

 <b>Executive 7 February 2018</b> <b>Council 21 February 2018</b>		<b>Agenda Item No.</b> <div style="font-size: 2em; text-align: center;"><b>3</b></div>
<b>Title</b>	2018/19 General Fund Budget and Council Tax	
<b>For further information about this report please contact</b>	Mike Snow 01926 456800 Jenny Clayton 01926 456013	
<b>Wards of the District directly affected</b>	N/A	
<b>Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?</b>	No	
<b>Date and meeting when issue was last considered and relevant minute number</b>	29 November 2017 – Base Budget report	
<b>Background Papers</b>		

<b>Contrary to the policy framework:</b>	No
<b>Contrary to the budgetary framework:</b>	No
<b>Key Decision?</b>	Yes
<b>Included within the Forward Plan? (If yes include reference number)</b>	Yes
<b>Equality Impact Assessment Undertaken</b>	No

Officer/Councillor Approval		
Officer Approval	Date	Name
Chief Executive/Deputy Chief Executive	22/01/2018	
Head of Service	22/01/2018	Mike Snow
CMT	22/01/2018	
Section 151 Officer	22/01/2018	Mike Snow
Monitoring Officer	22/01/2018	Andrew Jones
Finance	22/01/2018	Jenny Clayton
Portfolio Holder(s)	22/01/2018	Peter Whiting
Consultation & Community Engagement		
Final Decision?		Yes – by Council
Suggested next steps (if not final decision please set out below)		

## 1. **Summary**

- 1.1 This Report informs Members on the Council's financial position, bringing together the latest and original Budgets for 2017/18 and 2018/19, plus the Medium Term Forecasts until 2022/23. In doing so it advises upon the net deficit from 2022/23 and the savings required to balance future years' Budgets.
- 1.2 The report seeks Members approval of the following-
- Latest Budget 2017/18
  - Original 2018/19 Budget
  - This Council's Band D Council Tax charge for 2018/19
  - 5 Year Capital Programme
  - Prudential Indicators for 2018/19.
  - To note the latest Reserves and Schedules, approving the relevant transfers.
  - Financial Strategy
  - Equipment Renewal and ICT Replacement Schedules
  - Ear Marked Reserve Requests for slippage to 2018/19 Budgets
  - Appropriation of New Homes Bonus and General Fund balances.
- 1.3 This report will be presented to Full Council alongside a separate Report recommending the overall Council Tax Charges 2018/19 for Warwick District Council.
- 1.4 Despite significant cuts in Government Funding, this Council has been able to set a balanced Budget for 2018/19 without having to reduce the services it provides. This has been the case for many years as a result of the Fit for the Future Programme it has adopted. It has not had to rely on New Homes Bonus to support core revenue spending and has been able to allocate this funding to project work and replenish reserves. Alongside this the Council has achieved a surplus on its 2017/18 Budget. However, the Council's financial projections show that further savings need to be secured from 2019/20 onwards.

## 2. **Recommendations**

The Executive recommend to Council to approve or to note:-

- 2.1 The proposed changes to 2017/18 Budgets detailed in Section 3.2.
- 2.2 The Revised 2017/18 Budget of Net Expenditure of £14,855,500 (Appendix 1) after allocating a surplus of £110,300 (paragraphs 3.2.1 and 3.2.6).
- 2.3 The Earmarked Reserves Requests at Appendix 2 (paragraph 3.2.5).
- 2.4 The proposed changes to 2018/19 Base Budgets detailed in Section 3.3.
- 2.5 The proposed Budget for 2018/19 with Net Expenditure of £18,742,200 taking into account the changes detailed in section 3.3 and which is summarised in Appendix 3.
- 2.6 Subject to the acceptance of the current Local Government Employers' pay offer, to increase the current Living Wage hourly rate of £8.45 by 2% to £8.62.

- 2.7 Subject to approval of the above Budget 2018/19, the Council Tax charges for Warwick District Council for 2018/19 before the addition of Parish/Town Councils, Warwickshire County Council and Warwickshire Police and Crime Commissioner precepts, for each band is agreed by Council as follows:-

	£
Band A	107.91
Band B	125.89
Band C	143.88
Band D	161.86
Band E	197.83
Band F	233.8
Band G	269.77
Band H	323.72

- 2.8 Approve the 2018/19 proposed New Homes Bonus of £2,482,111 is allocated as follows, as detailed in paragraph 3.13.1:

<b>New Homes Bonus - 2018/19 Allocation</b>	<b>£</b>
	<b>2,482,111</b>
Waterloo	-170,287
Whitnash Hub	-350,000
WW1 Commemorations	-10,500
Commonwealth Games - Bowls	-100,000
Car Parks Displacement Reserve	-800,000
Community Projects Reserve	-1,051,324
<b>Total Allocated</b>	<b>-2,482,111</b>

- 2.9 Approve the Financial Strategy (para 4.2 and Appendix 4).
- 2.10 Approve the ICT Replacement and Equipment Renewal Schedules (Section 3.10).
- 2.11 The creation of the Planning Investment, Harbury Lane, Commonwealth Games and Homeless Prevention Reserves in Section 3.10
- 2.12 Approve the General Fund Capital and Housing Investment Programmes as detailed in Appendices 10 parts 1 and 2, together with the funding of both programmes as detailed in Appendices 10 parts 3 and 4 and the changes described in the tables in paragraph 3.11 and Appendix 9.
- 2.13 Approve the Prudential indicators (para 3.12 and Appendix 12).

### 3. **Reasons for the Recommendation**

#### 3.1 **Mandatory Obligations**

- 3.1.1 By law, the Council must set a balanced budget before the beginning of the financial year. It must levy a council tax from its local tax payers to meet the gap between expenditure and resources available.

3.1.2 It is prudent to consider the medium term rather than just the next financial year, taking into account the longer term implications of decisions in respect of 2018/19. Hence, Members receive a 5 year Financial Strategy, Capital Programme and Reserves Schedule.

3.1.3 The Local Government Act 2004, Section 3, states that the Council must set an authorised borrowing limit. The CIPFA Code for Capital Finance in Local Authorities states the Council should annually approve Prudential Indicators.

3.1.4 The Chief Financial Officer is required to report on the robustness of the estimates made and the adequacy of the proposed financial reserves. (This statement is made at Appendix 1).

### 3.2 **2017/18 Revenue Budget**

3.2.1 In November 2017, Members approved the Revised Base Budget with a surplus of £811,500 which was duly allocated as follows:-

•	Service Transformation Reserve	£150,000
•	Capital Investment Reserve	£150,000
•	Investment Volatility Reserve	£100,000
•	Early Retirement Reserve	£50,000
•	Car Park Displacement Reserve	£100,000
•	Contingency Budget 2018/19	£200,000
•	Contingency Budget 2017/18	£61,500

At that point the latest budgets totalled £14,155,300. Since then further work on these budgets has been underway and latest budgets revised to a total of £14,855,500 yielding a further £110,300 surplus. The key drivers of this change are discussed below.

3.2.2 Members will be aware that Interest Rates rose at the end of 2017. Officers have now had an opportunity to update the forecast Investment Interest in light of this and the latest forecast balances available. The latest forecast for the General Fund is £313,800, an increase on the £295,000 reported in November.

3.2.2 The Inflation Provision and Cleaning Contingency have not been utilised and it is unlikely that they will be during 2017/18. This yields a total ongoing saving of £72,300.

3.2.3 Since the Council introduced its charging schedule for the recycling receptacles, the demand for these has decreased. It is now possible to reduce the Revenue Contribution to Capital for these by £45,000. This is expected that this will be recurring, although this is reviewed annually.

3.2.5 Some of the 2017/18 budgets for projects will not now be needed until 2018/19. A schedule is provided for Ear Marked Reserve Requests at Appendix 2 detailing what these are. This totals £292,000 for the General Fund and £10,700 for the HRA.

3.2.6 Taking into account all these changes to the latest budget for the current year, 2017/18 is forecast to produce a further surplus of £110,300. The use of this surplus is considered within Section 3.13.

### 3.3 2018/19 Revenue Budget

- 3.3.1 In the November 2017 Report, Members approved the General Fund Base Budget for 2018/19 of £16,254,400 then showing a £38,500 surplus. Since then there have been further budget changes. The latest forecast is £18,742,000 after allocation of the £15,200 surplus (para 3.13.3).
- 3.3.2 In January, Members received a report on the new procurement arrangements for 2018/19. The £20,000 net additional cost has been built into budgets.
- 3.3.3 The ICT Serve Re-design recurring saving of £50,000.
- 3.3.4 Business Rates Income and the Volatility Reserve have been updated to bring a £100,000 net additional income to the General Fund in 2018/19. Business Rates is discussed further in Section 3.5.
- 3.3.5 The following substantive posts have been included within the 2018/19 Budget, for which Executive is asked to approve the funding. These posts are subject to the changes to the Establishment being agreed by Employment Committee
- Currently the Sports Programme Manager and Officer for the Leisure Options Project have been recruited on an interim basis. These posts are currently funded until September 2018. However, it is apparent that to deliver this project and then move to Stage 2 Kenilworth these Posts need to be made permanent. The proposed 2018/19 Budget has been increased by £48,900 (6 months), with a full year effect from 2019/20.
  - Due to the extended timeframe for the Office Relocation, the Projects Officer is proposed to be made permanent. £57,300 has been included in the 2018/19 Budget on a recurring basis.
  - A new Strategic Opportunities Project Manager post has been created to assess Commercial and Strategic Opportunities requiring a recurring budget of £45,400. As discussed later in the report, the Council still needs to identify significant ongoing savings or increased income. Part of the post's responsibility will be to identify new opportunities for income generation. Officers are aware that feasibility work is already required around a number of ideas including:
    - § Advertising & Sponsorship
    - § Energy efficiency, renewable energy and storage options
    - § Local Lottery
    - § Enterprise team delivery model

Within the next Fit For the Future update report, further detail will be provided in respect of these and other ideas.

- 3.3.6 The 2018/19 and 2019/20 Pay Offer reflects the impact of the National Living Wage on the lower Pay Scales. This increases pay budgets by £48,000 above the 2% allowed for in the 2018/19 Base Budget. This is discussed further within paragraph 3.9.4.
- 3.3.7 As referred to in section 3.2.2. Investment Interest has been recalculated. Income for 2018/19 is now some £125,000 higher than that reported in November 2017.

3.3.8 The grant for Housing Benefits and Council Tax Support Admin Subsidy has been reduced by £40,000 below what was budgeted. The 2018/19 Budget has been increased accordingly. However with the further delays in the rollout of Universal Credit, it is hoped that there will be a supplementary allocation, details of which will be reported as part of future Budget Review reports.

3.3.9 Some temporary staffing posts are required for 2018/19 only. There is a peak in the licensing of Houses in Multiple Occupation (HMOs) due to changes in legislation. This peak in workload needs to be managed in 2018/19. It is expected that additional fee income will cover these costs in future years. Members will be aware that the audited 2017/18 Accounts have to be published on the Council's website by the 31<sup>st</sup> July 2018. Previously, the deadline for this was 30<sup>th</sup> September each year. Piloting the new arrangements during the 2016/17 closedown proved resource intensive. An additional 6 month fixed term post has been created for 2017/18 whilst officers review its existing practices. A total of £137,000 has been built into 2018/19 Budgets to address these issues.

3.3.10 Taking into account the above changes, the Government Grant (Section 3.4), Retained Business Rates (Section 3.5) and Council Tax (Section 3.6), 2018/19 will present a surplus of £15,200, the use of which is discussed in paragraph 3.13.3.

### 3.4 Government Grant

3.4.1 As part of the 2016/17 Provisional Funding Settlement in December 2015, the Government proposed a four year settlement for the period 2016/17 to 2019/20. The future years' Revenue Support Grant (RSG) figures are shown below, alongside those for recent years:

	<b>£000</b>
2013/14	4,552
2014/15	3,515
2015/16	2,500
2016/17	1,587
2017/18	794
2018/19	307
2019/20	0

3.4.2 As part of the 2016/17 Settlement, the Government proposed that if authorities were to submit an Efficiency Statement and so accept the proposed figures, it would agree not to subsequently alter these figures except in certain extreme circumstances. In common with the vast majority of local authorities, the Council submitted its efficiency statement which was subsequently accepted by the Government.

3.4.3 As anticipated, the RSG within the 2018/19 provisional settlement is unchanged. The figure of £307k had already been incorporated within the Council's Medium Term Financial strategy (MTFS).

3.4.4 In presenting the RSG figures, the Government makes the following assumptions which all serve to mitigate the overall reduction in Core Spending Power.

- The Government projections assume local authorities will increase council tax by the referendum limit (£5 for Warwick District Council). This continues to be a major departure from pre 2015 Government policy whereby local authorities were under pressure to freeze the council tax.
- Assumptions of growth in the council tax base to continue at current levels
- The Government makes assumptions of future New Homes Bonus (NHB) payments to local authorities. Members will be aware that, given the uncertainty over New Homes Bonus, the Council's policy has been to exclude this from core funding and this continues to be reflected in the projections within the Council's MTFS where future NHB payments are excluded.

3.4.5 For 2019/20, the Council will not be in receipt of any RSG, as allowed for within previous financial projections.

3.4.6 The provisional Settlement figures for 2019/20 continue to include "Tariff Adjustments" which would reduce the Council's element of retained Business Rates. These adjustments are widely seen as being "Negative RSG". For Warwick DC the adjustment amounts to a further reduction in funding on 2019/20 of £237k. Nationally the Tariff Adjustments come to £153m. The Government is planning a consultation in Spring 2018 over how the Tariff Adjustments will be accommodated in future year's Finance Settlements. To date, the Tariff Adjustment has not been included within the Council's MTFS. However, it is believed to be prudent to allow for this adjustment which has now been factored into the MTFS as a recurring cost as discussed in Section 3.9.

3.4.7 The final Grant Settlement is expected in early February. Updated figures, if changed, will be provided to Members when available. Any change in the 2018/19 Revenue Support Grant (which is believed to be very unlikely) is proposed to be compensated by changing the General Fund Balance.

3.4.8 A summary of the 2017/18 and 2018/19 is shown at Appendix 3.

### 3.5 **Business Rates**

3.5.1 Projecting the Council's element of Business Rate Retention continues to present difficulties. The problems involved in forecasting this are detailed below.

3.5.2 Appeals – There are still many appeals awaiting determination by the Valuation Office. An assessment of the success of these needs to be made and suitable provision has been allowed for within the estimated figures. Whilst it is hoped that this figure is suitably prudent, given the size and nature of some of the appeals, there remains a risk. April 2017 saw the introduction of the new "Check, Challenge, Appeal" regime seeking to expedite appeals and deter speculative appeals. Following previous revaluations, backdated appeals continued to be lodged for several years. Accordingly, whilst the number of new appeals coming forward since April 2017 is minimal, it is still expected that a significant number of appeals will come forward in subsequent years that will be backdated to 2017. It is necessary for an estimate of these future appeals to be allowed for in the 2017/18 and 2018/19 Estimates.

3.5.3 Tariff/Top-Up Adjustments. These exist in the system so as to redistribute business rates income between local authorities. With the 2017 Revaluation, it

is necessary for each local authority's tariff or top-up to be re-based. The re-basing is intended to protect any growth that had accrued in the local business rates bases since the commencement of business rates retention in April 2013. The Government has made an assessment of the adjustments necessary for the 2017/18 and 2018/19 figures. However this will be reviewed following the closure of the 2017/18 accounts, meaning that further adjustments (positive or negative) are likely to the 2018/19 figures and beyond.

- 3.5.5 100% Business Rates Retention – This was originally expected to come in from 2019/20. Due to limited Government time to consider this matter, it is now proposed that a scheme based around 75% retention will be brought in in 2020/21, using existing Regulations, without the need to introduce new legislation.
- 3.5.6 Also from 2020/21, the existing Baselines within the Business Rate Retention will be re-set. This will reflect the spending needs of individual local authorities (as to be determined by the Fair Funding Review currently on-going, for which consultation responses are sought by March 2018). The review will also reflect the updated business rate bases of local authorities. It remains to be seen what growth in the local business rate base since 2013/14 will be allowed to be retained by local authorities.
- 3.5.6 As with all local authorities, 2020/21 represents a significant risk to the Council's finances with the intended changes to Business Rate Retention. If the Council's share of Business Rates returns to the Baseline, this would represent a potential reduction of over £1m in funding. The MTFS does allow for a reduction in funding back to the Baseline. However, this is being mitigated by the use of approximately £600k from the Business Rate Retention Volatility Reserve from 2020/21; the use of the reserve at this level would only be sustainable for another 2 or 3 years based on current assumptions.
- 3.5.7 Whilst the estimates from 2020/21 are very uncertain, many local authorities will be severely impacted, potentially many far greater than Warwick due to the significant growth in their Business Rates base since 2013/14. With potentially substantial swings in local government funding, it is likely that some sort of safety net will need to be allowed for so as to give authorities time to manage large swings in their funding. The future information and figures from the Government will continue to be monitored, with the impact included in the Council's MTFS.
- 3.5.8 Volatility. Largely due to the regulations governing the accounting arrangements for business rates retention, there can be substantial volatility between years in the amount of retained business rates credited to the General Fund. Consequently it is necessary to maintain a Volatility Reserve to "smooth" the year on year sums received.
- 3.5.9 Business Rates Estimates. For 2018/19, the net Business Rates Retention to the General Fund (The Council's share of Business Rates, +/- contribution from/to the Business rates Retention Volatility Reserve), has been increased by £100k to £3.9m. This is believed to still be a prudent estimate. The NNDR1 form which estimates the business rates for 2018/19 is still being finalised as this report is being written ahead of its deadline of 31 January 2018. This will produce some of the final figures that feed into the Business Rates Retention income for the Council for the year. It is not expected that there will be any great variation in the NNDR1 and what has been allowed in the proposed Budget. However,



should there be any variation; this will be accommodated within the Business Rate Volatility Reserve.

3.5.10 Executive agreed on 1 November that the Council applies to be part of the proposed Warwickshire 100% Business Rates Retention Pooling Pilot for 2018/19. It is understood that there were many applications to be Pilot Pools, of which 10 were accepted. The Warwickshire application was not successful. Therefore the Council should continue to be a member of the Coventry and Warwickshire Pool for 2018/19 under the current 50% Business Rate Retention scheme.

3.5.11 MTFS – the Business Rates retention within the MTFS are believed to be reasonably prudent taking into account all the above factors. These figures will continue to be reviewed and members will be informed of changes as the MTFS is presented in future reports.

### 3.6 Council Tax

3.6.1 As announced within the Provisional Local Government Finance Settlement, District Councils may increase their share of the Council Tax by the greater of up to 3% and £5 without triggering a referendum. The increase to 3% from 2% will benefit many district councils, but for 88 districts, including Warwick District Council, it has no impact as £5 exceeds 3%.

3.6.2 The national average council tax for district councils is £179.25, and £218.41 including parish/town council precepts. This Council's council Tax charge for 2017/18 is £156.86 (excluding parish and town council precepts). This Council's charge is in the 2<sup>nd</sup> lowest quartile and when Town and Parish Precepts are included it falls within the lowest quartile.

3.6.3 The Council Tax Base was calculated in November of last year, with the Council's preceptors being notified accordingly. The Tax Base for 2018/19 is 53,388.87 Band D Equivalents. Whilst this is an increase of some 679.19 on 2017/18, it falls short of that previously assumed in the Financial Strategy when last year's Tax Base was calculated (53,800). The reduced forecast growth in the tax base has been factored into the MTFS. This clearly impacts upon the Council's estimated council tax income, resulting in additional savings required in future years and is discussed further in Section 3.9 below.

3.6.6 The Council's element of the Council Tax is calculated by taking its total budget requirement, subtracting the total funding from Central Government in respect of Revenue Support Grant (RSG) and Retained Business Rates (Section 3.4 and 3.5 above). This figure is divided by the 2018/19 tax base to derive the District Council Band D Council Tax Charge.

3.6.7 The recommendations within this report produce a Band D Council Tax for Warwick District (excluding parish/town council precepts) for 2018/19 of £161.86, this being a £5 increase on that of 2018/19. Based on this increase the District's element of the Council Tax for each of the respective bands will be:

	£
Band A	107.91
Band B	125.89
Band C	143.88

Band D	161.86
Band E	197.83
Band F	233.8
Band G	269.77
Band H	323.72

3.6.8 Parish and town councils throughout the district were asked to submit their precepts for 2018/19 when informed of their Tax Bases. At the time of writing this report, not all precepts have been confirmed. It is estimated that the precepts will total just over £1,400,000 based on prior years. This figure does not take into account the grants that this Council will continue to award in respect of the Council Tax Support adjustments to the Tax Base, Members have previously agreed that this will cease after 2018/19. In the Provisional Finance Settlement, the government has announced it will defer the setting of referendum principles for town and parish councils for three years. However, this is conditional upon the sector taking all available steps to mitigate the need for council tax increases, including the use of reserves where they are not already earmarked for other uses or for "invest to save" projects which will lower ongoing costs; and the government seeing clear evidence of restraint in the increases set by the sector as a whole.

3.6.9 The Council Tax is set by aggregating the council tax levels calculated by the major precepting authorities (the County Council and the Police and Crime Commissioner) and the parish/town councils for their purposes with those for this Council. The report to the Council Meeting on the 21st February, 2018 will provide all the required details. This will be e-mailed to all Members as soon as possible following the Police and Crime Commissioner and Warwickshire County Council meetings, which are both on the 6th February. At the time of writing this report, it is assumed that all the Town/Parish Precepts will have been returned. The Council will then be in a position to:-

- (a) consider the recommendations from the Executive as to the Council Tax for district purposes; and
- (b) formally to set the amount of the council tax for each Parish/Town, and within those areas for each tax band, under Section 30 of the 1992 Local Government Finance Act.

3.6.10 Members must bear in mind their fiduciary duty to the Council Taxpayers of Warwick District Council. Members have a duty to seek to ensure that the Council acts lawfully. They are under an obligation to produce a balanced budget and must not knowingly budget for a deficit. Members must not come to a decision that no reasonable authority could come to, balancing the nature, quality and level of services that they consider should be provided, against the costs of providing such services.

3.6.11 Should Members wish to propose additions or reductions to the budget, on which no information is given in this report, they must present sufficient information on the justification for and consequences of their proposals to enable the Executive (or the Council) to arrive at a reasonable decision. This report sets out relevant considerations for Members to consider during their deliberations, including the statement at Appendix 1 from the Chief Financial Officer

3.6.12 Section 106 of the Local Government Finance Act 1992, states that any member who has not paid their Council Tax or any instalment for at least two months after it becomes due and which remains unpaid at the time of the meeting, must declare that at the meeting and not vote on any matter relating to setting the budget or making of the Council Tax and related calculations.

### 3.7 **New Homes Bonus**

3.7.1 This Council's New Homes Bonus (NHB) for 2018/19 is £2,482k. This is an increase from the £1,938k awarded for 2017/18.

3.7.2 Following the announcements of 12 months ago, the following changes continue to be factored in to the NHB calculations:-

- Funding has been reduced from the previous 6 year's retrospective years to 5 years for 2017/18, to 4 years for 2018/19 and beyond. Had the 6 years been maintained, this would have presented the Council with an additional £400,000 New Homes Bonus in 2018/19.
- The baseline of 0.4% has continued for 2018/19. New Homes Bonus is only awarded on growth above this level. There was the possibility that the baseline was to be increased, this remains a risk for the future. For Warwick District Council, for 2018/19 the 0.4% baseline represents 249 dwellings. With the total growth of 925 Band D properties, the 2018/19 allocation is based on 676 properties. The baseline is reducing the New Homes Bonus 2018/19 allocation by £300,000 and a similar amount for 2017/18 compared to the previous regime.
- The proposals to withhold payments for areas without a local plan, or for homes allowed on appeal, are not being implemented at this stage.

3.7.3 To date this Council has used the money to fund various schemes and initiatives and replenish some of its Reserves, and unlike many local authorities, has not used NHB to support core services. It continues to be the Council's policy to exclude new Homes Bonus in projecting future funding.

3.7.3 As in previous years, Waterloo Housing will receive part of this allocation from their agreement with the Council to deliver affordable Housing in the District. £170,287 is due to be paid to Waterloo in 2018/19. Section 3.13 details how it is proposed to allocate the Residual Balance for 2018/19.

### 3.8 **Other Budget Matters**

#### 3.8.1 Planning Fees

3.8.1.1 The Government has previously announced that local authorities may increase planning fees by 20% provided that it is ring-fenced to support the planning service. This Council has responded to the Government to state its intention to increase its planning charges. The 20% increase came in from 17 January 2018.

3.8.1.2 The extra 20% will generate approximately £250,000 per annum based on current estimates. The current baseline and income assumptions should be retained, with the extra income used make improvements to support the planning function. It is proposed that the additional income is initially allocated to a new Planning Investment Reserve. The expenditure to be funded from the

reserve will need to be specifically identified. In June 2017, within the Fit For the Future Executive report, it was agreed, that consequent budget apportionments of the additional income are determined by the S151 Officer in consultation with the Council's Senior Management Team.

3.8.1.3 To date, a new Green Space Officer has been agreed by the Employment Committee, funded by the 20% uplift, to support the increased work on Neighbourhood Services relating to the Local Plan. Further staffing investments are planned by Development Services and Health and Community Protection to be similarly funded. These will be subject to future reports to Employment Committee.

3.8.1.4 The funding of these posts from the 20% uplift will be funded from the apportionment of the income as determined by the Head of Finance.

3.8.1.5 The additional income will be monitored on an on-going basis so as to ensure the income is not over committed and can fund any agreed commitments. A prudent stance will be taken in projecting the funding and how it is utilised.

### 3.8.2 National Living Wage

3.8.2.1 The Council currently pays the National Living Wage as set by the Living Wage Foundation, with this due to be reviewed annually as part of the Budget Setting process. In view of the increases to the Government National Living Wage, and the impact this will have on future grade differentials, it was agreed by the Employment Committee in September 2017, and subsequently by Council, that the Council freezes the current Living Wage Foundation rate of pay at the current level (£8.45 per hour or £16,300 pa), but that the frozen rate is increased in line with a 1% pay award on 1st April each year, subject to consideration as part of the overall budget setting process, until it is exceeded by National Living Wage, or the evaluated pay rate.

3.8.2.2 When this issue was considered by Employment Committee, it was anticipated that the national pay award for 2018/19 would be 1%. The current pay offer for 2018/19 (for which acceptance is still awaited) is based on a 2% increase. Consequently, subject to the acceptance of the pay offer, it is proposed to increase the current Living Wage hourly rate of £8.45 by 2%. As the numbers in receipt of the NLW are very low, this extra 1% will be able to be accommodated within existing Budgets.

### 3.8.3 Service Transformation Reserve funding requests

3.8.3.1 The national planning fee increase (as discussed within paragraph 3.8.1) has allowed the Council to review the method by which the planning regime is delivered, using additional funds received via the increase to improve the service delivery. As a result of this review, a temporary Senior Environmental Health Officer post, for 2 years has been identified as required in Health and Community Protection. It is proposed that 0.6FTE of the post is funded through the planning fee increase and the remaining 0.4 FTE is funded from the Service Transformation Reserve. This additional 0.4FTE would accommodate further increases in planning applications through the 2 year period including HS2 related work. It is important to note that any HS2 related time can be recovered from HS2 rather than funded through the Service Transformation Reserve therefore the total of £36,000 over the two years, grade to be

determined by Hay, would be the maximum required from the Service Transformation Budget.

### 3.8.4 Electric Cars

- 3.8.4.1 The Council currently operates a number of electric cars as a pilot scheme. The scheme pilot is due to conclude in June 2018 and therefore is in the process of being evaluated to determine if the pilot has been successful and if the council wishes to continue the scheme in its current form, with alteration or not. The review is not due to conclude until end of February 2018 and therefore a figure for the scheme is unable to be calculated at this time. Upon conclusion of the review a further report will be brought to detail any financial implications.

## 3.9 Medium Term Financial Strategy (MTFS)

- 3.9.1 On the 21<sup>st</sup> February 2017, the Council approved the 2017/18 Budgets and Council Tax. This report updated Members on the 5 Year MTFS. At that point, it was forecast that a further £830,000 of savings were required to be found and achieved to enable the Council to maintain a Balanced Budget.

	<b>2017/18 £'000</b>	<b>2018/19 £'000</b>	<b>2019/20 £'000</b>	<b>2020/21 £'000</b>	<b>2021/22 £'000</b>
Deficit-Savings Required(+)/Surplus(-) future years		412	201	-202	830
Change on previous year		412	-211	-403	1,032

- 3.9.2 Members have been updated on the latest forecasts in June 2017 (Fit for the Future Report), August (Budget Review Quarter 1) and November (General Fund Base Budgets).
- 3.9.3 Since February 2017 the Strategy has been rolled forward another year to maintain a five year projection. This means that whilst the Council benefits from an increase in Council Tax (increasing by £5 and additional growth), it also incurs inflation on its service expenditure (assumed 2%). The net effect of this is a £60,000 reduction in the savings requirement.
- 3.9.4 There have been several changes to staffing budgets, including the new posts proposed in this report (paragraph 3.3.5) and a £150,000 ongoing Budget for an Apprenticeship Scheme approved within the November 2017 Budget Report. Within the 2018/19 and 2019/20 2 year Pay Offer, the National Living Wage has lead the Local Government Employers to look at how this has impacted on lower pay scales. Increases above 2% are proposed to be awarded to all spinal column points below 19. For 2019/20 there will be a complete revision to these Scales to match the proposed new Spinal Column Points. Early Indications such there will be additional costs of some £48,000 in 2018/19 and a further £150,000 in 2019/20. The total on-going costs of all of these amounting to circa £350,000
- 3.9.5 The Council will be renewing many of its contracts in 2021/22. When the Budget was set in February 2017, it was assumed that the cost of this could amount to £1,182,000. However, latest intelligence suggests that the increases to the National Living Wage and a drop in recycling prices could mean the costs

of renewal will be considerably more. Alongside this, some current contracts are inflated annually based upon RPI (at August the prior year) minus 0.5%. The latest forecast cost has increased to £1,700,000, an increase of £518,000.

- 3.9.6 There have been various other changes related to contract expenditure over the years. These include the transfer of the £83,000 costs for the Grounds Maintenance carried out on HRA land, and the impact of the new property development, which will generate additional recycling credit income but incur additional costs in servicing these properties of £288,000.
- 3.9.7 As outlined in 3.6.3 above, the original assumption for the Council Tax Base for 2018/19 has proven to be overly optimistic. Each year, when the Tax Base is set further increases are factored into future years. This base has now reduced and lowers future years as well, 2022/23 being £72,000 lower in Council Tax income than previously forecast.
- 3.9.8 Planning Fee income in 2017/18 has increased with a further £300,000 being factored into the 2017/18 Budget. With the Local Plan being adopted in November 2017, applications will increase further. It has been possible to factor recurrent additional income amounting to just over £0.5 million per annum into future years plus a further £50,000 when adding annual inflation uplifts. These figures exclude the 20% uplift discussed in paragraph 3.8.1 which is separately ring-fenced.
- 3.9.9 Investment Interest has been revised to reflect the latest investment rate forecasts provided by Asset Link Services, the Council's Treasury Management Advisors, and also the Council's projected balances invested. The Council's investment income has increased by £150,000 per annum above that previously forecast.
- 3.9.10 When the Budget was presented to Members in February 2017, the Leisure Options Contract had not been finalised. At that time the Strategy assumed £612,000 in the concession fee. The agreement was evaluated on the basis of the overall benefit to the Council over the 10 year contract period. The concession is £610,000 for 2109/20, increasing annually to £1.389m in 2025/26. This has previously been reported to members. In 2022/23 (the final year of the MTFS produced here), the Concession Fee will be £1,230,000, an increase of £618,000 above that previously forecast.
- 3.9.11 As discussed in paragraph 3.4.6 above, the provisional settlement still indicates a tariff adjustment of £237,000 in 2019/20. This has been incorporated into the Strategy from 2019/20.
- 3.9.12 There have been many more changes to the 5 year forecast which have a lower impact. The table below summarises those discussed above plus others.

<b>Savings Required by 31/3/2021 (as at February 2017)</b>	<b>£'000's</b>
<b>Roll Forward to 2022/23</b>	<b>830</b>
Staffing - net	-60
Leisure Options	350
Contracts	-618
	518

HRA Grounds Maintenance	-83
Expenditure related to property growth	288
Reduced Council Tax Base growth	72
Planning Fee Income	-550
Investment Interest	-150
Tariff Adjustment	237
Reduced Contributions to Bins & receptacles	-45
Net-various other changes	-90
<b>Savings Required by 31/3/2022 (as at February 2018)</b>	<b>699</b>

3.9.12 The Council will now face a £699k deficit by 2022/23 unless further savings to the same magnitude can be identified and delivered. The profile of these savings is shown in the table below:-

	2017/18 £'000	2017/18 Latest £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Deficit-Savings Required(+)/Surplus(-) future years	0	0	0	607	81	929	699
Change on previous year	0	0	0	607	-526	848	-230

3.9.13 This forecast assumes that future Fit for the Future Savings will be delivered. These Include:-

- Office Relocation £300,000 2021/22
- Alternative use of the Town Hall £85,000 2021/22
- Senior Management review £200,000 2022/23

Some of these savings may occur at an earlier date.

3.9.14 Officers will continue to look for other Fit for the Future Projects which will yield more savings, with a Fit for the Future Report being presented to Members in June of this year.

3.6.15 The Latest Financial Strategy is shown at Appendix 4.

### 3.10 Reserves and Balances

3.10.1 Members agreed that £1.5m should be the minimum level for the core General Fund Balance. This balance supports the Council for future unforeseen demands upon its resources. In order to consider a reasonable level of general reserves, a risk assessment has been done and is contained at Appendix 5. This shows the requirement for the General Fund balance of over £1.5 million against the risks identified above.

3.10.2 The General Fund has many specific Earmarked Reserves. These are attached at Appendix 6 showing the actual and projected balances from April 2017, along with the purposes for which each reserve is held. Finance and Audit Scrutiny Committee is especially asked to scrutinise this element and pass comment to Executive.

3.10.3 Those reserves which show a significant change in the overall balance in the period 1<sup>st</sup> April 2017 to 31<sup>st</sup> March 2022 are detailed below and also shown in Appendix 6:-

- i. Capital Investment Reserve – The funding of the recommendations within the reports on the Playbox Theatre and the Newbold Comyn Arms on this agenda will reduce the uncommitted balance on this reserve is £1.337k. The Council's policy is to maintain the value on this reserve to a minimum of one million pounds.
- ii. ICT Replacement Reserve - The schedule has been updated to reflect the latest projected expenditure on the renewing the Council's Technology, and is shown at Appendix 7.
  - The £233,500 on the Schedule for the Network Systems in 2022/23 should not be needed until 5 years after the Council relocates, as the system would be upgraded at the time of the office move as part of the overall office relocation budget.
  - The datacentre renewal is currently scheduled for 2021/22, which would tie in with the office re-location.
  - The ICT Manager has delegated authority to spend from the reserve after consultation with the Head of Finance and the relevant portfolio holders. However, the Microsoft licences are subscription based and if they were not purchased the Council would need to stop using all Microsoft products. This would not be just Office and Email, but the databases that support the business applications.

The updated ICT Replacement Reserve Schedule is attached at Appendix 7 for Members Approval.

- iii. Equipment Renewal Reserve - The Schedule is presented at Appendix 8 for Members Approval. Members are asked to note the significant potential demands on this Reserve in 2018/19, if all of these items are drawn down to this value, the Reserve will be exhausted during 2019/20 despite £100,000 being transferred to this Reserve each year.
- iv. Planning Investment Reserve – As discussed in Paragraph 3.8.1.2, it is proposed to create this new reserve into which the 20% uplift in planning fees will be allocated before being apportioned by the Head of Finance.
- v. Harbury Lane Reserve - Monies have been carried forward for several years towards this project by way of Earmarked Reserves. There is £84,000 unspent in the 2017/18 Budget. It is proposed to transfer this money into the newly proposed Harbury Lane Reserve towards funding the project in future years. The use of this reserve will be agreed by the Chief Executive in consultation with the Leader.
- vi. Homelessness Prevention Reserve - In March 2017, the Government announced that this Council would receive Flexible Homelessness Support Grant £275,000 in 2017/18 and £340,500 in 2018/19 towards Homelessness Prevention. This money is ring-fenced to prevent or deal with homelessness. It is therefore



recommended that a new "Homelessness Prevention Reserve" be created, with the funding being allocated there until it is the Council has determined how this money will be spent. A report in January 2018 detailed how some of this funding would be used. It also recommended that the Head of Housing Services has delegated authority to draw down from the Reserve in conjunction with the Service Portfolio Holder, Head of Finance and Finance Portfolio Holder.

- vii. Car Park Displacement Reserve - Members agree to set up the Reserve and allocate £100,000 as part of the Base Budget Report in November 2017. The use of this reserve will be agreed by Executive. An allocation of £800,000 from New Homes Bonus is recommended in Section 3.13. The use of some of this reserve for capital purposes is reflected within paragraph 3.11.3. The separate report on Leamington Spa Car Park Displacement considers the use of this reserve further.
- viii. Investment Volatility Reserve - This reserve was created following the allocation of £100,000 agreed by Executive in November 2017. The use of this reserve is intended to smooth future fluctuations in investment returns. The use of this reserve will be included within future Budget reports to be agreed by the Executive.
- ix. Commonwealth Games - As discussed in Section 3.13.1, there will be a full report on the Games to the Executive in March. This will include proposals for the future use of this Reserve. An allocation of £100,000 from New Homes Bonus is recommended in Section 3.13.
- x. Corporate Asset Reserve - Projections have shown that this reserve should have sufficient funding for the next 4 years. However further sources of funding need to be sought if the Council is to continue to properly maintain its assets into the future. The use of this reserve will be subject to the March Executive report on the Planned Maintenance Programme.
- xi. Community Projects Reserve - This reserve was created using £867,300 of 2017/18 New Homes Bonus. It is proposed that £1,350k is allocated to the reserve from NHB for 2018/19, in addition to £350,000 in respect of Whithnash Hub, as previously agreed by members. The use of the £1.35m plus the unallocated balance of £46k will be subject to future agreement by members.
- xii. Public Amenity Reserve – Schemes are planned which will utilise all the funding within this reserve within the next two years. To fund the next green spaces and play areas projects identified from the parks and play area audits in line with Green Space Strategy, further significant funding will be required.
- xiii. Service Transformation Reserve – this reserve was created to enable services to continue to be provided pending delivery of required savings and to finance "Fit for the Future". As in paragraph 3.8.3 £36,000 is proposed to be allocated from this reserve to part fund a temporary Senior Environmental Health Officer.

### **3.11 General Fund and Housing Capital Programmes**

- 3.11.1 In accordance with the Council's Code of Financial Practice, all new and future capital schemes, must be in line with the Council's corporate priorities and a full business cases will be required as part of reports to the Executive for approval. This case will identify the means of funding and, where appropriate, an options appraisal exercise will be carried out. Should there be any additional revenue

costs arising from the project, the proposed means of financing such must also be included in the Report and Business Plan.

3.11.2 The Capital Programme has been updated throughout the year as new and changes to projects have been approved. In addition to the changes throughout the year, it is proposed to add several new schemes to the Capital Programme as detailed in Appendix 9. The most notable of these are detailed below:-

<b>Scheme</b>	<b>Year</b>	<b>Amount</b>	<b>Financed From</b>
Desktop Infrastructure, Storage Area Network (SAN), Network Devices LAN & WAN, Infrastructure General, Physical Server Replacement, UPS.	2018/19 to 2021/22	£343,500	ICT Replacement Reserve
Rural & Urban Initiatives Grants – extension of current programme	2021/22	£150,000	Capital Investment Reserve
Recycling & Refuse Containers – extension of current programme	2021/22	£80,000	Capital Investment Reserve

3.11.3 Other reports on this Executive agenda consider several schemes which impact on the Capital Programme. These have been incorporated in the Capital Programme as follows:-

<b>Scheme</b>	<b>Year</b>	<b>Amount</b>	<b>Financed From</b>
Acquisition of Stoneleigh Arms	2018/19	£710,000	RTB Receipts
Playbox Theatre loan	2018/19	£150,000	Capital Investment Reserve
Newbold Comyn Arms loan	2017/18 and 2018/19	£350,000	Capital Investment Reserve
Car Parking Displacement – capital costs	2018/19	£220,000	Parking Displacement Reserve

3.11.4 In addition to the new projects incorporated in 3.11.2 above the following capital projects are expected to come forward over the next year:-

- Investment in replacement multi storey car parks
- Office relocation
- Europa Way

3.11.5 Slippage to 2018/19 in the General Fund Programme has been incorporated as reported during the year.

3.11.6 In addition the following table shows the main changes to current schemes that are required to be reported to Members. The full details are within Appendix 9:-

<b>Scheme</b>	<b>Year</b>	<b>Amount</b>	<b>Comments</b>
Desktop Infrastructure	2017/18	-£10,000	Saving
Voice over IP telephone system	2017/18	-£-31,700	Saving
Leisure Options	2017/18 to 2018/19	-£919,200	Slippage
Whitnash Hub	2017/18	£89,900	Increase budget for element funded from S106 payments.
St John's Flood Alleviation	2017/18 to 2018/19	-£100,000	Slippage
Pump Room Garden Restoration	2017/18 to 2018/19	-£1,000,000	Slippage
Leisure Centre Benches, Cycle racks etc	2017/18	£16,833	Funded from sale of gym equipment.
Recycling and Refuse Containers	2017/18 to 2020/21	Annual Budget reduced to £80,000	Reduced annual budget

3.11.7 Appendix 10 Part 5 shows the General Fund unallocated capital resources. These total £2.687m. The Capital Investment Reserve represents the largest share of this at £1.45m, for which the Council has agreed the minimum balance should be £1m. Whilst the Council does hold other reserves to fund capital projects, it will be noted that these are limited and have been reserved for specific purposes. In addition to the resources shown here, within the Housing Investment Resources, the Right to Buy "Any Purposes Capital Receipts" projected at £9.3m (Appendix 10, part 4) are available to fund non Housing schemes.

3.11.78 The latest Housing Investment Programme (HIP) is shown at Appendix 10 part 2.

3.11.9 Appendix 9 details variations to the HIP from that previously reported in February 2017. This includes changes to current schemes, and slippage from 2016/17.

3.11.10 Appendix 10 part 4 shows the funding of the HIP and the forecast balances at year end until 31<sup>st</sup> March 2022 after the HIP has been financed.

The Capital receipts primarily relate to Right to Buy (RTB) sales. The council has freedom on how the any purpose receipts are utilised, being able to fund General Fund and Housing Capital schemes.

1-4-1 RTB receipts have to be utilised in replacing housing stock that has been purchased from the council by existing tenants through the RTB scheme. This can be through new build properties (such as Sayer Court), the purchase of existing properties (such as Cloister Way) or buy back of existing council properties previously sold through RTB. However they can only be used to fund up to 30% of the replacement cost as per RTB regulations. If the funding is not used within a three year period from the date of receipt, the funding will be repayable to the Government, along with interest.

The dates by which the unallocated 1-4-1 RTB balances need to be used by are as follows:

31/03/2020	31/03/2021	31/03/2022	31/03/2023	31/03/2024
£1,109,900	£1,800,000	£1,800,000	£1,800,000	£1,864,800

3.11.11 HRA Capital Investment Reserve. This reserve is funded by the surpluses generated on the Housing Revenue Account. The HRA Business Plan assumes that this funding will be used for the provision of new HRA stock, and to allow debt repayments on the £136.2m loan taken out to purchase the HRA housing stock to commence from 2052/53.

3.11.12 The Major Repairs Reserve is used to fund capital repairs of the HRA stock. The contributions to this reserve are based on depreciation calculations. It is noted that approval was given by Executive in July 2017 to additional expenditure for fire safety works following a review of high-rise housing stock. Further provision will be sought from Executive if required, for which it will be noted there is over £4.5m projected funding within the Major Repairs Reserve.

3.11.13 Section 106 are payments received from developers in lieu of them providing new on site affordable homes, enabling the Council to increase the HRA stock or assisting housing associations to provide new dwellings. These S106 payments usually have a time limit attached to them by which time they need to be utilised or they may need to be repaid to the developers.

3.11.14 The Right to Buy Capital Receipts are shown within the sources of Housing Investment Programme funding. As considered previously by members, these capital receipts are not ring-fenced and can be used for any capital projects. Consequently, as detailed in a separate report to this agenda, it is proposed to use these receipts to fund the acquisition of the Stoneleigh Arms.

### 3.12 Prudential Indicators

3.12.1 The Council is required to determine an authorised borrowing limit in accordance with The Local Government Act 2004, Section 3, and to agree prudential indicators in accordance with the CIPFA Code for Capital Finance in Local Authorities.

3.12.2 The Indicators are shown at Appendix 12. Further indicators are included within the Treasury Management Strategy Report.

### 3.13 Appropriation of funding and balances

#### 3.13.1 New Homes Bonus

As referred to in Section 3.7.3 above, the New Homes Bonus allocation for £2.482m. This is proposed to be allocated as follows:-

- Waterloo Homes are due to receive £170,287 of this under the Joint Venture with the Council.
- The Council has previously agreed to contribute £500,000 to the planned Whitnash Hub. £150,000 was awarded in 2017/18. It is proposed that the balance of £350,000 is from the 2018/19 NHB allocation. For accounting purposes this allocation will flow through the Community Projects Reserve.

- For 2014, the Council set aside some monies to commemorate start of World War One in 1914. It would be appropriate to do likewise to celebrate the centenary of the end of this war. A similar sum £10,500 is recommended from New Homes Bonus. This is again proposed to be distributed by the Community Forums.
- In December 2017, it officially announced that Birmingham would host the 2022 Commonwealth Games. The Council's hosting of the Bowls as part of this was previously reported to Executive in November 2017. Officers have already set up a project group as such a prestigious event will need planning so that all facilities need to be brought up to the highest standards as well as using this opportunity to promote the District and this Council to the World. Clearly, there will be costs involved both before and during the event. Officers have yet to work up detailed plans and budgets. It is therefore proposed that a new Commonwealth Games Reserve be created to fund this expenditure and £100,000 be set aside. Members will receive a report on the Games in March of this year which will provide more details on these and the utilisation of the Reserve. Future use of this reserve will be agreed by the Executive.
- In November 2017, the Executive allocated £100,000 to a new Car Park Displacement Plan. For the proposed displacement from Covent Garden Car Park, £423,000 was set aside within the Covent Garden Car Park Reserve in April 2016 within the HQ Replacement Report, alongside £477,000 towards the initial borrowing costs for a new multi-story car park. The likely net costs of displacement in Leamington are being re-assessed (as reported elsewhere on this Agenda). The likely net costs, including costs of works, running costs and changes in income, are likely to exceed the original estimates. In addition, proposals are due to come forward for works on car parks in Warwick, which are likely to be significant. Consequently, it is proposed to allocate £800,000 to the Car Park Displacement Reserve.
- The Community Projects Reserve currently has a balance of £46,000 out of the original allocation of £868,000 from the 2017/18 New Homes Bonus. It is proposed that the balance of the New Homes Bonus for 2018/19 of £1,051,324 is allocated to the Community Projects Reserve. Demands from this reserve will be subject to future reports to the Executive to agree.

### 3.13.2 2017/18 Surplus

As referred to in Section 3.2, 2017/18 is currently forecast to produce a surplus of £110,300. It is proposed that this balance is added to the Contingency Budget, with any unallocated balance carried forward to add to the 2018/19 £200,000 contingency.

### 3.13.3 2018/19 Surplus

As referred to in Section 3.3, 2017/18 is currently forecast to produce a surplus of £110,300. It is proposed that this balance is added to the 2018/19 £200,000 contingency.

## 4. **Policy Framework**

#### 4.1 Fit for the Future (FFF)

These are the words to use:

The Council's FFF Strategy is designed to deliver the Vision for the District of making it a Great Place to Live, Work and Visit. To that end amongst other things the FFF Strategy contains several Key projects. This report seeks to continue to ensure that the Council has adequate financial resources to support its various strategies and the provision of services.

The FFF Strategy has 3 strands – People, Services and Money and each has an external and internal element to it. The table below illustrates the impact of this proposal if any in relation to the Council's FFF Strategy.

<b>FFF Strands</b>		
<b>People</b>	<b>Services</b>	<b>Money</b>
<b>External</b>		
<b>Health, Homes, Communities</b>	<b>Green, Clean, Safe</b>	<b>Infrastructure, Enterprise, Employment</b>
<u>Intended outcomes:</u> Improved health for all Housing needs for all met Impressive cultural and sports activities Cohesive and active communities	<u>Intended outcomes:</u> Area has well looked after public spaces All communities have access to decent open space Improved air quality Low levels of crime and ASB	<u>Intended outcomes:</u> Dynamic and diverse local economy Vibrant town centres Improved performance/ productivity of local economy Increased employment and income levels
<b>Impacts of Proposal</b>		
The recommendations within the report seek to help provide future funding for the above outcomes.		
<b>Internal</b>		
<b>Effective Staff</b>	<b>Maintain or Improve Services</b>	<b>Firm Financial Footing over the Longer Term</b>
<u>Intended outcomes:</u> All staff are properly trained All staff have the appropriate tools All staff are engaged, empowered and supported The right people are in the right job with the right skills and right behaviours	<u>Intended outcomes:</u> Focusing on our customers' needs Continuously improve our processes Increase the digital provision of services	<u>Intended outcomes:</u> Better return/use of our assets Full Cost accounting Continued cost management Maximise income earning opportunities Seek best value for money
<b>Impacts of Proposal</b>		
The recommendations within this report seek to ensure the Council has adequate funding to enable it to support staff in the provision of	The recommendations within the report seek to help provide future funding so as to enable the Council to maintain and improve service	The recommendations within this report seek to ensure the best use of made of the Council's financial resources whilst ensuring the Council's

services.	provision.	financial position is sound going into the future.
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## 4.2 Supporting Strategies

Each strand of the FFF Strategy has several supporting strategies and the relevant ones for this proposal are explained here. The Council has a Financial Strategy, as updated within Appendix 11. This Strategy sets out details of the Council's overall financial position, and some of the key policies for the use of the Council's resources and how these are managed. Members are recommended to approve the updated Financial Strategy.

## 4.3 Changes to Existing Policies

This report does not propose any recommendations to any of the Council's existing policies.

## 4.3 Impact Assessments – Not Applicable

## 5. Budgetary Framework

- 5.1 The Council's budget and Council tax setting is a major component in reflecting and expressing the Council's priorities and policies. The budgets proposed for both capital and revenue are in accordance with Fit for the Future. The financial strategy and capital strategy are revised in the light of the proposed revenue and capital budgets, and the issues that these budgets address.
- 5.2 Officers monitor the current year's budgets by way of the monthly Budget Review process which is duly reported to the Council's Senior Management Team. The same process is applied when reporting quarterly to Members. Members are also kept informed on progress with Earmarked Reserves and the Contingency Budget, alongside the latest predictions in the MTFS.
- 5.3 Despite facing substantial reductions in funding in recent years, the Council has managed to maintain and improve main services. Alongside this, the Council has a level of reserves well in excess of most local authorities. Whilst the Council may on the face of it be currently in a strong financial position, there is no scope for complacency. Members will be aware of the substantial sums needed to be spent on the Council's municipal assets in future years, multi storey car park being of specific note. In addition, moving forward, there remains uncertainty as to the Council's future funding levels. This is notably with regard to Business Rates (as discussed in paragraph 3.5) and New Homes Bonus (para 3.7). Consequently, the additional funds required by the Council in forthcoming years are likely to be in excess of the shortfall forecast in the MTFS (section 3.9).

## 6. Risks

### 6.1 Business Rates Retention

As detailed in section 3.5, there are still substantial risks around Business Rates Retention. Also, as detailed in paragraph 3.4.6, the potential "Tariff Adjustment" of £237k from 2019/20 has been prudently factored into the Council's projections. It is uncertain whether this will be funded by the

Government. The Government is planning a consultation on how this will be treated for 2019/20.

- 6.2 The Strategy now assumes that £5 increases in Council Tax in 2020/21 and 2021/22 will not be subject to a referendum. This is beyond the term of the current Provisional Finance Settlement. There is therefore a degree of risk as to whether this level of Council Tax increase will be able to be continued.
- 6.3 Many of the Risks in the Significant Business Risk Register are Finance related and the Finance Service Area has its own Risk Register. Both are reviewed regularly.
- 6.4 Whilst the country is now seeing an upturn in the economy with interest rates expected to increase, it is still susceptible to changes in the world economic and political environment which could reverse the trend. A return to recession would see the projected rise in interest rates delay further and increased unemployment would in turn impact on the Council's finances by increasing the level of Council Tax Reduction claimants and reduce customers' discretionary spending in the Council's income generating areas, to give but one example. Inflation rates are influenced by the economy. High inflation rates restrict the Council's own purchasing powers and also impact on its contractors whose annual contract uplifts may have been based on a lower RPI period.
- 6.5 The MTFS has a significant amount of savings built in from the Fit for the Future Programme. Failure to deliver these projects, all or in part, will increase the deficit and savings yet to be identified. Delays may drive up the costs of the enabling works and mean savings do not materialise as early as expected. There may also be revenue implications should the projects not have been assessed.
- 6.6 Unforeseen events, such as planning appeals, uninsured damage, legal challenges, can expose the Council to incur expenditure not previously budgeted for. Whilst the Council endeavours to cover these from its Contingency Budgets and Reserves, they may not prove adequate.
- 6.7 The ICT Replacement Schedule at Appendix 7 has been costed on existing intelligence. However the ICT Manager advises
  - It is likely that changes to Microsoft licensing may mean that the Council needs to convert from a device licence model to a user model. It is unclear what impact this will have on licence costs going forward until retendered.
  - Due to 'Brexit', and the impact on the dollar exchange rate, Microsoft has announced that it intends to increase its prices by a further 22%. Again it is unclear what the impact will be on prices at renewal because the Council purchase through a government negotiated framework. The Revenue Support and Maintenance Contracts are also quoted in dollars prior to conversion.
- 6.8 Changes in legislation may influence assumptions built into Budgets and the 5 year Strategy as well as increasing the costs of implementing these changes.
- 6.9 Many controls and mitigations are in place to help manage these risks. These include:-



- The comprehensive Budget Review process. This entails all budget managers reviewing their budgets on at least a monthly basis, considering previous, current and future years, along with any possible issues that may impact upon their budgets. As part of this process, Budget Review reports are issued to the Executive and Senior Management Team.
- Financial Planning with the MTFS/financial projections, bringing together all issues that will impact on the Council's finances in the medium term.
- Financial controls, including the Codes of Financial and Procurement Practice, system controls, reconciliations, audit (internal and external).
- Project Management and associated controls.
- Trained staff and access to appropriate professional advice (eg WCC Legal).
- Risk Management process across the Council, including the on-going review and maintenance of risk registers.
- Scrutiny by members of the Council's finances, including Budget Reports, and the financial implications of all proposals.
- Within the proposed 2018/19 there is a Contingency Budget of £200,000 (with further additional allocations proposed within this report) for any unplanned unavoidable expenditure.
- Reserves – The Council holds reserves as discussed within section 3.10. Whilst much of these reserves have already been earmarked for specific projects, it is important that reserves are held for any unforeseen demands.
- The General Fund Balance is £1.5m as discussed in paragraph 3.10.1. This is available to accommodate any unplanned expenditure, or to make up any shortfall in income. However, the Council should seek to maintain the balance at this level.
- The specific causes of reductions to income or increased expenditure should continue to be managed by the relevant Service Area as part of managing the risks within each Service Risk Register. Each Service Area's Risk Register is presented to Finance and Audit Committee bi-annually on a rolling basis for scrutiny.

## **7. Alternative Option(s) considered**

- 7.1 The Council does not have an alternative to setting a Budget for the forthcoming year. Members could however decide to amend the way in which the budget is broken down or not to revise the current year's Budget. However, the proposed latest 2017/18 and 2018/19 budgets are based upon the most up to date information.