

## MID SUFFOLK DISTRICT COUNCIL

<b>TO:</b> Cabinet	<b>REPORT NUMBER:</b> <b>MCa/18/60</b>
<b>FROM:</b> Councillor John Whitehead, Cabinet Member for Finance	<b>DATE OF MEETING:</b> 4 February 2019
<b>OFFICER:</b> Katherine Steel, Assistant Director, Corporate Resources Melissa Evans, Corporate Manager, Finance	<b>KEY DECISION REF NO.</b> CAB98

### GENERAL FUND BUDGET 2019/20 AND FOUR YEAR OUTLOOK

#### 1. PURPOSE OF REPORT

- 1.1 The report contains details of the revenue and capital budgets and the Council's strategic financial aim. The purpose of this report is to present the General Fund Budget for 2019/20 and four year outlook.
- 1.2 To enable Cabinet Members to consider key aspects of the 2019/20 Budgets, including Council Tax and make any recommendations to feed into the final Budget report in February.

#### 2. OPTIONS CONSIDERED

- 2.1 The General Fund Budget for 2019/20 and four-year outlook is an essential element in achieving a balanced budget and sustainable medium-term position. Setting a balanced budget for the coming year is a statutory requirement, therefore no other options are appropriate in respect of this.

#### 3. RECOMMENDATIONS

- 3.1 That the General Fund Budget proposals for 2019/20 and four year outlook set out in the report be endorsed for recommendation to Council on 21 February 2019.
- 3.2 That the General Fund Budget for 2019/20 is based on an increase to Council Tax of 2%, which equates to £3.26 per annum (6p per week) for a Band D property, to support the Council's overall financial position.
- 3.3 That a further £25m be invested in CIFCO as set out in paragraph 8.20.
- 3.4 That a discretionary Care Leavers Council Tax discount of up to 100% be introduced from the 1 April 2019 as set out in section 11.

#### REASON FOR DECISION

**To bring together all the relevant information to enable Cabinet Members to review, consider and comment upon the Councils General Fund budget before recommendations to Council.**

## 4. KEY INFORMATION

### Strategic Context

- 4.1 In recent years the government policy frameworks have been reducing core funding for local government as part of its deficit reduction strategy and increasingly incentivising funding to councils to deliver local economic and housing growth and to facilitate the development of strong, safe, healthy and self-sufficient communities. This is continuing, so encouraging and supporting both business and housing growth is essential to the financial future of the Council.
- 4.2 The Fair Funding Review continues and aims to set new baseline funding allocations for local authorities by delivering an up-to-date assessment of their relative needs and resources. The Government are exploring options for developing an updated funding formula by looking at the factors that drive costs for local authorities. The outcome of these deliberations is still awaited and will be implemented from 2020/21.
- 4.3 The Council recognised the changing funding landscape, the challenges and opportunities this creates and has developed a financial strategy that responds to this challenge as set out in section 6 below.
- 4.4 On 29 October 2018, the Office for Budget Responsibility (OBR) published its review of the economic and fiscal outlook. The forecast is of a relatively stable but unspectacular trajectory for economic growth, close to 1.5% in every year, plus a gradual further decline in the budget deficit and in net debt as a share of Gross Domestic Product (GDP). This assessment was given against the background of the lack of any meaningful basis on which to predict the outcome of the negotiations over the future relationship between the UK and the EU.
- 4.5 The headline of the report was the significant improvement in the underlying pace of deficit reduction driven by stronger tax revenues and lower than expected spending on welfare and debt interest. The reduction of £11.9 billion rising to £18.1 billion by 2022/23 after taking account of projected GDP growth, would have been sufficient to achieve a budget surplus by 2023/24, meeting the Government's fiscal objective of balancing the budget by 2025.
- 4.6 Consumer Price Index (CPI) inflation rose to 2.4% in October 2018, in line with forecasts made in March 2018, following recent increases in oil prices and a further modest depreciation in sterling, meaning it is now slightly higher than the Bank of England's target of 2%.
- 4.7 Public sector net debt (PSND) had peaked as a share of GDP at 85.2% in 2016/17 and falls to 83.7% this year, 1.8% of GDP below the Spring Statement forecast. It is forecast to be 75.0% in 2022/23. Borrowing is lower in the near-term than that planned in the Spring Statement; a trend that continues in the medium-term.
- 4.8 Whilst the majority of new spending commitments in the Government's budget related to the NHS, there were some announcements that impact on Local Government.
- a) An increase in the Disabled Facilities Grant in 2018/19 by £55m to provide home aids and adaptations for disabled children and adults on low incomes.

- b) £900m in business rates relief for nearly 500,000 small businesses, by cutting business rates by a third for two years from April 2019. To qualify as a small retailer business premises must have a rateable value of £51k or less. The government will also continue the £1.5k business rates discount for office space occupied by local newspapers in 2019/20 and introduce 100% rate relief for public lavatories from April 2020. Local authorities will be fully compensated for the loss of income as a result of these business rates measures.
- c) The Housing Revenue Account (HRA) cap that controls local authority borrowing for house building was abolished from 29 October 2018 in England.
- d) An additional £500m will be available in the Housing Infrastructure Fund.
- e) £675m will be available in a new Future High Streets Fund to make high streets and town centres fit for the future. This includes £55m for heritage-based regeneration.
- f) £20m of support to tackle plastics and boost recycling. Of this £10m will pioneer innovative approaches to boosting recycling and reducing litter through the provision of smart bins.

### **Provisional Finance Settlement**

- 4.9 The Provisional Finance Settlement was announced on the 13 December 2018, whilst there is new money from Central Government, councils will still face an overall finding gap of £3.2 billion in 2019/20. The headlines are as follows;
- a) No change to the New Homes Bonus threshold of 0.4%;
  - b) An additional £16m in total has been made available through the Rural Service Delivery grant, Mid Suffolk will receive an additional £86k;
  - c) £180m surplus on the levy account will be distributed to all councils, Mid Suffolk's share of this is £34k and;
  - d) Continuation of the option for shire districts with the lowest council tax levels allowed increases in council tax of up to 3% or up to £5, whichever is higher.
- 4.10 The Provisional Finance Settlement provided Mid Suffolk with additional funding of £511k. The Baseline Business Rates increased from £1.9m to £2.2m, New Homes Bonus increased by £53k, mainly due to the affordable element of the allocation which was not originally budgeted for.
- 4.11 Table 1 below shows the Provisional Finance Settlement compared to the budget for 2019/20.

**Table 1: Provisional Finance Settlement**

	<b>Budget 2019/20</b>	<b>Provisional settlement 2019/20</b>	<b>Increase (Decrease)</b>
	<b>£,000</b>	<b>£,000</b>	<b>£,000</b>
Baseline Business Rates	1,899	2,238	339
New Homes Bonus	1,327	1,380	53
Rural Services Delivery Grant	347	433	86
Levy Account Surplus Draft Allocations	-	34	34
<b>Funding</b>	<b>3,573</b>	<b>4,085</b>	<b>511</b>

**5. HOW IS THE COUNCIL'S REVENUE BUDGET BEING SPENT IN 2018/19?**

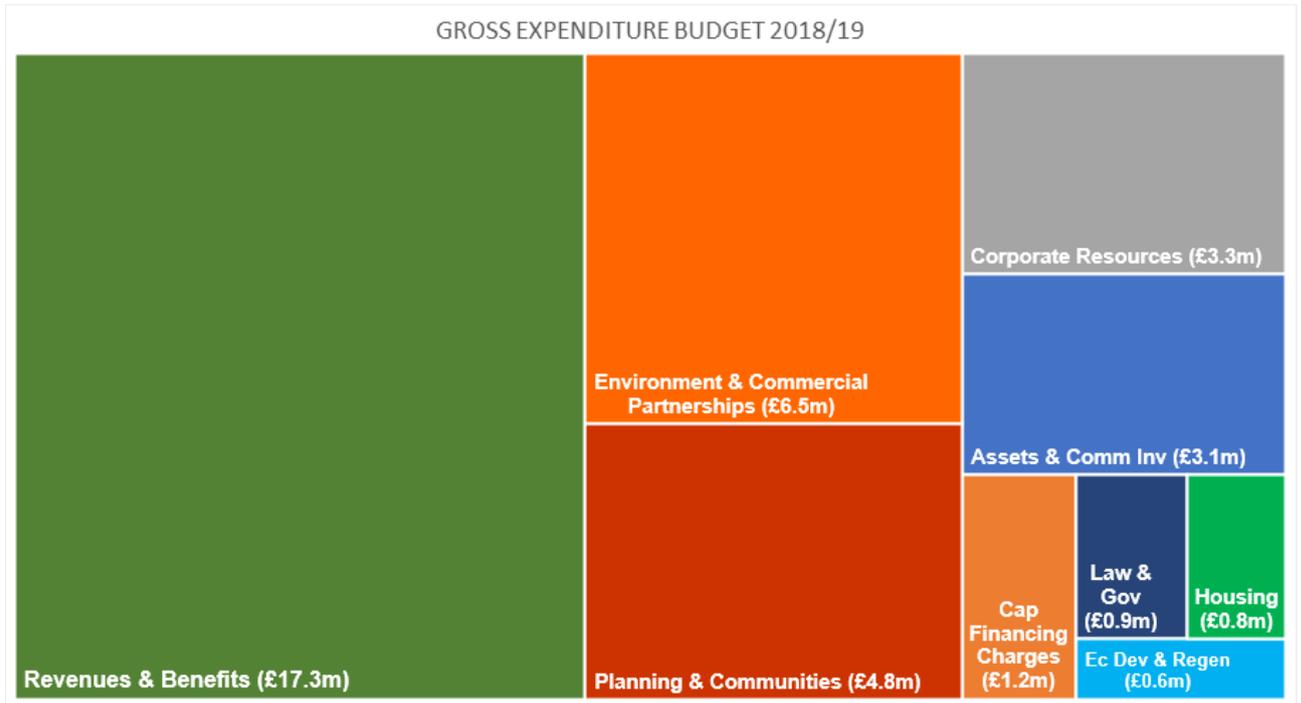
5.1 The Council's 2018/19 gross expenditure is £38.5m and income is £25.4m giving a net cost of service of £13.1m. Table 2 below shows how this is funded.

**Table 2: Revenue Budget 2018/19**

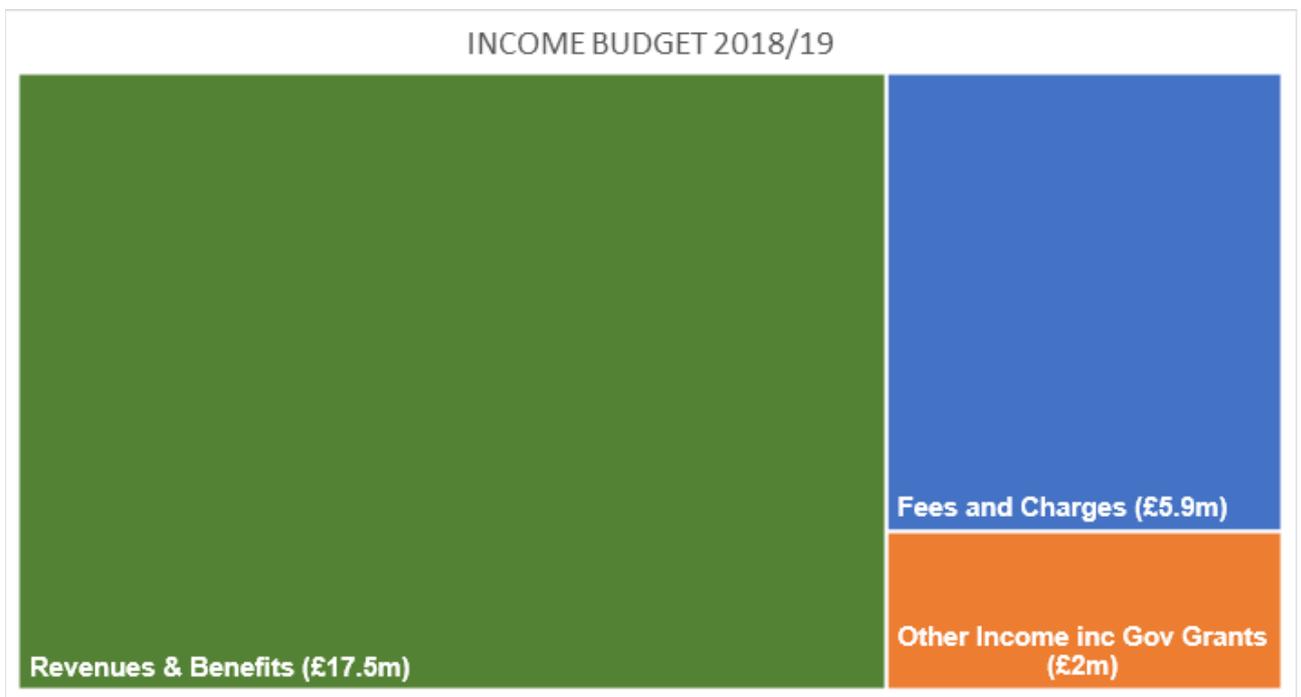
	<b>£,000</b>
<b>Gross Expenditure</b>	<b>38,477</b>
<b>Income</b>	<b>(25,417)</b>
<b>Net expenditure 2018/19</b>	<b>13,060</b>
<b>Funded by:</b>	
Earmarked Reserves	(4,106)
New Homes Bonus to balance the budget	(354)
S31 Grant	(764)
Business Rates	(2,808)
Collection Funds Deficit	887
Council Tax	(5,915)
<b>Total Funding</b>	<b>(13,060)</b>

5.2 Graph 1 below shows how the £38.5m gross expenditure is allocated across the services and Graph 2 shows the breakdown of the £25.4m income. The funding element is not shown in these graphs.

**Graph 1 Gross Expenditure by service area in 2018/19**



**Graph 2 Income in 2018/19**



- 5.3 The Revenues and Benefits element (£17m) in both the expenditure and the income charts above includes housing benefit paid out to claimants and received from Government.
- 5.4 For details of what services are within each area and a breakdown by service area of income please refer to the 2019/20 Budget Book at Appendix D.

- 5.5 The forecast position for 2018/19 reported to Cabinet in November showed a projected underspend of £1,648k. However, the main reason for this is due to one-off items such as additional S31 grants (£691k) as a result of the Business Rates pilot, beneficial interest rates on short term borrowing for CIFCO and Gateway 14 (£652k), and an increase in planning fee income (£144k).
- 5.6 The recommendation at the time was to transfer £880k to the Business Rates equalisation reserve, £773k to the Growth and Efficiency Fund, £153k to reserves for underspends in planning and waste, and £158k from reserves to fund planning appeal costs and homelessness. These forecast transfers are shown in the reserves table in 7.5 Table 3 below however, there may be further variances that occur throughout the remainder of the year. An updated position will be reported to Cabinet in March 2019 and the final outturn position in May 2019.

## **6. MEDIUM TERM FINANCIAL STRATEGY (MTFS) 2019-2023**

### **Strategic Aims**

- 6.1 In order to achieve the vision and ambition for the districts with significantly reduced government resources the Council needs to take a medium-term view of the budget through a financial strategy that is focused on meeting the corporate priorities.
- 6.2 The main strategic financial aim is to become self-financing i.e. not reliant on Government funding. There is a secondary aim to be in a position to generate more funds than are required for core services, to enable additional investment in the districts.
- 6.3 There are 3 key elements that need to be carefully balanced to ensure success. These are:
1. Cost management;
  2. Income generation; and
  3. Service levels.

### **6.4 Principles**

- 6.5 The approach over the medium term is to transform the Council into an organisation that is thriving and not just surviving, by reviewing, remodelling and reinventing the way the Council operates.

The Cabinet proposes that the following overarching principles should be considered when evaluating ideas and opportunities for change are set out below:

- Reduce our costs (both internally and across the wider system)
- Increase our income
- Provide better / “best” value
- Increased social value
- Provide a better service for our customers
- Reduction in administration costs, without compromising service

- 6.6 The focus will be on internal efficiencies and improvements within existing structures. Continuously looking to streamline work and reduce waste in processes. Greater cross-functional working and multi-skilling and improving ways of working to move away from 'professional silos' and toward integrated services for the public. Where customer demand is understood, analysed and met through new services and business models, and where the demand itself is re-shaped and managed while engaging service users to ascertain priorities.
- 6.7 The approach below shows in more detail for each element the methodology that will be adopted to achieve this.

### Approach



- 6.8 A number of savings have been identified through this approach and built into the 2019/20 budget as shown in paragraph 8.17, Table 8. Some of these strands of work require a longer-term approach and may require additional resources and investment. The Council will continue this approach in order to transform the way the Council operates over the next three years.

## 7. RESERVES

- 7.1 When setting the budget for the forthcoming year the Council must have regard to the level of reserves needed to provide enough resources to finance estimated future expenditure plus any appropriate allowances that should be made for contingencies.

7.2 The Council has been making significant savings for a number of years as set out in 8.16 below, and with each year the challenge gets more difficult without negatively impacting on service standards. The approach outlined above will deliver savings or generate income to ensure the Council is in a self-financing position. However, some of these will not be realised until 2020/21 onwards and investment from reserves may be required to deliver them.

7.3 Reserves only provide one-off funding so the Council should avoid using reserves to meet regular recurring financial commitments.

7.4 In 2019/20 the Council is using £2.4m from earmarked reserves, as follows;

- £599k of earmarked reserves against specific service expenditure (£389k shown against new pressures in paragraph 8.14 Table 7);
- £250k on members locality budgets;
- £949k for the re-development of Needham Market headquarters: and;
- £597k to fund the Business Rates deficit.

Table 3 below shows the earmarked reserves balance from 1 April 2018, forecast through to 1 April 2020. This shows that the level of reserves drops by 21% (excluding CIL) over the two years. Including £2.6m contribution towards the Regal Theatre and £949k for the re-development of Needham Market headquarters mentioned above in 2019/20.

**Table 3: Forecast Earmarked Reserve Levels**

Transfers to / from Earmarked Reserves	Balance	Transfers 2018/19			Balance	Transfers 2019/20		Balance
	1 April 2018	Intra	Out	In	31 March 2019	Out	In	1 April 2020
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Carry Forwards	(263)		262	(111)	(112)	112		-
Growth and Efficiency Fund	(9,318)	17	5,952	(2,646)	(5,995)	3,085	(3,183)	(6,092)
Business Rates Equalisation	(1,987)		957	(880)	(1,910)	597		(1,313)
Government Grants	(204)				(204)	8		(197)
Homelessness	(360)		36		(324)	20	(133)	(437)
Welfare Benefits Reform	(211)				(211)			(211)
Commercial Risk Management	-				-		(1,000)	(1,000)
Needham Lake Visitors Centre (GEF)	-				-		(300)	(300)
Neighbourhood Planning initiatives (GEF)	-				-		(120)	(120)
Commuted Maintenance Payments	(311)				(311)	30		(281)
Elections Fund	(64)			(10)	(74)	75	(20)	(19)
Planning Enforcement	(20)				(20)			(20)
Growth & Sustainable Planning	(351)				(351)	65		(286)
Planning (Legal)	(155)		122		(33)			(33)
Strategic Planning	(350)	(17)			(367)	112	(121)	(375)
Revocation of personal search fees	(50)				(50)			(50)
Repairs and Renewals	(292)				(292)			(292)
Eric Jones House	(46)				(46)			(46)
Waste	(160)			(32)	(192)	146		(46)
<b>Sub-total exc CIL</b>	<b>(14,142)</b>	<b>-</b>	<b>7,329</b>	<b>(3,679)</b>	<b>(10,492)</b>	<b>4,250</b>	<b>(4,876)</b>	<b>(11,118)</b>
Community Infrastructure Levy Contribution to Capital	(2,474)			(535)	(3,009)			(3,009)
Needham Market headquarters (GEF)	-				-	949		949
<b>Total earmarked reserves</b>	<b>(16,616)</b>	<b>-</b>	<b>7,329</b>	<b>(4,214)</b>	<b>(13,501)</b>	<b>5,199</b>	<b>(4,876)</b>	<b>(13,178)</b>

- 7.5 After building in the estimated commitments, the level of uncommitted earmarked reserves excluding CIL at 1 April 2020 is expected to be £11.1m. There is an agreed process for CIL bids, however nothing has been included in this table for CIL income and expenditure for 2019/20 as this is difficult to predict.
- 7.6 The 2019/20 surplus of £1.9m shown in 8.23 Table 9 will be allocated to earmarked reserves as detailed below;
- £1m to a new Commercial Risk Management reserve to mitigate against future risks associated with the level of commercial investment and development that the Council has or will be investing in.
  - £300k to further support the development of a Café and Visitors Centre at Needham Market Lake.
  - £120k equivalent to the increase in Council Tax to support neighbourhood planning initiatives within the District.
  - £490k being the balance to the Growth and Efficiency Fund.
- 7.7 Local authorities are facing significant financial challenges and Mid Suffolk has a number of commitments and operational transformations which will require financial investment from reserves. Therefore, considered planning of the remaining reserves will be undertaken to ensure the Council's priorities and aspirations are achieved.
- 7.8 In addition to the earmarked reserves the Council also holds a general fund reserve of £1.052m, which equates to approximately 10% of the net cost of service. This is a prudent level of reserve to hold to mitigate against unexpected financial risks that cannot be offset by savings during the year or with use of the earmarked reserves in Table 3.

## **8. FORECAST BUDGET GAP TO 2022/23**

To establish the medium-term budget gap several assumptions have been made as to the expected level of funding and a number of cost pressures and savings have been identified over the period. These are set out later in this section.

### **Funding**

- 8.1 Funding arrangements for councils have changed significantly in recent years, the revenue support grant has been completely removed in 2019/20 and the future funding of New Homes Bonus (NHB) continues to remain an uncertainty.
- 8.2 2019/20 is the last year of the four-year Comprehensive Spending Review where councils had some certainty about their funding levels, therefore the position from 2020/21 remains more difficult to forecast.
- 8.3 The Fair Funding review is underway and further consultations are expected as the Government continues to review needs and funding, including how business rates will be distributed. Government has recognised that councils are now more reliant on council tax and business rates as the main sources of funding and has announced that from 2020 business rate retention will be 75% compared to 50% of the growth achieved in business rates income.

- 8.4 In 2018/19 the Council was part of a national pilot of 100% business rates retention which is forecasting an additional one-off income of £691k in the form of S31 grant and an additional £1.175m to be spent in agreement with Suffolk County Council on priorities to support growth. For Mid Suffolk this has provided funding for a café at Needham Market Lake, regeneration in Stowmarket Town centre, the Tech Hub and The Foyer in Stowmarket. A further Suffolk wide bid was submitted for 2019/20 75% Pilot status, it was confirmed as part of the Provisional Finance Settlement announcement that Suffolk were not successful in this bid.
- 8.5 Since NHB was introduced in 2011/12 the Council has received £12.5m in total. Although the Council may not be reliant on NHB to balance the budget for the next two years, the forecast for 2021 onwards is to use approximately 14% of NHB for the following two years. The Council has the ambition is to be self-financing and free from any reliance on NHB.
- 8.6 As shown in Table 4 below the use of NHB to balance the budget increased from 4% in 2016/17 to 24% in 2018/19. In 2019/20 the Council is in the position of being able to balance the budget without any use of NHB and transfer the full £1.4m to earmarked reserves. From 2011/12 to 2018/19 £5.4m NHB has been transferred to the Growth and Efficiency Fund.

**Table 4: New Homes Bonus used from 2016/17 to 2019/20**

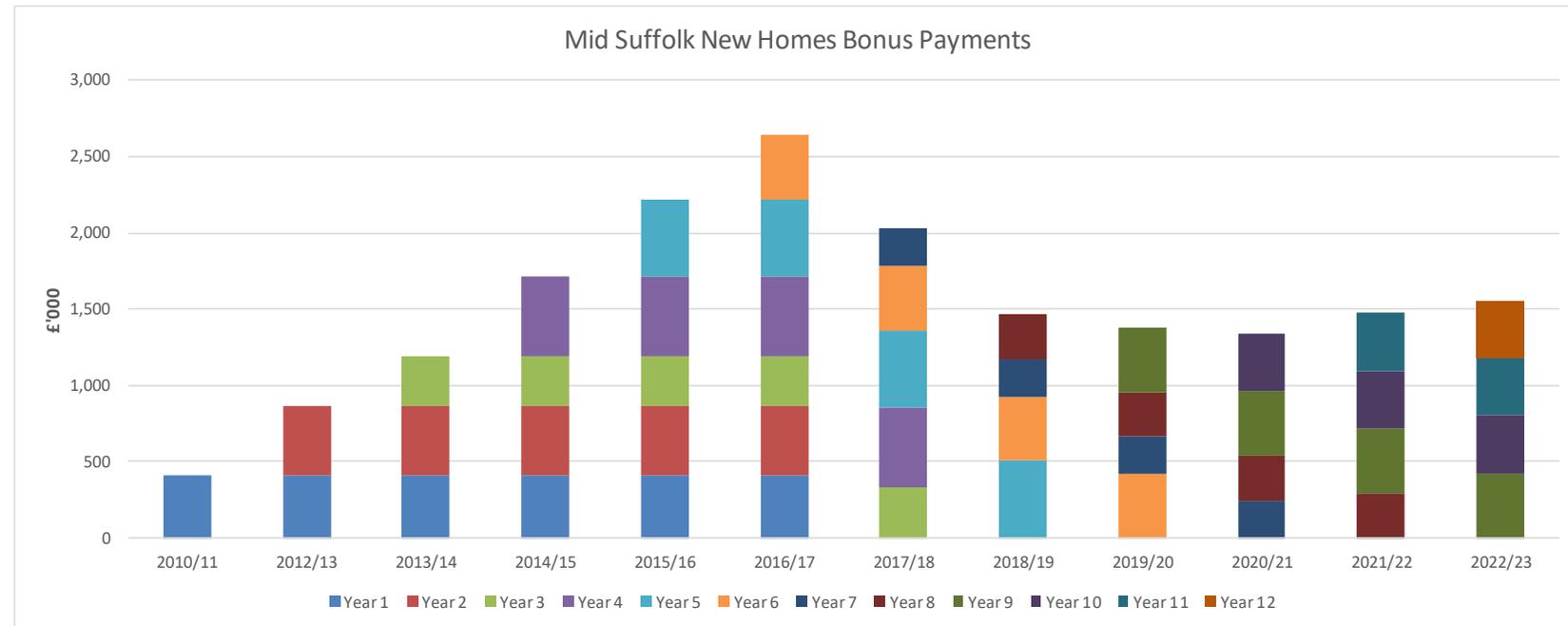
	2016/17	2017/18	2018/19	2019/20	Total
	£'000	£'000	£'000	£'000	£'000
Amount of NHB received	2,641	2,028	1,463	1,380	6,132
NHB used to balance the budget	110	267	354	0	731
% NHB used to balance the budget	4%	13%	24%	0%	12%

- 8.7 Table 5 and Graph 4 below shows the NHB over the last nine years plus the estimated allocations for 2020/21 to 2022/23, assuming 1.1% growth over and above the 0.4% threshold.
- 8.8 This clearly shows how the NHB has declined from £2.6m in 2016/17 to £1.4m in 2019/20, after the Government announced it would reduce the allocation from 6 years to 5 years in 2017/18 and to 4 years in 2018/19, as well as introducing a 0.4% growth baseline in 2017/18.
- 8.9 The 0.4% growth for Mid Suffolk means that the first 167 new homes built will receive no payment, so significant housing growth will need to be achieved to match historic income levels.

**Table 5: New Homes Bonus sums per year (£'000)**

Payments	2010/11	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	Provisional	Estimated		
									2019/20	2020/21	2021/22	2022/23
Year 1	409	409	409	409	409	409						
Year 2		452	452	452	452	452						
Year 3			334	334	334	334	334					
Year 4				521	521	521	521					
Year 5					506	506	506	506				
Year 6						420	420	420	420			
Year 7							247	247	247	247		
Year 8								290	290	290	290	
Year 9									422	422	422	422
Year 10										381	381	381
Year 11											379	379
Year 12												377
<b>Total</b>	<b>409</b>	<b>860</b>	<b>1,194</b>	<b>1,714</b>	<b>2,221</b>	<b>2,641</b>	<b>2,028</b>	<b>1,463</b>	<b>1,380</b>	<b>1,341</b>	<b>1,473</b>	<b>1,559</b>

**Graph 4: New Homes Bonus Payments – Estimated for 2020/21 to 2022/23**



- 8.10 In calculating the expected level of funding across all sources, the following assumptions have been made:
- £825k use of reserves from 2020/21 to 2022/23.
  - NHB will continue beyond 2019/20, with no change to the 0.4% growth baseline and no change to 4 years' worth of allocation. Growth beyond 2019/20 is based on 1.1% to 2022/23.
  - No growth beyond 2019/20 in business rates income.
  - Nothing has been included for forecast Business Rates surplus or deficit beyond 2019/20 based on the assumption that the equalisation earmarked reserve will accommodate this.
  - Rural Service Delivery grant will continue beyond 2019/20.
  - 2% Council tax increase for each year, generating on average an incremental additional £126k per annum.
  - Taxbase growth of 1.3% per annum from 2020/21, approximately £83k per annum.
- 8.11 Table 6 below shows the funding received in 2018/19 and the forecast funding from 2019/20 to 2022/23. Ignoring the use of reserves (£1.4m for 2019/20, £325k 2020/21 and £250k from 2021/22 to 2022/23) funding increases by 13% over the 4-year period. This is due to assumed council tax increases and NHB, based on the assumptions in 8.10 (b), (f), and (g) above.
- 8.12 Government funding is virtually non-existent now except for New Homes Bonus and Rural Service Delivery grant. If NHB continues as a funding stream to the Council, then housing growth is essential to secure this income. The main sources of funding for the Council are Business Rates and Council Tax.
- 8.13 In order to achieve a balanced budget, the Council will need to use 14% of NHB and 94% of the S31 grant over the next four years totalling £5.7m.

**Table 6: Forecast Funding 2019/20 – 2022/23**

Description	2018/19	2019/20		2020/21	2021/22	2022/23
	Budget	Budget		Forecast	Forecast	Forecast
	£000	£000		£000	£000	£000
<b>Funding:</b>						
Other Earmarked Reserves	(1,229)	(1,196)		(75)		
Growth and Efficiency Fund - DP Project (Staffing)	(52)					
Growth and Efficiency Fund - Community Capacity Building	(250)	(250)		(250)	(250)	(250)
Growth and Efficiency Fund - contribution to capital	(2,575)					
New Homes Bonus - <b>provisional 2019/20 onwards</b>	(354)	(1,380)		(1,341)	(1,473)	(1,559)
S31 Business Rates Grant - to balance the budget	(764)	(1,313)		(1,313)	(1,313)	(1,313)
Government Support						
(a) Baseline business rates	(2,657)	(2,238)		(2,238)	(2,238)	(2,238)
(b) B/Rates – levy		488		522	522	522
(c) B/Rates – growth/pooling benefit	(151)	(293)		(293)	(293)	(293)
(d) B/Rates prior yr deficit	957	597		-	-	-
(e) Rural Services Delivery Grant		(433)		(433)	(433)	(433)
Council Tax Collection Fund surplus	(70)	(27)		(27)	(27)	(27)
Council Tax (2% increase to Band D)	(5,826)	(6,035)		(6,241)	(6,448)	(6,663)
Growth in taxbase	(89)	(82)		(80)	(82)	(85)
<b>Total Funding</b>	<b>(13,060)</b>	<b>(12,162)</b>		<b>(11,768)</b>	<b>(12,035)</b>	<b>(12,339)</b>

## Pressures

- 8.14 In addition to the reduction in Government funding there are £3.4m of cost pressures that have been identified in 2019/20 and beyond. However, this includes £389k of other funding from reserves. Table 7 below shows the cost pressures the Council is expecting to face over the next four years.

**Table 7: Forecast Cost Pressures 2019/20 - 2022/23**

MID SUFFOLK - MOVEMENT YEAR ON YEAR	18/19 to 19/20	19/20 to 20/21	20/21 to 21/22	21/22 to 22/23
	£000	£000	£000	£000
<b>Net Service Cost previous year</b>	<b>13,060</b>	<b>10,252</b>	<b>10,212</b>	<b>11,033</b>
<b><u>Cost Pressures</u></b>				
<b><u>Inflation</u></b>				
Employees - includes pay award, increments and deficit pension fund change	404	384	345	324
Contracts	70	94	101	104
Business Rates inc re-valuations	74	(59)	11	12
<b>Sub total cost pressure</b>	<b>548</b>	<b>418</b>	<b>457</b>	<b>439</b>
<b><u>Other pressures</u></b>				
<b><u>Environment</u></b>				
Waste - Material Recycling Facility (funded from reserves - £146k)	146			
Waste - Recycling Performance Payments	136			
Waste - refuse contract	41		130	
Building Control income	25			
<b><u>Housing</u></b>				
PV panels	88			
Reduction in New Burdens Grant - homelessness	18			
<b><u>Law and Governance</u></b>				
Elections (funded from reserves - £75k)	75	(75)		
Land Charges income	58			
<b><u>Planning and Communities</u></b>				
Planning appeals (funded from reserves - £65k)	158			
Neighbourhood Planning (removal of contribution to reserve)		121		
Funding for 2 Police Community Support Officers (funded from reserves GEF - £75k)	75		(75)	
Planning applications - landscape and ecology consultancy	67			
Planning fee income		110	99	(10)
<b><u>Other Cost Pressures</u></b>				
Interest Payable - capital expenditure	229	21	-	-
Increase in transfers to reserves	231	(254)		
Health and Safety	46			
Other items (net) (funded from reserves - £28k)	53	15	26	(12)
<b>Total Pressures</b>	<b>1,993</b>	<b>356</b>	<b>638</b>	<b>417</b>
Pressures funded from earmarked reserves (as mentioned above)	(389)	(75)		

- 8.15 In calculating the pressures, the following assumptions have been made:
- It has been agreed that a pay award of 2% will be made, so pay budgets have been increased accordingly. In view of the introduction of the national pay spine with effect from 1 April 2019, it has been necessary for the Council to review the current pay structure. The position for 2019/20 assumes the 2018/19 pay structure is just 'transitioned' to the 2019 pay spine and then increments applied as appropriate.
  - General Inflation
    - Business rates on the Council's own properties - 3.9%
    - Utilities – Nil increase

- Major contracts – 2% to 3.2%
- c) Pension fund assumptions
- future rate contribution - 23%, no change from 2018/19
  - pension lump sum –1% increase from 2019/20 onwards

## Savings

- 8.16 Over the years 2011/12 to 2018/19 the Council has achieved savings of £5.2m through shared services, efficiencies, better use of technology and maximising commercial opportunities.
- 8.17 Continuing in this vein and following the approach set out in section 6, savings/income of £5m have already been identified for 2019/20 and beyond. However, this includes £2.6m reduction in the contribution from the Growth and Efficiency Fund for the Regal Theatre. Table 8 below shows the savings the Council is expecting to achieve over the next four years.

**Table 8: Forecast Savings 2019/20- 2022/23**

MID SUFFOLK - MOVEMENT YEAR ON YEAR	18/19 to 19/20	19/20 to 20/21	20/21 to 21/22	21/22 to 22/23
	£000	£000	£000	£000
<b>Savings</b>				
<b>Assets and Investments</b>				
Removal of revenue contribution to capital				
19/20 Regal Theatre	(2,575)			
Gateway 14	(713)	244	116	-
CIFCO - net interest receivable	(208)	(6)	(14)	(12)
CIFCO (further investment) - net interest receivable	(218)	(386)	78	(15)
HQ security costs	(57)			
Needham Market and Stowmarket Middle Schools	(37)			
BMS Invest recharging other services		(80)	(20)	(20)
Income from old Aldi store inc Car Parking income	(32)	(80)	(20)	
<b>Customer Access</b>				
ICT contract saving	(25)			
Digital end to end		(25)	(25)	
<b>Environment</b>				
Trade Waste income	(32)			
<b>Finance</b>				
Finance - includes contracts and debt recovery		(62)		
Revenues and Benefits	(33)			
Reduction to SRP contract	(30)			
Investment Funds			(25)	
<b>Housing</b>				
The Foyer (contribution to reserves)	(98)			
<b>Law and Governance</b>				
Legal expenses - Shared Legal Services	(36)			
<b>Planning and Communities</b>				
Neighbourhood Planning (contribution to reserves)	(121)			
Cessation of Community Housing Fund fixed term post for 2 years (funded from reserves)		(112)		
Increase to CIL 5% administration charge	(87)			
<b>Other Savings</b>				
Reduction to employee costs	(226)	(126)	(25)	
Minimum Revenue Provision (MRP)	(173)	309	190	87
Contract management savings	(50)	(50)	(50)	(50)
Charge to HRA and Capital	(49)	(21)	(22)	(22)
<b>Total savings</b>	<b>(4,801)</b>	<b>(396)</b>	<b>183</b>	<b>(32)</b>

- 8.18 As reported at Council in December 2018 the approved lending to invest in commercial property through CIFCO is anticipated to reach approximately £50m before April 2019. Babergh and Mid Suffolk will have each loaned £25m. Full Council continues to approve CIFCO's Business Plan on an annual basis, and in doing so manages the risk profile of the investment portfolio.
- 8.19 The Councils took professional advice prior to the creation of the CIFCO vehicle. Having established the appropriate company structures and acquired commercial properties to the value of approximately £50m over the last two years, the Councils have established 'proof of concept' that this is an effective mechanism to generate income for the Councils to invest in local services in Babergh and Mid Suffolk.
- 8.20 As set out in Table 8 and in recommendation 3.3 it is proposed that each Council now approves making a further £25m available through lending to CIFCO. Commencing in 2019/20, with full investment achieved by 2021/22, this is budgeted to generate an additional net income of £386k to each Council over the four years.

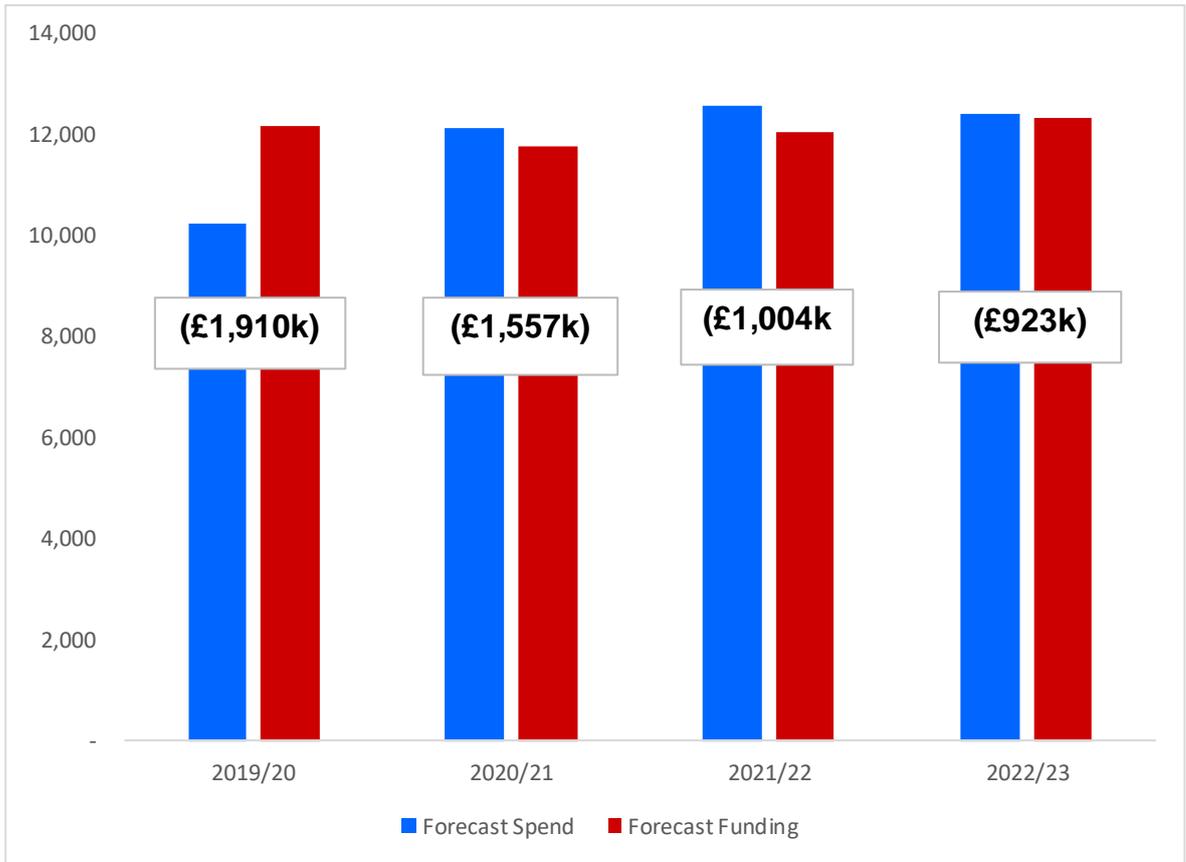
### Budget Gap

- 8.21 Table 9 below shows the forecast surplus or deficit for 2020/21 - 2022/23 with and without New Homes Bonus.
- 8.22 The four-year surplus of £923k is achieved by using £15.1m in total of the following;
- £5.8m New Homes Bonus;
  - £5.3m S31 grant;
  - £1.7m Rural Service Delivery Grant; and
  - £2.3m from reserves
- 8.23 As shown in Table 9, without NHB the 4-year position is a deficit of £4.8m. In order to achieve the strategic financial aim of becoming self-financing the Council will need to deliver significant income or savings by reviewing, remodelling and reinventing the way it operates in the future as set out in section 6.

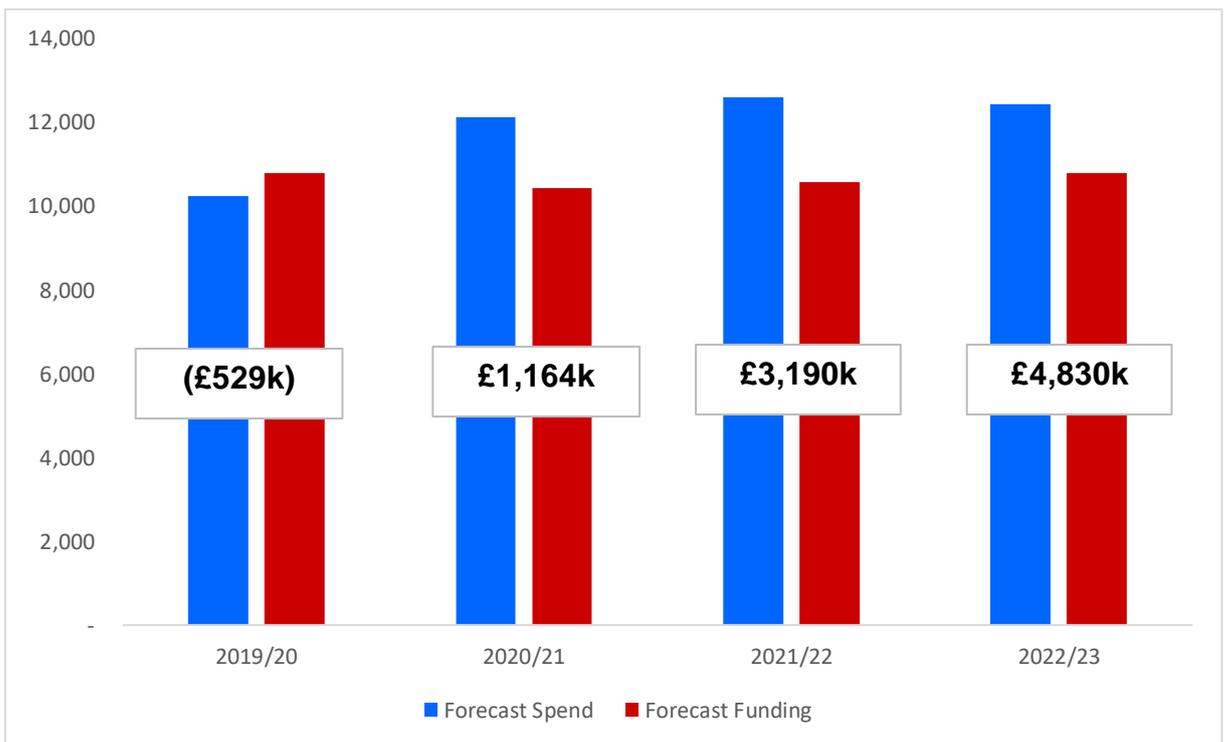
**Table 9: Forecast Budget Gap 2019/20 - 2022/23**

	2019/20	2020/21	2021/22	2022/23
	£000	£000	£000	£000
Previous Year Budget	13,060	12,162	11,768	12,036
Cost pressures	1,993	243	638	417
Savings	(4,801)	(284)	183	(32)
<b>Sub total</b>	<b>10,252</b>	<b>12,121</b>	<b>12,590</b>	<b>12,421</b>
New Year Funding	(12,162)	(11,768)	(12,036)	(12,340)
<b>Annual Budget (surplus)/deficit</b>	<b>(1,910)</b>	<b>353</b>	<b>553</b>	<b>81</b>
<b>Cumulative (surplus)/deficit</b>	<b>(1,910)</b>	<b>(1,557)</b>	<b>(1,004)</b>	<b>(923)</b>
New Homes Bonus	1,380	1,341	1,473	1,559
<b>Annual Budget (surplus)/deficit excluding New Homes Bonus</b>	<b>(529)</b>	<b>1,694</b>	<b>2,026</b>	<b>1,640</b>
<b>Total 4 year (surplus)/deficit</b>				<b>4,830</b>

**Graph 3: Forecast Budget Gap (surplus)/deficit, including NHB (Cumulative) 2019/20 - 2022/23**



**Graph 4: Forecast Budget Gap (surplus)/deficit, excluding NHB (Cumulative) 2019/20 - 2022/23**



## 9. HOW IS THE COUNCIL'S REVENUE BUDGET BEING SPENT IN 2019/20?

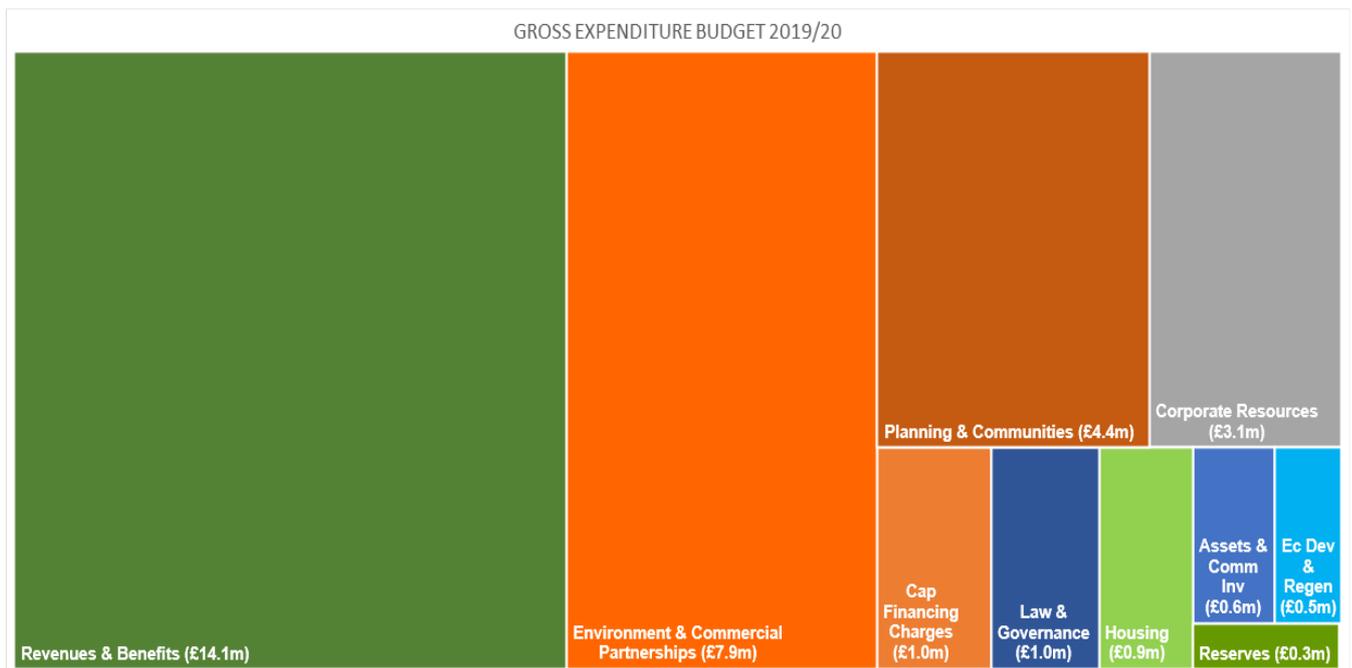
- 9.1 The summary in Appendix A shows a breakdown of the Council's net cost of service for 2018/19 (£13.060m) and 2019/20 (£10.252m) a reduction of £2.8m (22%). The majority of which can be attributed to the funding of the re-development of the Regal Theatre from the Growth and Efficiency fund.
- 9.2 The Council's 2019/20 gross expenditure is £33.8m and Income is £23.6m giving a net cost of service of £10.2m. Table 10 below shows how this is funded. Further details by service area can be found in the Budget Book in Appendix D.

**Table 10: Revenue Budget 2019/20**

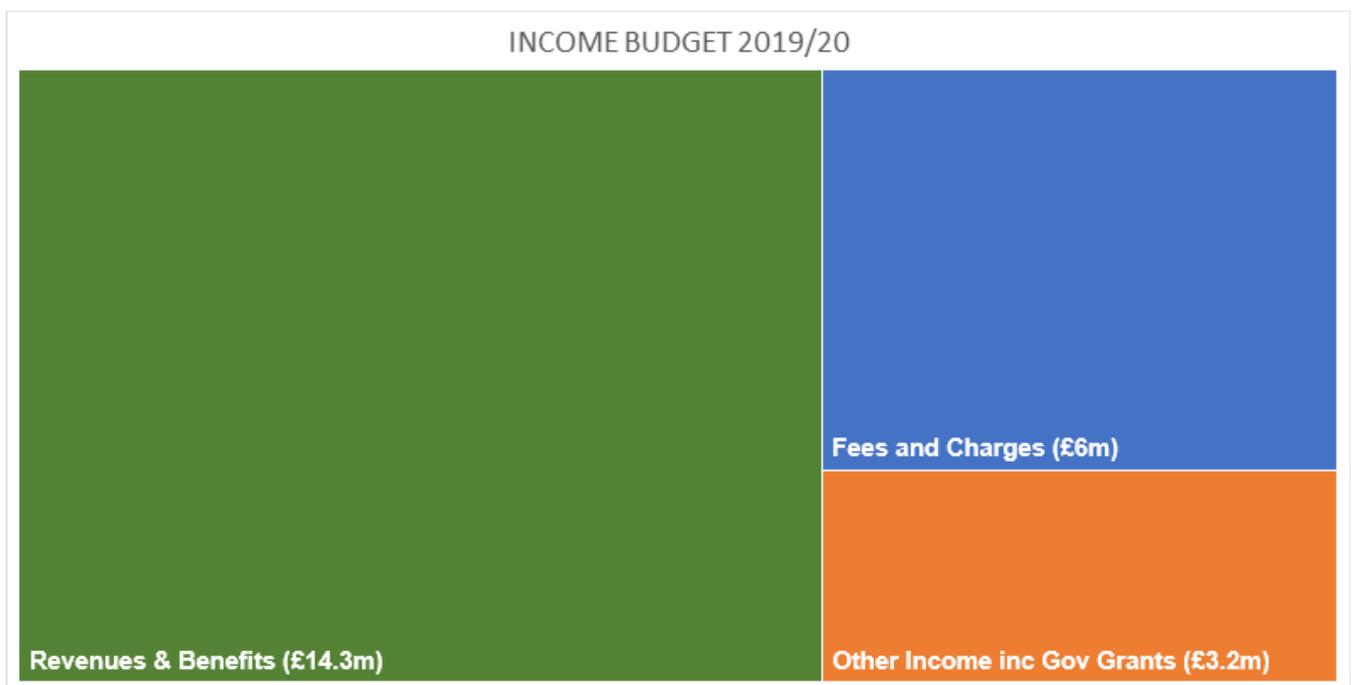
	<b>£,000</b>
<b>Gross Expenditure</b>	<b>33,809</b>
<b>Income</b>	<b>(23,557)</b>
<b>Net expenditure 2019/20</b>	<b>10,252</b>
<b>Funded by:</b>	
Earmarked Reserves	(1,446)
New Homes Bonus received	(1,380)
S31 Grant	(1,313)
Business Rates	(2,043)
Collection Funds (Surplus)/Deficit	570
Rural Service Delivery Grant	(433)
Council Tax	(6,117)
<b>Total Funding</b>	<b>(12,162)</b>
<b>2019/20 Surplus</b>	<b>(1,910)</b>

9.3 Graph 5 below shows how the £33.8m gross expenditure is allocated across the services and Graph 5 below shows the breakdown of the £23.6m income. The funding element is not shown in these graphs.

**Graph 5 Gross Expenditure by service area in 2019/20**



**Graph 6 Income by service area in 2019/20**



9.4 The Revenues and Benefits element (£14m) in both the expenditure and the income charts above includes housing benefit paid out to claimants and received from Government.

9.5 For details of what services are within each area and a breakdown by service area of income please refer to the 2019/20 Budget Book at Appendix D.

## **Fees and charges**

- 9.6 Fees and charges have been reviewed by budget holders as part of this budget setting process and a summary of fees and charges for 2018/19 and 2019/20 is attached at Appendix E.
- 9.7 A further benchmarking exercise will be undertaken during 2019/20 to review the Council's levels of fees and charges.

## **10. CAPITAL PROGRAMME**

- 10.1 The detailed Capital Programme is attached at Appendix B, the main areas of planned spend are;
- the re-development of Needham Market headquarters £2.6m funded from the Growth and Efficiency Fund;
  - the development of Stowmarket Middle School £7.6m which will be funded from borrowing;
  - Strategic Investment Fund £3m to be funded from borrowing;
  - Gateway14, additional investment of £6m, funded from borrowing and;
  - A further £25m investment in CIFCO, split equally in 2019/20 and 2020/21, funded from borrowing.
- 10.2 The Capital and Investment Strategy will have further details of the Council's borrowing capacity and the impacts of the capital programme, this will be presented to Cabinet in February along with the final budget report, following review by Joint Audit and Standards Committee in January 2019.

## **11. COUNCIL TAX CARE LEAVERS DISCOUNT**

- 11.1 The Government's care leaver strategy 'Keep on Caring' published in July 2016 encourages Local Authorities to consider how they can support care leavers, using existing flexibilities, to meet their Council Tax payments.
- 11.2 In the strategy, the Government recognises that young people leaving care constitute one of the most vulnerable groups in society, and both the Government and wider society have a moral obligation to give them the support they need as they make transition to adulthood and independent living
- 11.3 The strategy focuses on embedding a culture of corporate parenting across all parts of local authorities. An increasing number of local authorities are now introducing measures that mean more and more care leavers across the country no longer have to pay council tax
- 11.4 Suffolk County Council has approached all of the Council's within Suffolk to consider introducing a discount for care leavers from the 1st April 2019. Suffolk Public Sector Leaders and Chief Executives have provisionally agreed to the introduction of this policy. This report seeks to formalise arrangements.
- 11.5 The Council has the discretion to reduce the Council Tax liability for individuals or prescribed groups. The Council exercises this discretion in accordance with Section 13A of the Local Government Finance Act 1992, in respect of local Council Tax Reductions and for ad hoc cases of extreme financial hardship.

- 11.6 A Care Leaver is defined as a person under 25, who has been looked after by a local authority for at least 13 weeks since the age of 14 and who was looked after by the local authority at school-leaving age or after that date. As at August 2018 Mid Suffolk had 45 defined care leavers.
- 11.7 The Council currently operates a Council Tax Reduction scheme (CTRS) which grants a reduction to council tax payers based on an assessment of their means to pay. It is estimated that a significant proportion of care leavers, indicated above, will fall within the scope of the CTRS and will already be receiving a reduction in their council tax. However, there is no specific policy for care leavers and the approval of the proposed scheme would act as a top up for any care leavers' who currently do not receive CTRS at 100%.
- 11.8 This discretionary relief will not be means tested and will be granted to anyone meeting the eligibility criteria. In summary it will be exercised as follows:
- a) Where the reduction is awarded, it will remain in place until the care leaver reaches the age of 25 years (the care leavers 25th birthday) or ceases to be liable for council tax, whichever date occurs first. In these circumstances, the bill will be apportioned according to the number of months applicable.
  - b) Where a care leaver has a liability for council tax, the reduction in that liability will be up to 100%. The amount of reduction awarded will be the relevant amount (after all other discounts, reductions and exemptions) required to reduce the care leavers council tax liability amount to zero.
- 11.9 Care leavers discounts are administered under Section 13A (1)(c) of the Local Government Finance Act 1992, which means they are discretionary local reliefs and must be paid fully by the local authorities. However, if introduced, Suffolk County Council has agreed to fund their share of the cost.
- 11.10 The Council does not yet have a full understanding of the demographic, but it is probable that the majority of care leavers will fall within scope of the existing Council Tax Reduction Scheme or receive support through the Council's Housing Benefit scheme or Universal Credit, if resident within housing of multiple occupation (where the council tax is passed on through their rent as the owners are liable).
- 11.11 As an illustration, a decrease in the collected council tax could be £47,824 per annum (assuming a single resident in a Band A property). The Mid Suffolk element would be £4,782. This is based on 45 care leavers in 2018/19 living independently for a full year in a Band A property. However, as previously stated, it is extremely unlikely that the costs will be this high and it is anticipated that they will be much lower.

## **12. LINKS TO JOINT STRATEGIC PLAN**

- 12.1 Ensuring that the Council makes best use of its resources is what underpins the ability to achieve the priorities set out in the Joint Strategic Plan. Specific links are to financially sustainable Councils, managing our corporate assets effectively, and property investment to generate income.

## **13. FINANCIAL IMPLICATIONS**

- 13.1 These are detailed in the report.

## 14. LEGAL IMPLICATIONS

- 14.1 The provisions of the Local Government Finance Act 1992 (LGFA 1992) requires the Council to set a balance budget with regard to the advice of its Chief Finance Officer (Section 151).
- 14.2 The changes to the Care Leavers Discount are in accordance with the Local Government Finance Act 1992, Section 13A (1)(c).

## 15. RISK MANAGEMENT

This report is most closely linked with the Council's Significant Risk No. 5d – We may be unable to respond in a timely and effective way to financial demands and also Corporate Risk No. SE05 – if the Finance Strategy is not in place with a balanced position over the medium term the Councils will not be able to deliver the core objectives and service delivery may be at risk of not being delivered. Other key risks are set out below:

<b>Risk Description</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Mitigation Measures</b>
If the Council does not plan and identify options to meet the medium-term budget gap, then it will have a detrimental impact on the resources available to deliver services and the strategic priorities.	Unlikely - 2	Bad - 3	Clear priority outcomes and robust business cases for investment plus use of the Growth and Efficiency Fund to support the MTFS and an Investment Strategy. The S151 Officer will submit the Section 25 report on the robustness of estimates and adequacy of reserves in February 2019.
If economic conditions and other external factors are worse than budgeted for it is probable that this could have an adverse effect on the Councils future medium-term financial position	Probable – 3	Noticeable - 2	Maintain the focus and momentum on reducing the budget gap throughout the financial year using the detailed template and opportunities work.

## **16. CONSULTATIONS**

- 16.1 Consultations have taken place with Assistant Directors, Corporate Managers and other Budget Managers as appropriate.

## **17. EQUALITY ANALYSIS**

- 17.1 Equality Analyses will be undertaken for any service areas where significant changes are proposed as a result of the above process.

## **18. ENVIRONMENTAL IMPLICATIONS**

- 18.1 There are no specific environmental implications from the costs and savings identified in this report.

## **19. APPENDICES**

Title	Location
Appendix A - General Fund Budget Summary 2019/20	Attached
Appendix B - Capital Programme	Attached
Appendix C - Budget, Funding and Council Tax Requirements and Robustness of Estimates and Adequacy of Reserves	Attached
Appendix D - Budget Book 2019/20	Attached
Appendix E - Fees and Charges Schedule	Attached

## **20. BACKGROUND DOCUMENTS**

Provisional Local Government Finance Settlement

General Fund Financial Monitoring 2018/19 – April to August 2018 MCa/18/37

## GENERAL FUND BUDGET SUMMARY 2019/20

## GENERAL FUND REVENUE BUDGET SUMMARY

	2018/19 £'000	2019/20 £'000	Movement £'000
1 Employee Costs	9,046	8,950	(97)
2 Premises	772	820	47
3 Supplies & Services	7,136	5,033	(2,103)
4 Transport	438	359	(78)
5 Contracts	3,297	3,418	121
6 Third Party Payments	16,964	13,817	(3,147)
7 Income	(23,751)	(20,703)	3,048
8 Charge to HRA	(1,016)	(1,058)	(43)
9 Charge to Capital	(271)	(4)	267
10 Transfers to Reserves	42	274	232
<u>Capital Financing Charges</u>			
11 Debt Management Costs	3	-	(3)
12 Interest Payable (Other)	-	229	229
13 Interest Payable (Pooled Funds)	130	177	47
14 Interest Payable (CIFCO)	594	562	(32)
15 Interest Payable (CIFCO - further investment)	-	89	89
16 Interest Payable (Other Commercial Investments)	435	282	(153)
17 MRP	1,211	1,038	(173)
<u>Investment Income</u>			
18 Pooled Funds	(430)	(438)	(8)
19 Interest Receivable (Cash Surplus)	(7)	(19)	(11)
20 Interest Receivable (CIFCO)	(1,064)	(1,238)	(174)
21 Interest Receivable (CIFCO - further investment)	-	(307)	(307)
22 Interest Receivable (Other Commercial Investments)	(470)	(1,030)	(560)
<b>23 Net Service Cost</b>	<b>13,060</b>	<b>10,252</b>	<b>(2,807)</b>
24 Growth and Efficiency Fund - Staffing	(52)	-	52
25 Growth and Efficiency Fund - Community Capacity Building	(250)	(250)	-
26 Growth and Efficiency Fund - contribution to capital	(2,575)	-	2,575
27 New Homes Bonus to balance core budget	(354)	-	354
28 New Homes Bonus (surplus)	(1,109)	(1,380)	(270)
29 Transfers from Reserves - earmarked	(1,229)	(1,196)	33
30 S31 Business Rates Grant - to balance the budget	(764)	(1,313)	(550)
31 Business Rates Collection Fund Deficit	957	597	(360)
32 Council Tax Surplus on Collection fund	(70)	(27)	43
33 Baseline business rates	(2,657)	(2,238)	419
34 Business rates levy	-	488	488
35 Business rates – growth/pooling benefit	(151)	(293)	(142)
36 Rural Services Delivery Grant	-	(433)	(433)
37 Council Tax	(5,915)	(6,117)	(202)
<b>38 Total Funding</b>	<b>(14,168)</b>	<b>(12,162)</b>	<b>2,006</b>
39 Shortfall (Surplus) funding	-	(1,910)	(1,910)
Council Tax Base	(36,337)	(36,841)	(504)
Council Tax for Band D Property	162.78	166.04	3.26
<b>Council Tax</b>	<b>(5,915)</b>	<b>(6,117)</b>	<b>(202)</b>

## CAPITAL PROGRAMME 2019/20 TO 2022/23

MID SUFFOLK CAPITAL PROGRAMME 2019/20 - 2022/23 GENERAL FUND	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	TOTAL BUDGET (over 4 years) £'000	Capital Receipts £'000	Reserves £'000	Revenue Contributions £000's	Government Grants £'000	S106 £'000	Borrowing £'000	Total Financing £'000
<b>Housing</b>												
Mandatory Disabled Facilities Grant	376	376	376	376	1,503				1,503			1,503
Discretionary Housing Grants	100	100	100	100	400						400	400
Empty Homes Grant	100	100	100	100	400						400	400
<b>Total Housing</b>	<b>576</b>	<b>576</b>	<b>576</b>	<b>576</b>	<b>2,303</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,503</b>	<b>0</b>	<b>800</b>	<b>2,303</b>
<b>Environment and Projects</b>												
Replacement Refuse Freighters - Joint Scheme	376	188	0	1,922	2,486						2,486	2,486
Recycling Bins	80	100	100	100	380						380	380
<b>Total Environmental Services</b>	<b>456</b>	<b>288</b>	<b>100</b>	<b>2,022</b>	<b>2,866</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,866</b>	<b>2,866</b>
<b>Communities and Public Access</b>												
Planned Maintenance / Enhancements - Car Parks	162	150	125	100	537						537	537
Streetcare - Vehicles and Plant Renewals	173	237	83	90	583						583	583
Play Equipment	25	25	25	25	100						100	100
Community Development Grants	189	189	189	189	756						756	756
<b>Total Communities and Public Access</b>	<b>549</b>	<b>601</b>	<b>422</b>	<b>404</b>	<b>1,976</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,976</b>	<b>1,976</b>
<b>Total Leisure Contracts</b>	<b>737</b>	<b>250</b>	<b>150</b>	<b>150</b>	<b>1,288</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,288</b>	<b>1,288</b>
<b>Capital Projects</b>												
HQ - Equipment Renewals	0	0	0	0	0							0
Planned Maintenance - Corporate Buildings	80	70	70	70	290						290	290
<b>Total Capital Projects</b>	<b>80</b>	<b>70</b>	<b>70</b>	<b>70</b>	<b>290</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>290</b>	<b>290</b>
<b>Economic Development and Regeneration</b>												
HQ - Equipment Renewals	0	0	0	0	0							0
Open for Business	0	30	0	0	30						30	30
<b>Total Economic Development and Regeneration</b>	<b>0</b>	<b>30</b>	<b>0</b>	<b>0</b>	<b>30</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>30</b>	<b>30</b>
<b>Investment and Commercial Delivery</b>												
Stowmarket Middle School	3,463	3,861	38	0	7,362						7,362	7,362
HQ Site	949	727	994	0	2,670		2,670					2,670
Property Investment Fund	3,000	0	0	0	3,000						3,000	3,000
Gateway14	6,000	0	0	0	6,000						6,000	6,000
CIFCO	2,500	0	0	0	2,500						2,500	2,500
CIFCO - further investment	12,500	12,500	0	0	25,000						25,000	25,000
<b>Total Investment and Commercial Delivery</b>	<b>28,412</b>	<b>17,088</b>	<b>1,032</b>	<b>0</b>	<b>46,532</b>	<b>0</b>	<b>2,670</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>43,862</b>	<b>46,532</b>
<b>Corporate Resources</b>												
ICT - Hardware / Software costs	200	200	200	200	800						800	800
<b>Total Corporate resources</b>	<b>200</b>	<b>200</b>	<b>200</b>	<b>200</b>	<b>800</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>800</b>	<b>800</b>
<b>Total General Fund Capital Spend</b>	<b>31,010</b>	<b>19,102</b>	<b>2,550</b>	<b>3,422</b>	<b>56,085</b>	<b>0</b>	<b>2,670</b>	<b>0</b>	<b>1,503</b>	<b>0</b>	<b>51,912</b>	<b>56,085</b>

**Budget, Funding and Council Tax Requirements**

- 1) The precept requirements of Parish / Town Councils must be aggregated with the requirement of this authority to arrive at an average Council Tax figure for the district / parish purposes. This figure however is totally hypothetical and will not be paid by any taxpayer (other than by coincidence). A schedule of the precept requirements from Parish / Town Councils will be reported to Council on 21 February.
- 2) The County and the Police and Crime Commissioner’s precept requirements are added to this.
- 3) The legally required calculation is set out below:
  - 1) The General Fund Budget requirement for the District Council purposes in 2019/20 will be £166.04, based on an increase to Council Tax of £3.26 per annum for a Band D property which is the equivalent to 2%.
  - 2) The County Council precept requirement is still to be determined but is likely to be £1,292.13 for a Band D property in 2019/20, an increase of 3.99%.
  - 3) The Police and Crime Commissioner’s precept requirement is likely to increase by £24 or 13% to £212.82.
  - 4) At the time of preparing this report, not all Parish / Town Councils have supplied formal notification of their 2019/20 precept. The final figures will be reported to Council.
- 4) Mid Suffolk is a billing authority and collects council tax and non-domestic rates on behalf of the other precepting authorities i.e. Suffolk County Council, Suffolk Police and Crime Commissioner and Parish / Town Councils. The dates that monies collected are paid over to the County Council, and the Police and Crime Commissioner (“precept dates”) need to be formally agreed under Regulation 5(i) of the Local Authorities (Funds) (England) Regulations 1992.
- 5) Established practice is for payments to be made in 12 equal instalments on the 15th of each month or the next banking day if the 15th falls on a weekend or bank holiday. Accordingly, the precept dates applicable for 2019/20 are expected to be as follows:

15 April 2019	15 May 2019	17 June 2019	15 July 2019
15 August 2019	16 September 2019	15 October 2019	15 November 2019
16 December 2019	15 January 2020	17 February 2020	16 March 2020

**Section 25 report on the robustness of estimates and adequacy of reserves**

**1. Background**

- 1.1 Section 25 of the Local Government Act 2003 requires Councils, when setting its annual General Fund budget and level of council tax, to take account of a report from its Section 151 Officer on the robustness of estimates and adequacy of reserves. This report fulfils that requirement for the setting of the budget and council tax for 2019/20.
- 1.2 This is to ensure that when deciding on its budget for a financial year, Members are made aware of any issues of risk and uncertainty, or any other concerns by the Chief Financial Officer (CFO). The local authority is also expected to ensure that its budget provides for a prudent level of reserves to be maintained.
- 1.3 Section 26 of the Act empowers the Secretary of State to set a minimum level of reserves for which a local authority must provide in setting its budget. Section 26 would only be invoked as a fallback in circumstances in which a local authority does not act prudently, disregards the advice of its CFO and is heading for financial difficulty. The Section 151 Officer and Members, therefore have a responsibility to ensure in considering the budget that:
- It is realistic and achievable and that appropriate arrangements have been adopted in formulating it.
  - It is based on clearly understood and sound assumptions and links to the delivery of the Council's strategic priorities.
  - It includes an appropriate statement on the use of reserves and the adequacy of these.

**2. Basis of Advice for Section 25 Report**

- 2.1 In forming the advice for this year's Section 25 report, the CFO has considered the following:
- a) The role of the Chief Finance Officer
  - b) The effectiveness of financial controls
  - c) The effectiveness of budget planning and budget management
  - d) The adequacy of insurance and risk management
  - e) The mitigation of strategic financial risks
  - f) The capital programme

**a) Role of the Chief Finance Officer**

- 2.2 The statutory role of the Chief Finance Officer in relation to financial administration and stewardship of the Council, and its role in the organisation are both key to ensuring that financial discipline is maintained.
- 2.3 The statutory duties of the Chief Finance Officer are set out in the Financial Regulations which form part of the Council's Constitution. These include the requirement to report to council if there is an unbalanced budget (under Section 114 of the Local Government Act 1988).

- 2.4 The Chartered Institute of Public Finance and Accountancy (CIPFA) published a Statement on the Role of the Chief Financial Officer (CFO) in Local Government. The Statement requires that in order to meet best practice the CFO:
- a) is a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest;
  - b) must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer-term implications, opportunities and risks are fully considered, and alignment with the organisation's financial strategy; and
  - c) must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.
- To deliver these responsibilities the CFO:
- d) must lead and direct a finance function that is resourced to be fit for purpose; and
  - e) must be professionally qualified and suitably experienced.

#### **b) Financial Controls**

- 2.5 Alongside the statutory role of the CFO the Council has in place a number of financial management policies and financial controls which are set out in the Financial Regulations.
- 2.6 Other safeguards which ensure that the Council does not over-commit financially include:
- a) the statutory requirement for each local authority to set and arrange their affairs to remain within prudential limits for borrowing and capital investment;
  - b) the balanced budget requirement of the Local Government Finance Act 1992 (Sections 32, 43 and 93); and
  - c) the auditors' consideration of whether the authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the value for money conclusion).
- 2.7 The Council conducts an annual review of the effectiveness of the system of internal control and reports on this in the "Annual Governance Statement".
- 2.8 The internal and external audit functions play a key role in ensuring that the Council's financial controls and governance arrangements are operating satisfactorily. This is backed up by the review processes of Cabinet and the Joint Audit and Standards Committee undertaking the role of the Council's Audit Committee.

#### **c) Budget Planning and Budget Management**

- 2.9 The financial planning process is Councillor-led as Cabinet decides the principles and policies that underpin budget planning. The Budget Report describes the strategy for 2019/20 and beyond.

- 2.10 Cost pressures and variations in key areas of income and expenditure have been carefully considered and reflected in the budget.
- 2.11 Key assumptions have been made and updated during the budget process to reflect the changing economic position and latest information.
- 2.12 Detailed scrutiny, review and challenge of budgets has been undertaken by finance officers and the Senior Leadership Team.
- 2.13 There has been an examination by the Overview and Scrutiny Committee in advance of the budget being approved. The recommendations made by the Committee are considered by Cabinet before the budget is presented to Council.
- 2.14 A key factor in effective budget management is the Council's regular monitoring of spending against budgets throughout the year and at year-end. Budget managers are required to update their forecasts during the year and these are subject to review by Cabinet on a quarterly basis. The development of budget managers and initiatives to strengthen budgetary control and financial management throughout the Council is an ongoing process.
- 2.15 The Council has a proven track record on budget management, which is confirmed by Ernst & Young in their Annual Audit Letter. The auditors are required to form a conclusion on the arrangements the Council has put in place to secure economy, efficiency and effectiveness in its use of resources. An unqualified opinion has again been issued for 2017/18.

#### **d) Adequacy of Insurance and Risk Management**

- 2.16 The Council's insurance arrangements are in the form of external insurance premiums with regular reviews being undertaken of the level at which risks are insured.
- 2.17 A critical area where risk management thinking can add significant value is to enhance the planning and budgeting process. Utilising a risk-based approach directly links to the Council's risk appetite to its core financial and economic performance, supported by the Council's Significant Risk Register. The goal when integrating risk management into budget planning is to understand the assumptions that the budget is based on.
- 2.18 The effective application of the Council's risk management principles enhances many processes within the context of managing its services and enables management to make better and more informed decision.
- 2.19 Our approach is to identify the major line items of each service budget, the personnel who contributed to them and the basis of estimation and then to ask key questions such as:
- What are the potential risks that could interfere with the accuracy of the estimate?
  - What is the likelihood of these risks materialising?
  - What would the impact on the organisation be if they did materialise?

## e) Mitigation of Strategic Financial Risk

2.20 No budget can be completely free from risk and these are still prevalent in the ongoing financial climate. Some comments on the areas of the budget having key financial impacts or significant changes for 2019/20 are set out below:

- **Pay and Pensions** – The budget includes provision for pay increases of 2% for each of the 4 years to 2022/23 and continues to provide for annual progression through pay scales where employees are not at the top of their grades. A 1% change in pay amounts to around £90k per annum.

2019/20 is the last year of adjustment to the employers' pension fund contribution resulting from the 2016 triennial valuation. Beyond this, an increase of 1% per annum has been included.

The Council's establishment budget is based on a full establishment. To allow for in-year vacancy savings the budget includes an annual vacancy saving of £208k. This is based on previous years' outturn.

- **Price Increases** – Allowances for price increases have been made on some budgets including major contracts, where there is a contractual requirement to do so. For other areas the budget assumes any price inflation is absorbed by the service. A 1% change in the refuse and ICT contracts and the Shared Revenues Partnership is around £34k
- **Income from Fees and Charges** – A significant part of the Council's costs continues to be met from fees and charges. For some of these headings it is difficult to predict the level of income to be received e.g. planning fees, so progress against these income targets will need to be monitored throughout the year, particularly in the light of continuing economic volatility. A 1% change in income from planning, garden waste, car park and recycling performance payments income is around £34k.
- **Investment Income and Interest Payable** – Since 2009 interest rates have produced low returns from investments, but the Council has diversified its investments into a property fund and other pooled funds, following advice from Arlingclose, to increase the return on investment. One of the impacts of Brexit may be that the income from some pooled funds will be treated as capital rather than revenue income, which could require the redemption of current holdings and reduce the anticipated level of return.

The Council is making other commercial investments in order to generate income or regenerate an area. Where this investment is relying on borrowing as the funding source then any return will be subject to changes in interest rates. This is particularly relevant to the Capital Investment Fund Company (CIFCO) where borrowing is taken out for CIFCO to invest in commercial property. The 2019/20 budget includes a proposal to invest a further £25m in CIFCO to generate additional income. As this activity is subject to both interest rate and tenant void risks a separate stress test is being undertaken and will be available for the Council meeting in February.

- **Business Rate Retention** – As business rates is an increasingly important source of income for the Council, measures for closer monitoring have been put in place. Under the current retention system, the General Fund’s exposure to variances can come from economic decline, cessation of business from a major ratepayer and appeals to rateable values. The Council operates a Business Rates Equalisation Reserve to cover for this possibility as appropriate.

In 2020/21 local government is expected to be given 75% retention of business rates. The figures for this year and beyond assume a cost neutral position, but this is currently untested. If baseline funding levels should reduce, the Business Rates Equalisation Reserve could be used to support a short-term reduction, but medium-term plans and resources would need to be reviewed.

- **Government Funding** – The Council’s share of Revenue Support Grant for 2019/20 is zero, so the core Government funding is now reduced to Rural Services Delivery Grant (RSDG) and New Homes Bonus (NHB). 2019/20 is the final year of a 4-year Comprehensive Spending Review and funding levels beyond this are currently unknown. The medium-term figures are based on the current level of RSDG continuing and NHB being available under the current guidelines. NHB payments assume that there will be annual growth of 1.1% above the 0.4% baseline figure.
- **Welfare Reforms, Benefits and Council Tax Reductions** – At a forecast £14.1m housing benefit remains one of the Council’s largest financial transactions, which due to the welfare reforms and introduction of Universal Credit and the Council Tax Reduction scheme is subject to increasing risk and change. This will continue to be closely monitored in order to protect the Council from any emerging risks and liabilities.

#### **f) Capital Programme**

- 2.21 The Council has a significant capital programme for the next 3 years which is largely funded through borrowing and is based upon reasonable estimates of cost and capacity to deliver the programme. The programme has been developed to support the key deliverables of the Council and its ambition through the Joint Strategic Plan.
- 2.22 A key risk therefore to consider in the Council’s budget planning is the interest cost and provision for repayment of debt (Minimum Revenue Provision – MRP) that it will need to meet commitments on the borrowing it undertakes for capital purposes.
- 2.23 A review of the capital programme will need to be undertaken to ensure that future borrowing is targeted on projects that deliver the most for the district and are affordable within the current revenue resources.
- 2.24 The borrowing strategy and MRP policy are set out in detail in the Capital, Investment and Treasury Management Strategies document.

#### **Conclusion**

- 2.25 Taking all of the above into consideration, the Section 151 Officer’s opinion is that the Council’s budget and estimates are reasonable based on the assumptions and available information, but cannot be absolutely robust, so a full assurance cannot be given that there will be no unforeseen adverse variances.

2.26 This is an expected and acceptable situation for any organisation that is dealing with a large number of variables. Also, the general economic situation continues to impact on expenditure and income. Provided that the minimum safe level of reserves is maintained, any variations arising as a result of lack of robustness in the estimates should be manageable.

### **3 Adequacy of Reserves**

3.1 There is no available guidance on the minimum level of reserves that should be maintained. Each authority should determine a prudent level of reserves based upon their own circumstances, risk and uncertainties. Regard has been had to guidance that has been issued to CFO's and the risks and uncertainties faced.

3.2 The Council is required to maintain adequate financial reserves to meet the needs of the authority. This is the General Reserve and provides a safe level of contingency.

3.3 The CFO's opinion is that the minimum level of unearmarked reserves should, for the time being, be maintained at the current level of £1.05m without increasing the risk to the Council. This represents 10% of the annual General Fund Budget, so no action is required as part of the 2019/20 budget. This is partly based on the understanding that there are further sums available in earmarked reserves that will not be fully spent during 2019/20 as set out below.

3.4 Levels of earmarked reserves (excluding those relating to the Housing Revenue Account but including the Growth and Efficiency Fund and the Community Infrastructure Levy) are forecast to be £13.2m as at 31 March 2020. The level of earmarked reserves as at the 31 March 2019 will depend on the extent to which the New Homes Bonus money that is transferred to the Growth and Efficiency Fund is spent in 2019/20. The Growth and Efficiency Fund is continuing to support the delivery of the Council's Joint Strategic Plan in 2019/20.

### **4. Background Documents**

Local Government Act 2003; Guidance Note on Local Authority Reserves and Balances  
– CIPFA 2003; Medium Term Financial Strategy

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