

Report of the Town Clerk / RFO

Projected outturn for 2017-18 and the precept

Background

1. A feature of every council meeting in the budget process this year has been the discussion around the impact of the Schedule III income (from the Freeman's Trust) on the calculation of the precept requirement.
2. Some points need to be made for the sake of clarity. The budget now being set is for 2018-19, and includes an estimate of the amount of income likely to be received, in 2018-19, from the Schedule III payment.
3. The payment expected to be received in December 2017 relates to the budget for 2017-18, which was set in December 2016. Clearly, the impact this has on the financial outturn for 2017-18 affects your financial position going forward.
4. It is the settled decision of the council that, for financial year 2018-19, your financial regulations need to be amended to allow you to set your budget later in the financial year, to enable you to take full account of the impact of the likely outturn.
5. It is a matter of record that, as your RFO, I have strongly advised against allowing unallocated reserves to accumulate without purpose, and that remains our advice to you. A full report on the status of reserves, including the current situation regarding risks that should be mitigated via reserves that are not currently covered, will be presented to council via Budget and Admin committee in January 2018.
6. On 11th December we were made aware of a rumour that the Schedule III payment for 2017-18 was likely to be approximately £170,000. This was confirmed in an email on 12th December 2017.
7. The budget for 2017-18 expected a contribution of £95,000 from Schedule III. The predicted outturn, therefore, all other things being equal is a surplus of £75,000. There is, therefore, likely to be an increase in unallocated reserves. As stated above, an update to the MTFP and predicted outturn for 2017-18 is scheduled for January 2018 which reflects the time it takes to assimilate the Schedule III contribution into our plans.
8. A point needs to be made here which is central to our prudent approach to budget setting. It is perfectly possible, knowing what we now know about the likely outturn from 2017-18, to fund the gap between the existing precept level and likely expenditure in 2018-19 by transferring approximately £20,000 from reserves to cover the gap between income and expenditure, This would then allow council to not increase its precept requirement, or council tax. However, if the outturn in 2018-19 was a lower surplus, or even a deficit, because the Schedule III payment had returned to at or below the historical mean, the effect would be, in 2019-20's budget, to require an increase in

precept requirement to cover not only any predicted cost increases in 2019-20, but also the unfunded portion of expenditure that was funded from reserves in 2018-19.

9. In very broad numbers, if the unfunded expenditure in 2018-19 is £20k, and costs increase at similar rates to now, then in 2019-20 the gap between income and expenditure, if the income from Schedule III returns to the historic mean, will be £40K, which will demand in one go an increase of the precept of double that envisaged for this year or a contribution from reserves of £40K. Given that the likely surplus in 2017-18 is £75k (all other things being equal) the additional sum added to reserves by 2019-20 would have diminished to £15k, and by 2020-21 the precept requirement increase would be up to between £60-£80k, or between 25-33% of the current precept requirement.
10. Whilst your staff are committed to identifying cost savings in 2018-19 which will deliver a reduction in cost rises in 2019-20, the scope for savings is limited, and we cannot offer any assurance that the full deficit (if the precept requirement is not increased for 2018-19) can be covered by savings.
11. A point which cannot be reiterated enough is that we have to take a highly prudent approach to setting the likely contribution to your budget of the Schedule III contribution, because we know so little about how the figure compares to predictions made by the Freemen Trust, or their medium term financial planning. As a result, we have to be cautious, and use a ten year average to estimate the next year's income from the Freemen Trust. There are a range of questions we would wish to ask about the increase in this year's contribution that would inform a clearer understanding of the risks we have to mitigate, but your staff are advised that it has never been the practice of the Freemen Trust to share such information. An almost 100% increase in annual contribution that is the result of a changed investment policy is very different to a 100% increase because of a one off windfall from a property disposal, and the lack of transparency in this forces your officers to counsel a conservative and prudent approach.
12. Finally, members are invited to note that government retains the power to cap council tax rises in future years, and that it is not safe to assume that an increase of larger than the current rate of inflation (approximately 3%) will be permitted without a referendum (at the council's expense) in future years.

Recommendations

1. Council is invited to note this report which should be read alongside the original report prepared for this council meeting.
2. Members are invited to note that they will require, if they wish to fund the gap between income and expenditure in 2018-19 from reserves arising as a result of the predicted outturn surplus
 - a. To waive Standing Orders to allow them to revisit their previous decision to fund the deficit from a precept requirement increase,
 - b. To commit to receiving an updated MTFP in January 2018, and
 - c. To provide staff with guidance as to whether this decision to fund the deficit from reserves is a one year decision, or whether you wish the new MTFP to seek solutions using reserves over a number of years to prevent a large single year increase.