

BRAUNSTONE TOWN COUNCIL

25th JANUARY 2018

Item 5 – Updated Medium Term Priorities and Financial Planning

Purpose

To update and set out the context for the Council's medium term priorities and financial planning prior to setting the budget and precept for 2018/2019.

Background

Braunstone Town Council first published an assessment of long term financial considerations in January 2014, this was subsequently updated in November 2014, when it was agreed that the Medium to Long Term Priorities and Financial Planning be revised at least on an annual basis in order that changed circumstances and revised predictions can be incorporated into the Council's Medium to Long Term planning process.

By identifying medium term priorities and financial planning, the Council aims to safeguard the delivery of important local services whilst ensuring appropriate future investment in the Town's services and infrastructure.

Medium or Long Term Planning?

The current economic and political climate make it difficult to predict the medium term and the exercise in predicting the long term is merely projecting over ten years the impact of existing and known pressures.

The United Kingdom's exit from the European Union is likely to involve a transition period with the final arrangement and ongoing relationship not fully known until the early 2020s. The 2017 General Election having resulted in no overall control at Westminster resulted in the Government easing the public sector spending controls such as increasing the percentage principal authorities can raise their Council Tax without having to hold a referendum and the ending of the requirement to keep public sector pay rises within 1%.

In its November 2017 Economic and fiscal outlook, the Office for Budget Responsibility revised down their productivity and GDP forecasts for the United Kingdom, and despite lower borrowing in 2016/2017, revised up their forecast for the budget deficit. The Chancellor in his budget raised the deficit further with higher public spending and a net tax giveaway.

The limitations on the ability of the Town Council to plan for the medium term, and more so the longer term, was highlighted in 2017 when a meeting of Blaby District Council on 23rd February 2017 decided to overturn commitments made in previous years to continue to pass on the parish share of Council Tax support and New

Homes Bonus. Not only did this decision end a commitment which had been made since 2013, but it did so with no phased reduction. The impact of the decision means the Town Council faces from April 2018 a loss of income, which along with existing financial pressures, equates to an equivalent increase of 17% on the Town Council's share of Council Tax bills.

Therefore, so far during the 2017/2018 financial year, the future years financial and budget projections have been revised (including this report) three times. Given each time the figures have been revised it has resulted in the projections beyond the initial 3 to 5 years stabilising, it would be appropriate given, as mentioned, the current economic and political climate to concentrate future year projections on the medium term, i.e. a five year rolling period.

Rolling Five Year Budget Plan

Attached as Appendix 1 are the financial projections for the period until 2022/2023, which is based on the following assumptions:

- the full cost of auto-enrolment of all eligible employees into the pension scheme, with a 2% pay increase each year;
- additional staffing costs as a result of the NJC scale point review;
- 2%, the Bank of England target inflation rate, being added to estimated expenditure;
- financing additional borrowing for the Shakespeare Park improvements
- that the Council will make diminishing savings (up to 2022/2023) to offset increases in cost and the loss of the Council Tax Support Grant; and
- that the base budget predicted when setting the Council Tax equates to the actual income and expenditure.

The projections make use of the Commuted Sums Reserve, contingency and annual Capitals Projects budget in the short term to offset larger percentage increases in the precept in the forthcoming financial years when the costs identified above need to be met and the Council has to deal with the loss of income resulting from the withdrawal of the Council Tax Support Grant.

The specific changes to the strategy are as follows:

- a) increasing the amount to be found in ongoing savings:
 - 2018/19 from £2,500 to £6,000,
 - 2019/20 from £2,000 to £3,500,
 - 2020/21 from £1,500 to £2,000, and
 - 2021/22 from £1,000 to £1,500;
- b) using the same amount from the Commuted Sums Reserve in the two financial years 2018/19 and 2019/20 rather than over three years 2018-2021;
- c) using £55,175 of the contingency funds over four years to 2021/22; and
- d) taking more from the revenue allocated to Capital Projects, £13,000 in total over two years in 2019/20 and 2020/21.

These projections, using current tax base information, result in a 9.7% increase on the precept for 2018/19, £10.46 on a band D property and £ £8.14 on a typical band B property.

Town Council Priorities and Objectives

The Council's Mission Statement sets out its vision to provide high quality services and support the needs of the community, while recognising that this is only sustained by ensuring that the resources to do it are available.

Mission Statement - *We exist to ensure that local services and the environment reach the highest possible standards within the resources available for citizens, visitors and those who work in Braunstone Town; to provide a focus for civic pride; to listen, identify and respond to agreed local needs; and to help develop a strong, secure, self-reliant, self-confident community, free from unlawful discrimination. "Spectemur. Agendo" translates "Let us be Judged by Our Actions"*

In addition to the Mission Statement, the Council has key Priorities and key objectives relating to its Committees and Service Areas, which are the subject of a separate item on the agenda. This document forms the Council's Business Plan for the year and is reviewed on an annual basis.

Capital Programme

The Council is responsible for a significant amount of physical assets and to assist with longer term financial planning, the Council approves, in consultation with the Citizens' Advisory Panel, a list of Capital Projects, which includes identified long term improvements to parks and open spaces. The Capital Plan identifies projects, which the Town Council will need to deliver to ensure the long term sustainability and efficiency of its services.

The Capital Plan is a rolling document, which is reviewed annually alongside the budget, and the subject of a separate item on the agenda. Last year, the plan identified, for the first time, priority projects. The major ongoing capital project is to improve and redevelop the facilities at Shakespeare Park. Also included this year is refurbishment of the toilet facilities at Braunstone Civic Centre, alongside consideration to adapting the bar facilities to expand business and income potential by enabling the current bar to operate a café service during the daytime in the week.

Investment in the Council's infrastructure will continue to present pressures over the forthcoming years and the Council needs to make financial provision for replenishing its reserves and financing public works loans in order to deliver its Capital Programme. The current position with the reserves is attached at Appendix 2.

Financial Strategy

Since 2014, the Town Council has adopted the following financial strategy:

- Balancing of annual operational income with annual operational expenditure;
- Continued monitoring of the level of reserves and assessment of future investment needs;
- Regular monitoring of reserves and general fund expenditure with proposed actions to address any issues prior to it becoming structural;
- Forecast future year's expenditure on previous actual income and expenditure; and

- yearly assessment of the financial constraints.

Income Pressures

1. Loss of Council Tax Support Grant

In 2013 there were changes in the way council tax was calculated and this resulted in a reduction in the council tax base figure. The Government provided a support grant to principal councils in order to bridge this gap, in Blaby the District Council decided to pass on part of the government grant to parishes. In 2013/2014 Braunstone Town Council received £56,820 in Council Tax Support Grant, which has gradually reduced to £48,897 in the current financial year. Although the percentage reduction has been offset slightly by the increase in the tax base over the same period.

However, as mentioned above, Blaby District Council determined in February 2017 to discontinue the redistribution of this grant to parishes, along with ending the redistribution of the New Homes Bonus, from April 2018.

This decision presents the most significant financial risk to the Town Council's finances and services, since the grant offsets the income from the tax base which is lost as a result of the reforms to the welfare system. Therefore, without the grant, residents on low income or in receipt of benefits can apply to reduce their Council Tax and the Town Council will no longer receive this payment. The risk of setting significantly higher precepts is that among residents on lower incomes or where income is being squeezed; higher precept increases could increase the number of applications for Council Tax reductions/exemptions.

Therefore, the decision of Blaby District Council to end the payment of the parish share of the Council Tax Support Grant will impact upon the Council's finances and ability to deliver capital investment for the next 3 to 5 years.

2. Parish Precept and Referendum principles

In November Central Government consults on the Local Government Finance Settlement for the following year. This year, like the previous year, the consultation included a proposal to extend to parish and town councils the requirement to hold a referendum on precept rises.

On 19th December 2017, the Local Government finance settlement for 2018/2019 was confirmed and Council tax referendum principles have not been extended to parish and town councils in 2018/19 and this is proposed to continue in the subsequent 2 financial years. An extract from the Communities and Local Government Secretary's speech is below:

"I can also confirm that the government intends to defer the setting of referendum principles for town and parish councils for 3 years. This is subject to the sector taking all available steps to mitigate the need for Council Tax increases.....and the government seeing clear evidence of restraint in the increases set by the sector as a whole".

Given the highest projected increase in precept for the next 3 years is in 2018/2019, when referendum principles definitely do not apply, and lower increases, but higher than £5 or 3% (applied to districts) in the subsequent two years; while the extension of the referendum principles to parish precepts in subsequent years remains theoretically possible, the likelihood is greatly reduced and any impact would now be much less severe on the Council's finances.

3. Pressure on income from Facility Hires

Since 2016/2017 fees and charges have been increased in line with precept increases. However, this has resulted in cancellation of some longer term hires, who have reported that year on year, slightly above inflation increases has meant that their activity is no longer viable. However, the income received from both centres has over that period remained steady. Nonetheless, given the economic pressures many are facing, to increase hire charges in line with the projected increase in precept over the next 3 to 5 years is likely to have a negative impact on the net income from room hire and more widely on the offer and appeal the centres have in the community. Therefore, a recent report of a Working Group looking at Community Centres considered it more appropriate to align charging dependent upon the category of room and to offer incentives to regular hirers to pay at a discount using more efficient methods of payment such as direct debit and standing order. This approach is hoped will standardise the customer base, attract new hires and therefore improve what the Centres offer as well as increase the net income.

Expenditure Pressures

1. Review of NJC Scales and Scale Points

As part of the 2016-18 pay deal, the National Joint Council (NJC) agreed to conduct a review of the NJC pay spine. The primary reason for this review is the introduction of the Government's National Living Wage.

Designing a restructured pay spine that is capable of withstanding annual changes to the National Living Wage rate (without the need for regular fundamental reviews) whilst retaining its current flexibility for local employers to apply local pay and grading structures and being compliant with the Equality Act 2010 and single status principals is a significant challenge for the Local Government sector. It is important to state from the outset that a restructured pay spine will not be possible without some additional cost for councils, with estimates around 10% over the first 5 years from 2019/20. However, the NJC is endeavouring to achieve an outcome that is financially viable for employers and fair to employees.

It is difficult in the absence of the conclusion of the NJC review to predict the impact on the Town Council's finances and whether further reviews would be required by the Town Council to continue to meet the Living Wage Foundation rates. On the worst case scenario of the NJC Review – 10% over 5 years

would result in an increase in salary costs of £46,000, leaving a £9,000 gap per annum against current projections at the end of the 5 years.

2. Potential Removal of 1% Public Sector Pay Cap

Recent public sector pay review bodies have made recommendations in excess of 1% Public Sector Pay Cap and Government has indicated that it no longer requires pay bodies to apply the pay cap.

On 5th December 2017, the National Employers or Local Government Services made a pay offer to the NJC Trade Unions as follows:

- a two-year pay increase from 1 April 2018;
- the majority of employees - those on salaries starting at £19,430 per annum - to receive an uplift of 2% on 1st April 2018 and a further 2% on 1st April 2019, with those on lower salaries receiving higher percentage increases;
- the offer also includes the introduction of a new national pay spine on 1st April 2019.

Any increases in pay recommended by the NJC will need to be met out of the Town Council's budget, although in anticipation of the NJC Scales Review, the Council is in a good position to meet the current proposal.

3. Pension Costs

In the financial planning approved in the autumn of 2015, the Town Council allowed for gradual increases in the budgeted amount for pensions since it anticipated that since staff could always opt to join the Local Government Pension Scheme, and most had not, that most of the eligible non-members at the time of auto-enrolment (1st October 2015) were likely to opt-out when auto-enrolled. In fact, all eligible staff having been auto-enrolled remained in the pension scheme, meaning the number of staff in the scheme has doubled. As a result, the £45,010 allocated in 2016/2017 budget was not sufficient with an actual spend at the end of the financial year of £78,478, an overspend of £33,468. This has been rectified in the current year with provision in the budget for pensions of £85,010, which takes into account pay increments and a 1% increase on salary scales.

The actuarial valuation of the Leicestershire County Council Pension Fund has been undertaken, based on the position of each employing body at 31st March 2016. One of the key outcomes of the valuation is the setting of employers' contribution rates for the three year period commencing 1st April 2017. The new contribution rates for Braunstone Town Council increased from 18.47% to 19.79%, which will need to be factored into the budget estimates.

However, with the removal of the requirement to maintain a 1% pay cap and the offer of a 2% pay increase by the NJC employers for April 2018, going forward, the most significant pressure placed on pensions will be the requirement to meet the extra entitlements resulting from pay increases.

4. Potential rises in the Foundation Living Wage

In February 2015, the Town Council decided to pay the Living Wage, according to the criteria used by the Living Wage Foundation – which is based on the cost of living linked to a basket of household goods and services. The current Living Wage is £8.45 compared to the National Living Wage of £7.50. The lowest NJC pay scale on Braunstone Town Council's establishment is scale point 13, which currently pays £8.55. The Government's National Living Wage is due to reach £9 per hour by 2020; while the NJC review of the salary points will take account of this, predicted increases in the cost of living may result in a widening of the gap between the National Living Wage and the Living Wage Foundation rate, which could require the Town Council to review salary scales for some parks and centres staff posts.

5. Investment in Asset and Infrastructure Improvements

Pressures on the revenue budget have squeezed the amounts the Town Council has to spend on improvements to its buildings, parks and playgrounds. The Council has an ambitious Capital Plan, which it aims to deliver through a combination of borrowing, direct payment from annual budgets and grants. The speed at which this happens will have been reduced in the following three years as a result of trying to bridge the funding gap resulting from the loss of Council Tax Support Grant. Any subsequent unforeseen reduction in income or increases in expenditure could further slow down the implementation of the Capital Plan.

Current Financial Year (2017/2018)

The revenue budget for the current financial year (2017/2018) is £780,833.

The actual position on 31st December 2017 (although this has to be verified, since the third quarter accounts have yet to be completed) is as follows:

	Budgeted	Actual
Income	£585,625	£716,142
Expenditure	£585,625	£638,244
Difference	£0	£77,898

However, it must be noted that all of the Precept and Council Tax Support Grant income has been received, therefore, the only income remaining to be received is fees and charges, principally from the community centres. While most major expenditure such as insurances has been paid for the year, the most significant area of expenditure, salaries and on costs remains proportionate. Therefore, it is likely that the Town Council will have a budget shortfall of approximately £10,000 at the end of the financial year.

Currently there is scope to tighten up on expenditure in order to avoid a significant end of year over spend.

Committee Consideration

Following the detailed work of the Budget Working Group on 16th November 2017, Policy & Resources Committee on 11th January 2018 considered and approved for recommendation to Council, the updated context for the Council's medium term priorities and financial planning (Policy & Resources Committee minute 51).

Recommendations

1. That the current projections based on known financial pressures identified in the report be noted;
2. that the Council's Mission Statement and the Objectives for each Service Area be used as the basis for calculating the annual budget and any external funding sought;
3. that the Council's Commuted Sums Reserve be used in 2018/19 and 2019/20 to offset the loss of Council Tax Support Grant and avoid significant increases in the precept in one year; and
4. that the Priorities and Financial Planning process be revised to medium term, updated at least on an annual basis, and covering a rolling 5 year period.

Reasons

1. To provide a foundation for preparing budget estimates for 2018/2019 and beyond.
2. To ensure the Council focusses its activity and spending given the future financial uncertainties.
3. Following the withdrawal of Council Tax Support Grant, to use reserves to protect services, while phasing the equivalent in precept increases over a period of 3 years to avoid any adverse impact a single large precept increase would have on residents.
4. The current economic and political climate meant that long term predictions was an exercise projecting over ten years the impact of existing and known pressures and this had limited value.

APPENDIX 1 – INCOME / EXPENDITURE PROJECTIONS

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Total Requirement	£563,154	£565,786	£565,443	£567,598	£571,274	£575,487
Plus Increase in costs	£5,632	£5,658	£5,654	£5,676	£5,713	£5,755
Less Saving Programme / Income Generation	£3,000	£6,000	£3,500	£2,000	£1,500	£0
Total including Savings	£565,786	£565,443	£567,598	£571,274	£575,487	£569,732
Additional Pension Provision (+2%)	£38,826	£39,592	£40,395	£41,203	£42,027	£45,868
Additional Staffing Costs	£4,480	£11,200	£22,400	£26,134	£29,867	£35,425
Additional Borrowing Repayments	£10,361	£20,722	£20,722	£20,722	£20,722	£20,722
Deduct Commuted Sum Reserve	£20,000	£37,000	£18,000	£0	£0	£0
(Balance of Reserves)	£93,555	£56,555	£38,555	£38,555	£38,555	£38,555
Deduct Contingency	£20,000	£15,850	£15,650	£15,425	£8,250	£0
(Balance for Financial Year)	£0	£4,150	£4,350	£0	£11,750	£20,000
Deduct from Capital Projects	£11,000	£10,000	£15,000	£12,000	£0	£0
(Balance for Financial Year)	£14,700	£15,700	£10,700	£13,700	£25,700	£25,700
TOTAL REQUIREMENT	£568,453	£574,107	£602,465	£631,908	£659,853	£671,747
Less Council Tax Support Grant	£48,897	£0	£0	£0	£0	£0
Net Precept	£519,556	£574,107	£602,465	£631,908	£659,853	£671,747
Band D (scaled Tax Base)	4,853.76	£107.82	£118.28	£124.12	£130.19	£135.95
% Increase	4.40%	9.70%	4.94%	4.89%	4.42%	1.80%
Average % Increase	N/A	5.15%				
£5 Increase on Band D			£123.28	£128.28	£133.28	£138.28
(% increase)	N/A	N/A	4.23%	4.06%	3.90%	3.75%
Receipt			£598,376	£622,645	£646,914	£671,183

APPENDIX 2 – RESERVES

The table below summarises the movement during 2016/17 and the balance at the end of the financial year:

Table A – Council Reserves 1st April 2016 – 31st March 2017	
1. Balance at 31st March 2016	£350,420.68
2. (+) Annual precept	£495,653.00
3. (+) Total other receipts	£233,535.76
4. (-) Staff costs	£442,383.95
5. (-) Loan interest / capital repayments	£63,912.42
6. (-) Total other payments	£260,509.61
7. (=) Balance at 31st March 2017	£312,803.46

The table below summarises the current balances and intended uses during 2017/2018 Financial Year:

Table B – Reserves 2017/2018		
Balance of Reserves		£312,803.46
Earmarked Reserves	<i>New Ride on Mower</i>	£13,034.00
	<i>Transfer to General Fund</i>	£20,000.00
	Total	£33,034.00
Non-Earmarked Reserves	<i>Commuted Sums</i>	£93,555.12
	<i>General Reserve</i>	£186,214.34
	Total	£279,769.46

The table below summarises the projected reserves and use during the 2018/2019 and 2019/2020 Financial Years:

Table C – Projected Reserves 2018/2019 & 2019/2020		
Balance of Reserves		£279,769.46
Earmarked Reserves	<i>Transfer to General Fund</i>	£55,000.00
	Total	£55,000.00
Non-Earmarked Reserves	<i>Commuted Sums</i>	£38,555.12
	<i>General Reserve</i>	£186,214.34
	Total	£224,769.46