

HUNTINGDONSHIRE DISTRICT COUNCIL

Title/Subject Matter:	Final Revenue Budget 2017/18 and Medium Term Plan Financial Strategy 2018/19 to 2021/22
Meeting/Date:	Overview and Scrutiny Panel (Performance and Customers) – 1st February 2017 Cabinet – 9th February 2017
Executive Portfolio:	Resources: Councillor J A Gray
Report by:	Head of Resources
Wards affected:	All Wards

Executive Summary:

Revenue Budget

The Council is required to set an annual budget for the forthcoming year, in order to set the Council Tax for the area, and approve its Medium Term Financial Strategy (MTFS) covering the following four years. This report sets out the final budget for 2017/18, detail of the service budgets and the revised MTFS for the period 2018/19 to 2021/22 for Cabinet approval.

The draft Budget and MTFS was approved by Cabinet on 19 January 2017 which included the savings and growth proposals, the removal of Zero Based Budgeting (ZBB) savings and the planned increase in Council Tax of 2% for 2017/18 and for the duration of the MTFS. The draft Capital Programme 2017/18 to 2021/22 was also approved.

This report outlines the changes that have occurred since then, as well as discussing any significant risks associated with the Budget and asking Cabinet to approve Fees and Charges for 2017/18.

The Final Budget 2017/18 (the Net Service Expenditure Budget) is £17.2m and the detailed Final Budget 2017/18 and MTFS is shown at **Appendix 1**. This is an increase of £445k on the Draft Budget 2017/18 that was reported in January 2017. The main reasons for the change are summarised below and are detailed in **Appendix 2**:

- Services: £307k
- Transformation: £157k
- Recharges and technical adjustments: £22k
- Final Allocations (Grants) announced: (£41k)

The net impact of the above changes for the Final Budget 2017/18 is a reduced contribution to General Reserves of £445k and a £0.897m increase in the budget gap to £1.2m by 2021/22. The 'Plan on a Page' at **Appendix 3** has now been updated to reflect the final budget.

Recommendations:

It is recommended that Overview and Scrutiny Panel (Performance and Customers) reviews this report and provides comments to Cabinet in respect of the:

1. overall budget 2017/18 and MTFS 2018/19 to 2021/22 (**Appendix 1**, this includes Revenue at Section 2 and the Capital Programme at Section 3; **Appendix 2**, growth).
2. fees and charges for 2017/18 (**Appendix 1**, Section 7 and Annex A).
3. The new "Plan-on-a-Page" (**Appendix 3**)

1. WHAT IS THIS REPORT ABOUT?

1.1 To provide Overview and Scrutiny Panel (Performance and Customers) with an update on the 2017/18 Budget and Medium Term Financial Strategy 2018/19 to 2021/22 and provide comments to Cabinet. The draft Revenue Budget was approved by Cabinet on 19 January and this report sets out:

- any changes that have occurred subsequently.
- impacts on reserves.
- level of Council Tax.
- consideration of the Resolution that will be presented to Full Council on the 22 February 2017.
- risks associated with the budget and relevant sensitivity analysis.

2. BACKGROUND

2.1 At the 19 January 2017 Cabinet meeting, Cabinet approved a:

- Budget Requirement of £16.7m for 2017/18 and an MTFS that has a profiled increase to £16.9m by 2021/22.
- Capital Programme of £9.5m for 2017/18, that reduces to £3.0m by 2021/22.

2.2 This included:

- savings from a detailed line by line Budget reviews £700k.
- growth of £1.5m (inflation, £227k; employee pay, £453k and other growth, £775k).
- non-realisation of previously approved Zero Based Budgeting (ZBB) savings of £430k.
- increased income from the Commercial Investment Strategy of £1.0m.
- grant settlement relating to New Homes Bonus and funding estimates for Revenue Support Grant, New Homes Bonus and Business Rates.
- the new Four Year Settlement from Government.

3. CHANGES TO THE BUDGET 2017/18 AND MEDIUM TERM FINANCIAL STRATEGY 2018/19 TO 2021/22

3.1 Since the January Cabinet, a summary of the changes to the budget is shown in **Table 1** (and paragraphs 3.2 and 3.3) below, with the detail shown in **Appendix 2**.

Table 1		Medium Term Financial Strategy			
	Budget 2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Cabinet January Draft Budget – contribution to / (from) General Reserves	3,476	2,495	(695)	(518)	(349)
Services	(306)	(352)	(389)	(402)	(409)
Transformation	(157)	(120)	(112)	(113)	(115)
Recharges and technical adjustments	(22)	(158)	(129)	(273)	(414)
Final Grant Allocations	41	41	41	41	41
Additional Growth	(445)	(590)	(589)	(747)	(897)
Cabinet January Draft Budget – contribution to / (from) General Reserves	3,032	1,906	(1,284)	(1,265)	(1,246)

NB. A negative number = expense

Summary of the Main Changes 2017/18 to 2019/20

3.2 With regard to the changes in 2017/18 through to 2019/20, these are shown in paragraphs (i) to (iv) below:

i. **Services**

This primarily relates to the Council wide Apprentice scheme of 12 apprentices (£221k) and additional economic development resources (£60k) required to increase capacity of the service.

ii. **Transformation**

There is an additional £0.2m in respect of transformational work that is occurring across the Council. £65k of this additional cost is the result of the delay in the new Financial Management System (FMS) implementation, but is to be funded by a consequential underspend in 2016/17 that will be transferred to an earmarked reserve.

iii. **Recharges and technical adjustments**

The three main adjustments relate to an increased cost of building control (£50k), increased business rates for Pathfinder House (£20k) and a reduction in the MRP costs as a result of the final Capital Programme changes (-£80k).

iv. **Final Grant Allocations**

The Government has announced its allocations to the Council for a number of grants which have resulted in increased grant income of £40k.

Summary of the Main Changes 2020/21 to 2021/22

3.3 The main increases in the final two years of the MTFS are due to:

- Pension contributions – a prudent approach has been taken after the triennial review period where inflation has been added resulting in an increase in contributions £161k for 2020/21 and £324k for 2021/22.
- Apprentice scheme – the costs in 2017/18 of £221k increase to £331k in 2019/20 and thereafter pay inflation has been added.

4. SUMMARY BUDGET 2017/18 and MEDIUM TERM FINANCIAL STRATEGY 2018/19 TO 2021/22

4.1 Reflecting the assumptions and changes noted in Section 2 and 3 respectively, the Final 2017/18 Budget and Medium Term Financial Strategy is shown in **Table 2**.

	Forecast	Original Budget	Budget	Medium Term Financial Strategy			
	2016/17	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	£000	£000	£000	£000	£000	£000	£000
Services Provided:							
Community Services	1,829	1,911	1,690	1,648	1,648	1,690	1,724
Customer Services	2,524	2,355	2,659	2,591	2,615	2,677	2,734
Development Services	725	1,370	1,355	1,408	1,467	1,514	1,561
Operational Services	3,961	3,968	4,029	3,811	3,817	3,922	4,029
Leisure and Health	3	(280)	(160)	(284)	(298)	(236)	(153)
Corporate Team and Directors	2,364	2,300	1,711	1,650	1,662	1,687	1,704
ICT	1,986	1,796	1,721	1,730	1,738	1,753	1,769
Resources	(720)	(308)	(737)	(914)	(986)	(969)	(951)
Corporate Finance	4,408	4,799	4,942	5,232	5,376	5,390	5,383
TOTAL	17,081	17,913	17,211	16,872	17,039	17,427	17,800

- Expenditure	76,175	76,806	78,133	78,132	78,440	78,871	79,287
- Income	(59,095)	(58,893)	(60,923)	(61,260)	(61,401)	(61,444)	(61,487)
- Net Expenditure	17,081	17,913	17,211	16,872	17,039	17,427	17,800

	Forecast	Original Budget	Budget	Medium Term Financial Strategy			
	2016/17	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Net Expenditure	17,081	17,913	17,211	16,872	17,039	17,427	17,800
Contribution to/(from) Earmarked Reserves:	0	0	(65)	0	0	0	0
- Commercial Investment Strategy	0	0	0	0	2,674	2,674	2,674
- Other	(257)	(257)	0	0	0	0	0
General Reserves	3,107	2,276	3,032	1,906	(1,284)	(1,265)	(1,246)
Budget Requirement	19,931	19,931	20,177	18,777	18,429	18,837	19,228
Non-Domestic Rates	(4,190)	(4,190)	(4,622)	(5,961)	(6,059)	(6,158)	(6,260)
S31 Grant	(1,018)	(1,018)	(1,018)	(1,018)	(1,018)	(1,018)	(1,018)
Revenue Support Grant (RSG)	(2,110)	(2,110)	(1,182)	(604)	0	0	0
New Homes Bonus	(4,965)	(4,965)	(3,656)	(2,787)	(2,674)	(2,674)	(2,674)
Collection Fund Surplus	0	0	(1,534)	0	0	0	0
Council Tax Requirement	(12,026)	7,905	8,166	8,407	8,678	8,986	9,276
- Base (*)	59,358	59,358	60,111	60,675	61,403	62,338	63,085
- Per Band D		133.18	135.84	138.56	141.33	144.16	147.04

Impact on Reserves

- 4.2 Surpluses (or deficits) in funding are adjusted via contributions to/from reserves; in the Council's Funding Statement (**Table 2**) this is shown against the line entitled "General Reserves". For the Final 2017/18 budget there is a budgeted surplus of £3m. However by 2019/20 there is a funding gap of £1.2m which remains through the remaining life of the MTF5 to 2021/22.
- 4.3 As shown in **Table 3** below, the funding gap from 2019/20 can be met from the Budget Surplus Reserve whilst at the same time ensuring that the General Fund Reserve stays at a level of 15% of the Council's Net Service Expenditure.

Table 3 Council General Fund and Earmarked Reserves						
	Forecast 2016/17 £'000	Budget 2017/18 £'000	Medium Term Financial Strategy			
			2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
GENERAL FUND						
Brought forward	2,537	2,568	2,582	2,531	2,556	2,614
Contribution to Reserve	31	3,032	1,906			
Contribution (from) Reserve				(1,284)	(1,265)	(1,246)
Contribution to/(from) Budget Surplus Reserve		(3,018)	(1,957)	1,309	1,323	1,302
Carried forward	2,568	2,582	2,531	2,556	2,614	2,670
<i>Minimum Level of Reserves</i>	<i>2,568</i>	<i>2,582</i>	<i>2,531</i>	<i>2,556</i>	<i>2,614</i>	<i>2,670</i>
EARMARKED RESERVES						
Commercial Investment Reserve						
Brought forward	12,390	3,230	3,230	3,230	5,904	8,578
Contribution to Reserve	40	0	0	2,674	2,674	2,674
Contribution (from) Reserve	(9,200)	0	0	0	0	0
Carried forward	3,230	3,230	3,230	5,904	8,578	11,253
Budget Surplus Reserve						
Brought Forward	805	3,425	6,443	8,400	7,091	5,768
Contribution to Reserve	2,909					
Contribution (from) Reserve	(289)					
Contribution from/(to) General Fund	0	3,018	1,957	(1,309)	(1,323)	(1,302)
Carried forward	3,425	6,443	8,400	7,091	5,768	4,466

5 2017/18 BUDGET AND MTFS COMPARED TO 4-YEAR EFFICIENCY PLAN

5.1 In October 2016 the Council published its 4-Year Efficiency Plan (2017/18 to 2020/21) in response to the Governments offer of a four year settlement. The efficiency plan reduced the Council's budget gap from £3.6m, as per the MTFS 2017/18 to 2020/21, to £0.7m. **Table 4** below shows the comparison between the efficiency plan and the new MTFS:

Table 4	Efficiency Plan v Budget and MTFS			
	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Efficiency Plan – contribution to/(from) Reserves	3,158	1,773	413	(705)
Final Budget/MTFS – contribution to/(from) Reserves	3,032	1,906	(1,284)	(1,265)
Variance	(127)	133	(1,697)	(560)

6 PLAN ON A PAGE 2017/18 TO 2021/22

6.1 Since 2015/16 the Council has adopted a strategy known as 'Plan on a Page' which sets out the Council's financial strategy. Section 4 has shown that the Council continues to face challenges over the medium term in its obligations to provide cost-effective services. **Appendix 3** shows the 2017/18 "Plan-on-a-Page" and the strategic resource plan that will be followed in order to achieve the Council's financial objectives. The result is the budget gap is now £1.2m by 2021/22, a significant reduction from £3.6m which was reported last year.

7. FEES AND CHARGES

7.1 Fees and Charges are a key income stream for all of local government and for 2017/18 for the Council it will represent 27% of total income (including government grants). In the main, it is only “discretionary” services that can be subject to a Council levied fee or charge and for some services there are some statutory controls on the amount that can be charged.

7.2 It is important that these fees and charges are reviewed each year to ensure that they are at the correct level to both maximise income generation and achieve the policy objectives required. The charges are shown in section 7 within **Appendix 1** and these charges are the basis upon which service income lines for the Final 2017/18 Budget is based.

8. ROBUSTNESS OF THE 2017/18 BUDGET AND MEDIUM TERM FINANCIAL STRATEGY 2018/19 TO 2021/22

8.1 The Council’s Responsible Financial Officer (S.151) has to make a statutory statement in respect of the Budget and reserves.

8.2 Section 8 of **Appendix 1** provides considerable discussion in respect of Risks that both the Council and the wider local government community face at this time of continued public sector austerity. In addition, sensitivity analysis is applied against these risks and their impact on General Fund reserves is assessed. In summary, the key findings are:

- 2017/18 to 2021/21 the minimal level of General Fund Reserve can be maintained (15% of Net Revenue Expenditure).
- In 2017/18 and 2018/19 excess budget requirements are put into the Budget Surplus Reserve, but
- For the final three years of the MTFs there is an annual contribution from the Budget Surplus Reserve of £1.3m (£3.9m over the three years)

8.3 Considering all the factors noted within the “Robustness” statement in respect of the 2017/18 Budget, it is considered that the combination of the:

- Councils commitment to continue to find service efficiencies,
- the direction of travel in relation to governance,
- the clear indication to invest in services, and
- its prudent position relating to income recognition (including raising Council Tax).

8.4 The budget proposed for 2017/18 should not give Members any significant concerns over the Council’s financial position.

8.5 With regard to the MTFs (2018/19 to 2021/22) which includes the anticipated removal of RSG as core funding by 2019/20 and changes to NHB, there are inevitably risks. However, over the past few years the Council has taken proactive action to address its budgetary concerns and with the planned continuation of its Transformation programme and further commercialisation the Council has a sound financial base.

9. WHY IS THIS REPORT NECESSARY/BACKGROUND

- 9.1 It is a requirement of the Council to set an annual budget and to have a Medium Term Financial Strategy.

10. OPTIONS CONSIDERED/ANALYSIS

- 10.1 The Budget was prepared by the Council and funding options were considered including an increase of 2% on Council Tax. The Council also considered options on some growth items and these are detailed within the report.

11. KEY IMPACTS/RISKS? HOW WILL THEY BE ADDRESSED?

- 11.1 There are a number of key savings initiatives that must be delivered in a timely fashion to secure the required savings. The delivery of the 2017/18 Final Budget, when approved will be managed via the Council's budget monitoring processes throughout the year.

12. COMMENTS OF OVERVIEW & SCRUTINY PANEL

- 12.1 To be circulated after the Overview & Scrutiny Panel (Performance and Customers).

13. WHAT ACTIONS WILL BE TAKEN/TIMETABLE FOR IMPLEMENTATION

- 13.1 The 2017/18 Final Budget forms an integral part of service plans for 2017/18 and, therefore, actions and timescales required to ensure savings are achieved and service spending is in line with the approved budget, will be contained within the final service plans.

14. LINK TO THE CORPORATE PLAN

- 14.1 The Budget is the financial interpretation of the Council's strategic and operational priorities that are included within the entire Corporate Plan. However, the budget process (i.e. ZBB, monitoring etc) itself meets the following specific aims and objectives of the Corporate Plan:

- Ensuring we are a customer focused and service led council, delivering value for money services.

- 14.2 This will assist the Council in:

- "becoming more business-like and efficient in the way we deliver services".

15. CONSULTATION

- 15.1 The Council is currently consulting with the Business and Voluntary Community and the results of this consultation will be available for the February Cabinet meeting.

16. LEGAL IMPLICATIONS

- 16.1 As per the Sections 31A and 42A of the Local Government Finance Act 1992, the Council is required to set a balanced budget. This is achieved for 2017/18 so the setting of the Council Tax at the level mentioned within the report is appropriate.

- 16.2 However, by 2021/22 the MTFS is forecasting a negative general fund which means that there will be an unbalanced budget because there will be insufficient funds within reserves to meet the difference between Net Expenditure and Funding. If such a scenario was faced by the Council, the Local Government Finance Act 1988 would require the Council's Responsible Financial Officer to issue a S.114 report.

17. RESOURCE IMPLICATIONS

- 17.1 The resource implications have been shown within the main body of this report.

18. OTHER IMPLICATIONS

- 18.1 All implications are contained within the body of the report.

19 REASONS FOR THE RECOMMENDED DECISIONS

- 19.1 To enable Cabinet to approve and understand:
- the changes to the Draft 2017/18 Budget and MTFS as approved by Cabinet on 19 January 2017.
 - The risks and impacts of these, on the 2017/18 Final Budget and MTFS.

20. LIST OF APPENDICES INCLUDED

Appendix 1: 2017/18 Final Budget & Medium Term Financial Strategy 2018/19 to 2021/22

Appendix 2: Changes to the Draft Budget 2017/18


Appendix 3: Plan on a Page

BACKGROUND PAPERS


Working papers in Resources; Accountancy Services

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