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| SUBJECT: | BUDGET & COUNCIL TAX REPORT 2018/19 |
| REPORT OF: | Leader of the Council |
| RESPONSIBLE OFFICER | Director of Resources |
| REPORT AUTHOR | Jim Burness (jim.burness@southbucks.gov.uk) |
| WARD(s) AFFECTED | All |

1. Purpose of Report

- 1.1 This report provides information affecting the Council's revenue budget for 2018/19 in order for the Cabinet to make recommendations to Council on 27th February regarding the Council's budget and council tax for 2018/19.

RECOMMENDATIONS

Revenue Budget 2018/19

1. Approve the Revenue budget for 2018/19 as summarised in the table in paragraph 4.13 and recommend this to Council.
2. Agree the following use of earmarked reserves for 2018/19.
 - Local Development Plan £393k
 - Economic Development Reserve £42k
3. Approve a budget requirement of £7,398k, which will result in a District council tax of £158.00 for a Band D property.
4. Confirm the level of fees and charges for 2018/19 (Appendix C).
5. Note the advice of the Director of Resources (Appendix A).

Setting the Council Tax

6. Agree that this report be made available to all Members of the Council in advance of the Council Tax setting meeting on 27th February, and a final report is produced for the Council meeting incorporating the information from preceptors, and the final decisions of the Cabinet on the budget.

Medium Term Financial Strategy

- 7 To note the comments in the report on the Council's financial position in respect of the years following 2018/19 and the updated Medium Term Forecast.

Farnham Park Trust

- 8 Agree to recommend to Council the revenue and capital budgets for 2018/19

summarised in Appendix D.

2. Executive Summary

- 2.1 It is the responsibility of the Cabinet to prepare a revenue budget for approval by the Council which will form the basis of setting the council tax. It also outlines the main issues affecting the Council's future financial position, as it is prudent to consider not just a single financial year in isolation.

3. Reason for Recommendations

- 3.1 The Cabinet is required to recommend to Council a budget as the basis of setting the District element of the council tax. The information within the report will be the basis for the whole Council taking the decisions on the council tax, and this is why the report will be made available to all members.
- 3.2 When considering its budget the Council needs to be mindful of the medium term financial position, and this is covered within this report.

4. Information

- 4.1 This report is divided into a number of sections that as a whole cover the various elements that need to be considered when setting the Council's budget for the coming year and the council tax for the District. Based on consideration of the information in the report the Cabinet needs to make recommendations to the Council meeting in February where the council tax, including the element relating to preceptors, will be decided.

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Section A - Financial Context and Base Budget position

4.2 On 13th December Cabinet considered the budget position in the light of the funding position facing the Council in the coming years, and agreed a draft budget. The draft Portfolio budgets had been considered by the Policy Advisory Groups. The budgets included no unavoidable expenditure, but take into account savings expected to arise from the joint working with Chiltern DC. The overall approach also aimed to follow the objectives of the Medium Term Financial Strategy of balancing income and expenditure and strengthening the Council's financial position, that had been agreed by Member in Autumn 2016.

4.3 On 19th December the Government announced the provisional Local Authorities financial settlement for 2018/19.

4.4 For South Bucks the following table shows the key figures for 2018/19.

| | 2014/15 £'000 | 2015/16 £'000 | 2016/17 £'000 | 2017/18 £'000 | 2018/19 £'000 |
|--------------------------|------------------|------------------|------------------|------------------|------------------|
| Business Rate Baseline | 11,701 | 11,925 | 12,024 | 11,712 | 12,200 |
| Business Rate Tariff | -10,716 | -10,921 | -11,012 | -10,680 | -11,136 |
| Baseline Need | 985 | 1,004 | 1,012 | 1,032 | 1,064 |
| Revenue Support Grant | 1,161 | 871 | 436 | 57 | 0 |
| Transitional Grant | 0 | 0 | 80 | 80 | 0 |
| Total | 2,146 | 1,875 | 1,528 | 1,169 | 1,064 |
| Year on Year Change (£k) | | -271 | -347 | -359 | -105 |
| Year on Year Change (%) | | -13% | -19% | -23% | -9% |

4.5 The table illustrates the continuing reduction in funding to the Council that had been anticipated on the basis of the Council having accepted the Government's offer of a 4 Year confirmed funding arrangement.

4.6 Funding reductions will continue in future years. In particular current indications are that in 2019/20 SBDC will be subject to an additional tariff payment "negative RSG" of £414k. This is due to the fact that in the funding system South Bucks is seen as a low needs and high resource authority.

4.7 The Business Rate Baseline represents the Government's estimate of the amount of business rates it anticipates the Council will collect and retain. However income from Business Rates can be materially affected by appeals lodged by businesses with the Valuation Office. Successful appeals will reduce the business rates collectable.

4.8 Growth in business rates above the Baseline are subject to a 50% levy, with the levy being additional payments to the Government. The amount of the levy can be reduced if groups of authorities pool their business rates and payments to the Government. As South Bucks and two other Bucks Districts, Chiltern and Aylesbury Vale, expect to have business rate growth, they formed a pool for 2016/17 and 2017/18 in order to retain more of the growth¹, and will be continuing this in 2018/19.

¹ Report to Cabinet October 2015

Section B – Investment Income, Borrowings and Grants

- 4.9 The Council’s Treasury Management Strategy for 2018/19 which is being recommended to Cabinet following consideration by the Resources PAG, sets out the approach aiming to deliver investment income for 2018/19 of £150k. This is a significant reduction on historic figures and reflects the Council’s strategic decision to undertake prudential borrowing as part of the funding strategy for its Capital Strategy and Medium Term Financial Strategy². The Council will therefore see a reduction in the level of cash available for external investment.
- 4.10 An important source of grant funding for the Authority is the New Homes Grant that rewards authorities for each new home by providing a grant equivalent to the national average Band D council tax for a number of years following completion of the property. The cumulative funding the Council will receive in 2018/19 from this source is £556k, a reduction on the current year of £207k.
- 4.11 This reduction is because the Government has made a number of changes to the New Homes Grant system as follows:
- The number of years that the reward is paid for is reducing (6 years in 2016/17, 5 years in 2017/18 and 4 years from 2018/19).
 - Introduced a minimum baseline for housing growth numbers of 0.4%. Grant is only received for growth above this baseline. For South Bucks this baseline is approximately 140 units.

Section C – Budget Requirement and Council Tax Issues

- 4.12 Since the December Cabinet meeting there have been a few amendments to the draft budget as detailed in the table below:

| Budget Changes | £'000 |
|---|--------------|
| Increase in pay bill due to payrise now being estimated at 2% | 54 |
| Reduction in external audit charge | -11 |
| 20% increase in planning fees | -124 |
| Saving on grounds maintenance costs from new contract | -33 |
| Additional car parking income | -73 |
| Reduction in support charge to South Bucks Country Park | -27 |
| Loss of Northgate rent at end of contract absorbed as part of bringing service in-house | -26 |
| Creation of a new Economic Development Team. The cost to be shared between CDC and SBDC, with the SBDC cost being met from the Economic Development Reserve (£42k). See Joint Staffing Committee papers 18 th January. | 42 |
| Other minor changes | -2 |
| Change in Net Cost of Services | -200 |

² Report to Cabinet/Council October 2016

4.13 The overall effect of these changes is summarised in the following table. The Budget Requirement of £7,398k will result in a council tax increase of £5 (3.3%) which is the maximum permitted for the Council by the Government.

| Revenue Budget 2018/19 | Cabinet report 13 Dec 17 £'000 | Changes (see above) £'000 | Current Figures £'000 |
|---|--------------------------------------|---------------------------------|-----------------------------|
| Customer Services & Business Support | 1,224 | -7 | 1,217 |
| Environment | 1,811 | -101 | 1,710 |
| Healthy Communities | 1,258 | 10 | 1,268 |
| Planning & Economic Development | 932 | -66 | 866 |
| Resources | 2,770 | -36 | 2,734 |
| Net Cost of Services | 7,995 | -200 | 7,795 |
| Investment Income | -150 | | -150 |
| Notional Interest on Capswood | 193 | | 193 |
| Borrowing costs – Now capitalised ³ | 217 | -217 | - |
| Use of Earmarked Reserves | | | |
| - LDD - LDF Cost – Estimate reviewed in line with spend | -336 | 87 | -249 |
| - LDD – CIL | -50 | 8 | -42 |
| - LDD – Shared Service Implementation | -33 | | -33 |
| - LDD – Planning Digitalisation | -69 | | -69 |
| - National Infrastructure Reserve | -5 | | -5 |
| - Use of General Reserve | -221 | 221 | - |
| - Economic Development Reserve | - | -42 | -42 |
| Budget Requirement | 7,541 | -143 | 7,398 |
| Business Rates – Baseline | -1,061 | -3 | -1,064 |
| Business Rates - Growth | -500 | | -500 |
| RSG | 0 | | 0 |
| New Homes Grant | -763 | 207 | -556 |
| Other Govt Grants | -20 | -65 | -85 |
| C/Tax Collection Fund Surplus | -30 | 4 | -26 |
| Precept on Collection Fund | 5,167 | - | 5,167 |

4.14 The draft budget proposes using earmarked reserves as follows:

- Local Development Document (LDD) reserve, £392,651. This is to fund the estimated costs in 2018/19 of progressing the joint Local Plan (£248,700), the estimated cost of investigating setting up a Community Infrastructure Levy (£42,042), costs associated with the shared service implementation (£32,991) and Planning Digitalisation costs (£68,918).
- National Infrastructure Reserve £5,000
- Economic Development Reserve £42,000.

³ Interest costs during construction phase of capital projects can be capitalised and financed over the asset life.

- 4.15 The proposed 2018/19 budget does not require any use of the General Reserve. This is an improvement on the position reported to Cabinet in December.
- 4.16 The draft budget has been discussed at the Overview & Scrutiny Committee and any comments received will be made known to members at the meeting.
- 4.17 The latest budget monitoring information shows that the forecast level of General reserves at the end of the current financial year to be £2.0m. Section E of the report contains the Director of Resources advice on the level of reserves.
- 4.18 Appendix C contains the schedule of the proposed fees & charges for the 2018/19 budget.

Section D – Medium Term Financial Strategy

- 4.19 The Council's medium term financial strategy which underpins the specific decisions taken on the budget, sets out how the Council's corporate aims can be progressed within the likely level of resources available to the Council. The key principles of the Strategy are.
- The matching of expenditure and income in the medium term
 - Optimising the use of Council assets to deliver or help finance Council priorities
 - Aligning new expenditure to key Council priorities and to continue to provide value for money
 - Having in place sound financial processes to control and monitor expenditure
 - Awareness of the financial risks facing the Authority and using this to inform the Authority's level of financial reserves.

4.20 The following table sets out the current Medium Term Financial projections.

| | 2018/19 BUDGET | 2019/20 BUDGET | 2020/21 BUDGET | 2021/22 BUDGET | 2022/23 BUDGET | 2023/24 BUDGET | 2024/25 BUDGET |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| <u>Income</u> | | | | | | | |
| Non Domestic Rates (NDR) - Baseline | (1,064) | (1,096) | (1,129) | (1,163) | (1,198) | (1,234) | (1,271) |
| Non Domestic Rates (NDR) - Growth | (500) | (600) | (600) | (600) | (600) | (600) | (600) |
| New Homes Grant | (556) | (513) | (568) | (672) | (812) | (745) | (678) |
| General Grants - Other | (85) | 0 | 0 | 0 | 0 | 0 | 0 |
| Tariff / Top Up Adjustment | 0 | 414 | 414 | 514 | 614 | 714 | 714 |
| Interest & Investment Income Receivable | (150) | (100) | (50) | (50) | (50) | (50) | (50) |
| Collection fund (surplus)/deficit - Council Tax | (26) | 0 | 0 | 0 | 0 | 0 | 0 |
| | (2,381) | (1,895) | (1,933) | (1,971) | (2,046) | (1,915) | (1,885) |

| | | | | | | | |
|---|-------|-------|-------|-------|-------|-------|-------|
| <u>Service Expenditure</u> | 7,795 | 7,951 | 8,110 | 8,272 | 8,437 | 8,606 | 8,778 |
| <u>New Pressures</u> | | | | | | | |
| Additional Pension Deficit Contribution | 0 | 25 | 52 | 102 | 152 | 202 | 252 |
| Council Elections - Fund from Reserves | 0 | 70 | 0 | 0 | 0 | 70 | 0 |
| Waste retender - Procurement Costs | 0 | 0 | 75 | 75 | 0 | 0 | 0 |
| Waste retender - Cost Change | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Infrastructure Mitigation (ie HS2) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| <u>New Savings</u> | | | | | | | |
| Planning Shared Service | 0 | (86) | (114) | (114) | (114) | (114) | (114) |
| Increased income from car parks | 0 | (90) | (90) | (90) | (90) | (90) | (90) |
| Increase income GX Car Park | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Increased income from planning fees | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Revs & Benefits - End of Northgate contract | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Phase 3 Stronger in Partnership Savings | 0 | (200) | (250) | (250) | (250) | (250) | (250) |

| | 2018/19 BUDGET | 2019/20 BUDGET | 2020/21 BUDGET | 2021/22 BUDGET | 2022/23 BUDGET | 2023/24 BUDGET | 2024/25 BUDGET |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Net additional income from Police Site | 0 | 0 | (129) | (276) | (285) | (285) | (285) |
| Net additional income from New Projects | 0 | 0 | (300) | (400) | (500) | (500) | (500) |
| | 7,795 | 7,670 | 7,354 | 7,319 | 7,350 | 7,639 | 7,791 |

| Other Expenditure | | | | | | | |
|--|------------|------------|--------------|--------------|--------------|--------------|--------------|
| Notional Interest Payable - Capswood | 193 | 174 | 154 | 132 | 110 | 86 | 60 |
| Borrowing Costs - Interest | 0 | 161 | 640 | 840 | 915 | 965 | 965 |
| Borrowing Costs - MRP Repayment (40 years) | 0 | 131 | 415 | 654 | 695 | 745 | 745 |
| | 193 | 466 | 1,209 | 1,626 | 1,720 | 1,796 | 1,770 |

| Contributions to / (from) Reserves | | | | | | | |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Contribution to / (from) LDF Fund | (393) | (343) | (243) | (243) | (243) | (243) | (243) |
| Contribution to / (from) Economic Dev | (42) | (42) | 0 | 0 | 0 | 0 | 0 |
| Contribution to / (from) specific reserves | (5) | 0 | 0 | 0 | 0 | 0 | 0 |
| Contribution to / (from) general reserves | 0 | (70) | (75) | (75) | 0 | (70) | 0 |
| | (440) | (455) | (318) | (318) | (243) | (313) | (243) |

| | | | | | | | |
|-------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Precept Required | 5,167 | 5,786 | 6,312 | 6,656 | 6,781 | 7,207 | 7,433 |
| | 0 | | | | | | |

| COUNCIL TAX CALCULATION | | | | | | | |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Tax base | 32,703 | 33,003 | 33,303 | 33,603 | 33,953 | 34,203 | 34,453 |
| Tax Rate (Band D) | 158.00 | 163.00 | 168.00 | 173.00 | 178.00 | 183.00 | 188.00 |
| Precept Collectable | 5,167 | 5,379 | 5,595 | 5,813 | 6,044 | 6,259 | 6,477 |

| | | | | | | | |
|-------------------------|----------|--------------|--------------|--------------|--------------|--------------|--------------|
| Savings Required | 0 | (407) | (717) | (843) | (737) | (948) | (956) |
|-------------------------|----------|--------------|--------------|--------------|--------------|--------------|--------------|

- 4.21 This shows a future funding gap for the Authority that needs to be addressed from 2019/20 onwards.
- 4.22 The Medium Term Financial Strategy identifies that the future funding gap will be addressed by a combination of:
- Maximising the return from the investment in income generating projects.
 - Optimise the major income streams by minimising costs and overheads, and having appropriate charging strategies.
 - Improve efficiency through the Stronger in Partnership Programme.
- 4.23 It is important that officers and members work together to review the Medium Term Financial Strategy and the proposed savings within it before the detailed budget work for 2019/20 commences, in order to address the current forecast gap.
- 4.24 Furthermore as council tax becomes increasing the main source of funding for the Council that it can influence, decisions on the level of the tax become important to the Council's medium term financial strategy.

Section E – Advice of Director of Resources

- 4.25 The detailed advice of the Director of Resources as the Authority's statutory financial officer is set out in Appendix A. In summary the key points of the advice are as follows.
- The estimates for 2018/19 have been prepared in a thorough and professional manner.
 - The key budget risks and sensitivities have been identified.
 - The main financial risks to the Council for the coming year have been assessed as follows.
 - Shortfall on income targets, (See Appendix B Sensitivity Analysis).
 - The cost of major planning inquiries, enforcement actions or responding to national infrastructure proposals that impact on the area.
 - The costs of temporary accommodation, and supporting solutions to the temporary accommodation issue.
 - Letting income for the Capswood offices

Specific earmarked reserves exist to cover some of these matters.

- 4.26 The suggested prudent level of general reserves for 2018/19 is £910k.
- 4.27 In the medium term the Authority will continue to face risks in delivering its corporate plan objectives in the context of the continuing limitation on external funding resources.
- 4.28 There are a number of key financial risks to be aware of in the medium term and these are set out in the following table.

| Risk | Response |
|--|--|
| Managing the gap between cost increases the Council will face year on year, and the continued significant reductions in Government funding, and the limitation on council tax increases. | Key to managing this risk will be identifying further savings for the years from 2019/20 onwards. In addition monitoring and forecasting council tax and business rate income will be important. |
| Savings from income generating capital investment do not materialise to the planned levels. | Sound business cases need to be prepared for each project within the overall programme of investment projects. External advice in place as appropriate to support the projects where in-house skills or capacity will not be sufficient. Financial capacity available to accommodate slippage or rephrasing of projects. |
| Growing mismatch between the local supply and demand of affordable housing increases pressure on temporary accommodation budgets. | Temporary accommodation budgets monitored. Funding made available via s106 agreements and other sources are effectively used. Planning policies seek to narrow the supply and demand gap. |

5. Consultation

5.1 The draft budget has been considered by the Overview & Scrutiny Committee.

6. Options

6.1 The report sets out the position based on increasing the district element of the council tax to £158.00 (a £5 rise).

6.2 There is the option of not increasing the Council Tax, or increasing at a lower level. This would result in less resource being available and the funding gap increasing in future years.

6.3 There is also the option of increasing the Council by more than the referendum threshold of £5 or 3% (which for SBDC would be £4.59). However it is not considered realistic to consider a local referendum due to the cost of organising a referendum, and the risk of voters not supporting any additional increase in Council Tax.

7. Farnham Park Charitable Trust

7.1 The Council is also required to approve a budget for the Farnham Park Charity's activities. The South Buckinghamshire Panel has already considered the detailed budget and fees and charges. Appendix D summarises the budgets for approval and referral to Council.

8. Corporate Implications

8.1 The strategic and financial risks facing the Authority are set out in the report.

9. Links to Council Business Plan

9.1 The Council's code of corporate governance highlights the importance of having in place clearly documented processes for policy development, review and implementation, decision making, and monitoring and control. Following from this is the requirement for sound financial management, being able to demonstrate resources are aligned to the corporate priorities of the Council, and that any material risks are assessed. Establishing a sound and sustainable financial base is important for delivering the Council's objectives.

10. Next Steps

10.1 This report and Cabinet's decisions will form the basis of the Council tax decision of the Council on 27th February.

10.2 A report will be produced for the Council meeting bringing together the precepts that have been notified to the Council, from parishes and the major precepting bodies. This will then enable the Council to set the overall council tax for the area.

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| Background Papers: | Draft Revenue Budget Report 2018/19 – Cabinet 13 Dec 17 |
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