

BRAUNSTONE TOWN COUNCIL

22nd NOVEMBER 2018

Item 5 – Medium Term Priorities and Financial Planning

Purpose

To set out the context for the Council's medium term priorities and financial planning.

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.

The current economic and political climate makes it difficult to predict the medium term and therefore the exercise in predicting the long term was merely projecting over ten years the impact of existing and known pressures and this has limited value. Therefore, on 25th January 2018, the Council agreed *“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”*.

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.

Economic and Political Context

According to data issued by the IMF, dark undercurrents in the global economy, trade tensions, particularly the US/China trade war, and vulnerabilities in the global financial system, could lead to 0.25% being shaved off the GDP of both the US and China this year, with both countries seeing a reduction in growth of about 0.5% or more next year. Part of the pressure on international markets would arise from any devaluation in the Chinese yuan, putting pressure on other currencies and making their goods more expensive versus Chinese goods. While this is likely to be more significant in Asian markets, the impact on European markets, including the knock on impact, has a real potential to reduce predicted growth.

For the UK economy, due to the timing of the Budget (moved to November), the Office for Budget Responsibility 2018 Forecast evaluation report, which was due to be published in October 2018, has been postponed. However, their Economic and fiscal outlook, published in March 2018, predicted UK GDP growth of 1.5% in 2018, 1.3% in 2019, and then averaging at 1.4% per year over the subsequent three years. The report identifies that borrowing in 2017/2018 was at £45.2 billion (previously predicted £49.9 billion) and anticipates it will be reduced to £21.4 billion by 2022/23.

The annual variation rate of the Consumer Price Index (CPI) in September 2018 was 2.4%, back to average levels for 2018 following a peak at 2.7% in August 2018. CPI is an average of price increases and there are significant variances, for example, electricity prices soared by 9.3%, which was partly due to higher fuel costs. Both of these have an impact on the Town Council's budgets.

In August, the Bank of England raised interest rates from 0.5% to 0.75%, the second rise in a decade. While not affecting existing loans, higher interest rates will impact on the Town Council's further borrowing costs. Nevertheless, many analysts predict that September's lower CPI figure would ease the pressure on the Monetary Policy Committee to make further increases.

September's fall in inflation was announced a day after figures showed that wages were rising by 3.1% - the fastest pace in nearly a decade. There is further comment on employment cost pressures for the Town Council below.

The proposed withdrawal agreement for the United Kingdom's exit from the European Union involves a transition period with the UK remaining part of the Single Market and Customs Union currently until 31st December 2020. During this period it is intended that the final arrangement and ongoing relationship with the EU will be negotiated alongside other international trade agreements. To that extent there will continue to be some degree of economic uncertainty until the shape of these agreements is fully known. In the event that a withdrawal agreement cannot be reached and the Article 50 process isn't extended, then there will be significant economic and financial uncertainties at least in the short term from March 2019.

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 the event of no agreed withdrawal agreement with the EU, as mentioned above, there is an increased likelihood of a further General Election before spring 2019. Either way, the likelihood of any significant central directed restructuring of local government/local public services and the way they are financed in the short to medium term remains highly unlikely.

In short, for the Town Council, political and economic activity impacts on the amount of money in the public finances and how far that money goes.

Rolling Five Year Budget Plan

Attached as Appendix 1 are the financial projections for the period until 2023/2024, 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 TUPE of Library staff and 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.

These projections, using current tax base information, result in a 4.94% increase on the precept for 2019/20, £5.84 on a band D property and £4.54 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 for 2018/2019 and key objectives relating to its Committees and Service Areas, which are attached as Appendix 2. 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 approved with the 2018/2019 budget in January 2018 is attached as Appendix 3. The 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. 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 4.

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 gradually reduced to £48,897 in 2017/2018.

However, 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 will impact upon the Council's finances, including use of its reserves, and therefore, its ability to deliver capital investment for the next 3 to 5 years.

2. Proposed Changes to Council Tax Support and Exemptions

In September, Blaby District Council undertook a consultation on changes to the Council Tax Support and Exemptions Scheme, that is the means tested discounts Council Tax payers receive, for example those on benefits, and the exemptions, for example for empty homes.

Proposals included a 200% Council Tax charge on properties that have been empty for more than two years. Other changes include no longer giving an unfurnished and unoccupied property a one-month free period of Council Tax, removing the 10% discount for second homes in the district and no longer offering a 50% discount on Council Tax to properties undergoing major repair or structural works.

If all four proposed changes were made it could increase the Council Tax collection by £400,000 per year (spread across District, County, Police Authority, Fire Authority and parish and town councils).

The consultation also included proposals on the Council Tax Support Scheme for Council Tax payers. Currently around 5,000 households receive a means-tested discount. All households currently pay at least 15% towards their Council Tax bill. Four options were considered in the consultation, including reducing the maximum support from 85% to 83%, 80% or 78%. A reduction to 78% would increase revenue across all authorities by a total of £300,000 per year.

There was no proposed change to the amount of help for people of pension age credit, the 25% single person discount or the exemption for those who are severely mentally impaired and living alone.

Should changes be implemented from April 2019 then this will have the impact of increasing the Scaled Council Tax Base figure. The Scaled Council Tax Base figure is the number used to divide the net budget requirement in order to get the Band D charge (all other bands are a ratio to this charge). Therefore, an increase in the Scaled Council Tax figure will increase the Town Council's receipt from the same Council Tax charges.

So far, Blaby District Council has not undertaken detailed assessments of the impact of the various proposals on parish tax bases. However, based on their overall assessment of all proposals being implementing producing a net increase of £700,000 across all authorities, then it is unlikely that any increase received by Braunstone Town Council would be equivalent to the £45,000 - £50,000 previously received in Council Tax Support Grant and New Homes Bonus.

3. Parish Precept and Referendum principles

On 19th December 2017, the Local Government finance settlement for 2018/2019 was confirmed and Council tax referendum principles were not 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".

On 24th July 2018, the Government published its "Local government finance settlement 2019 to 2020: technical consultation", which contained the following paragraphs about referendum principles for town and parish councils:

“In 2018-19, the Government decided to defer the setting of referendum principles for town and parish councils for three years. However, this was conditional upon:

- the sector taking all available steps to mitigate the need for council tax increases, including the use of reserves where they are not already earmarked for other uses or for “invest to save” projects which will lower ongoing costs; and*
- the Government seeing clear evidence of restraint in the increases set by the sector”.*

“In 2018-19, the average Band D parish precept increased by 4.9% (£3.02). This compares to a 6.3% increase (£3.63) in 2017-18, and is the lowest year on-year increase in parish precepts since 2015-16”.

“In view of this, the Government intends to continue the deferral of setting referendum principles for town and parish councils, but encourages parish councils to continue this downward trend, and will keep this area under active review”.

Given the highest projected increase in precept is during the next 3 years with lower increases in the subsequent years; while the extension of the referendum principles to parish precepts in subsequent years remains theoretically possible, any impact would at this stage appear to be much less severe on the Council's finances.

4. 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 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.

Expenditure Pressures

1. Shakespeare Park Improvement & Development

In January 2018, the Council allocated £20,722 in its annual budget from 2018/2019 for repayment of a £500,000 loan to part fund the improvements to Shakespeare park, based on a repayment period of 40 years. Due to ongoing work to obtain external grants, the proposed works are yet to commence and therefore, the borrowing application has not yet been submitted. Due to the interest rate rise in August 2018, a loan of £500,000 with a repayment of 40 years is now 2.97%, making the annual repayment £21,305.74. This revised figure has been included for 2019/2020 in the projections at Appendix 1.

Given the difficulties in obtaining external funding, Policy & Resources

Committee have explored the potential of borrowing an additional amount over two years. Assuming all current grant applications are successful, the current projected funding deficit for the project would be £364,277. If the Council was to make an additional borrowing application of £365,000, based on the current interest rate, a further repayment of £15,553.20 would be required per annum. This figure has been included in the projections at Appendix 1 from 2020/2021.

2. Library and Customer Service Shop

On 22nd February 2018, Policy & Resources Committee considered arrangements and timescales for the transfer of the management of Braunstone Town Library to the Town Council (Policy & Resources Committee minute 66 2017/2018).

Subject to an acceptable offer being received, Braunstone Town Council on 22nd March 2018 approved that the Town Council take over responsibility for the management and operation of the Braunstone Town Library service (Council minute 5624).

Since the Town Council's model for running the Library includes paid staff, the existing Library staff, who have specific contracts to Braunstone Town Library, are entitled to transfer under TUPE. There are four members of staff with 552½ hours per annum, salaries including on-cost is £6,740 per annum. This figure has been included in the additional staffing cost from 2019/20 in the projections at Appendix 1.

In order to avoid year on year larger increases in the precept, the full use of the contingency is proposed in 2019/2020.

Currently the Town Council received £15,000 per annum from Blaby District Council to provide access to its services through Customer Services, based at Braunstone Civic Centre. The original proposals for taking over the management of the Library were to make overall efficiency savings by combining these services. The Service Level agreement for Customer Services ends on 30th June 2019. In the event that the agreement isn't renewed, then this would add additional pressures to the budget.

3. 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, including the Library staff who are due to TUPE to the Town Council's employment, would result in an increase in salary costs of £51,000 by 2023/24, which has been built into the income/expenditure projections at Appendix 1.

4. 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, which has been built into the projections at Appendix 1.

5. 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, resulting in a £33,468 overspend. This was rectified in 2017/2018 with provision in the budget for pensions of £85,010, which took 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.

6. 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 £8.75 compared to the National Living Wage of £7.83. The lowest NJC pay scale on Braunstone Town Council’s establishment is scale point 13, which in 2017 paid £8.55 and was increased on 1st April 2018 to £9.01 and will become £9.55 on 1st April 2019. The Government’s National Living Wage is due to reach £9 per hour by 2020 and this will be implemented under the NJC from 1st April 2019. 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.

7. 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 over the next 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 impact on the implementation of the Capital Plan.

Current Financial Year (2018/2019)

The actual position in the revenue budget for the current financial year (2018/2019) on 30th September 2018 is as follows:

	Budgeted	Actual
Income	£769,328	£362,550
Expenditure	£806,328	£384,955
Difference	-£37,000	-£22,405

Both income and expenditure to date is below anticipated levels and the current deficit level is down to a similar gap in anticipated income. Civic Centre income is down by £8,673 for the period. However, the Town Council still has income to receive in

relation to the Customer Service Shop and from the ring fenced commuted sums held by Blaby District Council in relation to Thorpe Astley Park.

The most significant area of expenditure, salaries and on costs remains proportionate. Currently there is scope to tighten up on expenditure, should income be below expected levels, in order to avoid a significant end of year over spend.

Committee Consideration

Policy & Resources Committee on 1st November 2018 considered and approved for recommendation to Council, the Council's medium term priorities and financial planning (Policy & Resources Committee minute 41).

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 General Reserves be used to invest in infrastructure and assets and in the development and remodelling of services, including the Town Council's operations; and
4. that it be confirmed that £18,000 be used from the Council's Commuted Sums Reserve in 2019/20 to offset the loss of Council Tax Support Grant and avoid significant increases in the precept in two consecutive years.

Reasons

1. To provide a foundation for preparing budget estimates for 2019/2020 and beyond.
2. To ensure the Council focusses its activity and spending given the future financial uncertainties.
3. To ensure the highest possible standards within the resources available in the future.
4. Following the withdrawal of Council Tax Support Grant, to use reserves to protect services, while continuing to phase the equivalent in precept increases over a period of 3 years to avoid any adverse impact consecutive large precept increases would have on residents.