

# Financial Policy Panel

## 26 June 2018

### Financial Planning 2019/20

<b>Head of Service/Contact:</b>	Lee Duffy, Chief Finance Officer
<b>Urgent Decision?(yes/no)</b>	No
<b>If yes, reason urgent decision required:</b>	N/A
<b>Annexes/Appendices (attached):</b>	<b>Annex 1:</b> Key Components of the MTFS <b>Annex 2:</b> Four Year Efficiency Plan 2016-20 <b>Annex 3:</b> Budget Planning timetable 2019/20
<b>Other available papers (not attached):</b>	Four Year Financial plan 2016-2020 Budget Book 2018/19 Final Outturn Reports 2017/18

### Report summary

This report seeks guidance on the approach to be used in preparing the budget for 2019/20.

### Recommendation (s)

That the Panel:

- (1) Confirms the approach to be taken in formulating the 2019/20 budget as set out in this report;
- (2) Provides guidance on the revised four-year Financial Plan;
- (3) Confirms the budget reporting timetable in Annex 3.
- (4) Notes MCHLG's updated Statutory Guidance on Local Government Investments, as set out from paragraph 8.2.

### 1 Implications for the Council's Key Priorities, Service Plans and Sustainable Community Strategy

- 1.1 The Council agreed the Financial Plan 2016-20 at the February 2016 budget meeting.
- 1.2 The Strategy and Resources Committee agreed a Corporate Plan which included a key priority 'Managing Resources' in April 2016.

# Financial Policy Panel

26 June 2018

## 2 Background

- 2.1 The Medium Term Financial Strategy (MTFS) aims to maintain the financial health of the Council whilst delivering the priorities in the Corporate Plan. This report considers the steps needed to achieve balanced budgets during the term of the financial strategy.
- 2.2 The MTFS will be used to provide a framework for the annual budget review. The key components of the MTFS are set out in **Annex 1**.

## 3 Financial Projections

- 3.1 The current Financial Forecast submitted to Council in February 2018 anticipates the need for savings of £0.5 million in 2019/20 in order to achieve a balanced budget with no use of general reserves. The assumptions used in preparing the forecast are stated in the Council report. As with any financial forecast, there is scope for the position to be better or worse than anticipated.
- 3.2 The financial projections will be updated as the impact of new regulation and funding changes become clearer. It is, however, anticipated that the focus of the budget review will be on the delivery of budget savings, either through cost reduction or income generation.

## 4 Current Budget Position

- 4.1 The Council is in the process of closing last year's accounts. The position as at the end of 2017/18 is that the revenue working balance will slightly increase by £14,000 and remains at approximately £3.3 million, as per the provisional revenue outturn report circulated via Members Update on 01 June.
- 4.2 The final, audited expenditure figures for 2017/18 will be reported to Strategy and Resources Committee at the end of July and underspends on some budgets may provide opportunities to identify on-going savings.
- 4.3 There is no planned use of the working balance in 2018/19 although £500,000 of New Homes Bonus is being used to help fund general fund services. However the current Financial Plan shows that the level of funding from New Homes Bonus available to support the general fund is expected to reduce significantly in 2019/20.
- 4.4 Based on the provisional outturn figures for last year, the highest risk to the 2018/19 budget appears to be maintaining anticipated levels of income for areas such as planning and in the cemetery, a further risk is any unbudgeted reductions to external funding.

# Financial Policy Panel

## 26 June 2018

### 5 Budget Forecast 2019/20

5.1 The following forecast for 2019/20 has been extracted from the Four Year Financial Plan included within the Budget and Council Tax report (February 2018):-

	<b>2019/20 Forecast £000</b>	<b>2018/19 Budget £000</b>
<b>Net Cost of Service b/f (excluding use of New Homes Bonus, interest on balances)</b>	8,403	
Pay & Prices Increases - Prices	+ 190	
Pay & Price increases – Pay	+ 260	
Contingency for Service Changes and Pressures	+ 370	
IT expenditure transferred from capital	+100	
Reduction in corporate contingencies	-25	
Removal of provision for events in Borough	-10	
Increase in provision for property maintenance	+50	
Impact of latest benefit reforms	+100	
Changes to external funding	+155	
Increases in Fees & Charges	- 200	
Net change in contributions form reserves/provisions	- 475	
Annual Savings Target	-461	
<b>Forecast Net Cost of Services</b>	<b>8,087</b>	<b>8,403</b>
Interest on Balances	-150	-120
Use of New Homes Bonus	-473	-500
Transfer to / from Working Balance	0	0
<b>Forecast Net Expenditure</b>	<b>7,464</b>	<b>7,783</b>
Business Rates Forecast	1,563	1,532
Negative RSG	-625	0
Council Tax Income Forecast	6,526	6,290
Collection Fund Deficit	0	-39
<b>External Funding</b>	<b>7,464</b>	<b>7,783</b>

# Financial Policy Panel

26 June 2018

- 5.2 The annual savings target for 2019/20 of £461,000 included within the Financial Plan and shown in **Annexe 2** comprises of £406,000 which has been agreed in principle by the individual service committees and £55,000 still to be identified.

- 5.3 A breakdown of the £406,000 is as follows:

	£'000	Committee
Review of operation of parks	77	C&W
Introduce vending in parks	5	C&W
Operational efficiencies and income generation	324	All
<b>Total Identified Savings</b>	<b>406</b>	

- 5.4 The following table shows the main assumptions that were used in preparing the forecast for 2019/20 in the Financial Plan:-

ASSUMPTIONS USED	BASE £000	2019/20 Forecast
General Inflation - prices	9,500	+ 2.0%
Pay bill growth	11,000	+ 2.4%
Fees & Charges allowance: annual increased yield on discretionary charges	- 6,600	+ 3.0%
Interest rate used (average return on investments)		1.00%
Reduction in Core Government Funding / Retained Business Rates / Negative RSG	- 594	- 38%
Increase in Council Tax Base (Band D equivalent properties)	32,658 (properties)	+ 0.75%
Increase in Council Tax income	- 6,337	3% Per annum

## 6 Retained Business Rates

### Business Rates Pilot

- 6.1 The Financial Forecast does not reflect the additional income the Council is expecting to receive as a result of being part of an approved Pilot. The financial benefits for this Council will become clearer later on in the year when the performance of the Pool will be known.

- 6.2 The Council agreed to be part of the Pilot on the understanding that there would be a guaranteed financial gain for this authority of at least £0.5 million in excess of what would be received under the old method for redistribution of business rate income.

# Financial Policy Panel

26 June 2018

- 6.3 The Council agreed to set up a Business Rate Equalisation Reserve in 2013/14 to help manage the fluctuations in business rates retained under the new arrangements.
- 6.4 The reserve has been increased significantly in 2017/18, this has occurred due to a decision being made to increase in the provision for appeals to cover a significant potential claim. If the claim is successful the reserve will be used to cover the loss of the Council's share of business rate income. However, if the claim is unsuccessful the fund and the Council will benefit significantly.
- 6.5 The large deficit was generated as a result of an increase in the fund's provision for appeals to cover a significant potential claim.

<b>Business Rate Equalisation Reserve Forecast</b>	<b>£000</b>
<b>Balance 31 March 2018</b>	<b>2,245</b>
Planned use to partially offset 2017/18 deficit	-65
<b>Forecast balance 31 March 2019</b>	<b>2,180</b>
Planned use to partially offset Prior Year Deficit	-1,995
<b>Forecast balance 31 March 2020</b>	<b>185</b>

## 7 New Homes Bonus

- 7.1 Further significant reductions in funding available from New Homes Bonus are expected for 2019/20 when projections show that there will be insufficient New Homes Bonus available to fund services of £500,000 per annum as agreed under the protocol.
- 7.2 The grant is expected to reduce to £472,000 in 2019/20 and fall further to £364,000 in 2020/21.

## 8 EEPIC (Property Investment Company)

- 8.1 The Council agreed to set up an investment property company towards the end of 2017, since its inception the Company has acquired 2 properties which, after deducting interest payments and contributions to reserves, will provide an overall benefit to the Council's general fund in 2019/20 of around £700,000. This funding is included in the base budget.
- 8.2 From 01 April 2018, new Statutory Guidance on Local Government Investments was introduced by MHCLG. The guidance aims to restrict the ability of Local Authorities to purchase out-of-Borough investment properties, through the following clause 46:  
*"Authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed".*
- 8.3 *"Authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed".*

# Financial Policy Panel

26 June 2018

- 8.4 The operation of the new guidance means that out of Borough acquisitions, funded by borrowing and where the intention is purely to profit from the investment, may not meet the requirements of the guidance in terms of borrowing. As such, it would be viewed as high risk. However, there could be out of Borough investments which would be acceptable if, for example, the property were close to the Council's boundary (and the purpose for the investment was not for profit) or if the proceeds from the investment were earmarked for a specific local project (rather than to fund a general budget gap).
- 8.5 The operation of the new guidance has not been tested in the courts as yet. Officers will consider whether it may be prudent to delay any further out-of-Borough investment property purchases until further guidance or case law comes to light, that would clarify a Council's ability to invest out-of-Borough.
- 8.6 The new guidance does not impact on the two out-of-Borough purchases already made through EEPIC in 2017, since they occurred before the new guidance took effect this financial year.
- 8.7 For in-Borough investment property acquisitions that are funded by borrowing, these are considered within a Council's powers, provided the purpose of the was not to generate a profit, for example to regenerate the local area or to safeguard jobs in the locality.

## 9 Negative Revenue Support Grant

- 9.1 Government announced late last year that they would undertake a review in Spring 2018 of the funding settlement for councils that are expected to make payments to Central Government in the fourth year (2019//20) of the four year settlement.
- 9.2 The announcement made by the Communities secretary in December stated that they will be looking at fair and affordable options for dealing with negative RSG and will formally consult in the spring.
- 9.3 This Council is expected under the settlement to make a payment of £625,000 in 2019/20 and at the time of writing this report no further information on any potential changes have been announced by MHCLG.

## 10 Service and Financial Planning

- 10.1 It is anticipated that further savings of £55,000 (see paragraph 5.2) should be achievable to address the gap and the areas that officers expect these to come from are:

# Financial Policy Panel

## 26 June 2018

- 10.1.1 Efficiency Savings – Officers will continue to look at how services are delivered to maximise efficiency and the use of IT.
- 10.1.2 A base review, this entails reviewing the year end position for 2017/18, identifying any potential savings, additional cost pressures and areas where savings can be developed.
- 10.1.3 Property Related – to realise cost reduction of Council operational buildings, increase income from investment properties and generate new receipts from surplus buildings/land.
- 10.1.4 Income Generation Review – to include analysis of charging powers and service utilisation and identify options for income generation.

## 11 2019/20 Budget Timetable

- 11.1 The proposed revenue reporting timetable is contained at **Annexe 3**.
- 11.2 The timetable reflects the normal budget review process and will need amending if a more comprehensive corporate service review is required.
- 11.3 Prior to the Budget Targets being set by Strategy and Resources Committee in September the Chief Finance Officer will update the four year financial forecast based on the current level of service provision.
- 11.4 The following review of resources will be carried out by September to assist financial planning for 2019/20:-
  - Any changes to external funding;
  - A revised forecast on business rate income under the business rate retention scheme;
  - A forecast of council tax income;
  - The Council's financial standing following close of accounts including a review of reserves and provisions
  - A summary of income from fees and charges across all council services
  - A base review of the year end position for 2017/18, to identify any potential savings, additional cost pressures and areas where savings can be developed.

## 12 Financial and Manpower Implications

- 12.1 The financial outlook for 2019/20 was contained in the Four Year Financial Plan 2016-2020 and is summarised in this report.

# Financial Policy Panel

## 26 June 2018

- 12.2 It is inevitable that pressure will remain on all areas of expenditure, including the staff budget. The efficiency programme is based on a rolling programme of cost review and may be realisable through natural turnover and without compulsory redundancy, dependent upon the actual level of external funding available to the Council.
- 12.3 The staffing impact of any service changes will need to be considered where service options are put forward for consideration.
- 12.4 The Council has adequate resources to carry out a budget review supporting the delivery of the cost reduction plan. Should the Council require a more comprehensive review of services additional resources and expertise may be required.

### **13 Legal Implications (including implications for matters relating to equality)**

- 13.1 The legal implication are contained within the body of the report.
- 13.2 ***Monitoring Officer's comments:*** *None arising from the report itself. The vires of future property purchases will be considered at the time of any potential opportunity.*

### **14 Risk Assessment**

- 14.1 A high level of risk to Council finances has arisen from the resultant public sector spending cuts. The main risks for next year are set out in the 2018/19 budget report.
- 14.2 The longer term financial risks are contained in the Four Year Financial Plan 2016-2020.

### **15 Conclusion and Recommendations**

- 15.1 The Council has agreed financial targets to achieve a balanced budget in 2019/20. After year-on-year of funding cuts the Council has become more adept at managing on reduced financial support from Central Government however the financial challenges have not diminished.
- 15.2 Projections for 2019/20 indicate that £461,000 of savings will be required to achieve a balanced budget for next year, with £406,000 of these savings already identified it leaves £55,000 still to be found.
- 15.3 The four year budget forecast will be updated in September 2018 and the Panel will receive a full update on the Council's finances, including revenue and capital reserves and provisions.
- 15.4 It is recommended that cost reduction through efficiencies, income generation and service expenditure reviews are used as the main tools to achieve a balanced budget in 2019/20.

## Financial Policy Panel

26 June 2018

- 15.5 It is also recommended that any gain from the Business Rate pilot scheme is earmarked to smooth out the impact of reductions in funding from Government from 'negative RSG' and diminishing New Homes Bonus grant.

**Ward(s) affected:** (All Wards);