

CABINET
25 OCTOBER 2018

DRAFT 2019/20 GENERAL FUND AND CAPITAL BUDGETS

Cabinet Member Cllr Peter Hare-Scott
Responsible Officer Andrew Jarrett, Deputy Chief Executive (S151)

Reason for the report: To consider the initial draft 2019/20 Budget and options available in order for the Council to set a balanced budget and agree a future strategy for further budget reductions for 2020/21 onwards.

RECOMMENDATION: To consider the draft budget proposals for 2019/20 and start to plan for additional savings as identified in the Medium Term Financial Plan.

Relationship to the Corporate Plan: To deliver our Corporate Plan's priorities within existing financial resources.

Financial Implications: The current budget for the General Fund shows a deficit of £661k. In addition we have predicted a funding deficit of £1.368m on our General Fund by 2022/23. This highlights the need to take steps to plan for further reductions to our ongoing expenditure levels.

It is a statutory requirement for the Local Authority to set a balanced budget each year.

Risk Assessment: Group Managers and Finance staff have assessed volatility in income and large contractor budgets, taking account of current and estimated future demand patterns. In addition prudent levels of reserves will also continue to be maintained.

Equality Impact Assessment: There are no Equalities Impact implications relating to the content of this report.

1.0 Introduction

1.1 2019/20 will be the fourth and final year of a four year fixed funding settlement which will see a further reduction of £179k bringing Revenue Support Grant to nil for 2019/20. The end of this four-year settlement period will bring a number of uncertainties and risks.

1.2 It is worth reflecting that our budgets are affected in a number of ways:

- a) The funding received from Central Government.
- b) Devon County Council (DCC) and other public bodies' budgets are being reduced centrally and hence this pressure is passed on to us in areas we work collaboratively.
- c) The increasing pressure on social care budgets has a "knock-on" effect to the level of funding that is available to lower-tier authorities.

- d) Government departments such as Ministry of Housing, Communities and Local Government, Department of Work and Pensions also have lower budgets and reduced grants.
 - e) Changes in customer demand/expectations in the context of the local/national economy.
- 1.3 Although the priority is to balance next year's budget, strategic decisions will need to be made to accommodate reduced funding going forward. So far senior managers will have produced a draft budget based upon "business as usual."
- 1.4 Based on eight years of public sector austerity many services can no longer continue to reduce cost and still expect "business as usual". It is important to remember that some services are statutory and in some cases must breakeven. i.e. we cannot generate a profit. This restricts where savings/cuts can be imposed and section 8 below provides more details.
- 1.5 The proposed savings embodied in the draft budget will need to be agreed by Members, as every proposed saving that is rejected will need to be matched by a suggestion of where a similar saving could be made. Members will be aware that the budget is an evolving process. We have already made a range of assumptions relating to: pay awards, inflation, fees/charges, demand for services, property increases, etc. More information may well change/alter our assumptions in the months leading up to February, when the budget has to be finalised. So the current budget gap of £661k will be revised over the next few months, but it is based on the most current information, in conjunction with professional guidance, that is available.
- 1.6 The Council continues to look at opportunities to reduce operational costs without immediately reducing service levels. However it remains a real possibility moving forward that some difficult decisions will have to be made relating to what the Council can and can't afford to deliver/support in the future.

2.0 The Draft 2019/20 Budget

- 2.1 The initial aggregation of all service budgets (which also includes assumptions surrounding predictions of interest receipts, contributions to our capital programme, transfers from/to reserves and Council Tax levels) currently indicates a General Fund budget gap of £661k (Appendix 1).
- 2.2 At this point it is worth summarising how we have arrived at this deficit. The table shown below shows the main budget variances affecting the 2019/20 draft budget.

Table 1 – Reconciliation of Major 2019/20 Budget Variances

Variances	Amount £k
<i>External items outside of our control</i>	
Reduced formula grant settlement offset by additional NHB	179
Inflationary increases (excl HRA shown below)	36
Decrease in Housing Benefit Grant and CTRS Admin Grant	21
Pay award and pension increases	492

Subtotal	728
Other changes	
Increase in Leisure charges (inflationary)	(83)
Salaries – Restructures and other changes	247
Increase in Business Rates income	(698)
Interest payments increase	16
Additional interest income	(50)
Reduction in draw from Earmarked Reserves	811
Statutory Plan – Removal of one-off 18/19 budget	(300)
Creation of Asset Mgt budget	30
Increase maintenance budgets	50
Final reduction of parish CTRS Grant	(17)
Reduction in Building control income	18
Additional Weed spraying	53
Waste team restructure (Street scene)	35
Waste – Reduction in material prices (cardboard)	30
Waste – Increase fees	(30)
Waste – Devon CC shared savings	(100)
External legal advice/Monitoring Officer	10
Increase in Council Tax income (£5 rise + new properties)	(229)
Net recharge to HRA (after inflationary increases etc)	(44)
Reduction in preceptors contribution to Revenue recovery	20
Grounds maintenance – additional agency	57
Leisure – Additional maintenance costs	360
Leisure – Temp closure of Lords Meadow Pool	31
Leisure – Growth in Membership	(45)
Property – Additional R & M	125
Reduction of income/increase exp Market Walk	76
Reduction in Fore Street income	20
Increase Cemetery fees	(12)
Earmarked Reserve funding of Leisure and Prop – R&M	(485)
Removal of Crediton Office budgets	(17)
Carlu Close – Increased premises cost	44
Boundary Commission project cost	30
Funding Advice - Misc Fees	(20)
Draft budget gap for 2019/20	661

2.3 In compiling the 2019/20 draft budget we have also examined budget performance during 2018/19 and then made any relevant budget corrections for staffing changes, levels of income, changes in legislation, increases in inflation, etc.

2.4 Due to the need to get budget information to all of the PDG and Cabinet meetings during October and November there are still a few key issues that have not been resolved or are still to be fully evaluated. These issues may either improve or worsen the summary budget position currently reported and can be summarised as follows.

- Application by the Devon Pool to become 75% Business Rates Pilot
- Impact of new Homelessness legislation from 01/04/18
- Impact of full rollout of Universal Credit from 01/04/18
- Autumn Statement announcement in November 2017

- Provisional Finance Settlement in December
- Ongoing service reviews (including changes to fees/charges)

3.0 The Past

3.1 Just to remind members of the financial journey the Council has been on since the austerity programme in 2010/11, here is a list of some of the challenges that have been presented to MDDC in balancing budgets during recent years.

- Net loss of £4.2m in Formula Grant
- Loss of funding for Housing Benefit admin and Regional Housing Pot removed circa £0.6m
- Council Tax freezes accepted for a number of years
- Increased costs associated with Local Land Provision
- Tax and pension related pressures including:
 - Pay award
 - Increased pension back-funding costs
 - Government mandated auto-enrolment to the Pension Scheme
 - National Insurance change
- Apprentice Levy of £50k introduced

3.1 The following lists just some of the actions taken by MDDC to mitigate these funding reductions.

- Significant efficiency agenda has led to service reductions amounting to over £2m
- Increased income has been generated by a number of services
 - Waste shared savings agreement with DCC
 - Garden Waste Scheme
 - Improved recycling scheme
- Increased commercialisation
 - £200k profit from Market Walk and Fore Street properties
- Business Rates Devon Pool participation
- Profit from the Special Purpose Vehicle will return to the General Fund, along with a margin on interest received
- Increasing CCLA holding to £5m
- Colocation with Department for Work & Pensions (DWP)
- Revised Car Parking Strategy in 2016/17
- Rationalising our property estate, including depots, parks, toilets and car parks
- Joint working with North Devon DC as part of the Building Control Partnership
- DCC Transfer Station located at Carlu Close

4.0 The Future

4.1 A lot of work has already been undertaken in order to deliver a draft budget gap of £661k. We now are set with two tasks: firstly, to deliver a balanced General Fund budget by February 2019 in order to formally set the Council Tax and secondly, and of equal importance, begin to plan how our future

spending plans can be financed. The work with town and parish councils will continue.

5.0 Capital Programme

5.1 In addition to this revenue funding pressure, is our ongoing commitment to future capital programmes, not helped by the current low levels of capital receipts. Even greater pressure may be placed on future programmes if additional borrowing was made to fund new Council Houses, Depots, Sport Centre enhancements, Town Centre enhancement works, vehicle replacements, etc.

5.2 The draft Capital Programme for 2019/20 is attached at Appendix 3. Excluding the new commitments to fund town centre regeneration or further commercial/land acquisitions, the size of our current and future capital programmes remains very small, due to the reductions in funding and level of sale receipts and now only includes material projects that are essential maintenance, or asset replacement or income generating/cost reducing.

6.0 The Autumn PDGs and Cabinet meetings

6.1 The first round of draft budget meetings will allow discussions with Members, Senior Management, Group Managers and Finance Officers in order to review the proposed draft 2019/20 budget. This will include scrutinising and challenging the initial position (and confirming acceptance of all proposed savings put forward) and discussing any other budget areas that Members would like to see additional savings from.

6.2 Before the next round of PDGs and Cabinet in January the Council will receive formal confirmation regarding its; Formula Grant other emerging legislative changes, more information regarding the 2018/19 budget performance etc. At this point if any of the initial assumptions/estimates significantly worsen, then we will need to bring further savings options forward for consideration.

7.0 Public Consultation

7.1 Earlier years' consultations have consistently highlighted the three most valued services:

- REFUSE COLLECTION & RECYCLING - First
- PARKS, OPEN SPACES & PLAY AREAS - Second
- ENVIRONMENTAL HEALTH - Third

The three services valued the lowest comprised:

- COMMUNITY GRANTS - First
- PUBLIC CONVENIENCES - Equal second
- COMMUNITY SAFETY - Equal second

7.2 With the Council having to make more challenging decisions with regard to service prioritisation these views and our Corporate Plan should be foremost in determining changes to the base budget.

8.0 **Statutory, Discretionary Services and the Level of Service Provision**

8.1 Whilst the Council has a legal obligation to perform some activities, others are at the discretion of the elected members, subject to funding. Although some undertakings are clearly statutory and others clearly discretionary, there are some service areas that have elements of both.

8.2 The main *discretionary* services of the Council comprise:

- Business development (although a corporate priority)
- Community development (includes community group grants)
- Leisure facilities
- Parks and open spaces (identified as important to the public at 6.1)
- Shops and industrial units

What can we do to balance the budget?

8.3 An activity's net cost could be changed by one or more of these factors:

- a) Changing the frequency of service provision
- b) Changing the quality, instead of a "Platinum service" we may be forced to offer a "Silver service"
- c) Increasing fees or start charging for a service
- d) Reducing the overheads
- e) Stopping the activity entirely
- f) Different models of service delivery (including partnership)

8.4 Over the last five or six years the Authority has concentrated its efforts in maintaining frontline service levels across all sectors by reducing overheads. It is now clear that following those budgetary cuts some service areas are struggling to deliver their service plans, within their existing budgets. Indeed in a few cases external reviews have necessitated increasing the resources in a particular service area to meet our legal obligations.

What options are available if something is *statutory*?

8.5 Although we cannot stop the function, we may be able to approach it differently in terms of frequency or quality.

8.6 Some of our income streams are influenced by external market forces and in setting prices we have to be mindful of the going market rate. Aside from Council tax, the main income streams are:

- Building control fees
- Burial fees
- Car park charges
- Industrial unit rent
- Leisure centre fees
- Licence fees
- Market tolls

- Shop rents
- Planning fees
- Trade waste fees
- Garden waste

8.7 Any multi million pound business employing staff and utilising assets needs teams to support them and our frontline services are no different.

8.8 The key components, some statutory, others essential, include:

- Audit
- Accountancy
- Customer First
- Procurement (Buying goods and services)
- Human resources (Includes health and safety)
- IT
- Legal services
- Property services

8.9 For example our waste service has to have vehicles and depots to operate from, both of which need to be maintained. The staff need to be managed, to be paid, and legislation provides for health and safety considerations. Depots and buildings such as Phoenix House are fixed costs, although even here we have created savings by renting out some space. The “back office” activities are therefore intrinsically linked to the “frontline” and savings from both areas have continued to be made.

9.0 Conclusion

9.1 The feedback from all of the PDGs and Scrutiny will be reported to the January Cabinet for consideration in order to set a balanced 2019/20 budget and agree a forward plan. Group Managers will be working with Leadership Team and elected members in order to determine ways in which savings of c£1.4m can be achieved over the next four years, based on the priorities identified in the Corporate Plan. Having identified possible savings, there will need to be careful consideration of their potential impact, probable lead times for delivery of that saving and any associated disengagement costs or possible ‘spend to save’ implications that would arise.

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Circulation of the Report: Leadership Team
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