

Management Committee

6 February 2018

Budget Report

For Recommendation To Council

Portfolio Holder(s)/ Briefholder

Cllr J Cant – Finance and Assets

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Statutory Authority

Local Government Acts 1972,1988, 1992 and 2003

Purpose of Report

- 1 To set out the revenue and capital budget proposals for the 2018/19 financial year including the level of council tax and reserves. To outline the Medium Term Financial Forecast for future years.

Recommendations

- 2 That the Committee recommends to Council the following:-
 - a. That the proposals for balancing the 2018/19 revenue budget set out in Appendix 1 are approved
 - b. That the 2018/19 Capital Programme in Appendix 2 is approved
 - c. That the formal resolutions in respect of the 2018/19 Budget and Council Tax including details of the council tax levels for Dorset County Council, Dorset Police & Crime Commissioner and Fire & Rescue Authority and Portland Town Council are included in the Budget Report to the 22 February Council meeting

Decade of Change in funding and financing

- 3 The financial challenges facing the public sector since the credit crunch are well documented and the austerity measures have seen significantly reduced resources for Councils with District and Boroughs the most significantly affected.
- 4 Although the financial environment is challenging the Council has a very good track record of balancing its budget. The partnership between the 3 Councils has enabled significant savings to be achieved and this has

enabled frontline services to be protected. Comparing staffing levels in 2010 of the 3 separate Councils to the present Dorset Councils Partnership Senior Management posts have reduced from 76 to 17. This is a reduction of 59 posts or 78%. Overall the total workforce (including Senior Management) has reduced from 730 to 514. This is a reduction of 216 fte's or 30%.

- 5 The table below is a summary of the overall financial impacts upon the councils funding as reported to the Committee in the Autumn of 2017. The table below shows the budget gap each year that has been or needs to be closed by either increasing income or reducing expenditure.

Year	NDDC £'000s	WDDC £'000s	WPBC £'000s	Total £'000s
2010/11	124	1,320	1,109	2,553
2011/12	195	2,950	2,321	5,466
2012/13	600	4,116	3,148	7,864
2013/14	1,005	5,337	5,413	11,755
2014/15	1,465	5,887	6,313	13,665
2015/16	1,824	6,787	7,063	15,674
2016/17	2,516	7,739	7,592	17,847
2017/18	3,406	9,610	8,790	21,806
2018/19	4,499	10,310	9,687	24,496
2019/20	5,278	10,996	10,693	26,967

- 6 The decade has also seen significant changes in how Councils are funded. This has seen the introduction of New Homes Bonus Schemes in 2011 and its subsequent amendment with the result that it is less generous with funding being reduced from 6 to 4 years and the introduction of a deadweight in order to 'shift' funding from Districts and Boroughs to adults social care. The main source of funding for councils has traditionally been Revenue Support Grant and this has been significantly reduced across the decade with it ultimately being phased out. There has been the changes in funding have also seen the return of Business Rates funding through the 50% business rates retention scheme. However, with the Government still controlling the multiplier and the Valuation Office setting the values, the funding the Council actually receives is significantly less than it collects.

Budget Strategy

- 7 In developing the 2018/19 budget proposals the financial strategy has been based upon protecting services and there being no new reductions to any service, delivering further efficiencies by challenging how we do things and doing them in different ways whilst recognising the potential of Local Government Reorganisation which could mean that the 2018/19 budget is the last budget for the Council.
- 8 The strategy is based upon producing a balance budget for the year. This means that 2018/19 budget proposals do not contain any 'savings to be identified' and do not use any once off sources of funding to support on-going expenditure.

Budget Changes

9 Following on from the Comprehensive Spending Review (CSR2015) announced by the Chancellor on 25 November 2015, the Council received the details of its funding for the next 4 years. Having details of the likely funding for the next 4 years was very welcome as it makes financial planning considerably easier. However the reductions in funding are significantly quicker and larger than anybody was expecting.

10 On 19 December 2017, the Secretary of State for the Department for Communities and Local Government, Rt. Hon. Sajid Javid MP, made a statement to Parliament on the provisional local government finance settlement 2018/19. As the Council had accepted the 4 year settlements the figures announced were in line with expectations. At the time of writing this report the final settlement details have not been published but are expected sometime in February.

Revenue Support Grant

11 The finance settlement shows that the Revenue Support Grant (RSG) was reduced to £743,000 for 2016/17 and further reduced down to £203,000 for 2017/18. There is no RSG in 2018/19 or 2019/20. In addition the government has also taken into account the Council's ability to increase council tax and calculated a 'negative' RSG payment of £487,000 in 2019/20. As it is not possible for there to be 'negative' RSG, the Council will have to pay the government this funding through a 'tariff adjustment'

Business Rates

12 The current system of providing funding to the Council through some of the Business Rates that they collect came into effect in 2013/14. The government still sets the pence in the pound national multiplier and the Valuation Office still determine the rateable value. The government assessed how much Business Rates would be collected in the District and set up a system for the funding to be split between the government, the Council, Dorset County Council and the Fire Authority. The idea behind the scheme is to incentivise the Council to 'grow' the amount of business rates in its area and that it would be able to keep 50% of this additional income. There is also a 'safety net' mechanism to ensure a minimum funding level for councils and the 2018/19 budget has been set at this level.

New Homes Bonus

13 The New Homes Bonus (NHB) scheme commenced in April 2011. Up until 2016/17, the amount of NHB that each authority received was dependent on two elements:

- a. The council tax band of each additional property built, multiplied by the national average council tax level from the preceding year
- b. A payment for each affordable home.

14 The scheme originally made payments for six years. This meant that an authority received its 2011/12 allocation each year between 2011/12 and 2016/17. In December 2016 the government made significant changes to the New Homes Bonus Scheme, which are reflected in the 2018/19 allocations. A list of the changes made/planned are as follows:

- A move to 5-year payments for both existing and future NHB allocations in 2017/18 and then to 4 years from 2018/19.
- The introduction of a national baseline of 0.4%, for 2017/18, below which allocations will not be made.
- The government will also retain the option of making adjustments to the baseline in future years to reflect significant and unexpected housing growth.
- The allocations will continue to be a un-ring-fenced grant.

15 The impact of changes to the New Homes Bonus scheme mean a reduction of £400,000 in 2018/19, and further reductions of £171,000 in 2019/20 and £126,000 in 2020/21.

Rural funding

16 As part of the finance settlement the government recognised that providing services in rural areas is more expensive than urban areas and proved additional funding for rural authorities. However the Council does not receive any funding for this.

Staffing

17 As part of the national pay bargaining a general 2% offer for staff pay with some bottom loading has been made to the trade unions. Although this has not been agreed yet the budget assumptions are based upon this. Dorset County Council administers pensions on behalf of all the councils in Dorset and the pensions fund is reviewed every 3 years. As a result of the review, employer pension's costs remain at 15.3%.

Inflation

18 A general allowance of 1% has been allowed for general inflation and where the council has contracts in place which set out inflationary increases these have been built into the budget. The total cost of inflation is estimated to be £130,000 for 2018/19.

Revenue Budget Proposals

Budget Gap & Financial Forecast

19 All of the changes to the budget are summarised in Appendix 1 which also sets out the financial forecast until 2020/21. It shows that the budget gap for 2018/19 is £945,000 before any action is taken, with further gaps of £890,000 in 2019/20 and £411,000 in 2020/21.

Council Tax

20 As the billing authority the Council is responsible for sending out the bills and collecting council tax on behalf of the County Council, Police & Crime Commissioner, Fire Authority and for any Town/Parish Council. Each of these bodies is responsible for setting their own level of council tax.

21 As part of the 4 year finance settlement the Government has for the first time taken into account the Council's ability to raise funding through

council tax. It has assumed that Council increase their council tax over the 4 years of the finance settlement.

- 22 Although council tax is determined by the Council the government limits the amount of any increase to below 2% or £5 per year, whichever is the greater and if the Council wanted to increase the council tax by more than this then it is required to undertake a public referendum. As part of the provisional finance settlement the Minister has announced an increase to the referendum limit for Council Tax from 2% to 3% or £5 (whichever is the greater).
- 23 Town and Parish councils have not been subject to the referendum limit previously and will not be subject to it as a group for three years.
- 24 The budget proposals for 2018/19 assume an increase in number of Band D equivalent properties of 1.3% which generates £82,000 additional income. The proposal is to increase council tax by 2% for the year which is below the Government policy of 3% and this generates an additional £124,000.

Savings & Increased Income

- 25 The council has been very effective in managing its finances over the longer term and putting in place the Stronger Together Transformation Programme to address the reduction in resources. This programme has already successfully delivered significant savings and a further £364,000 can be built into 2018/19.
- 26 The Base Budget Review exercise helps to identify efficiencies achieved through new ways of working and improved procurements. These are reductions that do not have any impact upon service delivery.
- 27 Additional income of £30,000 from the Crematorium can also be built in.
- 28 As members will be aware from the various Treasury Management Forums there has been considerable work on how the Council manages its investments. The work done in this area means that a further £150,000 can be included in the 2018/19 budget proposals.

Summary

- 29 All of the above changes to the Revenue Budget are summarised in Appendix 1. This shows the estimated budget gap for the next 3 years together with actions taken to balance the budget. It shows that the budget gap for 2018/19 was £945,000 and how this has been balanced through savings already agreed, the base budget review, further increases to Treasury Management Income and increasing the council tax by 2%.

Capital

- 30 The Council has a very modest capital programme which is set out in Appendix 2. These are the same schemes as the current year's programme with some adjustments to timings.

Reserves

- 31 The Council holds reserves which are funding that has been set aside for a particular purpose. In effect they are the Council's equivalent of savings accounts but it should be remembered that they are once off sources of funding and when they have been spent they are gone.
- 32 General Reserves are funding that is set aside to cover unforeseen circumstances. There is a legal duty for the Chief Finance Officer (Section 151 Officer) to provide members with assurance that the level of reserves are adequate. In order to help provide this assurance, a risk based assessment of the minimum amount of general reserves is undertaken and has been set at £1,205,700.
- 33 The other type of reserves are called Earmarked Reserves which are funds that the Council has set aside for a particular purpose. Details of these are set out in Appendix 3

Future Years

- 34 The actions that have been taken over the last couple of years have significantly improved the longer term financial outlook for the Council. The budget gap for 2019/20 is estimated to be £890,000 with over half of this being due to negative Revenue Support Grant which is now subject to a review (£487,000) and the changes in the New Homes Bonus funding being £171,000. The figures for 2020/21 estimate the budget gap to be £411,000 with the reduction in New Homes bonus making up £126,000 of this.
- 35 There is further significant changes to council funding going forward. The government has published the consultation paper "Fair funding review: a review of relative needs and resources", a technical consultation on relative need. The Minister stated that the result of the review will be introduced in 2020/21. The Minister also confirmed that there will be a business rates baseline reset in 2020/21 and, from 2020/21, business rates retention will be at 75% (with existing grants, including RSG and Public Health Grant incorporated into business rates retention). A consultation will also take place in Spring 2018 regarding the current £153m in negative Revenue Support Grant (RSG) that remains in the 2019/20 funding allocations.

Section 151 Officer

- 36 As the legally appointed Chief Finance Officer (Section 151 Officer) I have a legal duty to the Council to ensure that the budget proposals are robust and that there is a balanced budget for 2018/19.
- 37 In order to set an accurate and robust budget the Council has a number of underlying processes in place which are part of the overall financial management framework. They include:-
- Financial Forecast – A robust medium term financial forecast covering 3 years is produced. This is built up from known information, estimates and assumptions based upon the latest knowledge and best practice.

The Medium Term Financial Forecast is regularly updated and the assumption are regularly reviewed.

- Budget monitoring – The Council has a comprehensive approach to monitoring of income and spending during the financial year. The finance system produces monthly reports for budget holders which includes full commitment accounting. There is quarterly reporting to the members through the Business Review report which requires the budget holder to provide a comment on any variance and the actions being taken to address them. The Business Review report not only covers financial information but also risk and service performance information in order to provide the complete picture of a service in one place. Through the budget monitoring process any variances that have an on-going impact upon future year's budgets are identified.
- Savings / Increased Income – when setting the budget it is important that assumptions about savings or increased income are realistic and deliverable. The Councils has a proven track record of delivering savings / increased income ahead of time. The assumptions in the budget are based upon clear plans which means that when setting the budget there is no lines within the budget that say 'savings to be identified'.

38 Based upon the above sound systems of financial management I am able to provide a positive assurance statement that the current proposed budget for 2018/19 is a balanced budget and also that the level of reserves are at an adequate level based upon the current proposals.

Implications

Corporate Plan

39 None directly from this report

Financial

40 As set out in the report

Equalities

41 None directly from this report

Environmental

42 None directly from this report

Economic Development

43 None directly from this report

Risk Management (including Health & Safety)

44 The financial forecasts are built up using a risk based approach and assumptions. The Council has reserves set aside to cover any unforeseen circumstances and these are in excess of the risk based level.

Human Resources

45 None directly from this report

Consultation and Engagement

- 46 There are a number of member, budget holder and staff briefings on the budget.

Appendices

- 47 Appendix 1 – High Level Summary of the Medium Term Financial Forecast
Appendix 2 – Capital Programme
Appendix 3 – Reserves

Background Papers

- 48 Member Briefing to all Councillors on 6 September 2017, report to Overview & Scrutiny Committee and report to Joint Scrutiny.

Footnote

- 49 Issues relating to financial, environmental, economic and equalities implications have been considered and any information relevant to the decision is included within the report.

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