REVENUE BUDGET, CAPITAL PROGRAMME AND COUNCIL TAX 2017/18

Committee: Corporate Governance and Finance Committee

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[R189]

1.0 ISSUE

1.1 This report sets out the Council's proposed revenue and capital budgets, and the required level of Council Tax in 2017/18. The report assesses the robustness of the budgets, the adequacy of reserves and updates the Council's Medium Term Financial Strategy.

2.0 RECOMMENDATION(S)

2.1 To recommend to Council:

- That the draft 2017/18 revenue budget as set out in Appendix 1 be approved, including a proposed Council Tax freeze.
- That the Statement of Reserves as set out in Appendix 2 be approved.
- That the 2017/18 Fees and Charges as set out in Appendix 3 be approved.
- That the capital programme and financing as set out in Appendix 4 be approved.

2.2 To approve the Business Rates discount to local newspapers as detailed in Paragraph 6.5.

2.3 To approve, that as we are still awaiting final Settlement figures, should the numbers change between Corporate Governance and Finance Committee and Full Council, that officers adjust the use of the surplus savings reserve (as necessary) so that the net budget and Council Tax remains unchanged.

2.4 To approve that subject to the Regulatory and Support Services Committee decision on the Waste Service on the 6th February, the budget may be amended (as necessary) to reflect the need to undertake work and potentially make capital purchases in the FY 2017-18.

3.0 BACKGROUND / OPTIONS

3.1 At the Council meeting on 25th February 2016, members approved a 2016/17 net budget of £8,331,404 and a frozen Council Tax. The budget had a planned draw of £206,753 from the Surplus Savings Reserve. The Medium Term Financial Strategy (MTFS) at that time showed significant budget deficits in FY2018/19 and FY2019/20.

3.2 The outturn position for the FY 2015/16 was reported to the Corporate Governance and Finance Committee on the 30th June 2016. This showed that due to the proactive actions taken by management to reduce the Council's cost base during the FY 2015/16, and prudent estimates in the budget for government grants and business rates, that a net contribution of £589,953 was made into the Surplus Savings Reserve.

3.3 Management has continued to reduce the Council's cost base during the current financial year. This work has lead to further on-going savings being made; which both contribute to the projected outturn underspend for this financial year and also provide savings throughout the term of the MTFS. The current yearend forecast underspend for 2016/17 is £437,500, this has been reflected in the figures in this report.

3.4 The strategy for responding to the budget challenges in the medium to long term are to focus on the Council's commercialisation agenda, rationalisation of support services, channel shift in the delivery of services, and the use of reserves to fund initiatives with revenue benefits.

4.0 PROVISIONAL GRANT SETTLEMENT

4.1 The Provisional Settlement was announced on Thursday 15th December 2016. The Government has assumed increases in Council Tax (at 2% per year); taxbase, business rates; and has projected these through to FY 2019/20. The intention is that councils will be able to accommodate reductions in Revenue Support Grant, through increases in these sources of funding. This approach does not however reflect cost pressures in either service demand or inflation.

4.2 The Provisional Settlement also confirmed the four year funding deal previously offered by Government, this allowing local government greater certainty on the level of grants it is to receive from Government over the length of the parliament. The Council resolved to be involved in the four year deal process and had submitted the necessary efficiency plan in line with the requirements. The Provisional Settlement confirmed that East Cambridgeshire's efficiency plan was accepted and therefore the level of grant we are to receive confirmed.

4.3 The provisional Revenue Support Grant figures are therefore the same as were used in preparing the MTFS this time last year.

	2017/18	2018/19	2019/20	2020/21
Provisional Settlement	£659,999	£353,703	£11,576	0

4.4 The allocation for FY 2017/18 will be confirmed in the final Settlement in February 2017.

4.5 Following the consultation over the summer, the Provisional Settlement changes two of the criteria for awarding New Homes Bonus grant:

- Reducing the timeframe over which New Homes Bonus is payable from six years to five years in 2017-18 and then a further year to four years in 2018-19.

- Introduces a baseline for housing growth set at an initial baseline of 0.4% of the Council Tax base for 2017-18. With housing growth below this level not receiving Bonus allocations.

4.6 These changes result in the provisional allocation for this Council of £1,330,730 for 2017-18. This compared to the assumption made in last year's MTFS of £1,269,581. However, commentators had been predicting higher payments and over the summer we had been built an expected grant value of 2,037,000 into our MTFS.

4.7 The Business Rate retention scheme continues as previously. The baseline has been uplifted by inflation. Growth in this Council's business rates has been ahead of assumptions made in the Council's revenue budget and MTFS. However, there is always a risk that appeals against business rates can be lodged and, if successful, can be backdated for some years. However, in future years, the full benefits of current business rate growth have been factored into the MTFS.

4.8 Cambridgeshire has a deal in place with Government which means that all business rate receipts relating to growth are retained locally, rather than 50% being returned to Government. This pilot deal was initially put in place for three years, 2017/18 being the final year, and will be reviewed at the end of this period, as the whole Country moves towards 100% business rate retention. The anticipated additional income from this in 2017/18 has been shown in the NNDR figure detailed within the funding of the budget, but then transferred to reserve in year. The total income over the three years of the pilot is calculated to be in the region of £1,000,000.

4.9 The provisional settlement includes details of other specific grants, including the Rural Services Delivery grant, an allocation to the most rural authorities, which amounts to £129,684 in FY 2017/18 (a reduction of £30,924 compared to 2016/17); Housing Benefit administration grant of £206,609 (a reduction of £17,226 as fraud work is being transferred from local authorities to a national body); and Council Tax administration grant £74,357 (a reduction of £4,922 compared to 2016-17).

4.10 The provisional settlement makes provision for those authorities whose Council Tax levels are in the lowest quartile (which this Council currently is) to increase Council Tax by up to 2% or up to £5, whichever is greater, without the need for a referendum. To put a value to this, a year on year increase of £5 (so £15 by FY 2019/20) generates additional income of £878,936 over a three year period. The MTFS currently assumes that Council Tax remains frozen at £142.14 throughout the MTFS period.

4.11 Cambridgeshire Devolution has been confirmed, which will result in significant additional funding being awarded to the County area. The shadow Cambridgeshire and Peterborough Combined Authority met for the first time on the 14th December 2016, with the formal Combined Authority officially opening for business in February 2017 after being formally approved by the Secretary of State. The devolution deal includes significant benefits for the communities of Cambridgeshire and Peterborough including:

- A £600 million fund (£20 million annually for the next 30 years) to support economic growth, development of local infrastructure and jobs

- A £100million housing fund to be invested over the next five years to build more homes in Cambridgeshire and Peterborough including affordable, rent and shared ownership
- A £70million fund to be used to build more council rented homes for Cambridge over the next five years because house prices are so high in the city

5.0 THE 2017/18 BUDGET

5.1 The key aspects influencing the budget -ie the proactive action taken by management to reduce costs and the Provisional Settlement - are set out above. The impact of these issues is that the revenue budget for FY 2017/18 and FY 2018/19 are funded; but with significant budget deficits remaining in subsequent years.

5.2 The draft budget for 2017/18 is set out in Appendix 1 to this report.

5.3 The following key assumptions have been made to prepare the draft budget:
- The employers have made an offer of a staff pay award of 1% effective from 1st April 2017. Budgetary provision has been made for this and indeed an expectation of 1% each year through the MTFS period;
- No increase has been put in for Pension costs in 2017-18;
- Inflation on other expenditure has only been included where there is a contractual inflationary increase eg utilities, insurance, waste contract. Other budgets have not been increased by inflation;
- The Housing Benefit budget reflects the latest information from Anglia Revenues Partnership (ARP);
- The budget assumes the activities of East Cambs Trading Company have no impact on the Council’s revenue budget, with no provision being made for any potential dividends being paid to the Council;
- The budgetary implications of the new Leisure Centre have been incorporated into the budget. However, as the funding strategy for the new Leisure Centre is that it should be revenue cost neutral then there is no impact on the funding requirement for Council Tax purposes. (See paragraph 9.4.)

6.0 COLLECTION FUND AND COUNCIL TAXBASE

6.1 The MTFS assumed that the Collection Fund for Council Tax would be in balance as at 31st March 2017. However, an increased number of houses give a forecast surplus as at 31st March 2017, of which £9,753 would come as income to this Council.

6.2 The taxbase for FY 2017/18 was previously estimated at an equivalent of 29,107.4 Band D properties. However, the real growth in housing between 2016/17 and 2017/18 means that the current forecast is for 28,946.0 Band D properties.

6.3 The MTFS assumed that the Collection Fund for Business Rates would be in balance as at 31st March 2017. It is assumed that under the Cambridgeshire Deal Business Rate growth in 2016/17 will be available to the Council in this year and not appear as a yearend surplus.

6.4 Business Rate forecasts have been further complicated in 2017/18, as all business properties have been revalued from 1st April 2017. Government has declared that while the gross rateable values in all districts will have changed, they will use the tariff and top-up process to ensure that all Council's continue to get the same income as they had been receiving prior to the revaluation. The exact working of this remains unclear at this point. Due to the uncertainty over this (especially linked to the Cambridgeshire Deal) and the new Business Rates retention scheme, prudent estimates of future growth in Business Rates have been made.

6.5 **Small business rate relief**. The threshold for small business rate relief increases from £6,000 to £12,000 (with taper relief between £12,000 and £15,000) in 2017/18; with the threshold for the standard business rate multiplier increasing from £18,000 to £51,000 nationwide. Section 31 grant will be is paid to reimburse Councils for the cost of providing this relief.

6.6 **Local Newspapers**. The Government has recently announced a two year rates discount of £1,500 for offices occupied by local newspapers, up to a maximum of one discount per newspaper title and per property, and up to state aid limits, this from 1st April 2017. This discount will be fully reimbursed to Councils via Section 31 grant. The figures in this report reflect this change.

7.0 RESERVES

7.1 The Council holds reserves, at levels which remain prudent. It is important to review the reserves on a regular basis, in particular to ensure that potential liabilities not in the Council's base budget can be funded from earmarked reserves; and that unearmarked reserves are at a sufficient level to cover any unforeseen events.

7.2 As part of the process of preparing this budget, officers have reviewed each reserve to ensure its purpose and level is appropriate. A Statement of Reserves is attached at Appendix 2.

7.3 The sole unearmarked reserve is the General Fund Balance. This stands at £1,000,000. There is no statutory minimum level set for a local authority's reserves; it is a matter for each local authority's own judgement after taking into consideration the strategic, operational and financial risks it faces. Typically, local authorities tend to set the level of the unearmarked reserve at around 10% of their net operating budget, which for us is £9.520 million. This would give a minimum level of unearmarked reserve at £952,000. It is however recommended that to be prudent, this reserve be left at the £1 million level.

7.4 The Council currently has an MTFS Reserve of £796,930. The purpose of this reserve is to smooth any shocks in Government funding. The significant loss of New Homes Bonus in 2017/18, announced late in our budgeting process, is the intention of this Reserve. It is recommended that part of the Reserve, £100,000, be used in 2017-18 to fund costs associated with setting up the new Waste Service contract. (The decision of Regulatory and Support Service Committee on the 6th February will influence the value and timing of this spend.) With the balance being moved into the Surplus Savings Reserve to fund costs the loss of New Homes Bonus in 2017/18.

7.5 The pilot scheme for business rates (ref para 4.8) ends in March 2018. The income from the pilot is therefore not included in the Council's base budget. There has been (and continues to be) some uncertainty over the exact amount of income which is retained by the Council. The projected income is shown being received and allocated to a specific reserve. The income for FY2015/16 is confirmed, so is available to support Council expenditure. The balance at 31 March 2016 of £505,993 has been transferred to the Council's Surplus Savings Reserve to support the MTFS. In effect, this offsets the loss of New Homes Bonus in FY 2017/18 and FY2018/19, bringing the Council's MTFS back into line with previous projections.

7.6 Discussions with the Economic Development Manager are in progress to identify if additional resource (from the Cambridgeshire pilot deal income generated in FY 2016/17) could be used to increase growth (and therefore income) in Business Rates still further. [Figures for potential expenditure are not included in this paper.]

8 FEES AND CHARGES

8.1 Officers have reviewed the fees and charges, and details of the proposals are shown at Appendix 3. The proposed budgets include increases as a result of both volume and price.

8.2 As external funding from other sources is projected to reduce over the term of the MTFS, the Council's approach to fees and charges will become more prevalent.

8.3 The Commercial Team in Environmental Services offer a full range of compliance advice to support businesses. All food businesses are issued with a food hygiene rating following an inspection, the rating is made up of three compliance areas. One third of the rating is based on the implementation of a written, food safety management system and the training of staff by the food business. To help businesses comply with the requirement for the written system, the Food Standards Agency produced a work book for small businesses to complete: This workbook is called Safer Food Better Business (SFBB). Advice given to small businesses on the implementation of SFBB generally leads to long term business compliance, reduced officer time at future inspections; reduced litigation and reduced customer complaints. It is proposed that the Commercial Team will provide a Safer Food Better Business mentoring scheme from the 1st April 2017 for a fee of £50 per hour. This new fee has been added to the Fees and Charges schedule and reflected in the budget.

9 CAPITAL PROGRAMME

9.1 The capital programme has been reviewed, and is attached at Appendix 4. The programme is largely a continuation of the previous programme.

9.2 As part of the pre-construction works for the Leisure Centre additional costs have been identified by the contractor in relation to groundworks, these amounting to £505,000. However, other budgets have been reviewed as part of the Value Management work to drive out savings, resulting in the total net additional cost of the build being limited to £222,000. Additional CIL receipts have been identified which can be used to fund this additional spend.

9.3 The capital programme includes borrowing of £5 million to fund the ECTC loan and £9.699 million for the Leisure Centre. Spend profiles for these projects have been amended in the budget to reflect the latest cashflow forecasts. With regard to the ECTC loan, the Company Board has not yet finalised its business plan for 2017/18. The Business Plan will be brought to Council in April 2017.

9.4 As the Council holds cash balances which are invested in short term deposits, it is proposed (in the medium term at least) to use these cash balances, in preference to seeking an external loan to fund either the ECTC and Leisure Centre.

9.5 The debt costs associated with the Leisure Centre project are being met from a combination of New Homes Bonus (currently held in reserve) in the early years and the management fee to be paid to us by the operator in future years.

9.6 The loan arrangement with ECTC is that the loan must be repaid within five years. It has been agreed with our Auditors therefore that the Council does not need to make any annual revenue provision to repay this loan in the short-term, but simply use the Company's repayment to repay the Council's loan. Officers will continue to monitor this, to ensure that the Council is not required to set aside annual revenue provisions in future years.

9.7 Discussions are on-going with regard to the future provision of Waste Services and there therefore remains the possibility that a significant amount of fleet will need to be purchased towards the end of the 2017/18 financial year. This is not currently reflected in this budget, and is subject to a decision by the Regulatory and Support Services Committee on the 6th February. If approved, the immediate implications will be incorporated into the budget report to be considered at Full Council on the 23rd February. Any amendments will not affect the net revenue budget and Council Tax for 2017/18.

10 COUNCIL TAX

10.1 It is proposed that the Council freezes its Council Tax for a Band D property at the current level of £142.14, based on the Council Tax Requirement of £4,114,384 divided by the taxbase of 28,946 properties.

10.2 The County Council, Fire and Police budgets and precepts will be considered following the date of this Corporate Governance and Finance Committee meeting. It is envisaged that notification of both precept requirements will be in time for their inclusion in the report which goes to this Council on the 23rd February 2017.

10.3 The parish precepts which have been notified to the Council are attached at Appendix 5. These will be reflected, along with the precepts set out in paragraphs 10.1 and 10.2, in the resolution which goes before Council on the 23rd February 2017.

11 RISK AND SENSITIVITY ANALYSIS

11.1 The Local Government Act 2003 places two specific requirements on an authority's Section 151 officer in determining the Council's budget and Council Tax. Under section 25, the Section 151 officer must advise on the robustness of the estimates included in the budget. The advice given to the Council on these issues is that the estimates have been produced on a prudent basis, with a strong emphasis on ensuring all cost pressures are included. Budget estimates have been developed with senior officers, with regular updates and discussions at Management Team.

11.2 The key risks are around funding of the Council. The provisional settlement provides clarity around grant funding in the earlier years, but there remains insufficient information to put forward a robust MTFS based on confident assumptions looking further ahead. The risks, particularly from 2020, are significant; there is no real information on likely sources of funding and indeed the value of any funding to be received. The government has announced that it intends for local authorities to retain all business rates generated - but there will continue to be the need to share resources across the country - and there will also be additional new burdens placed on local authorities - which are unknown at this time.

11.3 With the current pilot scheme for business rates ending in March 2018; and the establishment of the Cambridgeshire Combined Authority, the government may decide to bring forward changes to the overall business rates scheme earlier for the county than 2020.

11.4 To mitigate the above risk, officers will continue to report on a frequent basis to Management Team and members. With the greater risk around funding, emphasis will be given to income being generated through Council Tax, Business Rates, and the broader commercial agenda.

11.5 The Section 151 officer is also required to report on the adequacy of reserves. The projected levels of reserves, and their use in 2017/18, are **prudent** and shows a minimal movement in year. The budget for 2019/20 assumes the remaining balance on the Surplus Savings Reserve is utilised, which will reduce the overall levels of reserves to **adequate**. The Council has a track record of delivering additional savings and generating extra income in advance of the budget requirement, so work done during 2017/18 will hopefully lead to a reduced draw from the Surplus Savings Reserve in that and later years through the MTFS period.

11.6 The key risk around reserves is the risk exposure the Council can afford to take in loan funding the LATC. Should the LATC encounter any financial difficulties, then the Council, as sole shareholder and guarantor, will be liable. In such an event, the Council would need to draw on reserves to meet such a liability.

12 MEDIUM TERM FINANCIAL STRATEGY

12.1 The Council's Medium Term Financial Strategy is to set a robust financial framework for the Council's plans over the next four years which support the delivery of the Council's priorities within a context of an annual balanced budget. Specifically, the MTFS:

- Looks to the longer term to help plan sustainable services within an uncertain external economic and funding environment;
- Maximises the Council's financial resilience and manage risk and volatility, including managing adequate reserves;
- Helps ensure that the Council's financial resources are directed to support delivery of the Council's priorities over the medium term.

12.2 The Government is currently undertaking a considerable piece of work to develop a new Business Rate retention scheme to come into effect from (at the latest) FY 2020/21. A consultation process has taken place, but the final decision as to how the scheme is to work has not yet been released. This creates considerable uncertainty for local authority funding; and is an issue which will require monitoring;

this so that the Council can adjust its MTFS as new information becomes available. Due to the uncertainties, the MTFS has only reflected reasonable and prudent growth assumptions around business rates in the MTFS period up to 2020.

12.3 The MTFS covers the period 2017/18 to 2020/21. The FY 2019/20 is the final year of the current government core grant scheme and the final budget to be approved by the current administration. Any plans to develop a robust MTFS to cover the period 2020/21 and beyond would require information around the new Business Rate Retention Scheme and new burdens.

12.4 The assumptions used in the MTFS include:

- Government funding through Revenue Support Grant continues to fall and ends in 2019/20, as per the provisional settlement;
- New Homes Bonus reduces to levels projected in the provisional grant settlement;
- The Council's Business Rate growth continues, projected to increase by 1.5% per annum throughout the term of the MTFS;
- No increase in the cost of the Waste contract when the current contract ends;
- Following the Pension Fund revaluation as at 31st March 2016 the fund manager has requested that the contribution rate be increased from 17% to 17.2%, in addition officers have agreed with the fund manager, that to ensure prudent budgeting, that the lump sum contribution be increased by £50,000 in both 2018/19 and 2019/20;
- The Council has a track record of delivering cost reductions; it is anticipated therefore that a significant contribution to the budget deficit forecast in future years will be achieved during the term through general efficiencies and income generating opportunities; however, to be prudent, no account of these are shown within the forecasts within this report.
- Further, the ECTC is anticipated to start making profits in the period of the MTFS, but no account of this income being paid back to the Council is assumed at this stage.

12.5 The impact from the above assumptions is attached at Appendix 1. This shows the budgets for 2017/18 and 2018/19 are fully funded based on those assumptions. However, there are significant budget shortfalls projected in the subsequent years. Clearly many things will change between now and then, so members should not focus on the precise numbers. What is more important is that members appreciate the direction of funding facing this and all local authorities, and the likely scale. It will be necessary to develop a plan to meet these shortfalls, although the Council does have time to put the necessary plans in place. The Council also has access to a good level of reserves, as described in section 7 of this report.

12.6 Plans to resolve the budget shortfalls in future years come from:

- Reductions in service costs / levels
- Increased Council Tax
- Increased income, particularly from commercialisation

12.7 It is recommended that plans focus on the latter, with a quickening of the pace of commercialisation. However, if insufficient progress is made, discussions around service levels and increased Council tax will be necessary.

13.0 ARGUMENTS/CONCLUSIONS

13.1 The proactive actions taken have lead to a balanced budget for 2017/18 and 2018/19. This budget has minimal risks attached to it, although the Medium Term Financial Strategy and the new funding regime post 2020/21 do contain significant uncertainty.

14.0 FINANCIAL IMPLICATIONS

14.1 The proposed net operating budget of £9,520,300 will be financed by Revenue Support Grant, retained Business Rates, Council Tax and the Surplus Savings Reserve.

15.0 APPENDICES

Appendix 1 - Draft Budget 2017/18
Appendix 2 - Statement of Reserves
Appendix 3 - Schedule of Fees and Charges
Appendix 4 - Capital Programme
Appendix 5 – Parish Precepts

Background Documents	**Location**	**Contact Officer**
(List any background documents used in preparation of report not attached as appendices, or state 'none')	Room 105 The Grange Ely	Andy Radford Resources, Director (01353) 616303 E-mail: andy.radford@eastcambs.gov.uk