
MEDIUM TERM FINANCIAL PLAN 2018/19 - 2021/22 – BUDGET ASSUMPTIONS

Relevant Portfolio Holder	Cllr John Fisher
Portfolio Holder Consulted	Yes
Relevant Head of Service	Jayne Pickering (Exec Director)
Wards Affected	All
Ward Councillor Consulted	None specific

1. SUMMARY OF PROPOSALS

- 1.1 To recommend the budget assumptions to be used in preparing the detailed 2018/19 budget and provisional budgets for 2018/19 - 2021/22.

2. RECOMMENDATIONS

- 2.1 **That Executive recommends to Council that the revenue assumptions detailed in 3.4 be incorporated into the budget setting process.**

3. KEY ISSUES

Financial Implications

- 3.1 The Council is legally obliged to set a balanced budget. The budget setting process is complex and must be undertaken in a planned way. It is equally important that assumptions used in the preparation of the budget are agreed, reasonable and consistently applied by all services. A number of recommendations from the Councils External Auditors, Grant Thornton, are addressed by ensuring robust assumptions and a transparent planned approach is undertaken when agreeing the budget. It is proposed that a 4 year financial model is prepared for the Medium Term Financial Plan.
- 3.2 The budget forecasts will be based on a number of assumptions, known levels of expenditure and anticipated levels of resources. It is anticipated that the Autumn Budget 22nd November will confirm the assumptions relating to external funding and financial pressures that the Council may face over the next 4 years. There are a number of areas of the Council's budget where risks to the projections contained in this report have been identified. The most significant of these are:-

- The Autumn Budget and associated implications.

- Confirmation of the New Homes Bonus will reduce to four years from 2018/19. This accounts for a significant level of funding and any further reductions in allocation would have a detrimental impact on the Councils financial position
- Potential additional resources from the proposed Worcestershire Business Rate 100% pilot.
- Monitoring of the 2017/18 budget will provide Executive with regular updates on any pressures/savings for the Council. Any associated on going implications will be incorporated into the budget projections for 2018/19 and future years.
- Savings – The detailed plans to deliver the level of savings required for 2018/19- 2021/22 are currently being considered in line with the efficiency plan. It is accepted that the savings require clear monitoring to ensure they are being delivered.
- Specific Grants and Contributions – The number and amount of specific grants received by the Council may be lower/higher than anticipated. The budget assumes no increase or reduction in specific grants. If the grant decreases, the associated expenditure must also be reduced to reflect the reduction in the grant received.
- Council Tax – Central Government provided a cap on the amount of Council Tax increase a Local Authority could make before a referendum of the local residents was required. The budget assumes a £5 increase in 2018/19-2021/22
- Council Services- The impact of the economic climate on the residents of Redditch and the increased demand this may have for Council Services could impact on cost of services as could general demographic changes.
- Inflation - Impact of changes in the price of goods and services used by the Council compared to the percentage assumed in the budget projections.
- Fees and charges income – Impact of any economic slowdown on levels of usage of charged for Council services could lead to income levels not being achieved.

3.3 The timing of the Autumn Budget means that this report is based on the available information at this point in time. Future reports will make Executive aware of any changes that impact on the current budget assumptions.

- 3.4 As part of the budget setting process the Council makes a number of assumptions in respect of the key elements of the Council's revenue budget. The following paragraphs in this section outline the areas where these assumptions are made.

Council Tax

The budget assumes an increase in Council Tax for 2018/19-2021/22 of £5.

Pay Inflation

The budget assumes that the pay award will be 2% for 2018/19-2021/22. This has increased from the previous assumption of 1% and reflects the current view on public sector increases.

Superannuation Rates

The 3 year actuarial valuation has provided certainty of the forward rate 2017/18 to 2019/20 at 14.7%. In order to achieve a discount from our pension costs the Council has made an advance payment of 90% of the anticipated future payments 2017/18 to 2019/20. This has achieved an average saving of £102k per annum after allowing for interest cost. For the medium term financial plan it is assumed that this will be repeated in 2020/21 to continue receiving this discount.

The Council has made an advance payment of the backfunding also providing certainty for 2017/18 to 2019/20. As with the forward rate an advance payment has been made but for all the backfunding costs 2017/18 to 2019/2. This has achieved an average of £127k per annum after allowing for interest cost. For the medium term financial plan it is assumed that this will be repeated in 2020/21 to continue receiving this discount..

The risk is the later years of the medium term financial plan following the next actuarial valuation in 2019 which will impact 2020/21-2022/23. Although it is planned to continue with the advance payment arrangements to achieve a discount the trend is for the underlying pension costs to increase.

Price Inflation

The budget assumes 0% inflation across the majority of the Council's non-pay expenditure budgets including grants that the Council gives out. Contractual arrangements and other significant inflation issues will be considered on a case by case basis. It is proposed that utilities are increased by 6% and Business rates increased 3.9% (business rates increase by the retail price increase in September).

Discretionary Fees and Charges

Fees and Charges are reviewed on an annual basis and officers assess the impact of increases in income charges on the demand on the services. It is recommended that, in line with the current Medium Term Financial Plan the increase for 2018/19 – 2021/22 be 3.9%. The total additional income generated from the 3.9% increase is approximately £195k and therefore any reduction on 3.9% would have to be included as a budget pressure for 2018/19-2021/22. Service managers have been asked to analyse their current fees and charges taking into consideration cost recovery, current usage/demand with a view to optimising income to the Council. Any increase above 3.9% will be explained by officers within the fees and charges report in December.

3.5 Capital

Heads of Service will undertake a full review of the capital programme is currently being undertaken. This review will provide a four year capital programme for 2018/19-2021/22 this will take into consideration the estimated reduction in capital resources and the limited revenue available to fund capital borrowing in these years future years. Following this review a report to Executive in January 2018 will recommend the 4 year programme.

- 3.6 This is an initial report on the budget process which identifies the decision making, assumptions and principles. The forecasts will be refined over the coming months and further reports will be presented to Executive leading up to the approval of the budget and Council Tax in February 2018.

Legal Implications

- 3.7 The Council is under a duty to calculate the budget in accordance with Section 32 of the Local Government Finance Act 1992 and must make three calculations namely:
- An estimate of the Council's gross revenue expenditure; an estimate of anticipated income and a calculation of the difference between the two. The amount of the budget requirement must be sufficient to meet the Council's budget commitments and ensure a balanced budget. The amount of the budget requirement must leave the Council with adequate financial reserves. The level of budget requirement must not be unreasonable having regard to the Council's fiduciary duty to its Council Tax payers and non-domestic rate payers.

Service / Operational Implications

- 3.8 Budget Holders will prepare budgets to enable services to be delivered to meet the Councils Strategic Purposes. It is expected that officers will work across the organisation to establish financial projections that best meet the wider community needs and identify any savings or additional income to fund any budget shortfalls.

Customer / Equalities and Diversity Implications

- 3.9 Clarity on budget assumptions will ensure services are delivered to meet customer needs and expectations

4. RISK MANAGEMENT

- 4.1 The risks associated with the budget process and calculations mainly relate to the uncertainties around external funding and the resulting pressures on the budget. To mitigate this risk officers will work on a number of scenarios to ensure all options can be reported to members in a timely fashion.

AUTHOR OF REPORT

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