

Subject:	2018/19 Corporate Priorities, Budget, Council Tax and The Medium Term Financial Strategy		Status:	For Publication	
Report to:	Overview & Scrutiny		Date:	5 th February 2018	
Report of:	Head of Finance		Portfolio Holder:	Resources & Customer Services	
Key Decision:	<input checked="" type="checkbox"/>	Forward Plan	<input checked="" type="checkbox"/>	General Exception	<input type="checkbox"/>
				Special Urgency	<input type="checkbox"/>
Equality Impact Assessment:	Required:	Yes	Attached:	Yes	
Biodiversity Impact Assessment	Required:	Yes/No	Attached:	Yes/No	
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1.	RECOMMENDATION(S)
	<i>The following represents the basis of a report to the 14th February 2018 Cabinet on the 2018/19 Budget and the Medium Term Financial Strategy. Overview and Scrutiny are asked to note the report and make any further recommendations to Cabinet in addition to the assumptions made by the Head of Finance.</i>
1.1	That the Cabinet recommend to Council a 2018/19 Council Tax rate for Band D.
1.2	That Cabinet recommends to Council the use of £803,000 (<i>subject to final Member decisions</i>) from the Transitional Reserve, £80,000 from the Council Tax collection fund and £800,000 from the Business Rates Retention reserve to support the 2018/19 annual budget.
1.3	That the Cabinet recommends to Council a net revenue budget for 2018/17 of £10,037,000 (<i>subject to final approval of costs & savings</i>).
1.4	That Cabinet considers the Fees and Charges as noted in Appendix 1 and makes any further recommendation to Council.
1.5	That Cabinet considers the withdrawal of financial support to the Police and Crime Commissioner regarding PCSOs.
1.6	That the Head of Finance and Property Services be instructed to prepare the technical resolutions necessary to give effect to these proposals.

2. PURPOSE OF REPORT

- 2.1 The Purpose of the report is to enable Cabinet to consider and recommend to Full Council the Revenue Budget and level of Council Tax for 2018/19, together with implications for the Council's Medium Term Financial Strategy (MTFS).

3. CORPORATE PRIORITIES

3.1 The matters discussed in this report impact directly on the following corporate priorities:

- **A clean and green Rossendale:** our priority is to keep Rossendale clean and green for all of Rossendale’s residents and visitors, and to take available opportunities to recycle and use energy from renewable sources more efficiently.
- **A connected and successful Rossendale that welcomes sustainable growth:** our priority is to ensure that we are well connected to our residents, key partners and stakeholders. We want to make the most of every pound we spend and we are always looking for new and innovative ways to make the resources we do have, work harder for us.
- **A proud, healthy and vibrant Rossendale:** our priority is to ensure that we are creating and maintaining a healthy and vibrant place for people to live and visit.

The primary focus of the Council’s budget setting is to support its Corporate priorities.

4. RISK ASSESSMENT IMPLICATIONS

4.1 **Section 25 Report:** As part of the final recommendations to Council Section 25 of the Local Government Act 2003 places a requirement on the Chief Financial Officer of each local authority (in Rossendale this is the Head of Financial Services) to advise councillors during the budget process on “the robustness of the estimates made for the purposes of the budget calculations and the adequacy of the proposed financial reserves”. This provision is designed to ensure that Member have information which will support responsible financial management over the longer term. Given the significant use of reserves in balancing the 2018/19 budget reference must be made, this year, to continuing financial pressures facing the Council and the limited/finite reserves available.

4.2 **Council Tax:** In setting the 2018/19 Budget Members should continue to plan and give due regard to the increasing financial challenge over the medium term. In particular Members should be aware of the future implications for the Council’s financial resources of any Council tax freeze or any increase below the Governments referendum trigger of the higher of £5.00 or 3% or more (NB – In the 2018/19 Settlement the Government announced an increase in the trigger point from 2% to 3%)

4.3 **Reserves:** Members should note that the budget proposals for 2018/19 put planned reliance on the use of Council reserves in order to produce a balanced budget. This reliance is set to increase over the medium term as the forecast deficit increases, albeit the earmarked resources will be extinguished during 2020/21.

4.4 **Resources:** In previous years, financial pressures have been reported namely the impact of the reduction in the annual value of New Homes Bonus (now c. £400k pa from a previous peak of c. £1m pa) alongside the loss of the Lancashire Waste Cost Share revenue (£550k pa). This pressure has now increased as a result of, last year, the Secretary of State rejecting the planned expansion of the Scout Moor wind turbines (loss c. £600k pa). In addition, we are not guaranteed the continuation of NHB under the same current terms over the medium term.

4.5 **Funding gap:** The medium term financial forecast indicates an underlying deficit of c. £1.0m (subject to the assumptions noted below). Members must continue to give due consideration as to how they are to bridge this annual deficit going forward, in order to produce legally balanced budgets for the future. Subject to the above the maximum

resources available to the Council are clear (both annual and reserves), therefore, the Council must address its annual net cost base in order to identify expenditure outside its statutory and contractual commitments and to ensure it has the appropriate annual support cost base.

- 4.6 **NNDR Pooling:** Members have previously agreed to enter into a pooling arrangement which forfeits the Council's safety net should income fall below the Council's baseline (ie more than a 7.5% fall). That said, the current level of business rates is above the Council's baseline target and is assumed to continue in future years. The impact of pooling and some renewable business rates revenue is estimated to be worth c.£800k pa. However, the future impact of proposed changes to the retention of business rates to "local 100% retention" may undermine the current financial advantages of the current pooling arrangements, should resources transfer to the upper tier (ie Lancashire CC).
- 4.7 **HCA:** The MTFS assumes a final exit from the day to day running cost (revenue and capital) of the HCA Empty Homes programme.
- 4.8 **Pay:** The Local Government Employers have made a pay offer of 2% pa for the two years 2018/20. This compares to our previous MTFS expectations of 1% pa. We understand that the pay offer has been rejected by 2 of the 3 main trade unions. The budget and MTFS has been changed to reflect the offer, although the 1% assumption has been retained beyond 2019/20. A 1% pay increase equates to c.£50k pa. The technical and volume assumptions have been increased to £150k for 2020/21 onwards. There is, therefore, some risk in our pay assumptions given the pressure of expectations across the whole of the Public Sector workforce.

The budget also assume a £150k saving as a result of natural staff turnover and the vacancy saving this creates. With a near full contingent of staff, this will be a challenging target.

- 4.9 **Rosso:** As part of the consideration for the sale of Rossendale Transport Ltd (Rosso), the Council acquired the Haslingden depot. The MTFS assumes a net contribution of £150k pa. This assumes a higher rental value but allows for capital maintenance requirements. Should the building be sold the Council should seek to achieve similar long term returns from other investment opportunities.
- 4.10 **Risk register:** Given the current situation and estimated future financial gap the MTFS risk score remains in the red for the purposes of the Council's risk register.

5. BACKGROUND AND OPTIONS

5.1 For a number of years the Council has continued to reduce its net revenue expenditure in line with, initially its own efficiency agenda and more so of late the impact of the Government's 2015 Comprehensive Spending Review and the proposed changes to Local Government Financing over recent years. This has resulted in all District Council's being now reliant, in the main, on the incomes they generate from their local residents, properties and businesses.

5.3 One-off Cost Pressures or Investment

There are no specific proposals for cost increase for 2018/19 not already approved by

Members. However, the base budget has seen pressure on its base budget from either reductions in income or additional costs on existing operations.

Members are asked specifically to approve the ending of financial support to the Police and Crime Commissioner (PCC) regarding PCSOs saving £33,000 pa to the Council. For 2017/18 this council was in the minority of Lancashire council's still supporting the PCC. The Government has given the Police, nationally, the opportunity to increase its Council Tax by £12 for 2018/19.

5.4 **Net Revenue expenditure:** Previous updates to the MTFs have assumed an annual increase in Council Tax of 1.99% per annum. For 2018/19 the Government has increased the maximum to 3% being the trigger point for a local referendum.

NB this assumption is subject to full Member approval and therefore is not confirmed at this stage.

Subject to the above, the 2018/19 net budget estimates, resources and future forecasts are as follows:

	2017-18 £000	2018-19 £000	2019-20 £000	2020-21 £000	2021-22 £000
Budget Estimates	9,440	10,070	10,127	10,224	10,287
Estimated Funding:					
Council Tax (17/18 £258.44 +1.99%)	5,168	5,332	5,438	5,546	5,657
Council Tax - growth in base (0.62%)		-	34	67	101
Revenue Support Grant	503	189	-	-	-
NNDR (Business rates baseline funding)	2,035	2,097	1,982	2,022	2,063
New Homes Bonus	835	684	536	440	453
Collection Fund Surplus - Council Tax	-	80	-	-	-
NNDR Retained / Pooling	700	800	800	800	800
Resources	9,241	9,182	8,790	8,876	9,074
Surplus / (further savings required)	(199)	(888)	(1,338)	(1,348)	(1,213)
Potential cost pressures - A	0	0	(120)	(190)	(210)
Potential cost saving / income - B		85	227	419	541
Budget Funding Gap	(199)	(803)	(1,231)	(1,119)	(882)
Use of Reserves	199	803	1,231	571	0
Surplus / (further savings required)	0	0	0	(548)	(882)

NB

1. For 2018/19 onwards Use of Reserves relates to the Transitional Reserve. The above demonstrates an underlying and increasing revenue deficit which in the immediate periods is funded through the use of the Transitional Reserve but which in 2020/21, the increased deficit, is too great to be supported in full by this reserve. The total value of this reserve is currently £2.5m (subject to the close down of 2017/18). The consequences are that the Council must deliver other means of declaring legally balanced budgets for the future.
2. The draft budget book for 2018/19 is included at Appendix 2

The potential future changes with regarded to cost pressures and possible savings are as follows:

Version Number:	V1	Page:	4 of 10
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Cost pressures - A	2018/19 £'000	2019/20 £'000	2020/21 £'001	2021/22 £'001
DWP Admin Subsidy	0	20	40	60
Volume & Technical	0	100	150	150
	0	120	190	210

Possible savings - B	2018-19 £'000	2019-20 £'000	2020-21 £'000	2021-22 £'000
Whitaker Museum (current c. £90k)	0	0	0	50
No annual Capital contribution (Current £100k)	0	25	50	50
Internal Audit contract with LCC - reduce days	0	5	10	10
Capital contributions from land sales	0	20	30	30
Spinning Point Phase 1 - Net benefit	0	20	30	30
Volume & Technical	0	0	70	70
Member Decisions				
PCSO's	33	33	33	33
Fees and charges increase by at least infn or 1% pa	0	20	40	60
2018/19 - C Tax additional 1%	52	52	52	52
2019/20 - C Tax additional 1%	0	52	52	52
2020/21 - C Tax additional 1%	0	0	52	52
2021/22 - C Tax additional 1%	0	0	0	52
	85	227	419	541

The key assumptions in the underlying the budget estimates are as follows:

- A general pay award of 2.0% in the two years 2018/20, plus associated employment costs and increments, 1% thereafter together with an annual saving (£150k) as a result of staff turnover.
- Annual Council Tax increases of 1.99% beyond 2018/19 (being the current level of council tax increase as per the previous MTFS) together with the additional opportunity of a further 1% (table B above)
- An increase in the future years Band D equivalent Council Tax base in line with the Local Plan and NHB assumptions. The Local Plan assumes 212 units pa, this has been discounted down to 170 to allow for discounts, exemptions, Council Tax Support and lower bandings. 10 Band D properties paying the full rate of Council Tax equates to £2.6k additional revenue to the Council.
- A year on year reduction in the Revenue Support Grant element of the Funding Formula for 2018/19 in line with the four year settlement offer being the final year for such support.
- A credit of c. £800k pa from the Council's share of increased business rates, the value from the Lancashire pool and renewable energy. Annual business rates surpluses are transferred to a reserve for future use.
- An estimated annual increase, within the core budget resources, of c. £94k in each year during the 4 year term of the New Homes Bonus (NHB) funding, less the fall out of funding at the end of the four year term.

- The Capita contract for revenues, benefits and customer contact has previously been extended to 30th Sept 2019 and the costs are included in the forecast. The revised cost structure is assumed to continue beyond 2019.
- Fuel costs have been increased to reflect recent prices. A reduced £50k contingency remains within the corporate budget for any future price increases or other requirements.
- The conclusions of 2019 actuarial pension review will be similar to the 2016 review together with the prepayment option. This therefore assumes no further annual increase, other than an inflation factor (3.7%).
- The Ex-Rosso Haslingden depot will generate net £75k in 2018/19 and £150k pa thereafter. Should the depot be sold the capital receipt will be utilised to support other projects which may impact on the financial returns in the earlier years.

5.6 Changes in the base budget costs between 2017/18 and 2018/19 are as follows:

	£000s
2017/18 Base Budget	9,440
Employment costs	199
Inflation	50
Savings	(492)
Volume & Technical changes	872
2018/19 Base Budget	10,070

(i) The main savings changes are noted below:

	£000s
Minimum Revenue Provision	56
Staffing	50
Pensions deficit	113
Fees, charges, income	107
MRP reductions	46
External audit Fees	10
Other miscellaneous items	110
	492

(ii) The key changes in increased Volume & Technical are noted below:

	£000s
ICT	72
Staffing	(32)
Cost share	551
Cemetery fees	(91)
Garden waste	(88)

Recycling income	20
DFG recharges	(32)
Regeneration / Tourism	50
Licencing Fees	213
Rent on Haslingden Depot	(75)
Loss of Rosso Mortgage	28
Operations restructure prov'n (still under review)	100
Housing Benefits	76
Other miscellaneous items	79
	871

5.7 The level of Council Tax for 2018/19

Council will make its final recommendations on 28th February 2018

Other precepting authorities will announce their Council Tax changes as follows:

- Lancashire County Council – x February 2018
- Lancashire Fire & Rescue – x February 2018
- Lancashire Police & Crime Commissioner – x February 2018
- Whitworth Town Council – x February 2018

The current Band D Council Tax for 2017/18 and the previous change across Rossendale is as follows:

Precepting Body	2017/18		% Share
	% Increase	Band D £	
Rossendale BC	1.99%	258.44	15.1%
Lancashire County Council *	1.99%	1,175.64	68.7%
LCC Adult Social Care *	2.00%	46.10	2.7%
Combined Fire Authority	0.00%	65.50	3.8%
Police & Crime Commissioner	1.99%	165.45	9.7%
Total (Excl' Whitworth)	3.33%	1,711.13	100.0%
Whitworth Parish Council	1.69%	23.40	
Total Whitworth Parish	3.31%	1,734.53	

* percentage increase is based on the total combined tax level

Council Tax Base

The Council Tax base has increased by 231 homes, 1.16% to 20,229 Band D equivalents being, in the main, a reflection of new homes in Rossendale. Any variation through actual billing will be reflected in the Collection Fund. Future estimated increases in the Council Tax base are in line with NHB forecasts of c.170 homes. The Local Plan target is 212 pa (albeit there is no Band D equivalent published).

5.8 2018/19 Provisional Settlement and beyond

The provisional Settlement Funding Assessment for 2018/19 was announced in December 2017. The key messages arising from the settlement are:

- a. The overall settlement announcement was in line with our expectations having previously opted to a four year settlement deal.
- b. The most significant change to funding came in relation to:
 - o The 3% maximum annual increase (previously 2%) for Council Tax without triggering a local referendum
 - o A maximum increase of £12 for the Police.

5.9 Fees & Charges

The annual budget requires that any changes to the Council's fees and charges be approved by Members. Unless there is commercial justification not to increase fees or an alternative statutory regulation, the proposal is to increase all fees and charges by the greater of 1% or CPI, as previously approved by Members. The September 2017 the consumer price index published annual inflation at 3.0%.

A full list of fees (including previous year comparisons) are included at Appendix 1

6.0 Bridging the Council's budget funding gap

As from 2018/19 the Council is facing a significant funding deficit and which has some risk beyond the c £1m gap as identified above. Therefore, amongst other things, the Council should continue to give consideration to:

- The future levels of Council Tax
- Maximising the returns to Council from New Homes Bonus and Business rates revenues
- The Council's ability to support non-statutory activities, other partner/community organisations and their alliance to the Council's corporate priorities.
- The future quality of statutory service provision
- Any remaining efficiencies within Council services and ensuring support services are appropriate.
- The Council's ability to exploit new commercial and revenue generating opportunities, albeit, in the main material returns will be medium to long term.
- Treasury management initiatives and maximising the strength of the Council's balance sheet resources.
- A continual review of internal structures and taking advantages as opportunities arise.
- Ensuring any contractual renewals and arrangements are to the best advantage of the Council.
- Transformational change opportunities in the delivery of core Council services.

6. COMMENTS FROM STATUTORY OFFICERS:

6.1 SECTION 151 OFFICER

6.2 The key financial matters are dealt with above.

6.3 The matter of any increase in Council Tax is a matter for Members. In making their decision Members should give consideration of the deficit facing the Council over the medium term. Given the Council's future deficit an increase in Council Tax is recommended by the s.151 officer.

6.4 The Council is now facing an unprecedented funding gap challenge when compared to the available resources of c. £9m for future years and the savings/efficiencies already made in previous years. Given that the Council has a statutory duty to produce annually a balanced budget it is legally bound to find a solution to the estimated future funding gap. There are also some high risk assumptions in the forecast as previously noted. Ultimately the use of reserves to balance the funding gap is both finite and financially an inefficient use of limited resources and means that reserves are not available for the longer term community benefit or financial returns that other projects may bring.

6.5 *Key Message:*

It is clear that given the 2018/19 base and the widening financial gap over the longer term that Council needs to develop further plans, during 2018/19, to reduce its net cost base by at least £1.0m pa in order to avoid initial reliance on limited reserves and to deal with the future resource deficit. Therefore, the Key messages for the medium term are as follows:

- 1. Council must continue to increase Council Tax in line with the Governments maximum thresholds.*
- 2. Council must give further consideration in its financial planning to either reduce costs or increase revenues.*

7. MONITORING OFFICER

7.1 No further comments.

8. HEAD OF PEOPLE AND POLICY (ON BEHALF OF THE HEAD OF PAID SERVICE)

8.1 The Equality Act 2010 requires the Council to have due regard in the exercising of its functions to three considerations. The need to:

- Eliminate discrimination. Harassment and victimisation and any other conduct that is prohibited by or under the Act.
- Advance equality of opportunity between people who share a relevant protected characteristic and people who do not share it.
- Foster good relations between people who share a relevant protected characteristic and those who do not share it.

The amount of regard that is "due" is set out in the Act and will depend on the circumstances of the case. Under the general equality duty there is a requirement to engage with people with protected characteristics and to have an adequate evidence base for Council decision-making.

The duty to inform, consult or involve requires that the council must involve communities and those directly affected at the most appropriate and proportionate level in 'routine functions, in addition to one-off decisions.' Further, under the duty of Best Value the Council is required to consult representatives of a wide range of local people; this should include local voluntary and community organisations and small businesses in such consultation.

9. CONSULTATION CARRIED OUT

- 9.1 Cabinet and Management Team
- 9.2 Members (annual budget briefing and Cabinet MTFS updates).
- 9.3 Overview & Scrutiny (5th February 2018)

10. CONCLUSION

- 10.1 The Council must remain focused on identifying and delivering further efficiencies and income in order to ensure annual balanced budgets over the immediate and medium term.

It must also ensure that all its budget resource allocations are directed to the core functions of the Council and that the use of its resources has clear links to the Council's Corporate Priorities.

Background Papers

Document	Place of Inspection
Previous updates to the MTFS	Rossendale Borough Council website
Government's Financial Settlement	DCLG website
Response to consultations	Budget working papers