


Agenda Item No:	10 (Amendment)	
Committee:	Council	
Date:	22 February 2018	
Report Title:	General Fund Budget 2018/19 and Capital Programme 2018-21	

Budget Amendment (1) to be moved by Cllr Sam Hoy

That Council agrees to increase the Band D Council Tax level for Fenland District Council Services by 1.97% on the current year rather than the 2.96% recommended in the original Budget report at Agenda Item No. 10.

Accordingly the amended recommendation reads:

3(vii) that the Band D Council Tax level for Fenland District Council Services for 2018/19 be set at £260.46, an increase of £5.04 (1.97%) on the current year.

And;

that if Council approve the above amendment, that is, an increase of 1.97%, a contribution of £72,891 is made from Reserves in 2018/19 to secure a balanced Budget.

Note:

To assist Councillors with their deliberations, the Budget report is attached with amendments to reflect a 1.97% Council Tax increase compared to the 2.96% increase shown in the original report. Changes to the original report and appendices are highlighted in yellow.

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Cover sheet:

1 Purpose / Summary

To consider recommendations in relation to the General Fund Revenue Budget 2018/19 and Capital Programme 2018-2021.

2 Key issues

- Revised Estimates for 2017/18 imply an under-spend in the region of £250,000;
- Details of the Medium Term Financial Plan (MTFP) and Capital Programme;
- The required savings for 2017/18 of £601k have been identified and implemented;
- The Treasury Management and Investment Strategy 2018/19 is presented for approval;
- **Proposed 1.97% increase in Council Tax for 2018/19;**
- The forecast capital programme over the medium term to 2020/21 is supported both by borrowing and significant future capital receipts from asset sales;
- The liability relating to the Pilots' National Pension Fund will crystallise in 2017/18 and will be funded by borrowing or use of reserves;

3 Recommendations

- **It is recommended to Council that:**
 - (i) the General Fund revenue budget for 2018/19 as set out in paragraphs 9 and Appendix A be approved;
 - (ii) the Capital Programme and funding statement as set out in Appendix D be approved;
 - (iii) the Medium Term Financial Plan as outlined in this report and Appendix B be adopted;
 - (iv) the Treasury Management, Minimum Revenue Provision, Investment Strategy, Prudential and Treasury Indicators for 2018/19 as set out in paragraph 14 and Appendix E be approved;
 - (v) the expenses detailed in paragraph 11 be treated as general expenses for 2018/19;
 - (vi) the Port Health levy for 2018/19 be set as shown in paragraph 12;
 - (vii) **the Band D Council Tax level for Fenland District Council Services for 2018/19 be set at £260.46, an increase of £5.04 (1.97%) on the current year.**

Wards Affected	All
Portfolio Holder(s)	Leader of the Council Portfolio Holder, Finance
Report Originator(s)	Brendan Arnold, Corporate Director and Chief Finance Officer Mark Saunders, Chief Accountant
Contact Officer(s)	Paul Medd, Chief Executive Brendan Arnold, Corporate Director and Chief Finance Officer Mark Saunders, Chief Accountant
Background Paper(s)	Finance settlement – Ministry for Housing, Communities and Local Government (MHCLG). Medium Term Financial Plan working papers.

This report contains the following Appendices:

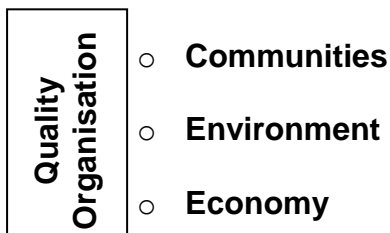
Appendices

- A. (i) General Fund Revenue Estimates - Summary
(ii) General Fund Revenue Estimates – Individual Services
- B. (i) Medium Term Financial Plan (MTFP)
(ii) MTFP – Movements since December 2017 update
- C. Assumptions built into Budget and Medium Term Plan
- D. Capital Programme
- E. Treasury Management Strategy, Minimum Revenue Provision Strategy, Investment Strategy and Prudential Indicators
- F. Parish Precepts
- G. Earmarked Reserves

Report:

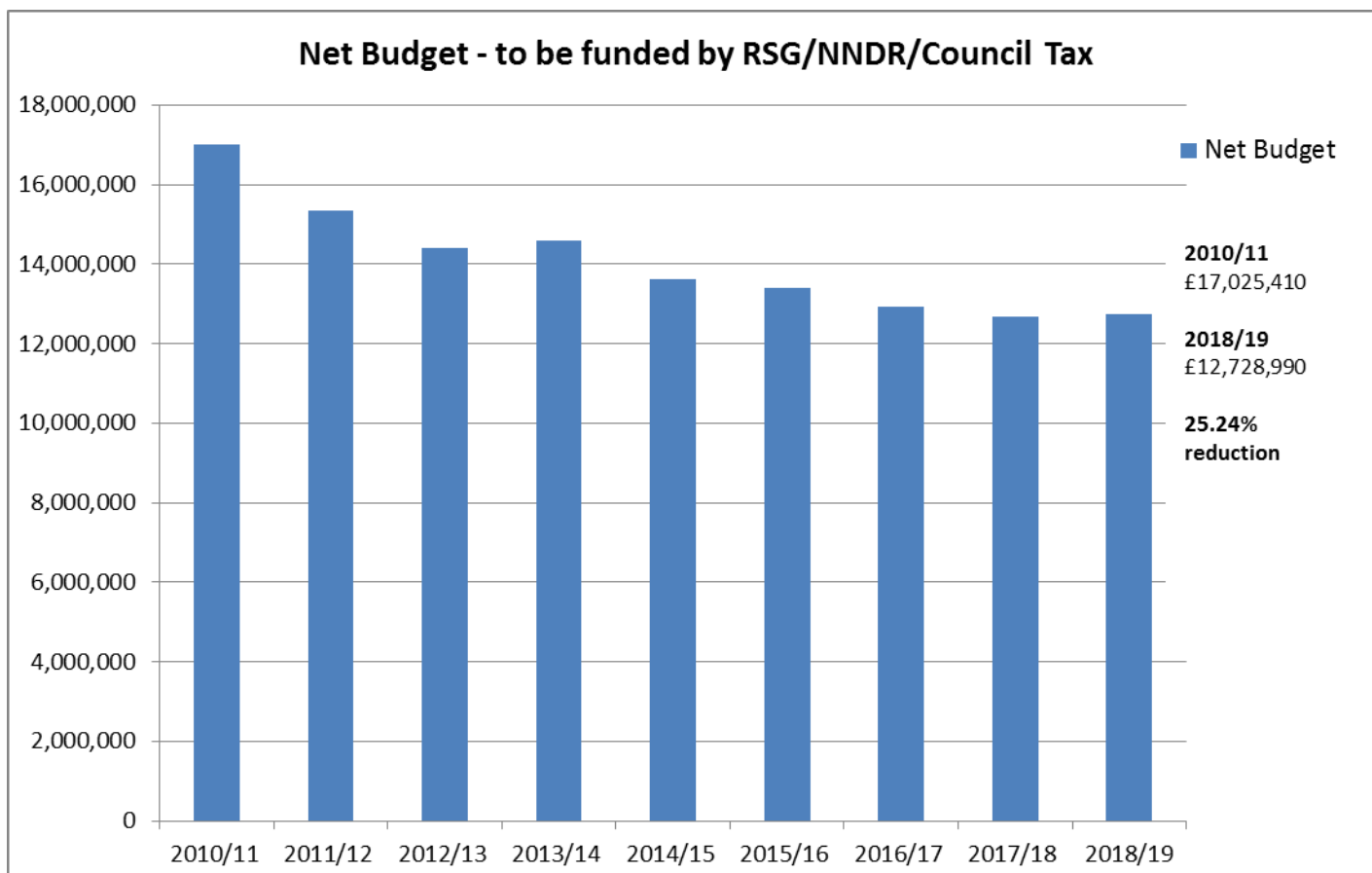
1 INTRODUCTION

1.1 This report is the culmination of the service and financial planning cycle for 2018/19. It brings together all General Fund revenue estimates, all capital estimates, and recommends a level of Council Tax for 2018/19. The budget for 2018/19 and financial projections are based on the following Corporate Priorities as set out in the Business Plan, with an overarching focus on improving the Quality of Life for the residents of Fenland:

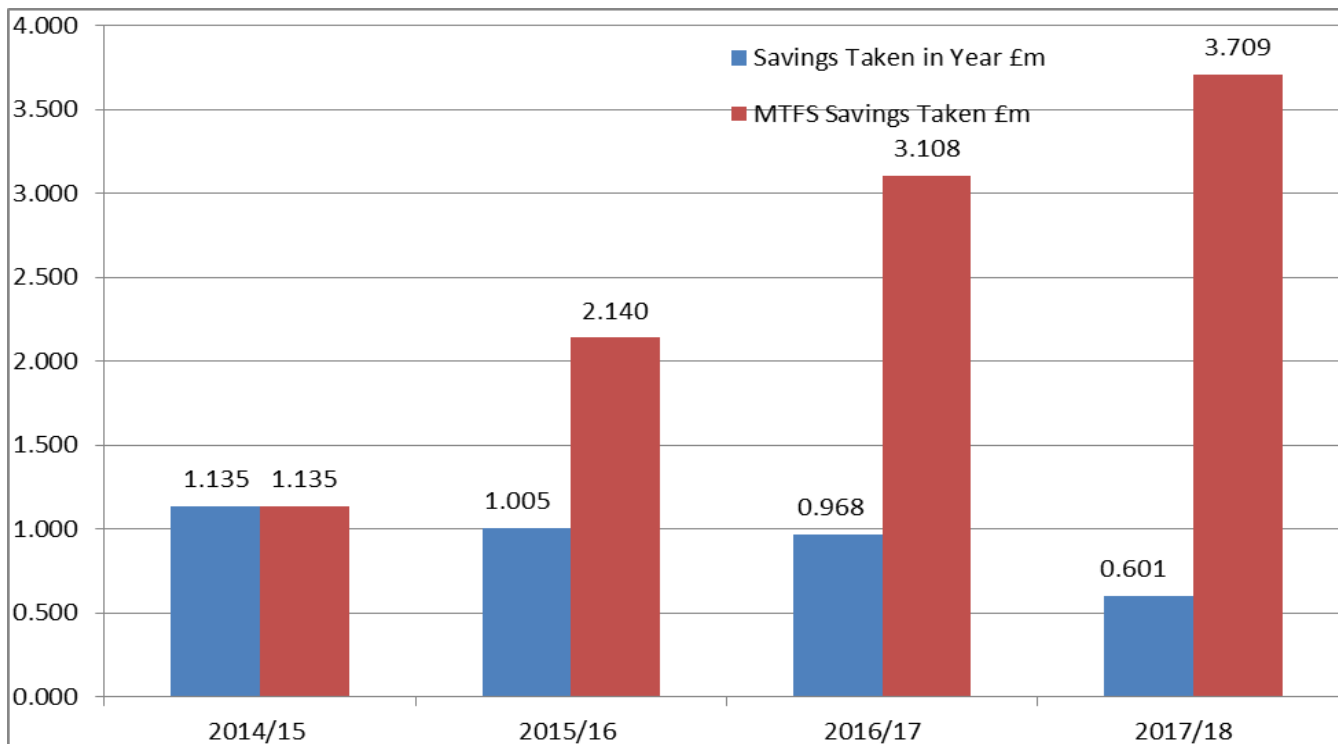


1.2 These priorities have informed the development of the Council's Business Plan and have led to the budget proposals set out in this report. Full details of the Council's plans to improve the Social, Economic and Environmental well-being of the District are set out in the Business Plan 2018/19 earlier in the agenda for this meeting.

1.3 Local Government has been at the forefront of the austerity measures introduced by the government following the General Election in 2010, to reduce the national deficit. This Council has seen significant reductions in its Net Budget since 2010 and by the end of 2018/19 this will have reduced by 25.24%. This is exemplified in the graph below:



- 1.4 The following graph illustrates how successful the Council has been in delivering savings over the last 5 years, which has enabled the Council to achieve a balanced budget.



During these years, Members have been very clear, that where possible, front line services should be protected. The Council's strategy of identifying savings 12 months in advance of the financial year has led to the successful delivery of the required savings targets and means the Council are in a good position to meet the challenges of 2018/19 and beyond. These savings have been achieved through a number of ways, such as Management and Service reviews, shared services, procurement and income generation.

2 REVISED ESTIMATE 2017/18

- 2.1 As part of the budget setting process for 2017/18, approved by Council on 23 February 2017, £0.601m of savings were required in order to achieve a balanced budget.
- 2.2 As reported during the course of this year, the required savings for 2017/18 have been identified and implemented. In addition, all the required savings for 2018/19 have also been identified.
- 2.3 Organisational efficiency changes, Shared Service arrangements, additional income (higher retained business rates and higher surplus on Council Tax collection fund) together with the successful implementation of the Garden Waste subscription service and other Council CSR projects, have enabled the original savings target to be met for this year with significant contributions towards the savings target for 2018/19.
- 2.4 Given the size of the required savings, this is a considerable achievement and demonstrates the focus from Cabinet and Officers in delivering a balanced budget. The savings identified to date have not significantly affected front-line services as the Council is determined to maintain the quality of these services during these difficult and challenging times.
- 2.5 The interim budget report to Cabinet in December 2017 forecast a break-even position by the end of this year. The latest revised estimates for 2017/18 are detailed at Appendix A and show the likelihood of an under-spend in the region of £250k by the end of this

financial year. This is due to reductions in estimated employee costs (-£105k), higher forecast income from the VAT sharing arrangement (-£50k), higher than expected Government S31 Grant for reimbursement of the extended relief schemes given to small businesses (-£133k) and miscellaneous service variations (+£38k).

- 2.6 At the present time, the Corporate Management Team, Senior Managers and the Accountancy Team are managing and monitoring the position carefully and will continue to review spending levels to ensure where possible, this position is maintained at the year end.

Pilots' National Pension Fund (PNPF)

- 2.7 Members will be aware of the Council's current liability to The Pilots' National Pension Fund. The Council has now been notified formally by the PNPF that the actual liability is £1,949,969 (previous estimate was around £2m). Although this amount has now been paid to the PNPF, the accounting treatment of the payment is still to be resolved. This will be funded by borrowing or use of reserves.

3 CONSULTATION

- 3.1 The interim budget proposals for 2018/19 were approved for consultation by Cabinet on 14 December 2017. These proposals were discussed and considered at the meeting of the Overview and Scrutiny Panel on 15 January 2018. The Panel confirmed their overall support for the budget strategy.

4 AUTUMN BUDGET STATEMENT 2017

- 4.1 The Autumn Budget Statement on 22 November 2017 contained little which has a direct impact on this Council over the medium term. Councils are to be given the power to charge a 100% council tax premium on long-term empty properties (currently 50% premium which this Council applies), effective from April 2019 and which if applied would raise around £13k per annum. In addition, business rates are to rise by the Consumer Prices Index (CPI) measure of inflation, not the higher Retail Prices Index (RPI). This will reduce the amount of business rates income retained by the Council, although the government has stated that local authorities would be fully compensated for the business rate changes announced.

5 FENLAND COMPREHENSIVE SPENDING REVIEW.

- 5.1 The estimated savings generated from the CSR proposals agreed previously amount to £1.7m with £1m achieved by the end of 2017/18. During this year, Members have received detailed business cases on several proposals which are now progressing. These include the following:

- Community House external funding
- Ceasing Youth District Council
- Community Grants review
- Garden Waste charging
- Leisure Centre management options
- Contact Centre review
- Wireless CCTV
- New Horizons Bus
- Local Council Tax Support Grant to Parish Councils withdrawn

- 5.2 The savings generated from these and other CSR proposals are included within the medium term projections detailed at Appendix B and have significantly contributed to the required savings target over the medium term.

6 LOCAL GOVERNMENT FINANCE SETTLEMENT

- 6.1 The Final Finance Settlement for 2018/19 was announced on 6 February 2018 and there were no significant changes to the Provisional Settlement announced on 19 December 2017. The Settlement sets out the Settlement Funding Assessment (Core Funding) for 2018/19 and indicative allocations for 2019/20. For 2020/21, an inflationary increase has been assumed in line with the Budget Statement announcement on overall government departmental spending totals.

Table 1 – Final Settlement Funding Assessment (Core Funding)

	Actual 2017/18 £000	Actual 2018/19 £000	2018/19 % Reduction	Indicative 2019/20 £000	2019/20 % Reduction
Revenue Support Grant (RSG)	925	444		0	
Business Rates Baseline Funding	3,457	3,561		3,640	
Core Funding	4,382	4,005	-8.6%	3,640	-9.1%

- 6.2 The multi-year settlement announced in Autumn 2015 (covering the period 2016/17 – 2019/20), will result in RSG disappearing by 2019/20 with the Business Rates Baseline Funding increasing by CPI inflation. The medium term projections detailed in Appendix B exemplify this position by reducing the overall Settlement Funding Assessment by 8.6% in 2018/19, by a further 9.1% in 2019/20 as shown in Table 1 above, with an inflationary increase of 2% in 2020/21 onwards.

Fair Funding Review

- 6.3 Alongside the provisional finance settlement, the Government confirmed that it is looking to implement the Fair Funding Review in April 2020 and published a consultation document on ‘a review of relative needs and resources’. This consultation focuses specifically on potential approaches that have been identified to measure the relative needs of local authorities. It does not cover the relative resources adjustment, transition or other technical matters but these will be the subject of a later series of discussion papers.

7 NEW HOMES BONUS

- 7.1 In 2017/18, reforms to the allocation methodology of the New Homes Bonus (NHB) were made which significantly reduced the total amount available for distribution which consequently reduced this Council’s allocation.
- 7.2 The key focus of the reforms was to reduce the payments from 6 years to 5 years in 2017/18 and to 4 years from 2018/19. In addition, from 2017/18, a national baseline for housing growth of 0.4% was introduced, below which NHB will not be paid, reflecting a percentage of housing that would have been built anyway.
- 7.3 No further changes to the allocation methodology in 2018/19 were announced in the provisional settlement although the government retains the option of making adjustments to the baseline in future years to reflect significant and unexpected housing growth. The government also consulted on further changes, including the possibility of reducing NHB

for housing granted on appeal but have decided not to go ahead with this particular change.

- 7.4 Actual NHB received in 2017/18 was £1.649m and the actual allocation for 2018/19 announced in the final settlement is £1.426m. This is the same as previously included in the 2018/19 estimates. This reduces to an estimated £1.2m by 2020/21 as the full impact of the changes detailed in 7.2 above come into effect.

8 BUSINESS RATES

- 8.1 Members will be aware that the Business Rates Retention system was introduced in April 2013. Under this system, authorities would benefit if their actual Business Rates income collected in a year was higher than the baseline funding determined by government.
- 8.2 There has been real business rates growth in Fenland over the last three years, however how this impacts on the resources available to this Council is complex, due to the rules surrounding the Business Rates Retention system.
- 8.3 In the recent past the Council joined a 3 year pilot scheme agreed between HM Treasury and Cambridgeshire and Peterborough Councils, whereby the authorities keep 100% of business rates generated above forecast levels (currently shared 50/50 with Central Government). This trial began in 2015/16 and the Council received an additional £319k of business rates in that year and a further £584k in 2016/17 as a result of the pilot scheme. For the final year of the trial period - and as a result of the revaluation exercise in April 2017 - only a nominal amount of £17k is expected in 2017/18, the last year of the pilot scheme, and nothing thereafter.
- 8.4 The Council also joined with the County Council, all other District Councils within Cambridgeshire, Peterborough City Council and the Combined Authority to submit a bid for a pilot scheme in 2018/19 for the 100% Business Rates Retention scheme. Unfortunately, as the initiative was substantially over-subscribed nationally, the Combined Authority bid was unsuccessful. There will however be an opportunity to bid again for the next round of pilots in 2019/20.

Future Changes to the Business Rates Retention System - 2020/21 onwards

- 8.5 The Government announced as part of the provisional settlement, its intention to introduce a 75% Business Rates Retention Scheme from April 2020. The Government has committed to continuing to work with local government to improve the way the finance system works, such as tackling the impact of business rates appeals on local authorities.
- 8.6 The content and character of any new system and its effect on Fenland District Council are unknown at this stage and therefore no adjustments have been made to the business rates funding within the MTFP. Nationally, the implementation of this scheme will be fiscally neutral.
- 8.7 The future changes to the Business Rates Retention system and the outcome of the Fair Funding Review are very significant risk areas for this Council, for district councils in particular and the local authority sector in general, over the medium term.

9 BUDGET 2018/19 AND MEDIUM TERM PLAN

- 9.1 The Council's Medium Term Financial Plan (MTFP) ensures that the commitments made in the Business Plan are funded not only in the year for which the formal approval of the

budget is required (2018/19) but for future years as well, within a reasonable level of tolerance.

- 9.2 The Council's MTFP is shown at Appendix B and summarised in Table 2 below. The table also exemplifies the impact of an indicative 1.97% Council Tax increase in 2018/19 and 1.98% per annum from 2019/20 onwards.

Table 2 - MTFP – 1.97% CT increase in 2018/19 and 1.98% increase in 2019/20 onwards

	2018/19	2019/20	2020/21	2021/22	2022/23
	£000	£000	£000	£000	£000
Expenditure					
Net Service Expenditure	13,664	14,166	14,463	14,858	15,268
Corporate Items	-935	-1,225	-870	-930	-840
Contribution from Reserves	-73	0	0	0	0
Net Budget Requirement	12,656	12,941	13,593	13,928	14,428
Funding					
Revenue Support Grant	-444	0	0	0	0
Retained Business Rates	-4,723	-4,776	-4,966	-5,065	-5,168
Business Rates Collection Fund Deficit	169	0	0	0	0
Council Tax Collection Fund Surplus	-110	-90	-90	-90	-90
Council Tax <i>(increases of 1.97% in 18/19 and 1.98% p.a 19/20 onwards)</i>	-7,548	-7,777	-8,013	-8,253	-8,502
Total Funding	-12,656	-12,643	-13,069	-13,408	-13,760
Surplus(-)/Shortfall(+)	0	+298	+524	+520	+668

- 9.3 Government grant figures for 2018/19 have been confirmed as part of the final finance settlement. Indicative figures for 2019/20 were announced at the same time and are consistent with the multi-year settlement figures previously published. The projections for 2020/21 onwards are based on the best information available and are consistent with the announcements on business rates in the Autumn Budget Statement 2017 and the provisional finance settlement. However, given the lack of clarity in government policy at the current time, there remains a degree of uncertainty in these projections.
- 9.4 This will mean that in 2019/20, the Council will no longer receive any Revenue Support Grant. In order for Councils to continue to contribute to the previous government's financial Austerity measures, it has been proposed that an additional tariff adjustment is applied to councils who no longer receive Revenue Support Grant. This could be around £94,000 for Fenland in 2019/20 and is included in the overall business rates income for that year. However, this could change in future years pending the detailed implementation of the 75% Business Rates Retention scheme in 2020/21.

Council Tax

- 9.5 As part of the 2018/19 Provisional Local Government Finance Settlement announcement in December 2017, the government has again proposed that local authorities will be required to seek the approval of their local electorate in a referendum if they set council tax increases in 2018/19 that exceed the government set limit. This limit has been set at 3% for 2018/19 for District Councils (or greater than £5, whichever is higher) but is expected to revert to 2% in the years thereafter.
- 9.6 The referendum limit for 2018/19 is 1% higher than previously allowed for in the MTFP. For the purposes of this **amended** report, the figures in Table 2 above and Appendices A and B **do not include the impact of this higher limit.**
- 9.7 An additional 1% increase in Council Tax in 2018/19 would generate in the region of £75,000 of income per annum. Even with this additional resource included, the estimates for future years show a significant and increasing shortfall (see Table 2 in paragraph 9.2 above and Appendix B).

Budget 2018/19 and MTFP

- 9.8 The level of net expenditure for 2018/19 is currently estimated to be **£12.656 million** after all identified savings and contingencies are included. This includes the assumptions detailed at Appendix C.
- 9.9 The forecasts include all proposed savings from the Council's CSR process over the next three years together with assumptions regarding additional receipts from Council Tax and Business Rates.
- 9.10 Contingencies have been included to allow for the impact on future Employer Pension Costs resulting from the externalisation of the Leisure Centres Management (£75k p.a. from 2020/21), for borrowing costs associated with the potential capitalisation of the PNPf liability (£100k p.a. from 2018/19) and for additional resources for the Transport Development Team (£15k p.a. from 2018/19) and the Economic Development Service (£43k p.a. from 2018/19).
- 9.11 Taking into account the proposals in the above tables, the estimated level of expenditure in 2018/19 is detailed in Appendix A. The level of forecast resources available to the Council and the estimated levels of expenditure over the medium term are set out in detail in Appendix B. These show a funding gap of **£668k** by the end of 2022/23.
- 9.12 There will, therefore be a requirement to achieve further savings over the medium term through an approach of similar character and reach to the existing CSR agreed by the Council in January 2016 and now largely delivered.

Risk Assessment

- 9.13 There is an element of risk inherent in any process that looks into the future to make forecasts, particularly in the current economic climate. The Council has a strong track record in good financial management as recognised in the recent Annual Audit Letter. This risk is further minimised by adopting the following methodology when preparing the estimates:
- Service managers and the Accountancy Team working together to define likely service income/expenditure patterns matched with service delivery plans
 - Maintaining "earmarked" reserves for potentially unbudgeted expenditure,
 - Adopting clear guidelines and control systems (revenue monitoring procedures, Financial Regulations etc.) to alert service managers, and members should variances become significant,
 - Using professional and expert advice and economic forecasts where these are available, e.g. treasury management, interest rates,

- Maintaining a rolling review of forecast estimates beyond the current year.

- 9.14 These assumptions are made with all available information but are necessarily calculated based on some broad criteria. In the current economic climate, some of these assumptions are particularly volatile. The MTFP will be prepared annually on a rolling basis so that as information becomes more certain the figures will be updated and consideration can be given to any action or changes in direction that may be required.
- 9.15 Section 17 below sets out the Chief Finance Officer's statutory report on the robustness of the estimates and adequacy of reserves.

Parish Precepts

- 9.16 The levels of parish precepts set throughout Fenland are provided for information at Appendix F. These will be reported to Council as part of the Council Tax setting process.
- 9.17 As part of the Fenland CSR process, Cabinet agreed at its July 2016 meeting, to phase out the Local Council Tax Support Grant funding to Parish Councils by 2019/20, the year this Council's Revenue Support Grant (RSG) from government also ceases. This reduced the grant payments to Parish Councils from £89,260 in 2016/17 to £59,507 in 2017/18, £29,750 in 2018/19 and zero in 2019/20. The individual grant amounts have been notified to all Parish Councils and have been taken into account by them when setting their individual precepts for 2018/19.

10 FEES AND CHARGES 2018/19

- 10.1 The Overview and Scrutiny Panel reviewed fees and charges at their meeting on 15 January 2018. The recommended changes to fees and charges were reported to Cabinet on 18 January 2018. All of these recommendations have been included in the financial forecasts.

11 SPECIAL AND GENERAL EXPENSES

- 11.1 For the purposes of Section 35 of the Local Government Finance Act 1992, the Council needs to pass appropriate resolutions for each financial year to determine how expenses which could legally be regarded as special should be treated.
- 11.2 If expenses are treated as special expenses, then they must be charged against the parts of the Council's area to which they relate.
- 11.3 Parish precepts are special expenses and cannot be treated as general expenses.
- 11.4 Drainage Board and Port Health levies which affect only part of the Council's area are treated as general expenses unless the Council resolves otherwise. These are currently treated as general expenses and it is recommended that this position continues for 2018/19.
- 11.5 Expenses incurred by the Council in performing, in part of its area, a function performed elsewhere by a parish council are special expenses unless the Council determines otherwise. Currently, these are treated as general expenses. To maintain this position, it is recommended that the Council determines that such expenses should not be treated as special expenses for the financial year 2018/19.

12 PORT HEALTH

- 12.1 The Port Health levy for 2018/19, based on expected expenditure, is recommended as shown in Table 3 below.

Table 3: Port Health Levy 2018/19

Description	£
a) Port Health anticipated expenditure	14,245

b)	Port Levy	
	Fenland District Council	12,607
	South Holland District Council	997
	King's Lynn and West Norfolk Borough Council	641
	Total	14,245

13 CAPITAL PROGRAMME

- 13.1 Capital Expenditure and Income plans have been prepared through the Council's service and financial planning cycle. The Council's capital resources are dependent on government funding, external grants or through the ongoing disposal of assets.
- 13.2 A fully updated Capital Programme for 2018-21 is presented at Appendix D for approval. All known and expected levels of capital receipts have been taken into account in the resources statement. These include the net usable receipt from the stock transfer and income from land sales. This includes significant amounts from the future disposal of land at Nene Waterfront and other sites in the district.
- 13.3 The level of these capital receipts can be subject to some potential variability and risk. Officers are working on a variety of options to bring vacant sites to the market but there remains considerable uncertainty as to when these will be realised and capital receipts have been re-profiled accordingly. Even after this re-profiling the Council is still reliant on realising capital receipts of £1.216 million between now and 2021 to fund the programme at Appendix D.
- 13.4 A number of high priority schemes have now been included in the programme for the maintenance and improvement of the Council's assets (eg. car parks, open spaces, leisure centres, cemeteries, office buildings, street lighting, Wisbech Port) as detailed in the Asset Management Plan 2017-20 approved by Council on 15 December 2016. Total value of these schemes is £1.7m over the next two years.
- 13.5 As a result of including these high priority schemes, Appendix D shows a net financing need of £1.172m by the end of 2018/19; £977k in 2019/20 and £130k in 2020/21. This funding deficit (after applying capital receipts and grants received) will be met by borrowing and the relevant annual financing cost has been included in the MTFP.
- 13.6 Should resources from external funding and/or capital receipts not generate the level of receipts forecast, or there is a delay in disposal of assets, then the capital programme will need re-visiting to ensure funding is sufficient to meet proposed expenditure. Reviews of the programme and resources available are carried out regularly during the year.
- 13.7 The Local Government Act 2003 introduced a new Prudential Borrowing regime. This requires all Councils to set and monitor indicators relating to capital expenditure, external debt and impact on council tax. The recommended indicators for Fenland District Council from 2018/19 are included in the Treasury Management Strategy detailed below and in Appendix E.

14 TREASURY MANAGEMENT AND ANNUAL INVESTMENT STRATEGY 2018/19

- 14.1 Full details of the proposed Treasury Management and Annual Investment Strategy for 2018/19 are contained in Appendix E. The proposed strategy was presented to and endorsed by Corporate Governance Committee on 7 February 2018.
- 14.2 The key issues relating to this strategy and its impact on the Medium Term Financial Plan are as follows:

- Continuing compliance with CIPFA's Treasury Management Code of Practice and the CLG's Investment Guidance;
- The Prudential and Treasury indicators detailed in paragraphs 2 – 10 of Appendix D, show that the Council's capital investment plans are affordable, prudent and sustainable;
- The MRP policy sets out how the Council will make prudent provision for the repayment of borrowing needs over the medium term forecast;
- The Treasury Management Strategy has been organised so that the Council will have sufficient cash resources to meet capital expenditure plans and operational cash flows;
- Total external interest which includes finance lease interest payments; revised estimate for 2017/18 is £512,365. The estimate for 2018/19 is £507,885;
- Base rate is expected to remain unchanged at 0.50% until Quarter 4 2018 before increasing gradually to reach 1.25% by 2020/21;
- At the current time, no opportunities exist to repay or reschedule the Council's external debt (total £7.5m) due to the premiums that would become payable on redeeming external debt early. For example, the Council's long term PWLB debt (£4.5m at 31/03/18) is currently attracting excessive premiums (£3.3m);
- The Council complies with all statutory requirements in relation to its' external debt portfolio. However, the Council does not technically comply with the CIPFA Code prudential indicator for gross borrowing and capital financing, which fails to take into account the specific circumstances relating to the timing of the Housing Stock Transfer and the impact of interest rates on the repayment of debt since then;
- The aim of the Council's annual investment strategy is to provide security of investment whilst minimising risk; investment returns are commensurate with the Council's low risk appetite. The Council achieves these objectives through differentiating between "specified" and "non-specified" investments and through the application of a creditworthiness policy;
- Total investment income is estimated at £110,000 for 2017/18 and £140,000 for 2018/19;
- Revisions (in December 2017) to the Treasury Management Code of Practice and Prudential Code with full implementation in 2019/20.

15 REVIEW OF GENERAL FUND BALANCE AND SPECIFIC RESERVES

- 15.1 An important part of any budget strategy is the review and consideration of reserves. Earmarked Reserves are typically held and used in a planned way to deal with issues where it is foreseen that resources need to be set aside to meet a specific need. General Reserves are held to cushion the impact of an event or events that cannot be foreseen whilst maintaining these resources at a consistent and reasonable level over the medium term.

- 15.2 Sufficient levels of reserves are necessary to provide for various contingent and unplanned items that could include:
- significant increased costs of providing statutory services
 - significant increased contractual costs
 - an unexpected and/or significant event or disaster, e.g. civil emergency
 - an unexpected major liability in law
 - the need to make significant payments in relation to prior year adjustments under the direction of the external auditor
- 15.3 The Council's current forecast uncommitted General Fund Balance at 31 March 2018 is £2.422m and has been consistently around this level for a number of years. It is proposed that £73k of this Balance be used to ensure a balanced budget for 2018/19. This would reduce the balance to £2.349m at 31 March 2019 and it is expected that this level of Balances will be maintained over the length of the MTFP.
- 15.4 A full analysis of earmarked reserves is shown at Appendix G and they have been reviewed to enable the Council to meet potential future costs of transformation and other foreseen potential future liabilities.

16 COUNCIL TAX – OVERALL LEVELS 2018/19

- 16.1 After the estimates of expenditure and income have been prepared, and the external sources of grant have been notified from the Government, the next step is to set the level of council tax for 2018/19 for Fenland District Council's share of services. This is the final piece of the "jigsaw" that provides the balance of the resources required to fund the Council's services.
- 16.2 When considering the level of Council Tax to be set for 2018/19 it is prudent to be mindful of the projected budget shortfalls expected over the period of the medium term – 2018/19 to 2022/23 as set out in Table 2 in paragraph 9.2 above. In order to meet the objectives and guidelines set out in the MTFP and based on the assumptions shown at Appendix B, the following council tax levels are the most robust assumptions based on current information available:

YEAR	INCREASE FOR MTFP PURPOSES
• 2018/19	1.97%
• 2019/20 – 2022/23	1.98% per annum

- 16.3 It is expected that these increases together with the achievement of the identified efficiency savings and proposed contribution from Reserves, would provide the resources required to fund the current level of service provision in 2018/19. Over the period of the MTFP, the Council will need to consider its' strategy to meet the estimated shortfalls shown at Table 2 and in Appendix B.
- 16.4 For the reasons set out above Members are invited to reflect on the financial merits of choosing a 2.96% increase in Council Tax for 2018/19 and the implications for the Medium Term Financial Plan should an increase of less than 2.96% be preferred. If Members decide on a 2.96% increase that would be an important step in helping to secure the best financial position for the Council in the medium term.

- 16.5 However, to be clear, Members need to be aware that although the MTFP has been modelled on a 2.96% Council Tax rise for 2018/19 (reflecting levels of inflation currently observed) the assumption used for the ensuing years is that a 1.98% increase will apply in each year thereafter. This reflects the Budget assumptions approved by Council in February 2017.
- 16.6 Council can of course agree to a higher increase (up to the referendum limit of 3%) and a 1% rise in Council Tax brings in around £75,000 per annum to the Council. This being so, if a 1.97% rise is agreed the MTFP figures in Table 2 / Appendix B will be, on average around £75,000 worse in each year than if a 2.96% increase was agreed. The adjusted 'bottom line' associated with these possible Council Tax increases is shown in Table 4 below:

Table 4: MTFP Shortfall at Differing Council Tax increases in 2018/19

Financial Year	2018/19	2019/20	2020/21	2021/22	2022/23
	£000	£000	£000	£000	£000
Shortfalls based on different % increases in 2018/19 and 1.98% thereafter					
Shortfalls at +3% increase (Actual 2.96%) <i>(as shown previously in Table 2 / Appendix B)</i>	Balanced	+223	+447	+440	+586
Shortfalls at +2% increase (Actual 1.97%) <i>(as shown in the amended Table 2/Appendix B)</i>	+73	+298	+524	+520	+668
Shortfalls at 0% increase	+219	+448	+679	+679	+833

- 16.7 Members may wish to understand the impact that increases at the various levels add to the amount payable by each household. The figures below apply to a Band B property, as in Fenland around 84% of properties are in Bands A-C.
- An increase of 2% (1.97%) adds £3.92 per annum to a Band B bill or 7.5p per week
 - An increase of 3% (2.96%) adds £5.88 per annum to a Band B bill or 11.3p per week
- 16.8 This Council's Band D Council Tax for 2018/19 is proposed at £260.46, an increase of £5.04 (1.97%) per Band D household on the current year. However, for the majority of properties in the district the increase will be proportionately less (although the percentage increase will be the same). Table 5 below shows the proposed Council Tax levels for each property band and the relevant increase were 1.97% to be agreed.

Table 5: Proposed FDC Council Tax levels 2018/19 (1.97% increase) by Property Band

Property Band	% of Properties	Current 2017/18 Council Tax	Proposed 2018/19 Council Tax 1.97% increase	Increase per annum £	Increase per week pence

	Proportion to Band D		£	£		
A	6/9	37.38	170.28	173.64	3.36	6.5p
B	7/9	27.19	198.66	202.58	3.92	7.5p
C	8/9	19.04	227.04	231.52	4.48	8.6p
D	9/9	9.96	255.42	260.46	5.04	9.7p
E	11/9	4.76	312.18	318.34	6.16	11.8p
F	13/9	1.29	368.94	376.22	7.28	14.0p
G	15/9	0.35	425.70	434.10	8.40	16.2p
H	18/9	0.03	510.84	520.92	10.08	19.4p

16.9 Table 6 shows the Band D Council Tax for spending at the level proposed, together with Council Tax levels from the major preceptors and Parishes.

Table 6: Band D Council Tax Levels 2018/19

COUNCIL TAX BASE	2018/19 28,979		2017/18 28,397	
	£	Band D £	£	Band D £
Fenland District Council Precept (Appendix A)	7,547,870		<u>7,253,302</u>	
Fenland District Band D Council Tax	1.97%	260.46	1.98%	255.42
MAJOR PRECEPTORS				
County Council	(4.99%)	1,249.83		1,190.43
Police & Crime Commissioner	(6.41%)	198.72		186.75
Fire Authority	(2.96%)	68.76		66.78
Sub Total BAND D TAX		1,777.77		1,699.38
Parish Councils-average (Appendix F)	(5.86%)	46.97		44.37
Total average Band D Tax		1,824.74		1,743.75
Total average increase over 2017/18		£80.99 (4.64%)		

16.10 The County Council increase for 2018/19 includes 2% for the Adult Social Care precept (£23.81) and 2.99% on the general council tax (£35.59), giving a total increase of 4.99% (£59.40).

17 STATUTORY OFFICER COMMENTS

17.1 Under Section 25 of the Local Government Act 2003 and CIPFA Code of Practice, the Council's Chief Finance Officer (Section 151 Officer) is required to report on the robustness of the estimates made for the purpose of the budget calculations and the adequacy of the proposed reserves.

Members are required under the 2003 Act to have regard to the Chief Finance Officer's report when making decisions about the budget calculations.

17.2 The Corporate Director and Chief Finance Officer (Section 151 Officer) has made the following statement:

The robustness of the Budget estimates and the adequacy of the reserves are largely dependent on the levels of risk and uncertainty. The principal financial assumptions made in the Budget are noted in this report and attached appendices. Budget monitoring throughout the year will be an important tool in identifying, at an early stage, potential problems so appropriate action can be taken.

The delivery of the planned savings and major business projects is critical to the successful delivery of the Council's budget strategy. Current activity provides adequate assurance as to the deliverability of the 2018/19 budget with future year projections representing realistic planning assumptions which will be subject to review as part of the annual budget setting process.

The Budget has been prepared reflecting known service pressures and following thorough review by Service Managers of planned savings.

A risk based approach to consideration of the level of reserves is a component of the Council's overall risk management framework. Operational risks should be managed within Services' bottom line budgets and thus will not normally result in a call on the Council's General Balances, as detailed in Section 15 above.

My assessment of the process that has been undertaken is that the calculations used in the preparation of the estimates for the Budget for 2018/19 are fair and robust and that reserves are adequate to reflect known circumstances.

FENLAND DISTRICT COUNCIL

Summary of Revenue Estimates

Service Summary	Approved Estimate 2017/18 £	Revised Estimate 2017/18 £	Estimate 2018/19 £
Growth & Infrastructure	1,323,505	1,402,955	1,294,835
Housing, Environment, Leisure & Community	3,861,220	3,756,210	4,407,360
Resources & Customer Services	6,192,275	6,139,646	6,280,610
Planning, Policy & Governance	1,884,010	1,847,510	1,681,310
NET COST OF GENERAL FUND SERVICES	13,261,010	13,146,321	13,664,115
Corporate Items			
Contributions to/ (from) Earmarked Reserves	544,940	608,670	-13,360
RTB/VAT Sharing Income	-160,000	-210,000	-60,000
Financing Charges - <i>Interest/Minimum Revenue Provision</i>	742,568	727,016	681,415
Financing Charges - <i>New Capital Programme</i>	0	0	85,000
Savings from Prepayment of Pension Lump Sum	0	0	-32,000
Investment Income	-110,000	-110,000	-140,000
New Homes Bonus	-1,649,138	-1,649,138	-1,426,180
New Homes Bonus Adjustment	-8,175	-8,175	0
Transition Grant	-1,580	-1,580	0
Council tax Support - <i>Payments to Parish Councils</i>	59,510	59,510	30,000
Contingency Items			
Transport Development Team	0	0	15,000
Economic Development Service	0	0	43,000
Capitalisation of PNPf Liability	0	0	100,000
Corporate Adjustments	-581,875	-583,697	-717,125
Net Expenditure before savings	12,679,135	12,562,624	12,946,990
<i>CSR Savings identified not yet implemented</i>			-218,000
Net Expenditure after Savings	12,679,135	12,562,624	12,728,990
Contribution from Reserves	0	0	-72,891
NET EXPENDITURE after use of balances/reserves	12,679,135	12,562,624	12,656,099
Core Funding			
Revenue Support Grant	-924,958	-924,958	-443,802
Business Rates Baseline Funding	-3,457,064	-3,457,064	-3,560,925
Business Rates - net additional income above baseline <i>(government grants for reimbursement of reliefs, growth less levy payment)</i>	-1,003,963	-1,137,452	-1,162,184
Council Tax Collection Fund Surplus(-)	-140,900	-140,900	-110,000
Business Rates Collection Fund Deficit(+)	101,052	101,052	168,682
Council Tax	-7,253,302	-7,253,302	-7,547,870
Surplus(-)/Shortfall(+)	0	-250,000	0

Medium Term Financial Plan

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Expenditure					
Service Expenditure					
Gross Service Expenditure	23,607	23,530	23,798	24,252	24,719
Fees and Charges	-7,790	-7,872	-7,931	-8,010	-8,083
Grants and Contributions	-2,153	-1,492	-1,404	-1,384	-1,368
Total Net Service Expenditure	13,664	14,166	14,463	14,858	15,268
Corporate Items					
Corporate Expenditure/Savings					
Council Tax Support Grant - Parish Councils	30	0	0	0	0
Financing Charges - Interest/MRP	681	745	745	745	745
Financing Costs - Capital Programme	85	85	85	85	85
Savings from Prepayment of Pension Lump Sum	-32	-34	-35	-35	-35
A14 Upgrade - contribution	0	0	32	32	32
CSR Savings identified but not yet implemented	-218	-540	-565	-565	-565
Contingencies					
Transport Development Team - additional staff resources	15	15	15	15	15
Economic Development Strategy - enhanced service	43	43	43	43	43
Financing Costs - Capitalisation of PNPf Liability	100	100	100	100	100
Triennial Pension Fund Valuation	0	0	75	75	75
	704	414	495	495	495
Corporate Income Items					
RTB/VAT Sharing Income	-60	-40	-10	-10	-10
Investment Income	-140	-175	-230	-210	-200
New Homes Bonus	-1,426	-1,379	-1,200	-1,280	-1,200
Contribution to(+)/from(-) Earmarked Reserves	-13	-45	75	75	75
Contribution from General Reserve	-73	0	0	0	0
	-1,712	-1,639	-1,365	-1,425	-1,335
Total Corporate Items	-1,008	-1,225	-870	-930	-840
Gross Service/Corporate Expenditure	24,311	23,944	24,293	24,747	25,214
Gross Service/Corporate Income	-11,655	-11,003	-10,700	-10,819	-10,786
Net Budget Requirement	12,656	12,941	13,593	13,928	14,428
Funding - RSG/NNDR/CT					
Revenue Support Grant	-444	0	0	0	0
Retained Business Rates	-4,723	-4,776	-4,966	-5,065	-5,168
Business Rates Collection Fund Deficit	169	0	0	0	0
Council Tax Collection Fund Surplus	-110	-90	-90	-90	-90
Council Tax (increases of 1.97% in 18/19 and 1.98% p.a 19/20 onwards)	-7,548	-7,777	-8,013	-8,253	-8,502
Total Funding - RSG/NNDR/CT	-12,656	-12,643	-13,069	-13,408	-13,760
Surplus(-)/Shortfall(+)	0	+298	+524	+520	+668
Summary					
Total Gross Expenditure	24,311	23,944	24,293	24,747	25,214
Funded by:					
Fees and Charges	-7,790	-7,872	-7,931	-8,010	-8,083
Grants and Contributions	-2,153	-1,492	-1,404	-1,384	-1,368
New Homes Bonus	-1,426	-1,379	-1,200	-1,280	-1,200
Other - Investment Income, VAT/RTB, Reserves	-213	-260	-165	-145	-135
Contribution from General Reserve	-73	0	0	0	0
Revenue Support Grant	-444	0	0	0	0
Retained Business Rates	-4,554	-4,776	-4,966	-5,065	-5,168
Council Tax	-7,658	-7,867	-8,103	-8,343	-8,592
Total Funding	-24,311	-23,646	-23,769	-24,227	-24,546
Surplus(-)/Shortfall(+)	0	+298	+524	+520	+668

Medium Term Financial Plan - Movements since last update

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Notes
Shortfall - December 2017 Cabinet Interim Budget Report	119	377	682	642	747	As per Cabinet report 14.12.17
Additional resources required to meet cost of proposed pay award	60	120	120	120	120	Total increase 2.5% p.a. 2018/19 & 2019/20 (2% previously allowed)
Revenue savings from final payment to Pilots' Pension Fund	-89	-92	-95	-99	-102	Annual Deficit Contribution not required
Service Expenditure and Income variations	-28	-42	-46	-46	-33	Review of expenditure and income estimates based on projected 17/18
Net additional income from Fees & Charges review	-7	-7	-7	-7	-7	Increase in Pre-Application Planning Advice fees
Housing Benefits - Reduced Subsidy Admin Grant	14	35	40	40	30	
Other Grants	-5	-2	-1	0	1	
Reduction in Capital Programme Borrowing Costs	-15	-15	-15	-15	-15	Reduce to £85k p.a. Now funding £1.7m of AMP Priority Schemes
Finance Leases - MRP/Interest Payable	-50	-15	-15	-15	-15	Revised Vehicle replacement programme
Business Rates - Net impact of Finance Settlement & NNDR1 18/19	-44	-96	-80	-61	-56	Higher Business Rates income off-set by higher levy
Adjustment to New Homes Bonus	-30	-30	-30	-30	0	Further proposed changes to methodology not implemented
Investment Income	0	-32	-87	-67	-60	Revised cash flow and interest rate forecasts
CSR Projects - Relocating Shops	22	-12	-50	-50	-50	Lower savings in 2018/19; Higher savings in future years
Lower Pension contributions	-32	-34	-35	-35	-35	Prepayment of Lump Sum contributions
Council Tax - Single Person Discount review	0	-15	-15	-15	-15	Higher Council Tax-base
Use of Reserves	-73	0	0	0	0	
	-158	140	366	362	510	
Movements in Contingent Items:						
Transport Development Team - proposed additional Staff resources	15	15	15	15	15	Net of additional grant funding
Economic Development Strategy - proposed enhanced service	43	43	43	43	43	
Borrowing costs of Capitalisation of PNPf liability	100	100	100	100	100	£1.9m capitalised over 20 years
Updated Position - February 2018	0	298	524	520	668	

Assumptions built into Budget and Medium Term Forecasts

Within the forecasts are a number of assumptions which are necessary to produce the overall budget strategy. However, there is an element of risk associated with this process although we aim to mitigate these risks as detailed in paragraph 9.15 of the main report.

The main assumptions are as follows:

- 1.97% Council Tax increase for 2018/19 and 1.98% p.a. thereafter;
- 2.05% increase in Council Tax base in 2018/19 and 1.00% thereafter;
- 2% pay award per annum for 2018/19 and thereafter;
- Allowance for pay increments;
- Implementation of the increase to the National Living Wage from April 2017;
- Forecast increase in Employer's Pension Contributions (as determined by the latest triennial valuation of the Cambridgeshire Pension Fund in 2016). The current years' contribution takes the form of a percentage of pay (17.4%) together with a lump sum payment of £785,000. For 2018/19 and 2019/20, the percentage of pay remains at 17.4% with the lump sum payments increasing to £825,000 and £865,000 respectively. For 2020/21 onwards, following the next triennial valuation, a further 0.2% increase in the percentage paid has been assumed;
- Inclusion of the Apprenticeship Levy from April 2017 at an annual cost of around £33,000;
- Inclusion of a vacancy factor in 2018/19, equivalent to a reduction in staff costs of 0.75% (£94,000 in 2018/19);
- 0% general inflation for the period of the Medium Term Forecasts;
- Specific allowance for inflation for business rates, external contracts, energy and water, drainage board levies;
- Investment interest rates to stay at current rates until fourth quarter of 2018 when market rates are forecast to begin rising slowly;
- Continuing impact of 2017/18 in year income pressures;
- Assumptions regarding forecast income levels from fees and charges have been included. These are a combination of fee increases (where applicable) and review of activity levels;
- The New Homes Bonus for 2018/19 onwards has been included as detailed in paragraph 7.4 of the report;

EARMARKED AND GENERAL RESERVES - Revised 2017/2018 and Estimated 2018/19

Reserve Name	Balance 01.04.17 £	Capital Funding £	Revenue Contributions to(+)/from(-) 2017/18 £	Revised Balance 31.03.18 £	Capital Funding £	Revenue Contributions to(+)/from(-) 2018/19 £	Estimated Balance 31.03.19 £	Comments / Conditions of Use
Travellers Sites	256,674	-2,000	59,930	314,604		62,060	376,664	Can only be used for specific future maintenance liabilities.
Station Road, Whittlesey - Maintenance	5,600		2,800	8,400		2,800	11,200	Required for future road maintenance.
CCTV - Plant & Equipment	98,780		5,750	104,530		10,000	114,530	Available for future CCTV maintenance & replacement liabilities.
Invest to Save	120,521			120,521			120,521	To provide resources for schemes which will deliver future efficiencies. £50k committed to energy efficiency schemes match funded by Salix Finance, as part of the Council's 'Keen to be Green' strategy.
Conservation	54,124			54,124	-50,000		4,124	Available for the purchase, renovation and subsequent re-selling of difficult properties of local importance where intervention by this Council is seen as the only solution.
Management of Change	1,196,650	-211,000	-59,500	926,150	-100,000		826,150	Available for the effective management of any organisational changes required to meet the Council's future priorities.
Neighbourhood Planning Reserve	195,156		-10,000	185,156			185,156	Available to assist the Council with delivering the 'Neighbourhood Planning' objective and delivery of the Core Strategy.
Specific Government Grants (received in previous years)	641,282		458,880	1,100,162		-55,580	1,044,582	Available to fund specific spending commitments in future years.
Personal Search Fees	115,524			115,524			115,524	Available to off-set restitution claims associated with the revocation of the personal search fees of the local land charges register.
Community Projects Reserve	12,431			12,431			12,431	Available for small-scale community projects. Previously used to assist Parish/Town Councils to fund Diamond Jubilee Celebrations.
Local Government Resources Review Reserve	500,000			500,000			500,000	Available to assist the Council in delivering the local council tax support scheme and business rates retention system from 2013/14.
Capital Contribution Reserve	656,647	-377,000		279,647	-280,000		-353	Available to fund specific spending commitments in future years.
Port - Bouy Maintenance	149,431			149,431			149,431	Available for future buoy maintenance to service windfarms.
Pilots' National Pension Fund	2,351,178			2,351,178			2,351,178	Available to off-set liabilities arising from Pilots' membership of the Pilots' National Pension Fund.
Repairs and Maintenance	400,000			400,000	-150,000		250,000	Available to provide funding for one-off schemes, not covered by the normal Repairs and Maintenance revenue budgets.
Property Development Fund	1,000,000			1,000,000			1,000,000	Available to enable progression of future development and property schemes.
Heritage Lottery Fund (HLF) - Wisbech	0		150,810	150,810		-32,640	118,170	To manage the Heritage Lottery Funded scheme in Wisbech.
TOTAL EARMARKED RESERVES	7,753,997	-590,000	608,670	7,772,667	-580,000	-13,360	7,179,307	
General Fund Balance	2,421,631			2,421,631		-72,891	2,348,740	Unallocated general reserve required for various and unplanned for contingencies, to mitigate risks associated with future financial planning as well as for general day to day cash flow needs.
TOTAL RESERVES	10,175,629	-590,000	608,670	10,194,299	-580,000	-86,251	9,528,048	

NB: In accordance with the Council's Financial Rules and Scheme of Financial Delegation (Part 4, Rule 6 of the Constitution), paragraphs B57 - B60 delegates authority to the Chief Finance Officer to approve expenditure from these reserves in accordance with their approved use as detailed above.