

<b>Subject:</b>	2017/18 Corporate Priorities, Budget, Council Tax and The Medium Term Financial Strategy		<b>Status:</b>	For Publication	
<b>Report to:</b>	Overview & Scrutiny		<b>Date:</b>	6 <sup>th</sup> February 2017	
<b>Report of:</b>	Head of Finance & Property Services		<b>Portfolio Holder:</b>	Portfolio Holder for Finance and Resources	
<b>Key Decision:</b>	<input checked="" type="checkbox"/>	Forward Plan	<input checked="" type="checkbox"/>	General Exception	<input type="checkbox"/>
				Special Urgency	<input type="checkbox"/>
<b>Equality Impact Assessment:</b>	Required:	Yes	Attached:	Yes	
<b>Biodiversity Impact Assessment</b>	Required:	<del>Yes</del> /No	Attached:	<del>Yes</del> /No	
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1.	<b>RECOMMENDATION(S)</b>
	<i>The following represents the basis of a report to the 15<sup>th</sup> February 2017 Cabinet on the 2017/18 Budget and the Medium Term Financial Strategy. Overview and Scrutiny are asked to note the report and make any further recommendations to Cabinet.</i>
1.1	That the Cabinet recommend to Council a 2017/18 Council Tax rate for Band D.
1.2	That Cabinet recommends to Council the use of £199,000 ( <i>subject to the rate of Council Tax</i> ) from the Transitional Reserve and £700,000 from the Business Rates Retention reserve to support the 2017/18 annual budget.
1.3	That the Cabinet recommends to Council a net revenue budget for 2017/18 of £9,440,000
1.4	That Cabinet recommends to Council any changes to Fees and Charges as noted in Appendix 1
1.5	That Cabinet recommends to Council the transfer of the Rossendale Transport Limited pension surplus (c £220k) to Council.
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 recommend to Full Council the Revenue Budget and level of Council Tax for 2017/18, 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:
- **Regenerating Rossendale:** This priority focuses on regeneration in its broadest sense, so it means supporting communities that get on well together, attracting investment, promoting Rossendale, as well as working as an enabler to promote

the physical regeneration of Rossendale.

- **Responsive Value for Money Services:** This priority is about the Council working collaboratively, being a provider, procurer and a commissioner of services that are efficient and that meet the needs of local people.
- **Clean Green Rossendale:** This priority focuses on clean streets and town centres and well managed open spaces, whilst recognising that the Council has to work with communities and as a partner to deliver this ambition.

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

#### 4. RISK ASSESSMENT IMPLICATIONS

- 4.1 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.
- 4.2 In setting the 2017/18 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 Council financial resources of any Council tax freeze or any increase below the Governments referendum trigger of the higher of £5.00 or 2% or more. Previous year freezes (7 successive years) in Council Tax now mean that the Council has £700k less resources per annum.
- 4.3 Members should note that the budget proposals for 2017/18 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 such resource will be extinguished during 2019/20.
- 4.4 Further financial pressure will be faced by Council beyond 2017/18 as the impact of the reduction in the value of New Homes Bonus comes into effect alongside the loss of the Lancashire Waste Cost Share revenue.
- 4.5 The medium term financial forecast indicates an underlying deficit of c. £1.2m (subject to the assumptions noted below). Members must continue to give due consideration as to how they are to mitigate and cancel this annual deficit going forward, in order to produce legally balanced future budgets.
- 4.6 Members have previously agreed to enter into a pooling arrangement which forfeits the Council's safety net should income fall below the Councils baseline by more than 7.5%. That said, the current level of business rates is above the Council's baseline target and is assumed to continue in future years. The recent 2016 business rates revaluation is assumed to be neutral for Council. The Council is able to withdraw from the pool on an annual basis should it so wish. The future impact of proposed changes to the retention of business rates locally ("100% retention") may undermine the current financial advantages of the current pooling arrangements.
- 4.7 The MTFs assumes a full exit from the day to day running cost (revenue and capital) of

the Empty Homes programme as a result of the transfer to Calico by the close of 2016/17.

- 4.8 The MTFS assumes the eventual receipt of c £670k per annum from renewable energy. However, the local planning decision on which this revenue is based is currently with the Planning Inspector prior to final submission to the Secretary of State for a recommendation. This assumed income source is both significant and fundamental to the MTFS having an estimated total life value of c £20m.
- 4.9 Given the current situation and estimated future financial gap the MTFS risk score has recently been revised upwards within 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 the following years.
- 5.2 During 2016/17 one report has been presented to Cabinet regarding current assumptions in relation to 2017/18 and beyond, highlighting cost pressures and potential savings. The main development since the last report have been:
- Publication of the 2016 actuarial pension valuation
  - Changes to the value of New Homes Bonus announced in December 2016. The impact of the announced change is a reduction of c £900k pa compared to previous forecast assumptions.

### 5.3 One-off Cost Pressures or Investment

There are no proposals for cost increase for 2017/18 not already approved by Members.

- 5.4 **Net Revenue expenditure:** Previous updates to the MTFS have assumed an annual increase in Council Tax of 2% per annum, this is reflected below in the 2017/18 assumptions.

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

Subject to the above, the 2017/18 net revenue (costs less resources) together with the 2016/17 budget and future forecasts is as follows:

	2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000	2020-21 £000	2021-22 £000
<b>Budget Estimates</b>	<b>9,580</b>	<b>9,440</b>	<b>9,524</b>	<b>9,693</b>	<b>9,846</b>	<b>9,974</b>
Estimated Funding:						
Council Tax	4,986	5,168	5,271	5,376	5,483	5,592
Council Tax - growth in base (0.75%)		-	39	78	119	160
Revenue Support Grant	1,086	503	189	-	-	-
NDR (Business rates baseline share)	1,924	2,035	2,101	2,015	2,055	2,096
New Homes Bonus	970	835	578	401	275	258
Transitional Grant	33	-	-	-	-	-
Collection Fund Surplus - Council Tax	66	-	-	-	-	-
NDR Retained / Pooling	254	700	800	800	800	800
<b>Resources</b>	<b>9,319</b>	<b>9,241</b>	<b>8,978</b>	<b>8,670</b>	<b>8,732</b>	<b>8,906</b>
<b>Surplus / (further savings required)</b>	<b>(261)</b>	<b>(198)</b>	<b>(546)</b>	<b>(1,023)</b>	<b>(1,114)</b>	<b>(1,068)</b>
Potential cost pressures - A		0	(740)	(800)	(830)	(830)
Potential savings - B		-	-	334	668	668
<b>Surplus / (further savings required)</b>	<b>(261)</b>	<b>(198)</b>	<b>(1,286)</b>	<b>(1,489)</b>	<b>(1,276)</b>	<b>(1,231)</b>
Use of Reserves	261	198	1,286	919	0	0
<b>Surplus / (further savings required)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(570)</b>	<b>(1,276)</b>	<b>(1,231)</b>

NB

1. For 2017/18 onwards the reserves relate to Transitional Reserves. The above demonstrates an underlying and increasing revenue deficit which in the immediate periods is supported through the use of the Transitional Reserve but which in 2019/20, the increased deficit, is too great to be supported in full by this reserve. The total value of this reserve is currently £2.4m (subject to the close down of 2016/17)
2. New Homes Bonus is now shown as a separate resource for clarity. Previously this had been netted off the Budget Estimate.

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

<b>Cost pressures - A</b>	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'001	2021/22 £'001
DWP Admin Subsidy	0	30	90	120	120
LCC Cost Share & Recycling Income	0	610	610	610	610
Volume & Technical	0	100	100	100	100
	<b>0</b>	<b>740</b>	<b>800</b>	<b>830</b>	<b>830</b>

<b>Possible savings - B</b>	2017-18 £000	2018-19 £000	2019-20 £000	2020-21 £001	2021-22 £000
Local Business Rates (Renewable Energy)	0	0	217	434	434
Rental income (Renewable Energy)	0	0	117	233	233
	<b>0</b>	<b>0</b>	<b>334</b>	<b>668</b>	<b>668</b>

NB

1. *Income anticipated from renewable energy has already been deferred by two years. We now await the final decision of the Secretary of States on the Scout Moor planning decision. The assumption is that the expansion will go ahead and that a financial contribution to the Council will commence as from October 2019.*

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

- A general pay award of 1.0% in each year, plus associated employment costs and increments together with an annual saving (£150k) as a result of staff turnover.
- Annual Council Tax increases of 1.99% beyond 2017/18 (being the current level of council tax increase, above which the Council would have to hold a referendum)
- A year on year reduction in the Revenue Support Grant element of the Funding Formula for 2017/18 to 2019/20 in line with the four year settlement offer.
- A credit of c. £400k pa from the Council's share of Business rates gains together with a similar value from NNDR pooling. This is in line with expectations of the rateable value base across Rossendale for 2017/18. Annual NNDR surpluses are transferred to a reserve for future use.
- An estimated annual increase, within the core budget resources, of c. £64k 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. See further below.
- The Capita contract for revenues, benefits and customer contact has now been extended to 30<sup>th</sup> Sept 2019 and the costs included in the forecast. The revised cost structure is assumed to continue beyond 2019.
- No change has been made to fuel prices on the basis that there is an expectation of no material increase over the medium term. However, a £60k contingency remains within the corporate budget for any future price increase.
- Income from renewable energy is now assumed to commence in 2018/19 and assumes that the Secretary of State will endorse the Council's previous planning decision and that Peel Energy (or others) will expand the current operations. With a combined value of c. £670k this income is fundamental to bridging the forecast resources deficit.
- The conclusions of 2019 actuarial pension review will be similar to the 2016 review and therefore assumes no further annual increase beyond the current 4.2% pa for deficit payments and the current 15.6% p.a. for future benefits. No prepayment savings have been assumed albeit this will form part of the Council's Treasury Management strategy.
- The current waste recycling and disposal cost share arrangements will cease as from March 2018. The combined loss to the Council being c £660k pa.

5.6 Changes in the base budget costs between 2016/17 and 2017/18 are as follows:

	<b>£000s</b>
<b>2016/17 Base Budget</b>	<b>9,580</b>
Employment costs	147
Savings	(160)
Volume & Technical changes	(127)
<b>2017/19 Base Budget</b>	<b>9,440</b>

(i) The main changes in employment costs is the 1% pay award and increments (£83k) and changes to the pensions for future service £64k

(ii) The main savings changes are noted below:

	<b>£000s</b>
Rosendale Leisure Trust grant	84
Printing savings	16
Staffing	28
Treasury / Pensions	20
Other	12

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

	<b>£000s</b>
Revenues & Benefits contract	164
Grants	26
Prof Fees (Scout Moor)	60
Estates income / costs	46
Less:	
Benefits subsidy	(29)
New Director post	(94)
Insurance	(16)
Misc'	(30)

## 5.7 The level of Council Tax for 2017/18

Council will make proposals on 1<sup>st</sup> March 2017

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

- Lancashire County Council – 9<sup>th</sup> February 2017
- Lancashire Fire & Rescue – 20<sup>th</sup> February 2017
- Lancashire Police & Crime Commissioner – tbc
- Whitworth Town Council – 23<sup>rd</sup> February 2017

The current Band D Council Tax for 2016/17 and the previous change across Rosendale is as follows:

Precepting Body	% Increase	2016/17	
		Band D £	% Share
<b>Rossendale BC</b>	0.00%	<b>253.40</b>	15.3%
Lancashire County Council	1.99%	<b>1,152.26</b>	69.6%
LCC Adult Social Care*		<b>22.60</b>	1.4%
Combined Fire Authority	0.99%	<b>65.50</b>	4.0%
Police & Crime Commissioner	1.99%	<b>162.22</b>	9.8%
<b>Total (Excl' Whitworth)</b>	<b>3.04%</b>	<b>1,655.98</b>	
Whitworth Parish Council	0.00%	<b>23.01</b>	
<b>Total Whitworth Parish</b>	<b>3.00%</b>	<b>1,678.99</b>	

\* Lancashire County Council Adult Social Care is a new precept for 2016/17

## Council Tax Base

The Council tax base has increased by 1.6% to 19,998 Band D equivalents, being in the main a reflection of new homes in Rossendale and a reduction in working age numbers claiming Council Tax Support. Any variation through actual billing will be reflected in the Collection Fund.

### 5.8 2017/18 Provisional Settlement and beyond

The provisional Settlement Funding Assessment for 2017/18 was announced on 15th December 2016. 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 the revision of the New Home Bonus calculations, the changes being:
  - o Future years and the retrospective year reduction from 6 years to 4 (with a one year only transitional allowance).
  - o Reward for only those units achieved in excess of the national average growth of 0.4%. For RBC the growth was 0.65%, this has cost 60% in reduced income compared to the previous year's formula.

The policy change is therefore at a cost of £3.0m to RBC over the next 5 years and is summarised as follows:

	2017/18	2018/19	2019/20	2020/21	2021/22	Total
	£000	£000	£000	£000	£000	£000
Current Estimate	835	578	401	275	258	2,346
Estimate pre-Dec 2016	1,072	1,118	1,206	1,119	834	5,349
<b>Reduction</b>	<b>237</b>	<b>540</b>	<b>806</b>	<b>844</b>	<b>577</b>	<b>3,004</b>

The current estimate assumes that NHB does continue beyond 2017/18 on the same 4 year basis as the 2016/17 changes. In light of the 2016 change this may be deemed as optimistic, particularly if the current baseline of 0.4% is increased as a result of the Government annual review. The 2021/22 estimate equates to 4 successive years of £64k to be secured in each of the previous 4 years

## 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. The September 2016 the consumer price index indicated inflation of 1.0%.

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

## 5.10 2016 Pension Valuation

The actuary has concluded his work on the 2016 valuation. The following are the substantive matters arising from the review for Rossendale:

- Future service costs 15.6% (currently 14.1% - cost increase c £60k pa)
- Pension deficit £14.4m as at March 2016 ( £19.5m 2013)
- Remaining recovery period 14-15 years
- Reduction in annual deficit payments of c £65k to £1.019m for 17/18
- Rossendale Transport Limited pension surplus of c £220k to transfer to Rossendale Borough Council.
- Opportunity to take advantage of early payment discount options.

The Council is guarantor for the Rossendale Transport Ltd (RTL) pension fund (both its payment contributions and any deficit). The fund is now closed to new RTL employees with only 3 staff remaining in the scheme. Given the Council's position as guarantor and the pension surplus of c £220k the opportunity is being recommended to transfer the surplus to Council. This has the following advantages:

- Eliminates any future deficit payments from RTL (£140k paid in 2016/17)
- RTL will continue to pay future service pension cost for the 3 remaining staff members.
- Eliminates the current pensions deficit within RTLs balance sheet (£1.4m in 2016)
- Increases the credit worthiness of RTL when negotiating, amongst other matters, procurement and supply arrangements.
- Has a marginally benefit on the size of the Council's own ongoing deficit contributions.

The Head of Finance has responded to the valuation consultation seeking an extension of the deficit recovery period by 3 years in order to achieve a further reduction (estimated at c £100k pa) in the annual deficit contributions payment.

## 5.11 Bridging the Council's budget funding gap

The Council now has 12 months to consider options and plans for bridging the funding gap which is of a significant scale as for 2018/19. Therefore, over the next financial year,

amongst other things consideration should be given to:

- The likely outcome of the proposed Scout Moor renewable energy project
- 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
- The Council's ability to exploit new commercial and revenue generating opportunities
- 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 Council
- Transformational change opportunities in the delivery of core Council services.

#### **COMMENTS FROM STATUTORY OFFICERS:**

##### **6. SECTION 151 OFFICER**

6.1 The key financial matters are dealt with above.

6.2 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.

6.3 The Council is now facing an unprecedented funding gap challenge when compared to the available resources of c. £8.9m 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.

6.4 *Key Message:*

*It is clear that given the 2017/18 base and the widening financial gap over the longer term that Council needs to develop further plans, during 2017/18, to reduce its net cost base by at least £1.2m 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 begin to increase Council Tax as per the MTFs (value £500k pa over the five years).*
2. *Council must secure the wind farms income as per the MTFs (£600k pa).*
3. *Council must give further consideration in its financial planning to either reduce costs or increase revenues. The Cabinet and the Senior Management Team have already commenced this exercise.*

## **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.

8.2 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.

8.3 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 (6<sup>th</sup> February 2017)

9.4 Council website

## **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