

CABINET
26 OCTOBER 2017

DRAFT 2018/19 GENERAL FUND AND CAPITAL BUDGETS

Cabinet Member Cllr Peter Hare-Scott
Responsible Officer Andrew Jarrett, Director of Finance, Assets & Resources

Reason for the report: To consider options available in order for the Council to set a balanced budget for 2018/19 and agree a future strategy for further budget reductions for 2019/20 onwards.

RECOMMENDATION: To consider the draft budget proposals for 2018/19 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 £617k. In addition we have predicted a funding deficit of £1.8m on our General Fund by 2021/22. 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: Service 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: It is considered that the impact of this report on equality related issues will be nil.

1.0 Introduction

1.1 2018/19 will be the third year of a four year fixed funding settlement which will see a further reduction of £318k and then the complete removal of the remaining Revenue Support Grant of £179k by 2019/20.

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 being cut leads to them cutting funding to us and others, in a variety of ways.
- c) Government departments such as Department of Work and Pensions and Department for Communities and Local Government also have lower budgets and reduce grants.
- d) 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 seven 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 7 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 £617k 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 into opportunities to further 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 2018/19 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 £617k (see 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 2018/19 draft budget.

Table 1 – Reconciliation of Major 2018/19 Budget Variances

Variances	Amount £k
<i>External items outside of our control</i>	
Reduced formula grant settlement	318
Decrease in Housing Benefit Grant and increase in associated costs	57
Pay award and pension increases	239
Rural Services Delivery Grant	86
Transition Grant	32
<i>Subtotal</i>	732
<i>Other changes</i>	
Increase in service cost pressures	317

Not utilising New Homes Bonus to balance the budget	89
Increase in property sinking funds	100
Interest payments on loans for new Leisure equipment	45
Service cost reductions	(108)
New or increased income identified by service managers	(272)
Increase in Council Tax income (£5 rise + 370 new properties)	(212)
Net recharge to HRA	(108)
Minor changes	34
Draft budget gap for 2018/19	617

2.3 In compiling the 2018/19 draft budget we have also examined budget performance during 2017/18 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 100% Business Rates Pilot
- Impact of new Homeslessness legislation from 01/04/18
- Impact of full rollout of Universal Credit from 01/04/18
- Autumn Statement announcement in November 2017
- Finalisation of Formula Grant settlement
- 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 £4m 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 totalling £350k as follows
 - National Insurance change
 - Increased pension back-funding costs
 - Government mandated auto-enrolment to the Pension Scheme
- 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 It is clear that a lot of work has already been undertaken in order to deliver a draft budget gap of £617k, i.e. further efficiency savings of circa £250k included in the service appendices. We now are set with two tasks: firstly, to deliver a balanced General Fund budget by February 2018 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 2018/19 is attached at Appendix 5. 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, Service Managers and Finance Officers in order to review the proposed draft 2018/19 budget – see Appendix 2. 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 2017/18 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 year's 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
- 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 2018/19 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 £1m can be achieved over the next three 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
Elected Members
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