

Agenda Item 5

TABLED ITEM – EXECUTIVE 20 DECEMBER 2016

UPDATE TO THE COUNCIL BUDGET 2017/18

The following information on the Provisional Local Government Finance Settlement 2017/18 has been received since the preparation of the original Executive Report. The impact of this information on the Council's budget proposals is set out below. This information should be read in conjunction with the original Council Budget Paper.

Provisional Local Government Finance Settlement and Multi Year Settlement Funding

The provisional Local Government Finance Settlement was issued on Thursday 15 December, this has honoured the commitment to levels of funding for Revenue Support Grant, Transitional Grant and Rural Services Delivery Grant set out in the multi-year settlement for 2017/18. These values are set out in the main Executive report at **Table 1**.

The Settlement announcement has also transferred £241m nationally from the New Homes Bonus Grant to adult social care funding and has confirmed that councils could also raise the council tax precept for social care by 3.00% in 2017/18. The current budget proposal is for a 2.00% increase in the adult care precept. An increase to 3.00% next year generates an additional £2.5m.

Other Revenue Government Grants

The provisional Local Government Finance Settlement announcement has reduced the amount of funding due to the Council for New Homes Bonus and added a new grant called the 2017/18 Adult Social Care Support Grant.

- New Homes Bonus Grant of £3.555m (previously £4.555m) for 2017/18. This reflects the reduction to the number of payment years for the New Homes Bonus from six years to five in 2017/18. The grant is now also limited so Council's only receive money from the scheme for homes built above the 0.4% national housing growth baseline; and
- The 2017/18 Adult Social Care Support Grant of £3.383m for 2017/18. This funding is the County Council's share of the £241m transferred from the New Homes Bonus Grant. Allocations are based on the Adult Social Care Relative Needs Formula. The Settlement announcement only includes a one year award for this grant, no indicative figures have been provided for future years.

Council Tax

The Secretary of State in the provisional Local Government Finance Settlement has announced confirmed the referendum threshold would remain at 2.00%. He also announced that the net increase in Social Care Precept will remain at 6.00% over the next three years, however, local authorities will not be limited to an annual increase of 2.00%. Local authorities could choose to increase this element of their precept by 3.00% in both of

the next two years (2017/18 and 2018/19), but the total increase may be no more than 6.00% over the next three years.

At present the budget model assumes 2.00% per annum increases for the next three years. Moving, for example, to a 3.00% increase in the next two years and no increase in the third year will generate £2.5m additional income in 2017/18; £5.0m additional income in 2018/19; and no additional income in 2019/20.

A decision will be required on the increase in the adult care precept for next year. At present the draft budget assumes a 2.00% increase.

Business Rates

The provisional Local Government Finance Settlement has updated the estimated income due to the County Council from business rates in 2017/18 to £104.093m (previously £104.921m). This comprises £18.948m (previously £20.874m) collected by the seven District Council's in Lincolnshire and a top up grant of £85.145m (previously £84.047m) from Central Government as the total business rates collected in Lincolnshire are not sufficient to cover local authority spending in the area.

Comparing business rates funding received for 2016/17 to 2017/18, the Council has seen an increase of £1.178m or 1.14% (previously £2.006m or 1.95%) in Business Rates funding between the two financial years.

Implications of additional revenue income

The overall impact of the above changes to the Council's funding has increased the Council's income for 2017/18 by £1.555m (details are set out in the table below):

	Original Assumptions £'m	Provisional LG Finance Settlement £'m	Variance £'m
Business Rates - Locally Retained Element	20.874	18.948	-1.926
Business Rates - Top Up	84.047	85.145	1.098
New Homes Bonus Grant	4.555	3.555	-1.000
The 2017-18 Adult Social Care Support Grant	0.000	3.383	3.383
TOTAL	109.476	111.031	1.555

The Executive is therefore asked to consider the proposed use of this additional income. This additional income could be used:

- To reduce the amount of funding required from the Financial Volatility Reserve to set a balanced budget in 2017/18;
- To fund additional spending by the Council or reduce the savings required to be made; or
- To reduce the planned increase in Council Tax of 3.95%.

It is recommended that this net additional funding is used to reduce the contribution required from the Council's Financial Volatility Reserve to meet the 2017/18 budget shortfall. There is still uncertainty regarding the outcomes of the final Local Government Finance Settlement. There is also continued uncertainty regarding outstanding announcements in respect of a number of specific grants for 2017/18, which could also face larger reductions compared to 2016/17. Overall levels of funding to local government are reducing and will continue to reduce in future years. Use of this funding to smooth the effect of these reductions will allow the Council more time to develop robust new service models. Continuing to reduce service spending while securing additional income from an increase in Council Tax, by 3.95% should make the Council more resilient to the pressures caused by reduced funding.

The Council's Overall Revenue Budget

The table below has been updated to incorporate the additional income above. **TABLE 2** sets out the overall changes in budget, the cost pressures which the Council proposes to fund, the savings to be made and the current proposed use of reserves to bridge the gap between current funding available and service costs.

TABLE 2: Summary Revenue Budget

SUMMARY REVENUE BUDGET	2017/18 £m
EXPENDITURE:	
Base Budget	465.860
Cost Pressures (<i>including inflation</i>)	26.075
Savings	-39.172
Total Expenditure	452.763
Use of Reserves	-26.059
Budget Requirement	426.704
INCOME:	
Local Retention of Business Rates	104.093
Revenue Support Grant	48.291
Other Grants	16.324
County Precept	257.996
Total Income	426.704

The use of this additional income reduces the originally proposed contribution from the Financial Volatility Reserve from £27.914m to £26.359m.

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Community and Public Safety Scrutiny Committee – 14 December 2016

The Community and Public Safety Scrutiny Committee held a budget workshop on 14 December 2016 to consider the financial pressures for this service area. The workshop produced the following comments for consideration by the Executive:

- The level of overlap and inefficiency in the voluntary sector was highlighted as an area for future consideration to ensure funding is used effectively.
- The proposal to use reserves for 2 years to mitigate impact in relation to Financial Inclusion support was supported.
- The option for 400k operational efficiencies from the Library & Information Services contract was welcomed, but the need for additional information to be presented to scrutiny was highlighted.
- Concerns were highlighted regarding any future savings or reductions from the Fire & Rescue and Emergency Planning budget.
- A greater focus on Traded Standards being developed as a traded service was supported. However, concerns were highlighted in relation to the regulatory role of Trading Standards moving forward.
- Exploring further opportunities for income generation in the Registrars & Coroners was supported as a priority.

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EXECUTIVE

20 DECEMBER 2016

FINANCIAL STANDING OF THE COUNTY COUNCIL IN ADVANCE OF THE 2017/18 BUDGET CYCLE

On 24 November 2016, the Overview and Scrutiny Management Committee considered a report by David Forbes (County Finance Officer), which provided an estimate of the budget shortfall being faced by the County Council over the next three financial years, following the acceptance of the four year funding deal from Government.

The report also provided the foundations for the forthcoming budget cycle and it had recently been provided to all councillors in preparation for the Scrutiny Committee budget workshops.

It was highlighted that the main budget pressures for 2017/18 for the County Council currently comprised the following: -

- Adult Care demography and minimum wage increase - £8.5 million;
- Increase in the number of Looked After Children - £1.8 million;
- Waste Disposal (volume and price impact) - £1.0 million;
- Microsoft licences - £1.4 million; and
- County Council Elections (one year only) - £1.1 million.

The Overview and Scrutiny has requested that the following comments or points of clarification be passed to the Executive:

- The total of the County Council's long term debt was approximately £480 million, with a total interest rate of 4%. A large proportion of the long term debt was historic. Further to this, it was noted that any new borrowing would be at a rate of approximately 2-3%, as it was currently a favourable time to borrow. It was also noted that the County Council's long term debt was average, compared to other local authorities.
- A Councillor commented that the County Council should be using its capital to encourage business growth, rather than it predominantly being spent on housing developments.
- The Government had introduced a new three year concession, which had provided upper tier local authorities with more flexibility in the way of which they could use capital receipts. This meant that the County Council could fund certain revenue costs for transformation change (for example, redundancy costs) by using capital receipts and thereby freeing up the revenue budget allocation in those three years. It was noted that upper tier authorities were lobbying Government to make this concession permanent, similar to combined authorities.
- A Councillor suggested that the County Council explored the possibility of replacing Microsoft with alternatives, such as Open-source software.

- It was recognised that £1 million of the County Council's income was generated by the Energy from Waste plant.
- It was also recognised that the Rural Services Delivery Grant contributed to the Council's budget by 8%.
- It was assumed that the increase in the number of Looked After Children had included the 50 additional unaccompanied asylum seeking children, which the Council had accepted into its care through the Government scheme.
- A concern was raised regarding the contributions of £15.9 million from Health into the Lincolnshire Better Care Fund, and whether this would be realistic going forward considering the budget pressures clinical commissioning groups were currently facing.
- It was confirmed that where grants and contributions from Government and other bodies had been allocated for specific purposes, if they were not used for those purposes, the grants and contributions had to be returned. However, it was not anticipated that all grant funding would be spent on its specified purpose.
- Members raised significant concerns with the Government's Autumn Statement and stressed its inadequacy to address the pressures facing Adult Care authorities. Further to this, it was suggested that the Executive be requested to respond to Government outlining the Council's concerns in relation to the underfunding of Adult Care pressures.
- There was no provision for price inflation within the budget, with the exception of pay inflation which was limited to 1%, other than the use of the revenue contingency budget. However, it was noted that in the first instance directorates would try to fund the price inflation within their budgets. It was agreed that the Executive be requested to encourage directors to fund any price inflations through the revenue contingency budget, as it was deemed unfair that they should fund it within their allocated budgets;
- A Councillor suggested that the County Council should continue to lobby government on the funding shortfall for rural authorities.