

REPORT TO THE EXECUTIVE MEETING OF 15th JANUARY 2018

Meeting: Executive
Date: 15th January 2018
Subject: General Fund Revenue Estimates and Capital Programme
Report of: Simon Riley, Head of Finance and Corporate Services (s151 Officer)
Portfolio Holder: Councillor James Hallam, Portfolio Holder for Finance and Assets
Status: Decision to issue budget for consultation.
Relevant Ward(s): All

1 Purpose of the Report

- 1.1 To advise Executive of the projected base budget position for 2018/19 based on the provisional grant settlement for 2018/19.
- 1.2 To review the savings and growth proposals put forward for the year 2018/19, and to begin a period of consultation.
- 1.3 To consider a draft Capital Programme for the period 2018/19 – 2019/20 and to begin a period of consultation.

2 Recommendations:

- 2.1 That the Executive endorses the proposed Revenue Budget for 2018/19 for consultation.
- 2.2 That the Executive endorses the proposed Capital Programme for 2018/19 to 2019/20 for consultation.

3 Summary of Reasons for the Recommendations

3.1 To provide the opportunity for consultation on the Revenue and Capital budgets as well as potential pressures, savings and income generation opportunities.

4 Key Facts

4.1 Financial Background

4.1.1 This draft budget has been prepared for consultation following the provisional Local Government finance settlement issued by the Department for Local Government & Communities on the 19th December 2017 and announcements in the November Autumn Statement. The final budget will be presented to Executive on the 12th February 2018 following receipt of the final Local Government finance settlement expected in early February.

4.1.2 The draft budget attached at **Appendix A** reflects continued reduction in Central Government funding as the Government addresses the public sector deficit. In order to provide stability in forecasting the Government offered four year funding, subject to submission of an efficiency plan. The Council's efficiency plan (submitted in October 2016) was approved and the settlement funding assessment received on the 19th December 2017 was consistent with the funding assumed within the Council's Medium Term Financial Strategy where the reduction in Settlement Funding Assessment (Revenue Support Grant (RSG) and NNDR Baseline) of £242k was anticipated. This is part of a move by Government to totally remove RSG as a funding source during the course of this parliament. Continued uncertainty about the move to 100% business rate retention by 2020/21 makes the future of core government funding uncertain. There is equal uncertainty on how the current forecast of 'negative RSG' in 2019/20 will be built into forward financial settlements and the extent of any mitigation – this is being consulted on.

4.1.3 The draft budget also has factored in a significant decrease in New Homes Bonus (following a reduction to allocations based on 4 years rather than 5 years which had been applied in the 2017/18 budget) – this is detailed later in the report. The draft budget also includes over £300K reduction in recycling credits from the County Council and the impact of increased pay and price inflation. The cumulative impact of the above and reductions in core government funding is in excess of £1.5 million. The majority of these pressures were forecast in the Council's MTFs – this included the creation of a number of reserves to mitigate the impact, i.e. New Homes Bonus reserve. The budget also factors in the impact of the Capital Programme.

4.1.4 Within the provisional settlement the Government has revised the New Homes Bonus scheme. The allocation is now for 4 years (as announced last year) and the continuation of a deadweight allowance of 0.4% (2017/18 0.4%). The impact of the announcements is detailed in paragraph 4.3.1(c).

4.1.5 The Council continues to be successful in growing business rates and thereby retaining the benefits of business rate growth. Since 2013 Harborough has been consistently one of the best performers within Leicestershire in respect

of Business Rate growth despite a high level of appeals. The Council has prudently only used previously retained business rate growth and operates a business rate retention reserve to manage the inherent volatility within the system. The Council has been part of the Leicester and Leicestershire Business Rate pool for every year except 2014/15. This has retained monies within Leicestershire which would otherwise have gone to Central Government. As a result over £5 million is expected to be passported to the Leicester and Leicestershire Enterprise Partnership (LLEP) for investment into local Economic Growth projects. Details of the proposed receipt and utilisation of the retained business rates to support the budget are detailed in paragraph 4.3.1(d).

- 4.1.6 The Council continues to have to provide for a large number of appeals due to a backlog of determining appeals by the Valuation Office. The Council has prudently provided for appeals – which have significantly increased for 2017/18 and 2018/19. The appeals relate to the 2010 Rates List. A number of appeals which have been determined in 2017/18 are higher than the appeal provision the Council set aside. It is hoped that the majority of the remaining appeals relating to previous 2010 rating list will be settled in 2018/19 – the Council has had to increase its appeal provision significantly in 2017/18 and 2018/19 based on the latest intelligence from our advisors.

The new rateable value list came into operation on 1st April 2017 and the Valuation Office continues to receive appeals (though no challenge records exist).

Initial forecasts for 2018/19 forecast £998K of retained business rates will be generated in 2018/19. However, a lower amount is forecast to go into the reserve of £698K in 2017/18 compared to the budgeted £991K due to the need to increase the appeals provision. The net impact of this on the business rate retention reserve is detailed in paragraph 4.3.1(d).

- 4.1.7 Business rate growth is a very important locally generated income stream. The 2018/19 Budget continues to apply over £1.2 million on a recurrent basis alongside short term funding to deliver the Economic Development Strategy outcomes. This contribution is made from the business rate reserve (where previously retained growth is banked – this means that the Council continues its policy of only using business rate growth when banked. There is still national uncertainty over the form and level of any business rate retention reset, provisionally scheduled in 2020.
- 4.1.8 The Government has issued Council Tax referendum guidance which continues the previous policy of the limiting of Council Tax Increases for District Councils to 1.99% or £5 whichever is the greater. The budget proposes an increase in Council Tax of 1.5% which equates to £5 for a Band D property (this would increase the Band D Council Tax from £165.48 to £167.96). Given Council Tax is now an important component of core spending power (after many years of Council Tax freezes) it is appropriate for the Council to maximise Council Tax to ensure that the Council Tax baseline is increased, as this is what any future years decisions will be based upon. The

Government has also included within its definition of core spending power the assumption that District Councils will avail themselves of the £5 option. The Autumn Statement and the provisional Local Government Finance Settlement clearly indicate that the Government is anticipating that Councils will increase Council Tax over this parliament (though it remains a local decision).

The local Council Tax support scheme will be in its sixth year for 2018/19 with the contribution rate for impacted claimants remaining at 15% as in 2017/18. The maintenance of the contribution rate reflects the volatility for claimants of other welfare changes and the introduction of universal credit.

The S151 Officer confirmed the Council tax-base on 12th December 2017 as 34,663.8 (2017/18 33,482.0), an increase of 1,181.8 Band D equivalents from 2017/18. This has generated £196K additional Council Tax without a need to increase the Council tax levied on individual properties. The increase is largely due to a change in forecasting methodology where the Council is including in its forecast a pipeline of future growth in housing in its forecast (whereas it had prudently not included any forecast of growth in previous forecasts). A 1.5% (£5 increase) in Council Tax generates £86K of additional income.

- 4.1.9 The budget provides for the recent Employers offer of a 2% pay award (there are some minor variations for lower graded posts in respect of living wage) alongside the second year of the recent tri-annual actuarial review of pensions which requires an increase in pension contributions of 2% for each of the next two years.
- 4.1.10 The budget provides for inflation at 2% for prices and 1% for fees and charges. (The MTFs originally provided for 1%)
- 4.1.11 The 2018/19 budget provides for a series of growth, savings and income generation proposals – these are identified in **Appendix B and C**.
- 4.1.12 The MTFs assumed for 2018/19, that previous years underspends and general fund balances would be utilised to support the Council during this transition period. These previous underspends had been credited to the General Fund at the end of each financial year. The budget assumes a draw on the General Fund Balance of £398K in 2018/19. The draft budget continues to utilise earmarked reserves on a recurrent and non recurrent basis to support delivery of corporate priorities. Earmarked Reserves are both added to (for example, Elections and Retained Business Rates) and utilised (for example, Business Rates). Movements on Reserves are detailed at **Appendix D**.
- 4.1.13 The 2018/19 proposed budget is set against the context of higher inflation and pay awards than previously (where for a number of years the Council provided for increases year on year at 1%). This has led to increased costs at a time when Central Government Funding continues to decline. The draft budget also proposes to utilise additional car parking income and

development management income to fund additional capacity and to support the overall budget.

4.1.14 The 2018/19 proposed budget builds on the previous track record of delivering sustainable budgets in recent years despite significant reductions in Government funding. This is illustrated in the table below:

Table 1: Delivery of Savings and Income Generation 2014/15 to 2017/18

	Reduction in Core Government Funding £000s	Savings £000s	Income Generation £000s	Sub Total £000s
2014/15	438	(107)	(55)	(162)
2015/16	452	(338)	(203)	(541)
2016/17	568	(710)	(460)	(1,170)
2017/18	477	(77)	(623)	(700)
Total	1,935	(1,232)	(1,341)	(2,573)

4.1.15 This report details the proposed budget to deliver the Council priorities in 2018/19.

4.1.16 The proposed budget also sets out a proposed Capital Programme totalling £32.443 million; The Capital Programme is detailed at **Appendix E**. The most significant item in the capital programme is an indicative capital £21.6 million relating to the re-provisioning of the Councils Leisure Centres from 2019/20. The Capital Budget also provides for an increased budget for the Grow on Space. Both of these additions to the Capital Programme and associated financing were approved by Council.

4.2 Revised Estimate

4.2.1 The Council in February 2017 approved a Net Expenditure budget requirement of £11,667,676 in 2017/18. The Quarter 2 budget monitoring reported to Executive on 5th December 2017 forecast an underspend of £11K for the financial year 2017/18. The in-year underspend will be added to reserves once confirmed as part of the 2017/18 Statement of Accounts.

4.3 Budget Assumptions

4.3.1 The budget is approved annually each year. The budget is prepared on the basis of a series of estimates on Government funding, cost pressures and income forecasts. In addition, the Executive is proposing a series of growth and savings proposals (including utilisation of additional income and reserves). These proposals aim to deliver the Council priorities within a reducing level of funding from Central Government.

The key Budget assumptions are:

(a) Inflation:

The budget provides inflation on contract inflation (for example Environmental Services contract, computer maintenance contracts etc.) where indexation clauses are included within individual contracts. Other Price Inflation has been applied at 2% rounded to the nearest £100. Nationally, there is no consensus on what level inflation will be in 2018/19 (though CPI and RPI indices are at recent highs). If inflation was higher, services would be expected to manage these pressures within the approved budget. Fees and Charges inflation (where applicable) has been applied at 1% rounded to the nearest £100.

(b) Level of Government funding

The provisional local Government finance settlement announced on the 19th December for 2018/19 provided a provisional funding allocation for 2018/19 and indicative budgets for 2019/20 to assist Councils with planning.

The provisional settlement issued on 19th December 2017 indicates a reduction in the settlement funding assessment of £242K between 2017/18 and 2018/19, a reduction of 12.39%. This reduction is broadly as forecast in the indicative four year funding totals provided by DCLG. The Council's MTFS had already factored this reduction into the financial forecasts. Whilst the Government has maintained the Rural Services Delivery Grant at the 2017/18 level for the remainder of the 4 year settlement it has removed the transitional grant (which has been available over the past two years). This was previously £64K.

Table 2: Reduction in Core Government Funding 2017/18 to 2018/19

2017/18		2018/19
£000s		£000s
300	Revenue Support Grant (RSG) (includes previous Council Tax Freeze Grants)	8
1,653	National Share of Business Rates (NNDR)	1,703
1,953	Settlement Funding Assessment	1,711
108	Rural Services Delivery Grant	108
64	Transitional Grant	0
2,125	Total Provisional Settlement Funding	1,819

The lack of funding from the Settlement Funding Assessment has meant that Harborough has had to be successful in delivering growth and the associated benefits of New Homes Bonus and Business Rate Retention in order to maintain service levels. However, the relatively low level of dependency on Central Government for funding (relative to others) means that the planned reduction on funding from Government has a lesser impact. Harborough has

traditionally received low levels of central government funding through being a high tax base authority and through the needs based formula. The Government has announced a national review into needs lead funding though this is not expected to be implemented until 2020/21 and is likely to be significantly 'damped' in the transition period.

The Government also publishes another definition called core spending power which details Government funding support alongside an assessment of the Council Tax that a Council could levy. The Core Spending Power reduced by £252,341 (-2.4%) from 2017/18 to 2018/19. The core spending power includes:

- Revenue Support Grant
- Retained Business Rates
- Section 31 Grant
- New Homes Bonus
- Rural Services Delivery Grant
- Transition Grant (ceased in 2018/19)
- Council Tax. The Government has assumed that authorities will increase their Band D council tax by the maximum amount. For Harborough they have assumed that the Council will increase their Council Tax by the £5 criterion that is available to District Councils.

(c) New Homes Bonus

The Government in 2011/12 introduced the New Homes Bonus to incentivise Councils in respect of housing growth. Until 2016/17 the scheme was based on Councils receiving money for six years following the level of completions in the previous year. This changed to 5 years for 2017/18.

The Government continues to implement significant changes to the New Homes Bonus as a stimulus for Housing Growth. The key components of the New Homes Bonus for 2018/19 are:

- The Government has implementing its preferred option: to reduce legacy payments to 4 years in 2018-19.
- A "deadweight" factor or national baseline continues, so that no NHB payments will be made to a local authority for housing growth of less than 0.4%. (2017/18 0.4%)
- The Government has not implemented for 2018/19 potential changes in New Homes Bonus which would have linked payments to the number of successful planning appeals. However, there is a risk that this could be implemented from 2019/20 onwards.
- To calculate the Year 8 (2018/19) NHB payment, the increase in the number of dwellings (converted to Band D's) is calculated, and the national baseline of 0.4% is deducted. Payments are only made on the increase in the number of houses above the national baseline; no payments are made for growth in housing below this threshold. This

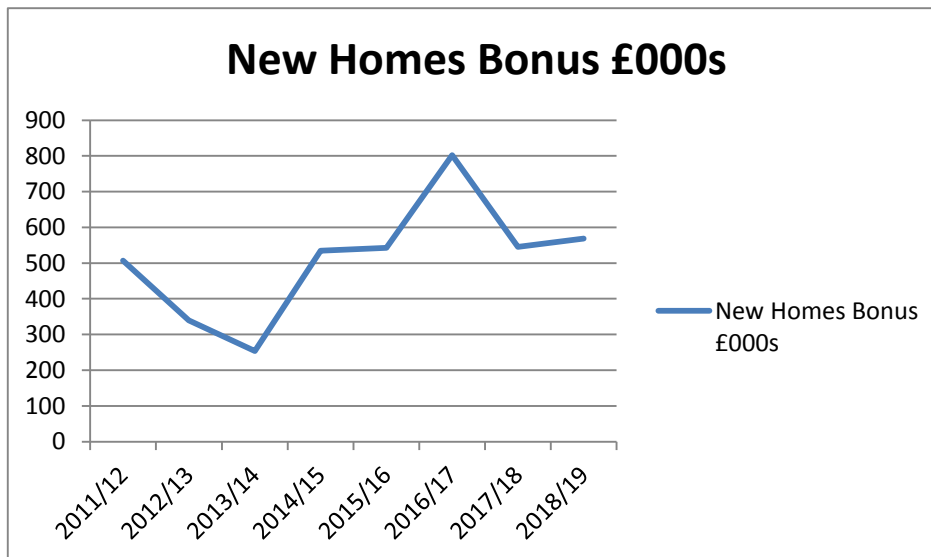
approach ensures that there are no cliff edges for authorities above and below the threshold.

The Government has confirmed in the provisional settlement New Homes Bonus allocation of £2.460 million for 2018/19. The impact of the deadweight is that the Council did not receive New Homes Bonus for 129 properties that it would have had received before the applications of the deadweight.

Harborough was in the top quartile of District Councils for the number of houses built between 2016/17 and 2017/18 and therefore receipt of New Homes Bonus. As a key funding source, maintaining housing growth above the 'deadweight' baseline is essential to support the Council's priorities in the future.

The annual New Homes Bonus receipt over the past 8 years is illustrated in Figure 3 below.

Figure 3: New Homes Bonus 2011/12 to 2018/19



The Council had been preparing (and providing for in a reserve) to smooth the impact of the New Homes Bonus moving to 4 years of receipts in 2018/19 and had transferred £400K into a New Homes Bonus Reserve in both 2016/17 and 2017/18 as part of this strategy. The reserve is anticipated to be £1.147 million at the end of 2017/18. The draft budget draws down £400K from this reserve to support the 2018/19 budget leaving a balance of £747K. The proposed budget utilises the full £2.460 million of New Homes Bonus on a recurrent basis.

(d) Business Rates

The Government introduced in 2013/14 a Business Rate Retention Scheme with the aim of incentivising local growth and the ability to retain part of the business rate growth locally. Growth is compared to a Government determined baseline at the beginning of 2013/14.

Business Rate forecasting is now very complex and is materially impacted upon by changes in the economy, appeals by business occupiers and determination of appeals by the Valuation Office. In particular, recent appeal determinations have in some cases been higher than the provision previously made (calculated on advice by external advisors).

The Council's business rate advisors have also advised recently that increased provision is made for 'potentially' higher levels of appeals on outstanding appeals from the 2010 rate list – this includes significant appeals for logistic hubs at Magna Park that still have not been determined.

In addition, the Valuation Office is still to provide information on appeals linked to the 2017/18 Rating List for which we assumed £2.8 million in the forecast for 2017/18.

The consequence of the above is that the provision for appeals has needed to be increased from increased from £5.115 million to £8.446 million in 2017/18 and further increasing to £11.281 million by the end of 2018/19. Harborough provides in its accounts for 40% of the provision. The consequence of the above is that the retained levy for Harborough reduces from the forecast £987K to £698K in 2017/18 with an initial forecast of £988K in 2018/19. These are incorporated in tables 3 and 4.

Since 2013 (with the exception of 2014/15) the Council has been in a pooling agreement with the other Leicestershire Districts, City Council and the County Council. The Council intend to carry on in the pooling arrangement for 2018/19 – this needs to be confirmed within 28 days of the provisional settlement. The pooling of business rates allows a share of business rate growth being retained regionally and targeted at economic growth through LLEP. Through being in the pool, it is anticipated that at least £5 million of retained business rate growth (on top of that retained by individual Councils) will have been retained within the County to be distributed via the LLEP.

The Business Rate Pilot Bid approved by Council in October 2017 alongside all other Councils in Leicestershire has been unsuccessful for the 2018/19 financial year. As such, the Council will continue in the business rate pool detailed in the paragraph above. The Government has stated its intention to continue to pilot the business rate retention programme in 2019/20.

The retained business rate growth forecasts are detailed in table 3 below. By the end of 2018/19 it is forecast that the Council will have retained locally £5.319 million locally as well as having been able to contribute £4.824 million to the Leicester and Leicestershire Business Rate Pool. This success in retained business rate has been essential when it is considered in the context that Revenue Support Grant has reduced significantly in recent years.

Due to the level of appeals detailed above it is likely that the annual drawdown from the business rate retention reserve will be greater than the retained levy contributions for both 2017/18 and 2018/19 and therefore the reserve will be reduced. However, the reserve still has significantly more than one year 'banked', £1,530k which means that the Council can still prudently draw down on the reserve on an annual basis to support the budget looking

forward. The Council expects the annual retained business rate growth (without the volatility of appeals) to be in excess of £1.2 million and have factored this into the budget forecasts going forward.

Table 3: Retained Business Rate Growth

	£000s
2013/14 Retained Business Rate Growth (actual)	903
2014/15 Retained Business Rate Growth (actual)	495
2015/16 Retained Business Rate Growth (actual)	807
2016/17 Retained Business Rate Growth (actual))	1,428
2017/18 Retained Business Rate Growth (forecast)	698
2018/19 Retained Business Rate Growth (forecast)	988
Total	5,319

Looking forward, the Government have stated the intention that they will be increasing the retention of business rates from the current 50% to 75% from 2020/21. Nationally discussions are underway on this issue. The Government has also announced that the business rate retention scheme is likely to be reset in 2020/21 – it is not yet clear whether this will be a partial or full reset and how any impact will be dampened.

The Council's current policy is that Business Rate growth is transferred to the Business Rate Retention Reserve and is then applied in future years. The budget assumes that £1.364 million of the retained business rate growth reserve will be utilised in supporting the 2018/19 Revenue Budget in the following areas:

Table 4: Utilisation of Business Rate Retention Reserve

	£000s
Business Rate Growth Reserve at 1st April 2018 (Estimate)	1,906
Less: Support to the 2018/19 Revenue Budget [Recurrent]	(1,265)
Less: Funding for Economic Development Strategy [Short Term]	(99)
Contribution to Earmarked Reserve: 2018/19 Retained Business Rate Growth (forecast)	988
Business Rate Growth Reserve at 31st March 2019 (Estimate)	1,530

It is clear that Business Rates will continue to be a major driver in respect of funding for the future and that the Council should encourage business growth through its strategies and decisions.

(e) Council Tax

The budget issued for consultation assumes a 1.5% increase in the District share of Council Tax in 2018/19. This is equivalent to a £2.18 increase on a Band D property. The provisional settlement for District Councils set out an increase in the capping threshold from 1.99% to 2.99% or £5, whichever was the greatest. The Government has assumed that Councils would avail themselves of the £5 option within its definition of core spending power.

The tax base for 2018/19 has been set as 34,663.8 (2017/18 33,482.0), an increase of 1,181.8 Band D equivalents from 2017/18. The Council has amended its methodology for 2018/19 to include an element of forecast growth from developments (previously it had prudently not factored this into our forecasts). This therefore assumes an increase in Band D equivalents of 331.6 over and above the 850 new band D equivalents on the same basis as last year. This has generated £196K additional Council Tax without a need to increase the Council tax levied on individual properties. The proposed 1.5% Council Tax increase generates £86K additional Council Tax.

(f) Fees and Charges

The Council levies fees and charges for a wide range of services. The budget assumes that collectively income from fees and charges will increase by 1%. However, many of the Council's fees and charges are based on full cost recovery or nationally set and will be set accordingly. Full details of fees and charges and a new corporate charging policy are considered elsewhere on the agenda for consultation and subsequent approval by full Council on February 26th 2018.

(g) Employee Costs

Pay: Provision has been made in the budget for the estimated pay costs for 2018/19. In particular, the pay budgets provide for the impact of the Employers proposed Local Government pay award of 2% for 2018/19 alongside some amendments at lower pay-scales for the National Living Wage. The proposed pay-award of 2% added £77K over and above that provided in the MTFs (which provided for 1%). Additional provision will need to be included in the MTFs for 2019/20 due to the Employer offer being a 2 year offer.

Pensions: Every three years the Leicestershire Pension Fund undertakes a tri-annual actuarial review of the pension fund. The last tri-annual review period commenced in 2017/18 with a requirement to increase contribution rates from 2018/19 to 29.9%. The 2% increase in pension contributions costs cost approximately £110K per year.

The headlines arising from the Actuarial Review and the required contribution rates are highlighted in the table below.

Table 5: Headline Pension Information from the last Actuarial Review

Pension Headlines		Fund	Contribution Rates		
Pension Deficit	Fund	£16.8 million	Year	Contribution Rate (%)	Comprising
Split:			2017/18	27.9	To be paid as 21.4% + £291k Cash Sum
Future Rate	Service	21.4%	2018/19	29.9	To be paid as 21.4% + £381k Cash Sum
Deficit Repayment		20.3%	2019/20	31.9	To be paid as 21.4% + £471k Cash Sum

The 2018/19 proposed budget does not require or anticipate an organisation wide redundancy programme for efficiency or cost cutting purposes at this stage. However, the organisation may carry out redundancies through service review and restructures or via individual applications during the course of 2018/19.

(h) Environmental Services Contract

The Environmental Services Contract has been increased in line with the indexation contained within the contract. Revised figures are incorporated within the budget for grave digging, tree inspection including remedial work and bin delivery costs (there is a separate income generation proposal in respect of a revised bin delivery charging policy). Garden Waste subscribers now exceed 20,000 subscribers per year.

(i) Impact of Previous Year's Capital Investment

The budget is based on the capital financing requirement arising from the approved capital programme for 2018/19 and previous years.

The Council has since 2008 used its internal investments to fund capital investments negating the immediate need to undertake more expensive borrowing. As a result, there is an opportunity to reduce the provision for borrowing costs (based on the Capital Financing Requirement) to support the budget in the short term. The savings schedule (Appendix B) assumes a short term £130K saving from this under borrowing and an increase in net investment yield from broadening the Council's investments to start investing in property funds (this is already an approved investment category within our Treasury Management Strategy).

4.4 Growth and Savings Proposals

4.4.1 The 2018/19 budget consolidates the organisational change and savings programmes undertaken in previous years.

4.4.2 The budget includes £662K of savings and income generation opportunities proposals.

Table 6: Summary of Savings and Income Generation

	£000s
Savings	277
Income Generation	385
Total	662

The savings proposals are attached at **Appendix B**. This excludes any income being used directly to support growth items detailed in paragraph 4.4.3.

4.4.3 The 2018/19 budget process also looked at priorities for growth including growth funded from reserves. Analysis of the growth figure of £1.342 million between recurrent and one-off funding is detailed in the table below:

Table 7: Summary of Recurrent and One-off Growth

	Growth	Funded By			
	£000s	General Fund	Reserves	Capital	Income (incl. Grant)
Recurrent Growth	993	593	36	0	364
Non Recurrent Growth	349	50	235	38	26
Total	1,342	643	271	38	390

The most significant increase in the recurrent growth column funded from the General Fund is relating to the withdrawal of dry recycling credits from Leicestershire County Council (£306K)

The income used to fund growth includes £201K development management fees (including a 20% increase in planning fees allowed by Government), £74K direct developer contribution, £45K car parking income, £40K homelessness grant. This utilisation of income is separate from the income generation proposals detailed in paragraph 4.4.2.

4.4.4 The majority of growth is targeted at providing the capacity to deliver improvements in key projects and initiatives (including economic development strategy and customer services/channel shift) alongside the need to secure additional resources where high level of activity (and often income) require

additional staffing resources, for example, development management staffing in delivering the local plan outcomes.

4.4.5 The Growth proposals are attached at **Appendix C**

4.5 Utilisation of Reserves

4.5.1 The Council has a series of reserves that have been set aside to deliver Council priorities and to support Medium Term financial planning. In addition, the Council retains a General Fund Reserve which is retained at or above a level recommended by the S151 Officer which will be confirmed in the February Budget Report along with the assessment of risks of delivery of the budget proposals.

4.5.2 An initial review of the level of reserves has been undertaken (as required by the Local Government Act, 2003). Based on this there is scope for the use of reserves on a recurrent and non recurrent basis to support the delivery of Council priorities and delivery of a balanced budget in 2018/19.

4.5.3 The planned utilisation of reserves is shown below:

Table 8: Planned Utilisation of Reserves 2018/19

	Estimated Opening Balance 2018/19	Planned Use of Reserves 2018/19	Estimated Closing Balance 2018/19
	£000s	£000s	£000s
General Fund Balance	5,014	(398)	4,616
Earmarked Reserves (excluding General Reserve Fund)	4,983	(1,096)	3,887
General Reserve Fund	793	(6)	787
Capital Reserves	2,620	(645)	1,975
Total	13,410	(2,145)	11,265

4.5.4 The need to utilise the general fund reserve in 2018/19 was forecast in the MTFS. Whilst extra pressures have been experienced due to a combination of higher inflation and pay-awards and other budget realignments it has been possible through this draft budget and provisional settlement allocations to reduce the expected call on reserves from the MTFS position.

4.5.5 The Council continues to retain and utilise earmarked reserves to support the delivery of Council priorities and to provide financial resilience over the medium term. The budget assumes contributions to earmarked reserves of £1.028 million and drawdown from earmarked reserves of £2.124 million in 2018/19. The movement in reserves is detailed in **Appendix D**.

4.5.6 The most significant transfer from earmarked reserves is the business rate retention reserve where for 2018/19 it is forecast that there will be net drawdown of £376K (see table 7). Other drawdowns of reserves include New

Homes Bonus Reserve (provided for over the past two years) and reserves supporting the delivery of corporate priorities.

4.5.7 The overall level of reserves support the delivery of the Council's MTFs in response to further reductions in core Government funding, alongside investment in Council priorities.

4.5.8 The utilisation and movement of reserves are detailed in **Appendix D**.

4.6 2018/19 Revenue Budget

4.6.1 The proposed budget for consultation (based on this report) is attached at **Appendix A**. Following consultation with Performance Scrutiny on 24th January 2018 a further budget report will be considered by the Executive on the 12th February 2018 and by Full Council on the 26th February 2018, where the Council Tax resolution will be considered. The Council must set a balanced budget and Council Tax by 11 March 2018.

4.6.2 The Council estimated budget requirement in 2018/19 is £11.241 million. This is based on estimated expenditure of £34,692 million and income (including Government Grants) of £23.451 million. Expressed on a daily basis this equates to over £95,000 per day. The breakdown by portfolio is detailed in Appendix A (i).

4.6.3 The proposed budget consolidates previous year budget decisions as well as the budget assumptions and proposals detailed earlier in the report for the financial year 2018/19. To provide a comparator with Table 1 arising from the draft budget the following table has been updated to include the 2018/19 proposals. This clearly demonstrates the continued prudent financial management of the Council's finances.

Table 9: Delivery of Savings and Income Generation 2014/15 to 2018/19

	Reduction in Core Government Funding £000s	Savings £000s	Income Generation £000s	Sub Total £000s
2014/15	438	(107)	(55)	(162)
2015/16	452	(338)	(203)	(541)
2016/17	568	(710)	(460)	(1,170)
2017/18	477	(77)	(623)	(700)
2018/19	255	(277)	(385)	(662)
Total	2,241	(1,509)	(1,726)	(3,235)

The above table clearly shows that savings and income generation proposals over the past four years has exceeded the reduction in Government funding and has contributed positively to addressing cost pressures (e.g. the withdrawal of recycling credits for waste, increase inflationary and pay pressures) alongside continued investment into priority services.

4.7 2018/19 – 2019/20 Capital Budget

- 4.7.1 The Capital Programme for the next two years continues the targeting of Council resources to the Councils priorities of business growth, vibrant communities, leisure facilities and housing. This report recommends a Capital Programme of £32.443 million for the period 2018/19 to 2019/20.
- 4.7.2 The most significant increase from the previous capital programme relates to the inclusion of a funding envelope for the Leisure Centre procurement approved at Council on 18th September 2017. This was originally proposed for inclusion in the 2018/19 programme. The capital proposal approved by Council includes provision for the core Leisure offer (New build at Market Harborough and refurbishment at Lutterworth), a 10% contingency and £5 million for 'commercial offerings' linked to revenue returns. It is proposed to now allocate this to commence in the 2019/20 financial year following the anticipated letting of the new contract from 1st April 2019 and limitations of being able to commence work on the new Leisure Centre at Northampton Road whilst the previous operator is in place.
- 4.7.3 The Council approved on the 10th July 2017 a revised programme for the proposed move on space to build on the success of the Harborough Innovation Centre. At the same time, an ERDF final bid was submitted which was secured and is currently going through the DCLG evaluation process. However, due to delays in land acquisition linked to the prospective site and landowner it is unlikely that the land can be acquired within the DCLG evaluation timetable. Whilst other options are currently being investigated it is possible that the Council may need to 're bid' when land acquisition is more certain – there may be a risk that the level of European funding available will not be the same at the time of any further bid. The capital programme has slipped this scheme to 2019/20.
- 4.7.4 In addition to the two major amendments approved by Council in 2017/18 (paragraphs 4.7.2 and 4.7.3) the Capital Programme recommends additions in respect of ICT Development/Channel Shift investment (£250K) and a large scale planning plotter (£25K). The programme includes approved slippage from 2017/18. Slippage is approved as part of the quarterly budget monitoring reported to Executive.
- 4.7.5 The Capital Programme continues to invest in supporting vulnerable people through Disabled Facilities Grant and Lightbulb/Social Care Capital Projects. Over the next two years the Council has identified £1.066 million to support residents remaining within their own home.
- 4.7.6 A revised capital strategy will be considered by Executive next year.
- 4.7.7 The proposed funding is detailed in **Appendix E**. The increase in borrowing is largely attributive to the proposed leisure centre contract from 2019 – these additional costs are anticipated to be met from additional revenue income from the new operator. These will be factored into the prudential indicators to be considered by Council in February 2018. Debt charges for the proposed Capital Programme have been included in the Revenue Budget for 2018/19

along with revisions to the voluntary revenue provision (VRP) in line with the annual updating of this budget.

4.7.8 Detailed Business Cases are developed for the major capital projects, detailing spend profile, funding opportunities and conditions and an assessment of risk. Surveys are being undertaken at Harborough Market to assess future investment needs and options with a report due in the New Year. This is therefore marked as TBC in the draft capital programme.

4.7.9 The Capital Programme has been profiled across the next two years. It is intended to continue the current policy of Members approving the funding envelope for the two years of the programme, allowing flexibility as to when the expenditure is incurred. This will allow external funding opportunities to be maximised and allow opportunities (e.g. strategic land acquisitions) to be made at the most appropriate time.

4.7.10 The Capital Programme is attached at **Appendix E**.

5 Legal Issues

5.1 The Council is required to consult on its budget prior to formulating its budget requirement. In setting the final budget requirement the Council is required to set a balanced budget by the 11th March 2018. The Council is scheduled to approve the budget on 26th February 2018.

6 Resource Issues

6.1 There are no direct financial implications from approving this report for consultation. However, when the final budget report is approved there will be financial implications for the Council. These will form the formal budget resolution to Council in February.

7 Equality Impact Assessment Implications/Outcomes

7.1 There are no specific equalities & diversity issues affecting the recommendation in this report to issue for consultation, though any such issues affecting particular service pressures and savings have been considered when those proposals were submitted. Any changes arising from the consultation or implementation of policy thereafter will be subject to assessment as appropriate.

8. Risk Management Implications

8.1 The budget proposals are subject to a risk assessment in their formulation and subsequent delivery. An overall assessment of the risks in the Budget Strategy by the S151 Officer forms part of the report to the Executive on the 12th February 2018 and Council on the 26th February 2018.

9 Consultation

9.1 Executive is asked to endorse the Budget proposals contained in this report as a basis for consultation. These proposals will be subject to consultation

over the period from 16th January 2018 to 11th February 2018. The Performance Scrutiny Panel will consider this report on the 24th January 2018. In addition, consultation will be with:

- Trade Unions
- Local Businesses and Commercial Ratepayers.
- General public through the website and opportunity to comment on the budget. This link will be promoted via social media.
- Parishes and Town Councils

10. Options

10.1 The Council has to set a balanced budget. The report details the proposed budget for 2018/19 that will be subject to consultation. The outcomes of the consultation and any revisions to the proposed budget for 2018/19 will be reported to Executive on the 12th February 2018.

11 Background Papers

11.1 Budget working papers and collaborative planning system.

11.2 Local Government Provisional Settlement, 19th December 2017.

Information Issued Under Sensitive Issue Procedure: N
Ward Members Notified: N

Appendices:

- A. Proposed 2018/19 Budget**
- A(i) Proposed 2018/19 Budget (Expenditure and Income)**
- B. Savings Proposals 2018/19**
- C. Growth Proposals 2018/19**
- D. Summary of Reserves 2018/19**
- E. Capital Programme 2018/19 to 2019/20**