

Open Report on behalf of Pete Moore, Executive Director Finance and Public Protection

Report to:	Executive
Date:	07 February 2017
Subject:	Council Budget 2017/18
Decision Reference:	I012283
Key decision?	Yes

Summary:

This report asks the Executive to consider its final proposals for the Council's budget and council tax in light of consultation comments on its initial proposals.

The Executive is also asked to consider prudential targets in relation to capital financing and other treasury management matters and to recommend to full Council the Flexible Use of Capital Receipts Strategy for 2017/18.

Recommendation(s):

That the Executive:

1. Consider the effect of the updated funding available and revenue expenditure as noted in paragraphs 1.2 to 1.22 and **APPENDIX A** of the report;
2. Consider the Equality Impact Analysis at **APPENDIX B** and the consultation comments as shown in **APPENDIX H** and presented at the meeting;
3. Subject to recommendation 4 below approve for recommendation to full Council:
 - a) the revenue budget shown in **APPENDIX C** of the report;
 - b) the capital programme shown in Table A and **APPENDIX D** of the report;
 - c) the levels of council tax proposed in Table B of the report including the increasing of council tax in 2017/18 by 3.95%;
 - d) the prudential indicators shown in **APPENDIX F** of the report; and
 - e) the Flexible Use of Capital Receipts Strategy attached at **APPENDIX G** of the report.

4. Request the Leader, to review and amend the Executive's budget recommendations to the County Council, as appropriate, in light of the final Local Government Settlement, council tax and business rates information from the Lincolnshire District Councils if received between the Executive meeting and the County Council on 24 February.

Alternatives Considered:

1.	The proposals for the revenue budget and council tax as described in this report.
2.	Higher levels of spending and consequently higher levels of council tax in future years.
3.	Lower levels of spending and consequently lower levels of council tax in future years.

Reasons for Recommendation:

The recommended option reduces the Council's spending to reflect reducing government grant income to the Council. It also allows for an increase in council tax of 3.95% (1.95%, plus a further 2.00% for the social care 'precept').

The recommended option is proposed because it uses a mixed approach for dealing with the reductions in government grant income for the Council:

- the increase in Council Tax of 3.95% allows the Council to reduce the impact of income lost from government funding;
- savings on service expenditure are proposed to rebalance future spending with the funding which will be available to the Council; and
- one off use of reserves allows the Council to smooth the effect of funding reductions to develop new service delivery models.

1. Background

1.1 The Executive, at its meeting on 20 December 2016, proposed the Council's budget for 2017/18 for consultation. This budget report, plus the update (on the Local Government Settlement) tabled at the meeting are attached for information at **APPENDIX A**. Some further information has become available since the Executive made its initial budget proposals. This is described below and the implications reflected in the appendices to this report.

Council Tax

Council Tax Base

1.2 District Councils have until 31 January 2017 to confirm their Council Tax Base and surplus/deficit position on the Council Tax element of the Collection Fund. The report to the Executive on 20 December 2017, assumed no increase in the council tax base and no collection fund surplus or deficit.

1.3 At the time of preparing this report the County Council has received provisional figures from all seven of the District Councils. The figures received show an increase in the tax base and hence the tax yield of 3,166.82 band D equivalent properties or 1.44%. This will provide the Council with additional Council Tax income of £3.716m per annum at the current council tax levels.

1.4 All seven of the District Councils have declared the position on the council tax elements of their Collection Funds. There is a net surplus attributable to the County Council of £3.154m. This is a one off addition to income for 2017/18.

1.5 An update will be tabled at the Executive meeting on 7 February if there are any amendments from the final returns received from the Lincolnshire District Councils.

Council Tax Increase

1.6 It was proposed in the report to the Executive on 20 December 2016, that the Council would increase Council Tax by 3.95%. An Impact Analysis has been completed for this increase and is attached at **APPENDIX B**. The equality impacts are addressed further below in part 2 of the report 'Legal Issues'.

Business Rates

1.7 The District Councils have until 31 January to provide business rates returns showing:

- The position on the business rates element on their collection funds; and
- The value of the section 31 compensation grant due to the County Council.

1.8 The report to the Executive on 20 December 2016, assumed no section 31 grant and no collection fund surplus or deficit.

1.9 At the time of preparing this report, the Council has received provisional notification from three of the seven District Councils of the position on the business rates element of the Collection Fund. There is currently a net deficit attributable to the County Council of £0.473m. As with Council Tax any surplus or deficit from business rates collection will only have a one off effect on the 2017/18 budget. It is worth noting that only 10% of the business rates collected locally is passed to

Lincolnshire County Council and any share of surpluses or deficits will be on this basis too.

1.10 The Government confirmed that it will compensate local authorities in full for the continuation of small business rate relief and a further extension to include a rural rate relief announced in the Autumn Statement through a section 31 grant, as in previous years.

1.11 Information on the section 31 grant is still outstanding. The report to the Executive on 20 December 2016 did not assume a level for this income. This report again does not include any estimates for this income, although this is likely to be in line with the 2016/17 level which saw total section 31 compensation grant for business rates of £2.418m.

1.12 An update will be tabled at the Executive meeting on 7 February once returns have been received from all the Lincolnshire District Councils.

Business Rates Pooling

1.13 At the 20 December Executive, it was reported that the County Council proposed to pool with six of the seven Lincolnshire district councils in 2017/18 (Boston Borough, City of Lincoln, East Lindsey, North Kesteven, South Kesteven and West Lindsey).

1.14 It has now been confirmed that the County Council will pool with these six Lincolnshire Districts Council's. Updated calculations show that the County Council could benefit by some £1.103m from the pool. In previous years the Council has budgeted for this additional income, however, due to the timing and size of appeals received by the District Councils, these amounts have been volatile and have not all been delivered. It is therefore, proposed not to budget for the estimated additional income. Any income generated from pooling during 2017/18, when received, could be used to reduce the amount planned to be used from reserves.

Other Revenue Government Grants

1.15 Between the time of preparing this report and the original budget report to the Executive on 20 December 2016 the Council have been notified of a number of changes to grants and new awards. These include:

- Special Education Needs and Disability (SEND) Grant award for 2017/18 of £0.532m has been announced. This is £0.054m more than the award for 2016/17;
- The estimated income from the Education Services Grant has been updated to reflect the updated general rate from government from £50 per pupil to £66 per pupil. This has increased this funding by £0.267m (from £0.836m to £1.103m).

The retained duties income, within schools budgets has also been updated to reflect more up to date pupil numbers. This increases income in this area by £0.027m; and

- Dedicated Schools Grant indicative award of £515.950m. This grant supports all schools in Lincolnshire including local authority schools and academies.

1.16 Any further notifications received before Executive will be tabled at the meeting on 7 February.

Revenue Budgets

1.17 The proposed revenue budgets shown in **APPENDIX C** include (as well as the changes referred to above) the following changes since reporting to the Executive on 20 December 2016:

- An increase to capital financing charges in light of the changes to the capital programme detailed below (£1.484m);
- Creation of a budget in Learn and Achieve for the SEND grant award of £0.0532m;
- Allocation of £0.320m from the Public Health Grant for the Family Nurse Partnership;
- An additional saving of £0.039m for Pension Liabilities included within Other Budgets; and
- Some presentational changes within service budgets to realign budgets with management responsibilities. This has resulted in a small additional inflationary cost of £0.003m.

Implications of additional revenue income and changes to expenditure

1.18 The current net increase in income from growth in the council tax base, plus the surplus on the council tax collection fund less the deficit on the business rates collection fund has increased the Council's income for 2017/18 by £6.397m. Changes to grants and revenue expenditure noted above have added additional costs of £1.527m to the Council's budget.

1.19 The Executive is therefore asked to consider the potential use of this net additional income (£4.870m). 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%.

1.20 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 position on the business rates income, particularly on the expected deficit on the collection fund. 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.

1.21 Whilst the use of this additional income reduces the originally proposed contribution from the Financial Volatility Reserve from £26.359m to £21.489m there still remains uncertainty regarding the final position on business rates, collection fund surplus/deficit and section 31 grant for 2017/18. It remains the fact that the level of usable reserves will be significantly diminished by the end of 2017/18 and the Council will face further challenges to set a balanced budget for 2018/19 as government funding reduces further. It remains prudent to retain resources within this reserve to deal with these uncertainties and challenges. It is this recommendation that is reflected in the budget at **APPENDIX C**.

1.22 It is also recommended that the net additional income due to the Council from the remaining four business rates collection fund positions and the business rates section 31 compensation grant are also used to reduce the call on the Financial Volatility Reserve in 2017/18 to maximise the amount available to be utilised in future years.

Capital Programme

1.23 The proposed capital programme is summarised in **TABLE A** below. Full details of the Council's net capital programme are set out at **APPENDIX D**.

TABLE A – Gross Capital Programme 2016/17 to 2017/18 (plus future years)

	2016/17 £m	2017/18 £m	Future Years £m
Children's Services	20.458	17.793	11.026
Adult Care	5.053	0.000	0.000
Community Wellbeing and Public Health	0.635	0.200	0.000
Environment and Economy	80.121	89.909	206.640
Finance and Public Protection	17.198	23.354	14.660
Other programmes	8.400	7.500	0
Gross Programme	131.865	138.756	232.326
Funded By:			
Revenue Funding	5.439	0.600	0.000
Borrowing	50.354	48.844	110.634
Government Grants and Other Contributions	76.072	89.312	121.692
Total Funding	131.865	138.756	232.326

1.24 There has been some re-profiling of the capital programme since the programme was reported to the Executive on 20 December 2016. The main change is the phasing in the net programme for Grantham Southern Relief Road where planned spend of £8.575m in 2016/17 and £22.000m in 2017/18 has been rephrased to future years.

1.25 A review of grant and contributions has also taken place and the following changes have been incorporated into the gross capital programme:

- Due to the phasing of Grantham Southern Relief Road, the timing of grants and contributions has changed to £1.000m in 2016/17, £14.250m 2017/18 and £12.753m in future years;
- Lincoln Eastern Bypass recently received £7.018m in 2016/17 from Department of Transport relating to previous years' spend. Contributions of £0.893m in 2017/18 and £1.786m from future years have been removed from the programme due to uncertainty around the timing of receipt; and
- A new grant for highways, National Productivity Investment Fund of £5.366m has been added to the gross programme in 2017/18. This funding is aimed to reduce congestion at key locations, upgrade or improve the maintenance of local highway assets, to improve access to employment and housing, to develop economic and job creation opportunities. The Council is

required to identify new schemes improving local road networks and publish this information by 31 March to access this funding.

1.26 Central government is also making available £75.000m of Local Highways Maintenance Incentive/Efficiency Element funding in 2017/18. To access a share of this funding the Council is required to submit questionnaires to the Department for Transport (DfT) for the end of March 2017. These questionnaires will be assessed and funding awarded based on the outcome of this. It is likely that the outcome from this will be known early in the new financial year.

1.27 At the time of preparing this report the Council is awaiting announcements on Devolved Schools Capital, Schools Modernisation and Adult Care Disabled Facilities Grant for 2017/18.

Council Tax Rates

1.28 There are no changes to the Council Tax proposed by the Executive on 20 December 2016, i.e. the Council will increase its Council Tax in 2017/18 by 3.95% (1.95%, plus a further 2.00% for the social care 'precept'). The Secretary of State announced the Government's proposed referendum thresholds in 2017/18 would remain at 2.00%, with a number of exceptions. Authorities with Adult Care responsibilities will be able to increase Council Tax up to 6.00% over the next three years, allowing local authorities to choose to increase this element of their precept by up to 3.00% in both of the next two years (2017/18 and 2018/19), as long as the authority can demonstrate that this additional funding is being allocated to Adult Care Services. The Council proposes an increase for the Adult Care Precept of 2.00%. It is on this basis that the Council proposes to increase Council Tax by 3.95%.

1.29 The recommended increase of 3.95% (1.95%, plus a further 2.00% for the social care 'precept') is shown in **TABLE B** below:

TABLE B – County Council element of the council tax

County Council element of the council tax	2016/17	2017/18
Band D council tax	£1,128.83	£1,173.42
Increase over previous year	3.95%	3.95%

1.30 The effect of this increase on all Council Tax bands can be found at **APPENDIX E**.

1.31 Under section 52ZB of the Local Government Finance Act 1992, the Council as a major precepting authority must, in setting its precept determine whether its relevant basic amount of council tax for the financial year under consideration is excessive. That question must be determined by the Council in accordance with any principles determined by the Secretary of State and approved by a resolution

of the House of Commons. Whilst those principles have not been approved at the date of preparing this report, notification has been given that for 2017/18 the principles will provide for a 3.00% increase in council tax for expenditure on adult social care and a 2.00% increase in council tax for other expenditure. Applying those principles the Executive can determine that this recommended council tax increase is not excessive.

Prudential Indicators

1.32 The Council is required to agree targets for specified prudential indicators in relation to capital financing and other treasury management matters. The Council also sets its own targets in addition to the statutory ones. The main purpose of these targets is to ensure that the Council's capital financing, in particular its long term borrowing, is prudent, affordable and sustainable. The proposed targets are set out in **APPENDIX F**.

1.33 One of the key targets in the Council's Financial Strategy, is that "the repayment of external debt including interest will be less than 10% of annual income from general government grants, Dedicated Schools Grant and council tax." This is projected to increase to 6.49% by 2019/20 from 5.35% in 2016/17.

Final Local Government Finance Settlement

1.34 The government grant allocations assumed in the budget proposals are those announced in the Provisional Local Government Finance Settlement. These allocations may be altered in the Final Settlement, although major changes are not expected. At the time of preparing this report, the date of the Final Settlement is expected to be in the first week in February. An update will be tabled at the Executive meeting on 7 February if there are any amendments from the final Local Government Finance Settlement.

Flexible Use of Capital Receipts Strategy

1.35 In September 2016 County Council approved the Council's Efficiency Plan and flexible use of capital receipts to fund transformation for the three year period from 2016/17 to 2018/19. This plan allowed the Council to sign up the four year funding deal offered by government for the period 2016/17 to 2019/20. The Efficiency Plan included the Council's Flexible Use of Capital Receipts Strategy. Under a Direction issued pursuant to sections 16 and 20 of the Local Government Act 2003 the Council is directed to treat as capital, expenditure that is designed to generate ongoing revenue savings or transform services to reduce costs and is properly incurred for the financial years commencing on 1 April 2016, 2017 and 2018. The Council is required to have regard to Guidance issued by the Secretary of State which states that Councils should prepare at least one Flexible Use of Capital Receipts Strategy for each of the above financial years. The proposed Flexible use of Capital Receipts Strategy for 2017/18 is attached at **APPENDIX G** and sets out how it plans to use capital receipts flexibility for transformation and the

impact this has on the Council's Prudential Indicators. This Strategy complies with the Guidance.

Consultation

1.36 Consultation comments made so far on the budget proposals and the ways in which these are reflected in the final proposals, are detailed in **APPENDIX H**. The Executive must consider these comments in arriving at its recommendations in relation to the final budget.

1.37 At the time of writing this report, a number of consultation events were still to be held. Therefore, an expanded **APPENDIX H** to this report will be tabled and presented to the Executive at the meeting on 7 February to allow any comments from these events, and any other comments received, to be considered with those already made.

2. Legal Issues:

Equality Act 2010

Under section 149 of the Equality Act 2010, the Council must, in the exercise of its functions, have due regard to the need to:

- * Eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act
- * Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it
- * Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

The relevant protected characteristics are age; disability; gender reassignment; pregnancy and maternity; race; religion or belief; sex; and sexual orientation

Having due regard to the need to advance equality of opportunity involves having due regard, in particular, to the need to:

- * Remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic
- * Take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it
- * Encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low

The steps involved in meeting the needs of disabled persons that are different from the needs of persons who are not disabled include, in particular, steps to take account of disabled persons' disabilities

Having due regard to the need to foster good relations between persons who share a relevant protected characteristic and persons who do not share it involves having

due regard, in particular, to the need to tackle prejudice, and promote understanding

Compliance with the duties in section 149 may involve treating some persons more favourably than others

The duty cannot be delegated and must be discharged by the decision-maker. To discharge the statutory duty the decision-maker must analyse all the relevant material with the specific statutory obligations in mind. If a risk of adverse impact is identified consideration must be given to measures to avoid that impact as part of the decision making process

These equality considerations do not preclude changes in services being made, but do require that these be fully appreciated. It is clear that the current and future financial challenges facing local authorities and the need for budget savings will result in changes to service provision and to some reduction in Council services. These will apply to services accessed by all people in Lincolnshire as well as services provided to specific groups. It is possible that there may be an adverse impact on some people and communities including those with a protected characteristic.

In order to meet its obligations equality impact analyses will be carried out in relation to any proposed changes to services on an individual basis. The specific impacts on people with a protected characteristic will be investigated and the potential mitigation if any will be made clear, so that the implications of decisions are fully understood as they affect specific groups and communities. These have been and will continue to be, regularly reported to the Executive as part of the decision making processes.

In the meantime consideration has been given as to whether there is any element of the current budget proposals that should be the subject of an equality impact analysis at this stage and as a result an assessment (attached at **APPENDIX B**) has been carried out on the proposal to increase Council Tax. That assessment identifies the potential for the proposal to impact on people with low income and therefore disproportionately on certain people with a protected characteristics including older and younger people, people with a disability and women with children. Overall, however, the increase is modest and each District Council operates a Council Tax Support Scheme which has been designed following consultation and individual impact analyses to mitigate the effects of Council Tax levels on vulnerable people and people with low incomes. 2.00% of the increase is specifically to fund adult social care services that support people with protected characteristics such as age or disability.

Approval of the budget is not a final decision about what the Council's services will be or about how much money will be saved under any particular proposals. Individual proposals will only be implemented after due regard to the legal matters that must be considered including the public sector equality duty.

As part of its decision-making the Executive will need to consider whether any alternative approaches could alleviate or at least mitigate the impact of the decision such as making reductions in other areas which do not have the same impacts,

including particularly equality impacts. The result could be to require additional resources to be used in certain areas than has been budgeted for. In this event the usual budget management processes such as virement would be followed and approval sought at the appropriate levels in accordance with Financial Regulations including full Council where necessary. In particular a contingency has been built into the budget proposals in the form of the Financial Volatility Reserve (the balance is estimated to be £28.145m after use to balance the 2017/18 budget) and the annual Contingency budget of £3.000m for 2017/18, for when additional funding cannot be found by way of virement from other service areas.

Joint Strategic Needs Analysis (JSNA and the Joint Health and Wellbeing Strategy (JHWS)

The Council must have regard to the Joint Strategic Needs Assessment (JSNA) and the Joint Health & Well Being Strategy (JHWS) in coming to a decision

Approval of the budget is not a final decision about what the Council's services will be or about how much money will be saved under any particular proposals. Individual proposals will only be implemented after due regard to the legal matters that must be considered including the Joint Strategic Needs Assessment and Joint Health and Well-being Strategy.

Crime and Disorder

Under section 17 of the Crime and Disorder Act 1998, the Council must exercise its various functions with due regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent crime and disorder in its area (including anti-social and other behaviour adversely affecting the local environment), the misuse of drugs, alcohol and other substances in its area and re-offending in its area

Approval of the budget is not a final decision about what the Council's services will be or about how much money will be saved under any particular proposals. Individual proposals will only be implemented after due regard to the legal matters that must be considered including the duty under section 17 of the Crime and Disorder Act 1988.

3. Conclusion

3.1 These budget proposals reflect the level of government funding available to the Council and the proposals to increase Council Tax in 2017/18 by 3.95%. They are based on a thorough and comprehensive review of the Council's services. The budget proposals therefore aim to reflect the Council's priorities whilst operating within the resources available to it.

3.2 The budget proposal from the Executive meeting on 20 December 2016 as developed to reflect the changes contained in the report and consideration of consultation feedback, is recommended as the budget to be put forward by the Executive for final decision at the County Council on 24 February 2017, subject to change by the Leader to reflect the Final Local Government Finance Settlement and District Council business rates information.

4. Legal Comments:

The Executive is responsible for publishing initial budget proposals for the budget in accordance with the Budget and Policy Framework Procedure Rules.

When publishing its budget proposals the Executive must be mindful of its obligation to have due regard to a number of matters including under the Equality Act 2010.

Case law has established that it is sensible and lawful for a Council first to decide its budget and then to consider the question of consultation and the specific impact of proposed policies and service changes at the time they are developed and decisions are taken on them.

The way in which it is proposed to deal with such matters is set out in full in the body of the report.

The legal issues relating to the recommended level of council tax and the requirement for a Flexible Use of Capital Receipts Strategy are set out in the Report.

The recommendations are within the remit of the Executive and are lawful. The Executive has the power to accept recommendation 3 or to agree one of the alternative approaches referred to in the report.

5. Resource Comments:

These budget proposals incorporate the level of funding available to the Council from Central Government plus an increase in council tax of 3.95% (1.95% plus a further 2.00% for the social care 'precept'). The Council's Financial Strategy includes one off use of reserves of £21.489m, plus £0.300m addition to the General Fund balance, to produce a balanced budget.

To achieve a sustainable budget in 2018/19 and onwards, a further review of budgets will be required.

6. Consultation

a) Has Local Member Been Consulted?

n/a

b) Has Executive Councillor Been Consulted?

Yes

c) Scrutiny Comments

All Scrutiny Committees have received a report and presentation and have had chance to make comment on the proposed budget. These comments are included in this report at **APPENDIX H**.

Budget comments from Scrutiny Committees which meet after this report's deadline, will be tabled/reported verbally at the Executive meeting.

d) The Public

The Council also invited the public to comment (via the Council's Website) on the Council's Website) on the Council's budget proposals outlined in the 20 December 2016 Executive report. A summary of these comments received up to the time of preparing this report have been included at **APPENDIX H**, any further comments received will be tabled/reported verbally at the meeting.

e) Businesses, Trade Unions and Other Public Organisations

The Council has consulted with Business, Trade Unions and other public organisations at a meeting on 27 January 2017. A summary of comments from this meeting will be tabled at the Executive Meeting.

f) Have Risks and Impact Analysis been carried out?

Yes

g) Risks and Impact Analysis

An impact analysis relating to the proposal to increase Council Tax has been carried out and is attached at **APPENDIX B**. Proposed service changes to give effect to the budget will be subject to their own policy proofing considerations.

7. Appendices

These are listed below and attached at the back of the report	
Appendix A	20 December 2016 Executive Report "Council Budget 2017/18 and Update
Appendix B	Impact Analysis relating to increasing the council tax by 3.95% in 2017/18
Appendix C	Revenue Budgets 2016/17 to 2017/18
Appendix D	Net Capital Programme 2017/18 and future years
Appendix E	Council Tax Increase per Band

Appendix F	Prudential Indicators
Appendix G	Flexible Use of Capital Receipts Strategy 2017/18
Appendix H	Consultation Comments Received

8. Background Papers

Document title	Where the document can be viewed
Executive Report 20 December 2016 "Council Budget 2017/18"	Executive Director Finance & Public Protection

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