fund budgets be as per the Cabinet's budget proposals of 19 January 2018 as set out in Appendix B.

- iv) The calculation of the Council's Council Tax requirement, Special Expenses and Parish/Town Council precepts, as set out at Appendix D.
- v) The Council Tax for District and Parish/Town Councils' services as at Appendix G and that these are the amounts to be taken into account for the year in respect of the categories of dwellings listed in different valuation bands.
- vi) That subject to the above, if budget adjustments are required following the late notification of external / grant funding, then in consultation with the Finance and Corporate Resources Portfolio Holder, budgets are adjusted accordingly with no net impact on the overall budget or capital programme set out above.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

The forecasting and budget setting process will have direct implications for the Council's ability to deliver on its objectives and priorities. At its heart, the 10 year approach to the forecast seeks to establish a sound and sustainable budget year on year through maximising income whilst limiting reductions in services provided to residents, business and visitors but still make investments where possible.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

The financial implications are set out in the body of the report.

Although the availability of financial resources is a key component in the delivery of services there will also need to be appropriate input of other resources such as staffing, assets, IT etc.

Risk

There are significant risks associated with forecasting such as cost pressures, inflation and changes to other assumptions that form part of the financial planning process. There are a 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 mechanisms such as the Government's fairer funding review that is proposed;
- 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.

As set out as part of the initial forecast, the forecast is based on relatively conservative estimates with no optimistic bias included. It is also worth highlighting that the risks identified do not uniquely apply to the 10 year approach being taken as they would equally apply to the short term approach to the budget setting process that has historically been

taken.

Another potentially more important action to manage and mitigate risk is the Council's ability to financially underwrite the forecast. As with any forecast, some elements of income and expenditure will be different to that forecasted. It is fair to say that many may offset each other over the longer term. However, there are two important aspects to how this will be managed.

1) **£1.744m** is set aside within a Forecast Risk Fund to support the budget in future years. This money is therefore available to drawn down if the timings within the forecast differ in reality and the net position is unfavourable compared to the forecast in any one year.

2) The forecast will remain 'live' and be responsive to changing circumstances and it will be revised on an on-going basis. If unfavourable issues arise that cannot be mitigated via other changes within the forecast then the forecast will be adjusted and mitigating actions taken. Actions to respond will, therefore, need to be considered but can be taken over a longer time period where possible. In such circumstance the Council may need to consider 'topping' up the funding mentioned in 1) above if required in the early years of the forecast. This may impact on the ability to invest money elsewhere but will need to demonstrate that its use is sustainable in the context of the ten year forecast and supports the thinking behind the new approach of protecting Council services wherever possible.

The on-going forecast includes the need to identify on-going savings of **£0.300m** each year. This figure will need to remain flexible and act as a counterbalance to other emerging issues as it is accepted that this figure may need to be revised up or down over the life of the forecast.

It will also be important to deliver against the forecast in the early years to build confidence in the revised approach. This will, therefore, need robust input from members and officers where decisions may be required in the short term or on a cash flow basis. Although supported by one-off 'savings', the deficit for 2018/19 is below the figure initially forecasted which provides a good starting point for the remainder of the 10 year forecast.

Another aspect to the 10 year approach is the ability to 'flex' the delivery of services rather than cut services. As would be the case with our own personal finances, if we cannot afford something this year because of a change in our income, we can put it off until next year. There is a practical sense behind this approach as we could flex the delivery of a service by reducing it one year but increase it again when the forecast allows.

Building on the point above about the forecast remaining 'live', it is proposed to report an updated forecast on a regular basis. Not only will this allow adjustments to be made, it will also set out a transparent approach against which we can measure its performance to support further decision making processes. Such decisions could include reverting back to the more traditional shorter term approach if the revised approach does not achieve its objectives.

In addition to the above it is important to note that the Council has already prudently set aside money for significant risks in the forecast such as **£1.609m** (Business Rates Resilience Reserve) and **£1.100m** (Benefits Reserve). The Council also holds **£4.000m** in uncommitted reserves which supports its core financial position.

It is accepted that items such as the continuation of the £5 annual increase in council tax may not be permitted by the Government or Members may not wish to implement it locally each year, so the impact of potential deviations from the ten year forecast will need to be determined in such circumstances.

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 arrangements mean that there are lower tax bases for the district council, major preceptors and town and parish councils.

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

Under Section 25 of the Local Government Act 2003, the Chief Finance Officer (S151 Officer) must report to Council as part of the budget process on the robustness of estimates and adequacy of reserves. The proposed approach can deliver this requirement if actively managed and will be an issue that remains 'live' over the course of the forecast period and will be revisited in future reports to members as the budget develops.

In respect of special expenses that form part of the budget setting process, expenditure is classed as a Special Expense if it satisfies the requirements of the Local Government Finance Act 1992, Section 35. The only category relevant to this Council is contained within Section 35(2)(d) relating to concurrent functions with Parish and Town Councils. Under the Local Government Finance Act 1992, the Council must identify as its Special Expense, proposed expenditure on those functions which the Council performs in part of the district but which Parish or Town Councils perform elsewhere in the District. If, in the Council's view, a special expense should properly be charged over the whole of the district's area, the Council may pass an express resolution to this effect (known as a **contrary resolution**).

In order for expenditure to be a Special Expense, there are two conditions that must be fulfilled:

1. Expenditure is estimated to be incurred by the District Council in the whole or part of its area on the provision of a function;
2. Expenditure on the provision of the same function is to be incurred by at least one parish/town council elsewhere in the district.

The proposals set out in this report are in accordance with the Council's budget and policy framework.

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.

These implications have no impact on the budget itself. However, they are taken account of in the delivery of individual services and projects.

Special expenses are based on the principle of ensuring there is equality across the district in levying Council Tax to residents based on services and facilities provided by Town and Parish Councils in specific areas that are also provided by the District Council.

PART 3 – SUPPORTING INFORMATION

2018/19 BUDGET PROPOSALS

On 19 January 2018 Cabinet considered the following report:-

A.3 LATEST FINANCIAL FORECAST / FINAL BUDGET PROPOSALS 2018/19

It was resolved that Cabinet approves (minute 133 refers):

(a) the latest financial forecast, as set out in Appendix A to item A.3 of the Report of the Finance and Corporate Resources Portfolio Holder;

(b) that if the financial position changes prior to Council considering the budget on 6 February 2018, the Corporate Director (Corporate Services), in consultation with the Finance and Corporate Resources Portfolio Holder, be authorised to adjust the forecast / budget, including the use of Reserves;

(c) that in consultation with the Leader of the Council and the Finance and Corporate Resources Portfolio Holder, the Corporate Director (Corporate Services) be authorised to report directly to Council in respect of the formal draft resolutions necessary to implement the Cabinet's budget proposals along with any late information or notifications received from Department for Communities and Local Government etc. as may necessarily affect the budget;

(d) that the Corporate Management Committee be thanked for the work it has undertaken and continues to undertake in supporting the development of the forecast / budget and approves the comments of the Finance and Corporate Resources Portfolio Holder in response to those of the Committee as set out in the report;

(e) that all future expenditure in 2017/18 be in line with the proposed revised budget 2017/18 set out in the Appendices to the aforementioned, subject to final approval by Council on 6 February 2018, and that the corporate financial system be amended accordingly to reflect these changes along with any amendments arising from any revisions to the code of practice relating to the presentation of the Council's Annual Statement of Accounts; and

(f) that, in respect of the Treasury Strategy 2018/19, the Portfolio Holder for Finance and Corporate Resources be authorised to approve the Strategy for consultation with the Corporate Management Committee.

RECOMMENDED TO COUNCIL that, following the consideration of the comments from the Corporate Management Committee, the following final budget proposals be made (based on a £5 increase in a Band D Council Tax for district services):-

i) that the detailed budgets, as per Appendix B to item A.3 of the Report of the Finance and Corporate Resources Portfolio Holder, be approved which provide for a Council Tax Requirement for 2018/19 of £7.602m (£7.229m for 2017/18) (excluding parish precepts);

ii) that the Council agrees and formally approves:

a) the specific recommendations, calculations and other matters in respect of the Council's requirements (Appendix D to the above report); and

b) the Council Tax for this Council's services (Appendix G to the aforesaid report).

CHANGES SUBSEQUENT TO THE CABINET'S PROPOSALS OF 19 JANUARY 2018

There have been no changes made to the forecast / budget that was considered by Cabinet on 19 January 2018.

At the time this report was printed, the final grant settlement from the Government had yet to be received. It is acknowledged that the Council may still receive notification of amended / additional grants from the Government or other funding bodies. A recommendation is set out above that provides a delegation to include such amounts in the budget as necessary.

GENERAL FUND BUDGET SUMMARIES

The revenue budget and capital programme are summarised below. In respect of the revenue budget, this is based on a Band D Council Tax increase of £5 (3.17%) for this Council's services in 2018/19.

Table 1 – General Fund Revenue Budget - 2017/18 Revised and 2018/19 Original

	2017/18 Original £m	2017/18 Revised* £m	2018/19 Original £m
Net Cost of Services	16.131	23.636	17.303
Revenue support for capital investment	1.940	8.337	0.100
Financing items	0.489	(0.787)	(4.632)
Net Expenditure	18.560	31.186	12.771
Net Use of Earmarked Reserves	(4.864)	(17.699)	1.131
Total Net Budget	13.696	13.487	13.902
Business Rates (<i>excl. S31 Govt. Grant funding</i>)	(4.599)	(4.390)	(4.578)
Revenue Support Grant	(1.650)	(1.650)	(1.070)
Collection Fund (Surplus) / Deficit	(0.218)	(0.218)	(0.652)
Council Tax Requirement (for Tendring District Council)	7.229	7.229	7.602
Parish Precepts	1.600	1.600	1.697
Council Tax Requirement (as per Requisite Calculations)	8.829	8.829	9.299

*The increase between the original budget 2017/18 and the revised budget 2017/18 is primarily due to carryforwards from 2016/17.

Table 2 – General Fund Capital Programme - 2017/18 Revised and 2018/19 Original

	2017/18 Original Budget £m	2017/18 Revised Budget £m	2018/19 Original Budget £m
EXPENDITURE	2.730	18.523	0.857
FINANCING			
External Contributions	0	0.340	0
S106	0	0.087	0
Government Grants	0.690	8.029	0.690
Capital Receipts	0.100	1.730	0.067
Direct Revenue Contributions	0.360	3.773	0.100
Earmarked Reserves	1.580	4.564	0
Total Financing	2.730	18.523	0.857

ROBUSTNESS OF THE ESTIMATES AND ADEQUACY OF RESERVES

The report ***Latest Financial Forecast / Final Budget Proposals 2018/19*** considered by Cabinet on 19 January 2018 set out the Chief Finance Officer's (S151 Officer) report on the Robustness of the Estimates and the Adequacy of the Reserves as required by section 25 of the Local Government Act 2003. The relevant extract from the report is attached at **Appendix I**. Taking into account all the relevant issues the estimates can be considered as robust and are supported by adequate reserves.

The formulation of the budget for 2018/19 is set against the context of the longer term forecast. The initial forecast presented to Cabinet in September 2017 set out the following expected annual position for each remaining year of the forecast:

Year	Net Budget Position (including adjusting for prior use of reserves to balance the budget)
2019/20	£0.650m (Deficit)
2020/21	£0.857m (Deficit)
2021/22	£0.652m (Deficit)
2022/23	£0.441m (Deficit)
2023/24	£0.225m (Deficit)
2024/25	£0.004m (Deficit)
2025/26	£0.223m (Surplus)
2026/27	£0.454m (Surplus)

The deficit for 2018/19 is lower than originally expected which will have a favourable knock-on benefit to the position in future years. As set out in **Appendix A**, many lines of the forecast for 2018/19 were equal to or more favourable than expected, with the one significant exception being the increase in salary costs. The forecast will be updated to take account of the various changes for presenting to members as soon as possible in 2018. As part of the introduction of the new long term approach to the forecast, it was acknowledged that the 'safety valve' would be the annual savings target. The long term forecast currently reflects annual savings required of **£0.300m** for each year of the forecast, which may have to be revised up based on the various changes in 2018/19.

BACKGROUND PAPERS FOR THE DECISION

Working papers held in accountancy

APPENDICES

Appendix A	Latest Financial Forecast 2018/19
Appendix B	Budget Book 2018/19 including detailed estimates, fees and charges, capital programme and reserves
Appendix C	Special Expenses 2018/19
Appendix D	Required Budget Calculations 2018/19
Appendix E	Calculation of District and Parish / Town Council Taxes for All Areas 2018/19

Appendix F	Precepts on the Collection Fund 2018/19
Appendix G	District and Parish/Town Council Tax Amounts 2018/19. (excludes Council Tax amounts for County, Fire and Police services 2018/19 which will form part of the final Council Tax setting process via the Council Tax Committee)
Appendix H	Calculation of Estimated Surplus on the Collection Fund for 2018/19
Appendix I	Extract from Cabinet report 19 January 2018 setting out the Chief Finance Officer's (S151 Officer) report on the Robustness of the Estimates and the Adequacy of the Reserves