Cabinet

Agenda Item: 6

Ward:	All
Portfolio:	Finance
Meeting Date:	12 February 2018

Report Author(s):	**Cllr Parham / Corporate Finance**
SUBJECT:	**2018/19 to 2022/23 Medium Term Resource Strategy and 2018/19 Detailed Financial Plan**

	Seen by:	**Name**	**Date**
Report Sign off	Chief Executive	Stuart Brown	Via CMT
	Legal	Donna Nolan	Via CMT
	Finance	Duncan Moss	30 January 2018
	Group Manager	Paul Deal	Via CMT
	Portfolio Holder	Cllr Parham	30 January 2018
	Ward Member(s)	ALL	N/A

Summary:	The purpose of this report is to make recommendations on the level of the Council's Revenue and Capital Budgets, the Band D Council Tax and Special Expenses Rate for 2018/19.
Recommendation:	1. **Provisional Local Government Finance Settlement** **The Leader and Cabinet are recommended to note and recommend that Full Council note:** (i) The outcome of the Provisional Local Government Finance Settlement as detailed within **Appendix A** 2. **CAPITAL INVESTMENT PROGRAMME** **The Leader and Cabinet are recommended to agree and recommend to Full Council:** (ii) The overall Capital Investment Programme for 2018/19 of **£3,817,600** and note the indicative programmes for 2019/20 to 2022/23 as summarised in **Appendix B** with the detailed proposals included within **Appendix C**;

	(iii) Set an overall Capital Envelope at **£80m** for 2018/19 to provide sufficient flexibility to enable to Council to respond to investment opportunities if they arise in-year. (iv) That the Chief Executive and relevant Group Manager(s) be given delegation to decide on the specific individual service capital projects to be delivered within generic approvals for their area of control, following any consultation as necessary; (v) The Prudential Code Indicators as shown in **Appendix D**, subject to any changes made; (vi) That the following statement on the Minimum Revenue Provision be endorsed for 2018/19: **“The Council will continue to make Minimum Revenue Provision at least equal to an annual 4% reducing balance method on all capital expenditure covered by government supported borrowing approvals.** **Minimum Revenue Provision for the capital expenditure within the proposed Annual Service Capital Programme will be based on the nominal life of the asset delivered.** **For the capital expenditure within the proposed Commercial Investment Capital Programme, Provision will be based upon one the following options:** **a. Where the asset is to be retained, Minimum Revenue Provision will be set aside based on the nominal life of the asset delivered (the default position);** **b. Where the asset is to be sold to repay the debt, a separate provision will be created for any reduction in the valuation of the asset (assessed annually) being recovered over the remaining life of associated debt financing the investment.** **If in subsequent years the value increases, the Provision could be revised to ensure the amount set aside is appropriate. Any excess provision set aside could then be released enabling the council to invest further or reduce the overall capital financing costs thereby assisting the Revenue Budget”**

3. **REVENUE BUDGET PROPOSAL**

The Leader and Cabinet are recommended to agree and recommend to Full Council:

(i) The overall Revenue Budget for 2018/19 of **£16,100,130** after taking into consideration all proposals and supporting documentation within the following appendices:

- **Appendix E(i)** – Revenue Control Totals by **Service**
- **Appendix E(ii)** – Revenue Control Totals by **Subjective**
- **Appendix F** – Summary of Reserves and Balances
- **Appendix G** – Special Expenses Rate
- **Appendix H** – Fees and Charges

4. **COUNCIL TAX SETTING**

The Leader and Cabinet are recommended to agree and recommend to Full Council:

(i) In accordance with the Local Authorities (Calculation of Tax Base) Regulation 1992, as amended, the amount calculated by the Council as its Council Tax Base for the year 2018/19 shall be **39,599.15.** This figure includes the adjustments made as a result of the Council tax support scheme.

(ii) A Council Tax Requirement of **£6,003,600** representing a Council Tax of **£151.61** for a Band D property, an increase of £5 or 3.41% from 2017/18 (excluding the Special Expenses Rate).

(iii) The continuation of the additional Council Tax Precept equivalent to 1.25% of Mendip's 2015/16 Council Tax Charge for the Shadow Somerset Rivers Authority only. This equates to a Band D value of **£1.84** resulting in a Council Tax Requirement of **£72,800** for 2018/19.

5. **SPECIAL EXPENSES RATE**

The Leader and Cabinet are recommended to agree and recommend to Full Council:

(i) A Special Expenses Rate of **£237,800** capping the rate to previous levels.

Direct and/or indirect impact on service delivery to our customers and communities:	The Medium Term Resource Strategy is the vehicle by which the Council identifies resources to deliver the Corporate Plan. It covers both revenue resources and resources for capital investment and takes into account and influences: • Capital Strategy • Treasury Management Strategy • Performance Management • Workforce Strategy • Strategic Asset Management Plan • Value for Money Policy • Housing Strategy • Service Planning • Prudential Code • Corporate Risk
Contribution to Corporate Priorities:	This paper directly links to the Corporate Strategy "Shape the District 2017 – 2020" and its two main priorities.
Legal Implications:	The Council has a duty to allocate public funds appropriately, and to set a Council Tax Requirement and Precept Requirement. There are no direct legal implications arising from this report unless the Council fails to set a Balanced Budget. In addition the Council is required by Regulation to have regard to the Prudential Code when exercising powers under the Local Government Act 2003
Financial Implications:	The 2018/19 Financial Plan outlines the detailed budget and the 2018/19 – 2022/23 Medium Term Resource Strategy the options for a sustainable five-year strategy. The detailed financial implications are dealt with within the body of this report.
Impact on Service Plans:	This paper directly links to the Service Plans as it provides the required levels of funding.
Value for Money:	All the Council's operations are subject to scrutiny under Value for Money. This is tested by Grant Thornton, our External Auditors.

Equalities Implications:	Each of the budget movements approved has, where appropriate, been subject to an impact assessment, covering key areas such as Equalities, Community Safety, Sustainability, Health and Safety, Business Risk and Privacy, which accompanies the detailed proposal forms. This is done with a view to identifying possible actions to mitigate negative impacts. However, many of the proposals do not have a direct impact on the public and therefore do not require an Impact Assessment.
Risk Assessment and Adverse Impact on Corporate Actions:	The Council has recognised there are potential risks arising as a result of unforeseen circumstances and has produced a budget for 2018/19 that both maintains general balances above the minimum level specified by the S151 Officer and provides an in-year Revenue Contingency Budget.
Scrutiny Recommendation (if any)	Members of the Scrutiny Board have reviewed the proposals included within this draft budget at their meeting on 22 January.

Mendip District Council

2018/19 to 2022/23 Medium Term Resource Strategy and 2018/19 Detailed Financial Plan

Contents **Page**

Appendices:

- Appendix A – 2018/19 Provisional Local Government Finance Settlement
- Appendix B – Summary Capital Investment Programme;
- Appendix C – Detailed Capital Investment Bid Proposals;
- Appendix D – The Prudential Code Indicators;
- Appendix E(i) – Revenue Control Totals by Service;
- Appendix E(ii)– Revenue Control Totals by Subjective;
- Appendix F – Summary of Reserves and Balances
- Appendix G – Special Expenses Rate
- Appendix H – Fees and Charges

Author: **Paul Deal, Corporate Financial Advisor (S151 Officer)**
Effective Date: **20 February 2018**
Date due for review: **February 2019**

Version control

Number	Date	Author / Reviewer	Comments
1	02/01/2018	Paul Deal	Updating historic data and rolling forward to include new 5-year period
2	05/01/2018	Paul Deal	Finalising the document

Introduction

1. In terms of decision making, this paper seeks formal Member approval for a one-year Revenue Budget and Service Capital Investment Programme. Projected information is used to give an indicative financial picture of future financial years. New proposals commencing in 2019/20 and later years will be confirmed as part of future MTRS processes.

2. This document contains background information to set out the context for the recommendations and includes a number of appendices covering:

- **Appendix A – 2018/19 Provisional Local Government Finance Settlement**
- **Appendix B – Summary Capital Investment Programme;**
- **Appendix C – Detailed Capital Investment Bid Proposals;**
- **Appendix D – The Prudential Code Indicators;**
- **Appendix E(i) – Revenue Control Totals by Service;**
- **Appendix E(ii) – Revenue Control Totals by Subjective;**
- **Appendix F – Summary of Reserves and Balances**
- **Appendix G – Special Expenses Rate**
- **Appendix H – Fees and Charges**

Background

3. The Council must meet its obligations to:

- Determine a balanced Revenue Budget;
- Set a Council Tax Requirement;
- Approve a Service Capital Investment Programme;
- Approve the Prudential Code Indicators; and
- Approve the Statement of Minimum Revenue Provision (if applicable).

4. The Council's Medium Term Resource Strategy [MTRS] sets out the process for dealing with these obligations over a five-year period. A detailed Financial Plan is included for 2018/19, while summary indicative information is provided for years 2019/20 to 2022/23.

5. The strategy is based upon the long term vision included within the Council's Corporate Strategy "Shape the District 2017 – 2020". It outlines two priorities based on the key challenges or opportunities the District faces within the overall context of the Council's allocation of resources to the services it provides and commissions.

6. The strategy aims to:

- **Ensure the level of reserves remains appropriate;**
- **Identify service delivery trends, changes in legislation etc. that will have a service and financial impact;**
- **Accurately predict levels of spend in the future;**
- **Identify whole life costs of capital projects and ensures all projects are adequately funded and resourced;**
- **Cost areas of new or increased priority services;**
- **Provide efficiency savings where possible to fund new investment or enhanced services.**
- **Increase value for money.**
- **Develop partnerships where they can offer a better way forward.**

7. The Council has produced a financial model which delivers the Council's priorities whilst addressing the significant financial challenges being experienced as a result of the Government's austerity measures and the resulting cuts in funding.

8. A summary of the latest Local Government Finance Settlement, covering the provisional allocations for 2018-19 originally announced in December 2015 as part of the multi-year settlement offer, accepted by 97% of local authorities, is included within **Appendix A.**

9. In addition to bridging the revenue budget gap, Officers and Members have also considered service Capital Investment needs. These have again been identified alongside available resources. In 2018/19 there are sufficient resources available to deliver a programme in line with the minimum levels requested by services. The resulting programme, combined with the consequences of prior year decisions, is used to estimate actual capital expenditure in each year and calculate the direct consequences for the Revenue Budget and Prudential Code Indicators.

Capital Strategy

10. The Capital Strategy sets out the Council's longer term approach to capital investment ensuring that it is directed to the spending priorities of the Council. It sets out the rationale for investment in capital assets and projects and as part of the Medium Term Resource Strategy will be revised and updated annually to react to changing corporate objectives, social and demographic changes, political and financial influences.

11. Within this framework, the Council produces an Annual Service Capital Investment Programme, which is approved by Cabinet and is essentially an implementation plan of the Capital Strategy. The Strategy is not intended to allocate resources to individual projects as this forms part of the decision making rationale.

12. The Capital Strategy needs to be relevant in the current financial and economic climate and therefore needs a cautious and measured, yet flexible, approach that reflects the fact that:

- Revenue resources have, and will be, cut significantly in each of the forthcoming financial years. The impact on the Revenue Budget arising from the Capital Investment Programme must be affordable and sustainable, and be used to aid the bottom line;
- Capital resources available to the Council are limited, with little direct funding provided from central government and currently limited scope to raise income from capital receipts;
- Local government's range of responsibility is constantly changing along with the role that it plays within the community, leading to an expectation that Society will assist in the delivery of services.

STRATEGIC AIMS

13. The key objective of the Capital Strategy is to deliver a Service Capital Investment Programme that:

- **Ensures that the Council has assets that are fit for purpose and enable the delivery of the priorities set out in the Corporate Plan;**
- **Supports the Council's service specific plans and strategies;**
- **Facilitates income generation that aids the revenue budget;**
- **Is affordable, financially prudent and sustainable.**

This should not however prevent the authority from:

- Reducing the on-going liability of holding assets by engaging with communities to develop alternative service delivery options including asset transfer;
- Fully utilising resource opportunities available for Capital Investment from outside sources where this does not create ongoing revenue liabilities or commitments that cannot be met.

STRATEGIC ASSET MANAGEMENT PLAN

14. The Capital Strategy should be read in conjunction with the Strategic Asset Management Plan, summarised below. In turn, it contains links with other key documents where capital investment can assist the Council achieve its goals or where investment and use of resources plays a contributing role to shared priorities.

The Capital Strategy and Strategic Asset Management Plan [SAMP] assists the Council in major investment decisions. The SAMP considers the strategic requirement and use of key Council assets and will detail clear actions for the further development of the approach to the management of assets. Any assets identified as no longer appropriate will be disposed of enabling sale proceeds to be used as a capital receipt whilst reducing longer term liabilities on revenue and human resources. The SAMP will be updated regularly to reflect progress and changes to the Council's principle assets.

PRIORITY AREAS FOR INVESTMENT

15. The Council's two main priorities direct the focus of its work. For each of these priorities, the Council has set itself objectives that determine where it allocates its resources. Below this, the Council approves annually, a suite of service plans that deliver and contribute towards the aims of the Council. Where appropriate these plans will link to the Capital strategy The council's priority areas for investment can be summarised as:

    - Invest to save / Income Generation;
    - External partnership commitments;
    - Housing investment;
    - Asset maintenance and enhancement.

16. Invest to Save / Income Generation
    The Council is always looking for opportunities to deliver future efficiencies in service provision, known as 'Invest to Save', or that generate an income to ease the pressure on the Revenue Budget. Reflecting this desire, the external operational borrowing limit was increased to £80 million by Full Council in December. Specific projects / investment opportunities will be brought forward for approval in due course.

17. External partnership commitments
    The Council has commitments to its partners as well as legal and other statutory obligations. It will continue to support capital works as necessary in order to discharge its commitments and legal duties. Such areas as providing wheeled bins to assist with meeting recycling targets and its liabilities towards sewers feature within this strategy.

18. Housing Investment
    There is increasing pressure on the availability of housing. For this reason, one of the Council's corporate priorities is to take all steps possible to support the provision of housing in the district. The Council has in the past regularly provided in the region of 50% of the Annual Service Capital Programme towards housing and related projects. It aims to continue investing in this area within the resources at its disposal until such time that priorities change.

19. Asset maintenance and enhancement
    The Council continues to have ongoing responsibilities to maintain its assets, and will keep its assets under continuous review through its Strategic Asset Management Plan. From time to time this will identify assets that need replacement or modernisation. An example of this is car park ticket machines as physical money changes (like the new £1 coin) or technology advances such as payment by phone / card. Asset maintenance is a revenue cost; the purchase or enhancement is a capital cost.

APPROACH TO INVESTMENT

20. Future Service Capital Investment Programmes are driven by the budget and service planning process. The size of the programme is determined by: -

    - Any requirement to incur expenditure;
    - Affordability and available resources;
    - Revenue implications from Capital expenditure.

21. *De-minimis* for Capital Schemes is £10,000 unless wholly funded from external sources and therefore schemes below this threshold will need to be funded from other revenue sources.

22. Cabinet / Senior Leadership Team (SLT) will require post completion assessments for some key projects and schemes to be undertaken by the responsible officer to assess planned outcomes against what was finally delivered. Post completion assessments form part of the Council's organisational learning and aims to identify good practise, value for money and further areas for improvement.

SPECIFIC FUNDING FOR SCHEMES

23. Funding for Capital Schemes can originate from a number of sources and in some instances may comprise a mix of funding from both Council and external sources. Irrespective of the nature of funding, all Capital Schemes should be identified and form part of the Capital Programme. The main sources of funding are likely to originate from the following:

24. <u>Consideration of Capital proposals attracting specific funding</u>
    Schemes attracting external funding, such as grants for private sector housing, will be assessed in the same manner as those requiring any other sources of funding. Partially funded schemes will only be included in the Capital Investment Programme if approved by SLT and subsequently Cabinet. Where such schemes attract 100% external funding, then they would normally be included automatically within the Capital Investment Programme, subject to being able to afford any associated ongoing revenue commitments.

25. <u>Capital Receipts</u>
    A strategic review of assets is regularly undertaken to ensure that the Council is maximising the benefits gained from them. It is therefore possible that over time, the benefits generated from certain assets reduce and they may become surplus to requirement. Therefore the most economic benefit could be achieved through selling that asset, thereby raising a capital receipt that can then be used to fund future capital investment.

    The Council's policy is to treat all Capital receipts as a corporate resource to enable investment to be used in priority areas. This means that services are not reliant on their ability to generate capital receipts.

26. External funding
There may be a variety of projects that the Council wishes to support where funding is provided wholly or in part from external sources. For example through ring-fenced grant funding for housing related projects, or via negotiated Section 106 Planning Gain Agreements

27. Borrowing
This may be through internal or external borrowing.

Internal borrow uses the cash balances of the Council. Currently, these yield small returns on the market and is therefore cheaper than the interest rate payable on an external loan and so is maximised as far as possible. This has been the main funding source in recent years.

External borrowing is via a loan. Within local government the main provider would be the Public Works Loan Board [PWLB]. Recently, the council has borrowed £16.193m externally to support the commercial investments. This reflects only 20% of the overall borrowing capacity.

The Local Government Act 2003 introduced a new system of Local Government Capital Finance. From 1 April 2004 the Prudential Regime requires Councils to decide its own borrowing limits taking into account the authority's financial situation, MTRS and in particular affordability, as funding of capital expenditure has an on-going revenue cost which has to be met. This replaced the previous system of only being able to borrow in line with limits prescribed and was supported by Government funding through the Revenue Support Grant.

28. Revenue funding
Given the reduced funding available within local government, opportunities to fund capital expenditure from the revenue budget are limited. However, there may be instances where a revenue contribution in part or wholly is warranted. In such circumstances this would require confirmation from financial officers and appropriate Cabinet approval.

29. Carry Forwards from a previous year
In addition, schemes should be added to the Capital Investment Programme where there is a carry forward from a previous year with specific funding already allocated. The final value will be confirmed in the annual Outturn Report.

Capital Programme

30. Service Capital Investment Programme 'v' Investment Capital Programme
Following approval to increase the external operational borrowing capacity to £80m it is important to draw a distinction between 'normal' service capital expenditure and investment capital expenditure. Annual capital expenditure to support the provision of services will continue to be funded, as far as possible,

through Capital Grant, Capital Contributions, Internal Borrowing and Revenue Funding. Specific capital expenditure to fund commercial investments will be funded via the £80m external operational borrowing capacity.

31. Service Capital Investment Programme

The Service Capital Programme is developed from an assessment of need and available resources. Initial capital proposals for 2018/19 to 2022/23 were identified and have been prioritised by officers in accordance with the strategy, under the following criteria:

a. Corporate Plan Priorities:
    - Transformation
    - Inclusive Growth

b. Other Priorities:
    - Health and Safety or other legislative requirements
    - Improves or maintains business continuity
    - Invest to Save, efficiency or income generation
    - Contractual commitment
    - Identified in Strategic Asset Management Plan
    - National priority

The proposed Service Capital programme can be found in summary form in **Appendix B** and detailed proposal documents for each item is included in **Appendix C**.

In respect of resources, the only Capital Grant received from Government is the Disabled Facilities Grant which totals £0.701m in 2018/19[1], and has been allocated as part of the Better Care Fund. This value is assumed to continue in future years.

As at 31st March 2017 the Council had £518k Capital Grants Receipts in Advance and £656k Capital Grants Unapplied. This is not sufficient to cover the required capital expenditure for the year and therefore additional resources will be required.

Following a review of the Council's balance sheet structure, it has identified that there is sufficient capacity and flexibility to enable a limited amount of 'internal borrowing'. The estimated internal resources available are sufficient to meet demand in 2018/19, allowing the Service Capital Investment Programme to be constructed. Although the implication for the 2018/19 revenue budget is relatively low, this cost will increase if the level of investment grows over this MTRS period.

A provisional annual Capital Investment Programme for future years has been identified, but is not proposed to be formally approved due to the absence of information on future funding levels and uncertainty of future capital receipts.

[1] At the time of writing this allocation has not be confirmed but is widely expected to remain at previous levels.

It must be noted that the decision to take some of the Capital proposals forward will in some cases impact beyond 2018/19 and will contribute to future budgets.

32. Investment Capital Programme
In addition to the schemes outlined within the Service Capital Investment Programme, it is possible that opportunities for investment come to light during the year. It is therefore prudent to ensure the Council has the flexibility to respond in such circumstances. The Operational Limit has been reviewed and increased to £80m by Full Council in December.

As outlined above, the Service Capital Investment Programme does not draw on this funding. This additional borrowing capacity has been approved specifically for the purpose of investing in commercial opportunities in order to generate a financial return for the authority. Any commercial investment should return more than the cost of the borrowing including MRP where appropriate. This was the case for the funding of the two commercial properties that council has recently purchased, which provided a financial return of over £700k per annum above the debt financing cost, although MRP has not been applied to these assets as it is planned to sell them to repay the debt. However, it is important to remember that whilst the main driver should be financial return, community benefit also should be considered when investing.

As a guide in this context, each £1m borrowed at current[2] PWLB rates will cost between approximately £17,800 per annum for assets with a 5 year life (1.78% interest), £27,300 per annum for assets with a 25 year life (2.73% interest) and £24,400 per annum for assets with a 50 year life (2.44% interest). However, if that asset gave a return on investment of, say 4% per annum after financing costs, the return over 5 years would be £40,000 per annum, or £1m over 25 years, far above the cost of the borrowing.

Commercial investment opportunities are being assessed and proposals will be brought forward to Phoenix Board as required.

Minimum Revenue Provision (MRP) and Prudential Indicators

33. Minimum Revenue Provision (MRP)
The Council is required to make a Statement on Minimum Revenue Provision [MRP], the annual provision made from the Revenue Budget for future repayment of external debt. Cabinet is recommended to propose a statement broadly in line with that made in previous years, as follows:

"The Council will continue to make Minimum Revenue Provision at least equal to an annual 4% reducing balance method on all capital expenditure covered by government supported borrowing approvals.

[2] As at 26 January 2018 based on a maturity loan inclusive of the 20 basis point reduction available through the certainty rate, for which Mendip is eligible.

Minimum Revenue Provision for the capital expenditure within the proposed Annual Service Capital Programme will be based on the nominal life of the asset delivered.

For the capital expenditure within the proposed Commercial Investment Capital Programme, Provision will be based upon one the following options:

a. **Where the asset is to be retained, Minimum Revenue Provision will be set aside based on the nominal life of the asset delivered (the default position);**
b. **Where the asset is to be sold to repay the debt, a separate provision will be created for any reduction in the valuation of the asset (assessed annually) being recovered over the remaining life of associated debt financing the investment.**

   If in subsequent years the value increases, the Provision could be revised to ensure the amount set aside is appropriate. Any excess provision set aside could then be released enabling the council to invest further or reduce the overall capital financing costs thereby assisting the Revenue Budget"

34. Prudential Indicators
The Council is required, by regulation, to publish a number of indicators relating to the Capital Investment Programme, Treasury Management and the revenue implications of the programme, known as the Prudential Indicators.

Under the Prudential Code the Council is obliged to adopt the "CIPFA Code of Practice for Treasury Management in the Public Services". The Council has formally adopted this code and has also adopted the content and the spirit of the revised edition of the code that was fully published in 2011.

The Prudential Code Indicators have been based on the assumption that Cabinet / Council will approve the proposals contained in the Revenue Budget and Service Capital Investment Programme. The Prudential Code Indicators can be found in **Appendix D**.

Revenue Budget 2018/19

35. The Government's deficit recovery programme has, and continues to, significantly reduce the levels of funding in Local Government. Indeed, by 2019/20 the council will no longer receive any Revenue Support Grant (RSG) and will have to repay funding, known as negative RSG. There are also restrictions placed upon the income received through fees and charges in many cases as they are set by statute. Meanwhile, there is increased and changing demand for services, along with a need to maintain assets used within service delivery. This has led to an MTRS process that has needed to concentrate on ways of reducing expenditure and increasing income from

other sources. The scale of the financial shortfall over the medium term dictates that the Council will need to consider the range and scale of services it supports.

36. **Appendix E(i) and E(ii)** show the General Revenue Budget Summary for 2018/19 by both Service and Expenditure Type and provides projections for the remainder of the period covered by this strategy. They show the Revenue Budget for 2018/19 is fully funded although a sizeable shortfall remains across the remaining four-years of the MTRS. Once approved by Full Council, this will represent the financial plans that the Cabinet will manage under their delegated authority and monitor in accordance with the Financial Regulations.

37. Closing the budget shortfall
At February 2017 Full Council, the budget shortfall for 2018/19 was £1.505m and across the remaining 4-years of the MTRS totalled £3.306m:

Scale of Financial Challenge	2018/19	2019/20	2020/21	2021/22
	£000	£000	£000	£000
Annual Shortfall	**1,505**	**305**	**1,310**	**186**
Cumulative Shortfall	**1,505**	**1,810**	**3,120**	**3,306**

The 2018/19 budget has been informed by a process of continuing review of service delivery and planning which began in February 2010 by the then Corporate Management Team. This builds on the work carried out in subsequent year's budget prioritisation exercises, and involves consideration and prioritisation of service activity against:

- **The corporate strategy,**
- **Current performance levels,**
- **Current projected and previous outturn levels,**
- **Delivery of Government targets,**
- **Whole scale changes in Government funding with significant cuts since 2010/11**
- **Capital Investment requirements.**

Throughout the budget setting process, assumptions are continually reviewed and updated and Finance reviews staffing and budget forecasts with Group Managers. That process is fluid and alters almost daily as more information is gathered. From this, options have been proposed to reduce expenditure. Savings are required not only to balance the budget for 2018/19 but also to limit the budget shortfall already highlighted for the remaining 4-years of this MTRS.

38. Adjusted Base Budget
The starting point for assessing the forward year MTFP position is to establish the Adjusted Base Budget. The Authority has undertaken a review of the budget in allocating resources to services for 2018/19. This has enabled a

clear understanding of the cost of activities, and enabled them to be robustly challenged. This has resulted in a number of adjustments across services as resources are redirected towards priority areas or those facing increases in demand.

Starting at zero focuses attention on the actual resources needed, by creating transparency of actual costs and potential inefficiencies. This facilitates the examination of activities rather than departmental budgets, fostering early debate and cross-departmental challenges. It also forces budget holders to evaluate cost effectiveness of operations and develop risk-benefit trade-offs.

In addition to the financial realignments, the 2017/18 Budget is amended for technical adjustments and the reversal of one-off items such as the replenishing of earmarked reserves drawn down to support the 2017/18 budget.

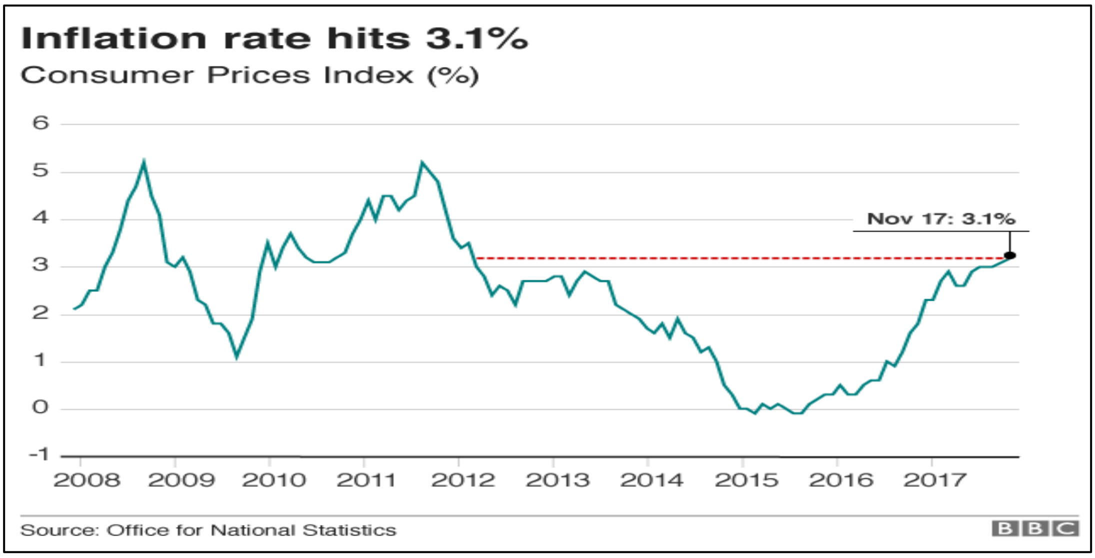
39. Inflation

Anticipated movements in inflation are then included to produce an estimated standstill budget position for 2018/19. As in previous years, price inflation has been restricted to areas where it is contractually unavoidable, such as the proposed 2% pay award[3], or otherwise beyond the Council's control, such as the revaluation of business rates on Council owned property. In all other areas, budgets have been cash-limited at previous year's levels.

This must be recognised as a real terms cut in resources for services and this will require effective management action such as volume reductions in purchasing levels or efficiency gains through improved procurement methods. Experience suggests that services are able to manage this approach, although there has been an over spend reported previously within the in-year monitoring largely caused by one-off issues. This approach may not be sustainable in the longer term for all budget areas, so will need to be monitored and any issues identified included within the budget monitoring process.

Inflation levels have increased during 2017 culminating in the Consumer Price Index (CPI) peaking at 3.1% in November, the highest for nearly six years, but fell back to 3% in December.

[3] A bottom loaded pay award ensuring the lowest pay point is £8.50 in line with the National Living Wage. Spinal point 20 (approx. £20k) and above to receive a flat 2% increase.



This pattern is replicated across the various inflation indices used within the contracts Mendip District Council has with partner organisations and therefore has placed greater pressure on service budgets. The prime example of this pressure is the increase in the cost of waste collection which has seen a 4% increase. However, this is split between inflationary pressures, largely driven by increasing wages and fuel prices, but also reflects the economic growth and the growing taxbase leading to greater demand on the service. Service Managers have therefore maintained a dialogue with these organisations to negotiate to reduce or limit the inflation impact below the index level.

40. <u>Budget Growth</u>

Wherever possible, growth pressures are minimised through the management of demand and control over costs along with realignment of resources within each service areas to higher priorities. Opportunities to redesign service provision along with the identification of increasing income have also been explored. However, where this cannot be achieved, some growth bids are made and additional funding is required.

Otherwise, the budget has been calculated on the assumption that, other than inflation and exceptional items, ongoing services will be provided at no additional cost to the tax payer, unless a growth bid is approved by Cabinet.

The exceptional item to note in this year's budget is the 5 Councils renegotiated contract implications. The contract which originally was expected to notionally save the council around £9.4m has been renegotiated to ensure it reflects the requirements of the council and in doing so the savings have significantly reduced. However, the Council is confident that the best outcome in the circumstances has been achieved, retaining the ability to work collaboratively with the other partners and contractors to undertake transformation work that could recover the reduced savings.

In addition, on the back of the commercial investments and potential local regeneration projects, we have added resources both in house and through our commercial advisors to ensure that the selection process continues to have full diligence and specifically to undertake repairs and maintenance on the civic site and conduct our duties as landlord on the assets purchased.

41. Savings

In reviewing the budget and service provision, every effort has been made to seek ways of doing things more efficiently and so **there are no proposed service reductions that will impact on individuals or communities**. As such the completion of risk assessments, which include the effects on the Corporate Strategy, partnerships, social (impact on diversity and equality), and economic impact has not be required.

The two main savings identified which have resolved the budget shortfall for 2018/19 are:

Commercial Income – during 2017/18 two commercial properties were purchased yielding a rental income over and above the cost of the debt financing of £700k.

Business rates Pool – although the bid to become a 100% Retention Pilot failed, the government have agreed that Mendip, along with the County and other District authorities in Somerset could form a pool. By doing so, the levy on any growth is saved which in total is over £4m. Mendip's share of this gain is £800k.

42. Movement in MRP

The Minimum Revenue Provision has been recalculated in the light of the delivery of the 2017/18 Service Capital Expenditure Programme. As reported in the budget monitoring report a significant element of expected costs will be incurred across the period and so will be rolled forward. This has reduced the cost in 2018/19 from the level previously forecast.

43. Movement in Funding Streams

The other significant amendment to the budget is the movement in the main funding streams. This is covered in more detail within **Appendix A** to this report

Business Rates

Following a review of Business Rates forecasts for 2017/18, which includes the first revaluation under the retained business rates scheme and the benefits forecast from joining the Somerset Business Rates Pool, it is forecast that income from retained business rates has increased significantly.

Council Tax

Updating Council Tax projections using the newly approved Taxbase, the proposed increase to the Band D charge and the projected collection fund surplus have generated £300k more funding that anticipated at this time last year.

Fees and Charges
A review of fees and charges for 2018/19 has been undertaken to ensure that they continue to achieve the agreed principles of delivering full cost recovery and complying with all legal requirements. As a result, some fees are proposed to increase marginally subject to the appropriate consultation and approval being completed. The proposed fees are set out in **Appendix H**. In addition, some services are looking to adopt a more commercial approach and are undertaking a full service review.

44. The MTRS Summary Position
The MTRS summary position is shown in **Appendices E(i) and E(ii)** and shows a balanced position for 2018/19, with shortfalls over the remaining 4-years of the MTRS as follows:

	2018/19	2019/20	2020/21	2021/22	2022/23
	£000	**£000**	**£000**	**£000**	**£000**
Annual Shortfall	£0	£2,794	£1,756	£614	£596
Cumulative Shortfall	**£0**	**£2,794**	**£4,550**	**£5,164**	**£5,759**

The cumulative shortfall over the remaining four-years of this MTRS is therefore **£5.759m.** However, it is likely that there will be further pressures identified as the MTRS is progressed, resulting in an even greater savings targets to be met. **This is particularly applicable to 2020/21 onwards where Local Government will have a whole new funding mechanism through the introduction of the 100% Business Rates Retention Scheme and the implications of the Fair Funding Review.** Therefore this should be viewed as the minimum level of savings / income generation required.

This shows the financial outlook continues to be extremely challenging. The Council has started to work on plans to address these targets and update reports on the progress made will be submitted to Cabinet on a quarterly basis.

Contingencies, Balances, and Reserves

45. The Financial Strategy is to retain sufficient general balances to meet its major financial risks. The greater the level of uncertainty and risk, the more likely it is that these may be needed. Consideration has been given to the levels of contingency, reserves and balances as these are the means by which the Council can manage any movements from the planned position in the short term. Risks are reviewed annually, and for the 2018/19 financial year, general balances should be maintained with a minimum level of £1.5m. Reserves are currently above this and are considered to be adequate, even in the context of the higher level of risk in delivering services and change with reducing resources.

46. Corporately the Council has a history of delivering outturn at or slightly below budget, although there may be some significant over and under spends at individual service level. This ability is due in a large part to a pragmatic approach to making suitable Revenue Contingency provision and applying it as required during the financial year. The organisation will need to continue delivering the close control of the budget achieved in previous years. This is done through devolved budget ownership in conjunction with the individual consideration of service overspends that encourage pro-active budget management.

47. The Council also keeps earmarked reserves which are amounts set aside from annual revenue budgets to meet specific known events that will happen in the future. An example of such a reserve is the amount set aside annually to meet the cost of the Mendip District Council elections that occur every four years. Cabinet set aside a budgeted amount annually to cover any exceptional or unforeseen events that may arise during the financial year. This sum is assessed and agreed on an annual basis.

48. In conjunction with the decisions on reserves, the position on the Contingency budget has also been reviewed and a continuing need for a contingency budget has been identified. Given the levels of reserves and balances, the proposal in this strategy is to maintain this budget at £100,000 throughout the 5-year period to mitigate the risks of non-achievement of the proposed savings and also unpredicted external factors which affect our expenditure or income streams during the year.

49. The Council (in common with other public bodies) continues to face a difficult financial climate and we have held our position that it is prudent to retain robust balances to smooth the potential effect to the tax payer of further cuts. Details of the Reserves and Balances can be found within **Appendix F**.

Special Expenses Rate (SER)

50. **Closed churchyards:**
When a church decides a churchyard is closed it can transfer the liability for costs to the District Council. Some parishes have chosen this option while others maintain the closed churchyards and pay the costs themselves. The result is some tax payers are paying for the cost of maintenance through their own parish council tax charge, and additionally for other parishes through the council tax paid to Mendip. For the parishes where the Council maintains the closed churchyard the Council has, for a number of years, recovered part of the maintenance cost by charging a ‘special expenses rate’ to the residents of that parish. This is felt to be a fairer method for all taxpayers.

51. **Play grounds:**
In a similar way, Mendip maintain play areas in some towns and villages while others are maintained and paid for by the residents of the parish. Again the Council feels it is fairer to charge the parish residents for the play areas in their own community.

52. In the current financial year the Council set a maximum annual charge of £12.50 for churchyards and £12.50 for play areas per household, even though it spends more than this in some parishes. In 2009/10 it was agreed by Full Council that in future years the cap would be increased by 25% of the charge until the maintenance charges are wholly met by the relevant parish. However, this budget recommends the SER cap remains frozen. The Council feels this policy is the most reasonable and fair method when considering all of our taxpayers.

53. Details of individual parish charges under the special expenses rate can be found within **Appendix G**.

Robustness of 2018/19 Revenue Budget and the Adequacy of Reserves

54. Under Section 25 of the Local Government Act 2003, the S151 Officer is required to report to Council on the robustness of the estimates made for the purpose of calculations of the budget and the adequacy of the proposed financial reserves.

55. In assessing the Robustness of the Estimates there a number of factors that have been considered to enable an overview to be taken.

- The process that has been undertaken in developing the 2018/19 budget;
- The accuracy of the estimates;
- A review of the operational and consequential financial risks under which the Council is operating;
- The level of Contingency included within the 2018/19 budget available to offset unplanned expenditure.

56. The formulation of the budget allowed for best estimates of inflation and commitments necessary to maintain service levels. All estimates by their nature have a degree of uncertainty attached to them. They are however produced with the support of professional finance staff in conjunction with the staff within the relevant service areas before being reviewed by the Corporate Finance to ensure consistency of treatment. Furthermore, with demand-led budgets, this inevitably entails a degree of judgement.

57. There has been a significant degree of scrutiny of the budget process, its proposed budgets and its savings for 2018/19 by:

- The Finance Team
- Senior Leadership Team
- Group Managers
- Portfolio Holders
- Cabinet / Scrutiny Board

This examination of the budget helps to refine the figures and provide considerable assurance about the robustness of the estimates. The Council has risk assessed all cuts made to the budget, savings have only been taken where there is a high degree of certainty about their achievement.

58. There remain, however, some key risks inherent in the 2018/19 Revenue Budget and these can be broadly grouped into 3 categories:

- Risks that can be identified with some certainty and for which a reasonable estimate of impact can be made e.g. contract inflation. In these cases service base budgets have been adjusted to reflect the impacts;
- Risks that can be identified that are almost certain to materialise but for which the size and scale of the risk is subject to some unknowns in terms of value or timing. In these cases the Contingency Budget is the most appropriate solution and this is discussed further below;
- Risks that can be identified but which are very uncertain as to timing or impact or have a low likelihood of occurring. In these cases, the most appropriate means of delivering financial stability is through reserves and balances.

59. **Section 151 Officer – Statement on the Robustness of the Budget.** Based on the consideration of the issues and processes used in the preparation of the budget the following statement is provided by the Section 151 Officer:

"The District Council is recommended to note that, in my opinion, the estimates used in the production of the budget proposal for 2018/19 are adequately robust".

60. In coming to a view on the adequacy of the reserves, it is necessary to take into account the following:

- The purpose of holding reserves and balances;
- The risks and uncertainties that may have financial consequences, their potential impact and likelihood of arising;
- Use of reserves to mitigate risk;
- The opportunity cost of holding reserves and balances.

61. Reserves are required to ensure that the risks that the Authority faces do not destabilise the services that it provides during the year. The Council's financial environment is constantly changing, as are the demands on services and the needs of the population and environment. Reserves, therefore, are an important part of the Council's financial strategy.

62. The Council therefore holds revenue reserves in order to mitigate future risks over and above those managed through the Contingency Budget, such as:

- Excessive increases in demand and / or costs over the budgeted position;
- Delays or failure to fully realise planned savings or service reductions assumed within the 2018/19 budget;
- Variations in forecast revenue income from Council Tax, National Non-Domestic Rates and other revenue streams;
- Future liabilities such as insurances or pensions;
- Exceptional events including civil emergencies identified through our Corporate Strategic Risk Register.

63. Reserves, provided that they are sufficient for core purposes, can also provide capacity for the Council to manage fluctuations in on-going demand and smooth the impact of rapid year-on-year change in levels of resources. This provides time for levels of service provision to be adjusted and suitable arrangements to be put in place to mitigate, as far as possible, the impacts of future changes.

64. A careful balance needs to be maintained between holding too much and too little money in reserves. If reserves are too small, this increases the Council's exposure to risk and endangers its capacity to deliver priorities in a planned and prudent fashion. However, it is important to remember that cash is not idle. The money the Council has in reserves is invested and interest is earned, albeit at a modest level at present.

65. **Section 151 Officer - Statement on the Adequacy of Reserves**

"Based on the assessment of the reserves and contingencies, the key financial risks identified, and the thorough process used for developing the Medium Term Resource Strategy, I have determined that the level of reserves and balances for 2018/19 is adequate."

Implications

66. The Council has a duty to allocate public funds appropriately, and to set a legal Council Tax for the coming year at its Full Council meeting in February 2018.

67. The financial and risk implications of this report are contained within the report. The remaining implications for customers including personnel, legal, equalities, performance, partnership, organisational learning, data protection and human rights issues have been considered throughout the process of the development of the budget proposals through the preparation of individual Impact Assessments.

Background Papers

68. List of background Papers:

MTRS and 2017/18 Detailed Financial Plan – Full Council February 2017

Appendices:

- Appendix A – 2018/19 Provisional Local Government Finance Settlement
- Appendix B – Summary Capital Investment Programme;
- Appendix C – Detailed Capital Investment Bid Proposals;
- Appendix D – The Prudential Code Indicators;
- Appendix E(i) – Revenue Control Totals by Service;
- Appendix E(ii)– Revenue Control Totals by Subjective;
- Appendix F – Summary of Reserves and Balances
- Appendix G – Special Expenses Rate

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