

APPENDIX B

UPDATE TO THE COUNCIL BUDGET 2018/19

The following information on the Provisional Local Government Finance Settlement 2018/19 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 presented to Executive on 19th December 2017.

Provisional Local Government Finance Settlement 2018/19, Multi-Year Funding Deal and Business Rates Pilot

The provisional Local Government Finance Settlement was issued on the afternoon of Tuesday 19th December after the Executive meeting. At the same time the County Council were notified that they had been selected to be a Business Rate Pilot in 2018/19.

Multi-Year Funding Deal

The multi-year settlement offered the Council confirmed minimum levels of funding for 2016/17 to 2019/20 for Revenue Support Grant, Transition Grant and Rural Services Delivery Grant. The provisional local government finance settlement confirmed the level of funding for RSG and Transitional Grant. The amount of Rural Services Delivery Grant has increased from the original multi-year deal the Council signed up to.

The national allocation for Rural Services Delivery Grant was expected reduce to £50m in 2018/19 (a £15m reduction on the allocation for 2017/18 and the provisional allocation for 2019/20). The provisional settlement announced that this funding would remain at £65m nationally for 2018/19, with the County Council due to received £5.565m in that year (previously £4.281m) and again in 2019/20.

Business Rates Income

The provisional Local Government Finance Settlement has updated the estimated income due to the County Council from business rates in 2018/19 to £107.220m (previously £107.442m). The update income for 2019/20 is £109.597m (previously £111.263m).

Comparing business rates funding received for 2017/18 to 2018/19, the Council has seen an increase of £2.044m or 1.94% (previously an increase of £2.513m or 2.39%) in Business Rates funding between the two financial years.

Business Rate Pilot

The settlement announced that the County Council's pilot bid (along with the seven Lincolnshire District Council's and North Lincolnshire Council) has been successful. As was reported to the Executive on 19 December this bid could benefit the Pilot

area by generating an additional £14.0m income. LG Futures are currently working on detailed calculations based on the most up to date information.

The successful bid has changed how funding will come to the County Council in 2018/19. In the current year the County Council receives Business Rates – Baseline Funding, Revenue Support Grant and Rural Services Delivery Grant separately. In the pilot year these elements of funding have all been incorporated into the Baseline funding. There is no change to the level of funding expected, just the presentation.

The pilot bid does not include any additional responsibilities.

Other Revenue Government Grants

The provisional Local Government Finance Settlement confirmed the conditions associated with New Homes Bonus Grant. The scheme will payment years will drop to four years for 2018/19 and the housing growth baseline above which grant is paid will remain at 0.4%. Under these conditions the County Council will received £2.342m in 2018/19 (previously £2.523m) and £2.104m in 2019/20 (previously £2.421m).

Council Tax

The Secretary of State in the provisional Local Government Finance Settlement has announced the referendum threshold for the general Council Tax element 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.

The Government's rationale for allowing the additional increase was 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% per annum in the past year.

The Council faces having to fund unavoidable cost pressures of £26.9m in 2018/19 whilst receiving £14.3m less general grant from central government.

Cost pressures comprise £10.4m for both increased demand in adult care services and the cost impact on the service from further rises in the National Living Wage (up 4.4%) from April 2018. In addition increased demand and the impact of legislative change on a range of children's social care functions will cost a further £4.2m next year. Further, it is likely that pay awards for local government staff that have been constrained to a maximum of 1% for many years will settle at or above 2.5% for next year. At such a level this will be around £0.5m more than presently provided for in the budget.

In light of this latest change the Executive of the Council will need to decide, at its 6th February 2018 meeting, whether to recommend to Full Council on 23rd February

whether to increase the proposed core element of the council tax for next year from 1.95% to 2.95%. In light of the Provisional Settlement no change is proposed to the adult care element which will rise by 2% which is less than the 3% maximum. Should the Executive decide to apply the additional 1% increase to the core element of council tax the proposed council tax increase for next year would be 4.95%.

This additional 1% increase will generate a further £2.617m in council tax income for next year. The total additional council tax income will increase to £12.954m next year based on the total 4.95% rise. This equates to an annual increase of £58.08 pa (or £1.12 per week) for a Band D household or an increase of £38.72 pa (74p per week) for a Band A household.

Historically the Council froze its council tax for the four year period 2011/12 to 2013/14 and, when looked at over the seven year period from 2011/12 to the current year, this Council has increased council tax by just under 10% whereas general price inflation has been around 21% over that period.

The Council presently has the third lowest level of council tax of the 27 English shire counties and that position is not expected to change materially as a result of the proposed increase.

The proposed increase, of whatever magnitude, will be the subject of an equality impact analysis that will be reported to the Executive and full Council in February 2018.

As mentioned above, a decision will be required at the Executive meeting on 6th February 2018 on the increase to the core element of Council Tax for 2018/19 to be recommended to Full Council on 23rd February. At present the draft budget being used for consultation assumes a 1.95% increase for the core element of council tax. This consultation is now expanded to consider an alternative of a 2.95% increase in core council tax. The additional increase will assist in funding the unavoidable cost pressures highlighted in bold type above.

Flexible Use of Capital Receipts

The Secretary of State in the Settlement announced a continuation of the flexible use of capital receipts for a further three year period (2019/20 to 2021/22).

The Council's original budget proposals included £8.000m use of capital receipts to fund transformational work in 2018/19, in light of this announcement the Council would propose using a further £8.000m of capital receipts for this purpose in 2019/20.

Implications of additional revenue income

The overall impact of the above changes to the Council's funding has increased the Council's income for 2018/19 by £3.608m and in 2019/20 by £8.826m (details are set out in the table below):

TABLE ONE: Movement between original budget proposals and Provisional Local Government Finance Settlement proposals

	2018/19			2019/20		
	Original Assumptions	Provisional LG Finance Settlement	Variance	Original Assumptions	Provisional LG Finance Settlement	Variance
	£'m	£'m	£'m	£'m	£'m	£'m
Business Rates (Locally Retained and Top Up Element)	107.442	107.220	-0.222	111.263	109.597	-1.666
Rural Service Delivery Grant	4.281	5.565	1.284	5.565	5.565	0.000
New Homes Bonus Grant	2.523	2.342	-0.181	2.421	2.104	-0.317
Independent Living Fund	1.584	1.644	0.060	1.505	1.594	0.089
Increase in Council Tax for 2018/19 by 1.0%	272.049	274.666	2.617	282.794	285.514	2.720
Flexible Use of Capital Receipts	8.000	8.000	0.000	0.000	8.000	8.000
Movement in GF Balance	-14.850	-14.800	0.050	-15.000	-15.000	0.000
TOTAL	381.029	384.637	3.608	388.548	397.374	8.826

This additional income could be used:

- To reduce the amount of funding required from Reserve to set a balanced budget in 2018/19 and 2019/20;
- To fund additional spending by the Council or reduce the savings required to be made; or
- To reduce the planned increase in Council Tax.

There is still uncertainty regarding the outcomes of the final Local Government Finance Settlement and for funding beyond the end of decade. There is also continued uncertainty regarding outstanding announcements in respect of a number of specific grants for the future, which could also face larger reductions compared to 2017/18. 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 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	2018/19 £m	2019/20 £m
EXPENDITURE:		
Base Budget	454.775	453.931
Cost Pressures (<i>including inflation</i>)	26.888	25.314
Savings	-23.048	-10.594
Other Movements (PH Grant & BCF Grant)	-4.684	-5.437
Total Expenditure	453.931	463.214
Use of Reserves	-27.267	-37.630
Transfer to General Reserve	0.000	0.200
Budget Requirement	426.664	425.784
INCOME:		
Local Retention of Business Rates	0.000	109.598
Revenue Support Grant	0.000	20.139
Business Rates Pilot - Baseline Funding	146.749	0.000
Other Grants	5.249	10.533
County Precept	274.666	285.514
Total Income	426.664	425.784

The use of this additional income reduces the originally proposed contribution from reserves:

	2018/19 £'m	2019/20 £'m
Executive (19 December 2017)	30.875	46.456
Post Provisional LG Finance Settlement	27.267	37.630

Fair Funding Review: A review of relative needs and resources

The consultation on fair funding review was also released as part of the provisional Local Government Finance Settlement. The Council has until mid-March to provide comments back to government on their proposals.

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