

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

Report to:	<b>Executive</b>
Date:	<b>06 February 2018</b>
Subject:	<b>Council Budget 2018/19</b>
Decision Reference:	<b>I014286</b>
Key decision?	<b>Yes</b>

**Summary:**

This report asks the Executive to consider its final proposals for the Council's budget and council tax in light of the provisional local government settlement and 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 2018/19.

**Recommendation(s):**

That the Executive:

1. Consider the effect of the updated funding available and revenue expenditure as noted in paragraphs 1.3 to 1.20, **APPENDIX A** and **APPENDIX B** of the report;
2. Consider the Equality Impact Analysis at **APPENDIX C** and the consultation comments as shown in **APPENDIX I** and presented at the meeting;
3. Subject to recommendation 4 below approve for recommendation to full Council:
  - a) the revenue budget shown in **APPENDIX D** of the report;
  - b) the capital programme shown in Table A and **APPENDIX E** of the report;
  - c) the levels of council tax proposed in Table B of the report including the increasing of council tax in 2018/19 by 4.95%;
  - d) the prudential indicators shown in **APPENDIX G** of the report; and
  - e) the Flexible Use of Capital Receipts Strategy attached at **APPENDIX H** 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 23 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 4.95% (2.95%, 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 4.95% 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 19 December 2017, proposed the Council's budget for 2018/19 for consultation. This budget report and appendices are attached for information at **APPENDIX A**. The Local Government Provisional Settlement announcement was received later in December. An assessment of this announcement was shared with all members and published, with the 19 December budget proposals, on the Council's website at the beginning of January. This note is attached to this report at **APPENDIX B**.

1.2 Further information linked to Council Tax and Business Rates has become available since publication of the above budget proposals. These implications are described below and reflected in the appendices to this report.

## **Council Tax**

### **Council Tax Base**

1.3 District Councils have until 31 January 2018 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 19 December 2017, assumed no increase in the council tax base and no collection fund surplus or deficit.

1.4 At the time of preparing this report the County Council has received provisional figures from all seven District Councils. The figures received show an increase in the tax base and hence the tax yield of 2,836.54 band D equivalent properties or 1.27%. This will provide the Council with additional Council Tax income of £3.493m per annum at the current council tax levels.

1.5 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 £2.641m. This is a one off addition to income for 2018/19.

### **Council Tax Increase**

1.6 The Secretary of State in the provisional Local Government Finance Settlement announced the referendum threshold for the general element of Council Tax would increase for both 2018/19 and 2019/20 to 3.00% (1.00% higher than the referendum threshold in 2017/18). The regulations regarding the Adult Care Precept remain unchanged from the 2017/18 settlement and the Council's budget proposals include a 2.00% increase in this element of the Council Tax in 2017/18, 2018/18 and 2019/20.

1.7 The Government's rationale for allowing the additional increase in the general element of Council Tax is twofold. Firstly, it gives local authorities more flexibility in deciding how best to meet a range of local, non-adult care related pressures and, secondly, reflects the fact that general price inflation had risen to around 3.00% per annum in the past year.

1.8 In light of the Provisional Local Government Settlement the Executive are now proposing a Council Tax increase of 4.95%. An Impact Analysis has been completed for this increase and is attached at **APPENDIX C**. The equality impacts are addressed further below in part 2 of the report 'Legal Issues'.

## **Business Rates**

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

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

1.10 The report to the Executive on 19 December 2017, assumed no section 31 grant and no collection fund surplus or deficit.

1.11 At the time of preparing this report, the Council has received provisional notification from one 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 £0.099m. As with Council Tax any surplus or deficit from business rates collection will only have a one off effect on the 2018/19 budget.

1.12 The Government confirmed that it will compensate local authorities in full for the continuation of the business rates cap, small business rate relief and rural rate relief would continue through a section 31 grant, as in previous years.

1.13 At the time of preparing this report the Council has received provisional notification from one the seven District Councils for this grant for the County Council have been calculated to be £2.293m (£2.753m in 2017/18). This is made up of:

- £1.444m from the RPI cap on the top up element of the business rates. Note the value of this element of the grant is still to be confirmed by central government;
- £0.163m from the RPI cap in the locally retained element of the business rates; and
- £0.686m to cover the small business rates relief and rural reliefs.

1.14 An update will be tabled at the Executive meeting on 6 February once returns have been received from all the Lincolnshire District Councils.

## **Business Rates Pilot**

1.15 The Provisional Local Government Finance Settlement announced the Council had been successful in securing a business rates pilot for 2018/19, with the seven Lincolnshire District Council's and North Lincolnshire Council. Final calculations of the potential gain from the pilot are not yet available, but early indications are that the pilot as a whole could generate £14.3m, with £4.3m coming to the County Council. The £4.3m additional income from the pilot has been built into these budget assumptions.

## **Implications of additional Revenue Income**

1.16 The current net increase in income from the changes to Council Tax and Business Rates income set out in paragraphs 1.3 to 1.15 above has increased the Council's income for 2018/19 by £13.023m.

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

- To reduce the amount of funding required from the Financial Volatility Reserve to set a balanced budget in 2018/19;
- 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 4.95%.

1.18 It is recommended that this net additional funding is used to reduce the contribution required from the Council's reserves to meet the 2018/19 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 4.95%, should make the Council more resilient to the pressures caused by reduced funding.

1.19 Whilst the use of this additional income reduces the originally proposed contribution from reserves from £30.875m to £14.244m in 2018/19 there still remains uncertainty regarding the final position on business rates, collection fund surplus/deficit and section 31 grant. It remains the fact that the level of usable reserves will be significantly diminished by the end of the decade and the Council will face further challenges to set a balanced budget beyond this date as there is significant uncertainty over levels of funding beyond the four year deal. It remains prudent to retain resources within the Financial Volatility Reserve to deal with these uncertainties and challenges. It is this recommendation that is reflected in the budget at **APPENDIX D**.

1.20 It is also recommended that the net additional income due to the Council from the remaining six business rates collection fund positions and the business rates section 31 compensation grant are also used to reduce the call on reserves in 2018/19 to maximise the amount available to be utilised in future years.

## Capital Programme

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

TABLE A – Gross Capital Programme 2017/18 to 2018/19 (plus future years)

<b>Gross Capital Programme</b>	<b>2017/18 £m</b>	<b>2018/19 £m</b>	<b>2019/20 £m</b>	<b>Future Years £m</b>
Gross Capital Programme	141.871	158.688	106.313	57.646
Less: Grants and Contribution	-96.576	-74.012	-29.038	-29.038
<b>Net Programme Funded by LCC</b>	<b>45.295</b>	<b>84.676</b>	<b>77.275</b>	<b>28.608</b>
Funded by:				
Revenue Funding	0.850	0.600	0.600	0.000
Borrowing	36.548	84.076	76.675	28.608
Use of Capital Grants Unapplied	5.456	0.000	0.000	0.000
Use of Reserves	2.441	0.000	0.000	0.000
<b>Total Funding by LCC</b>	<b>45.295</b>	<b>84.676</b>	<b>77.275</b>	<b>28.608</b>

1.22 There has been no change in the capital programme since the programme was reported to the Executive on 19 December 2017.

## Council Tax Rates

1.23 In light of the Provisional Local Government Finance Settlement the Executive are now minded to propose a Council Tax increase of 4.95% (2.95% for general Council Tax, plus a further 2.00% for the social care 'precept'). The Secretary of State announced the Government's proposed referendum thresholds for 2018/19 would increase to 3.00%, with a number of exceptions. Authorities with Adult Care responsibilities will be able to increase Council Tax up to 6.00% over the three years period (2017/18 to 2019/20) and by up to 3.00% in the first two years, 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% in 2018/19. It is on this basis that the Council proposes to increase Council Tax by 4.95%.

1.24 The recommended increase of 4.95% (2.95%, 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

<b>County Council element of the council tax</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
Band D council tax	£1,173.42	£1,231.47	£1,280.11
Increase over previous year	3.95%	4.95%	3.95%

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

1.26 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 2018/19 the principles will provide for a 3.00% increase in council tax for expenditure on adult social care and a 3.00% 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**

1.27 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 G**.

1.28 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 7.01% by 2020/21 from 5.33% in 2017/18.

### **Final Local Government Finance Settlement**

1.29 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 6 February if there are any amendments from the final Local Government Finance Settlement.

### **Flexible Use of Capital Receipts Strategy**

1.30 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.

1.31 It has been acknowledged by the government that the Council operates in a society that is constantly changing. Therefore in December 2017, the government set out further measures to support the Councils to deliver services. One of these measures is the extension on the use of capital receipts to help meet the revenue costs of transformation for a further 3 years to April 2022.

1.32 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 2018/19 and 2019/20 is attached at **APPENDIX H** 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**

1.33 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 I**. The Executive must consider these comments in arriving at its recommendations in relation to the final budget.

1.34 At the time of writing this report, a number of consultation events were still to be held. Therefore, an expanded **APPENDIX I** to this report will be tabled and presented to the Executive at the meeting on 6 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 C**) 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 £49.797m after use to balance the 2018/19 budget and £26.292m after use to balance the 2019/20 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 2018/19 by 4.95%. 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 19 December 2017 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 23 February 2018, 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 4.95% (2.95% plus a further 2.00% for the social care 'precept'). The Council's Financial Strategy includes one off use of reserves of £14.244m, plus £0.400m 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 I**.

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 budget proposals outlined in the 19 December 2017 Executive report. A summary of these comments received up to the time of preparing this report have been included at **APPENDIX I**, 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 26 January 2018. A summary of these comments are included in this report at **APPENDIX I**.

### **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 C**. 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	19 December 2017 Executive Report "Council Budget 2018/19"
Appendix B	Budget Update Provisional Local Government Settlement 2018/19
Appendix C	Impact Analysis relating to increasing the council tax by 4.95% in 2018/19
Appendix D	Revenue Budgets 2017/18 to 2019/20
Appendix E	Net Capital Programme 2017/18 to 2019/20 and future years
Appendix F	Council Tax Increase per Band
Appendix G	Prudential Indicators
Appendix H	Flexible Use of Capital Receipts Strategy 2018/19
Appendix I	Consultation Comments Received

## **8. Background Papers**

Document title	Where the document can be viewed
Executive Report 19 December 2017 "Council Budget 2018/19"	Executive Director Finance & Public Protection

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