

<b>SUBJECT:</b>	<b>Budget &amp; Council Tax Report 2017/18</b>
<b>REPORT OF:</b>	<b>Ralph Bagge, Leader of the Council</b>
<b>RESPONSIBLE OFFICER</b>	<b>Jim Burness, Director of Resources</b>
<b>REPORT AUTHOR</b>	<b>Jim Burness, Director of Resources</b>
<b>WARD(s) AFFECTED</b>	<b>All</b>

## 1. Purpose of Report

- 1.1 This report provides information affecting the Council's revenue budget for 2017/18 in order for the Cabinet to make recommendations to Council on 1<sup>st</sup> March regarding the Council's budget and council tax for 2017/18.

## 2. Recommendations

### Revenue Budget 2017/18

- 1) Approve the Revenue budget for 2017/18 as summarised in the table in para 5.13 and recommend this to Council.
- 2) Agree the following use of earmarked reserves for 2017/18.
  - a) Local Development Plan, £268k
  - b) Transformation Reserve, £5k
- 3) Approve a budget requirement of £7,782k, which will result in a District council tax of £153.00 for a Band D property.
- 4) Confirm the level of fees and charges for 2017/18 (Appendix E).
- 5) Note the advice of the Director of Resources (Appendix C).

### 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 1<sup>st</sup> March, 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 2017/18 and the updated Medium Term Forecast.

### Farnham Park Trust

**8) Agree to recommend to Council the revenue and capital budgets for 2017/18 summarised in Appendix F.**

**3. Executive Summary**

- 3.1 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.

**4. Reason for Recommendations**

- 4.1 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.
- 4.2 When considering its budget the Council needs to be mindful of the medium term financial position, and this is covered within this report.

**5. Information**

- 5.1 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 March where the council tax, including the element relating to preceptors, will be decided.

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Section B	Investment Income and Grants
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**Section A - Financial Context and Base Budget position**

- 5.2 In December the 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 would 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.

5.3 On 15<sup>th</sup> December the Government announced the provisional Local Authorities financial settlement for 2017/18.

5.4 For South Bucks the following table shows the key figures for 2017/18.

	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000
Business Rate Baseline	11,701	11,925	12,024	11,712
Business Rate Tariff	-10,716	-10,921	-11,012	-10,680
Baseline Need	985	1,004	1,012	1,032
Revenue Support Grant	1,161	871	436	57
Settlement Funding Assessment	2,146	1,875	1,448	1,089
Year on Year Change (£k)		-271	-427	-359
Year on Year Change (%)		-13%	-23%	-25%

5.5 The table illustrates the continuing material 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. The known funding reductions will continue until 2019/20 and South Bucks DC will no longer receive Revenue Support Grant after 2017/18. It will also from 2018/19 be subject to a tariff or "negative RSG" payment. This is due to the fact that in the funding system South Bucks is seen as a low needs and high resource authority.

5.6 The Business Rate Baseline represents the Government's estimate of the amount of business rates it anticipates the Council will collect. 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.

5.7 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 in order to retain more of the growth<sup>1</sup>, and will be continuing this in 2017/18.

## Section B – Investment Income and Grants

5.8 The Council's Treasury Management Strategy for 2017/18 which is being recommended to Cabinet following consideration by the Resources PAG, sets out the approach aiming to deliver investment income for 2017/18 of £200k. This is a significant reduction on historic figures are

<sup>1</sup> Report to Cabinet October 2015

reflects the Council's strategic decision to undertake prudential borrowing from 2017/18 as part of the funding strategy for its Medium Term Financial Strategy<sup>2</sup>. The Council will therefore be reducing its investment funds.

- 5.9 An important source of grant funding for the authority is the New Homes Grant that currently rewards authorities for each new home by providing a grant. In 2017/18 the basis of this funding was changed by Government, and whilst this reduced the funding the Council receives it is still a significant income stream. The cumulative funding the Council will receive in 2017/18 from this source is £1,103k, a reduction on the current year of £376k.
- 5.10 The changes made by the Government on the New Homes Grant were:
- Reducing the period funding is received from six years to five for the 2017/18 allocation, and four years thereafter.
  - having a minimum baseline for housing growth numbers of 0.4%, above which additional funding would be received. For South Bucks this is approximately 130 units.
- 5.11 The Government has indicated that during 2017/18 it may consider further changes such as linking payments to authorities having in place an approved Local Plan, and having different payments for houses created after appeal from those approved by the authority without going to appeal.

### **Section C – Budget Requirement and Council Tax Issues**

- 5.12 Since the December Cabinet meeting there have been a few amendments to the draft budget:
- Adjustment to the level of Property & Estates staff costs chargeable to the Capital Programme in the context of the proposed programme for 2017/18. This reduces net revenue expenditure by £68k.
  - Information from Government on the level of the Council Tax Administration Grant and other Grants for 2017/18, an additional £34k
  - Estimated additional income in 2017/18 from the Council Tax and Housing Benefit recovery project, £60k.
  - In the light of the advice from the Pension Fund Actuary an increase in the employers pension fund contributions of £82k compared to £50k in the draft budget (See Appendix A for more detail).
  - Revised estimates for the cost of the Gerrards Cross former police station site prior to its redevelopment, £11k.

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<sup>2</sup> Report to Cabinet/Council October 2016

- Decision to implement a Community Infrastructure Levy (CIL) as part of the new Joint Local Plan. The SBDC cost of this, £50k, is to be funded from the Local Plan earmarked reserve, so there is no net implication for the budget or council tax.
- Surplus on council tax collection retained by South Bucks, £22k.
- Increase in interest costs on proposed borrowing in 2017/18 for the Capital Programme, £33k.

5.13 The overall effect of these changes is summarised in the following table. The Budget Requirement of £7,782k will result in a council tax increase of £5 which is the maximum permitted for the Council by the Government. The Budget Requirement is 5.5% less than the current year. Appendix E contains the schedule of the proposed fees & charges for the 2017/18 budget.

<b>Revenue Budget 2017/18</b>	Cabinet report 15 Dec 16 £'000	Savings £'000	Other Adjust £'000	Current Figures £'000
Environment Portfolio	2393		+5	2398
Healthy Communities Portfolio	1264		+16	1280
Resources Portfolio	3219	-142	+47	3124
Sustainable Development	1035		+75	1110
<b>Total PAG Budgets</b>	<b>7911</b>	<b>-142</b>	<b>+143</b>	<b>7912</b>
Capital Charges etc	211			211
Borrowing – Interest costs	100		+33	133
Borrowing – Repayment costs	-			-
Investment Income	-200			-200
Additional Pension Fund Contributions	50		-50	-
Use of Earmarked Reserves				
- LDD	-218		-50	-268
- Economic Development Reserve	-5			-5
- Use of General Reserve	-183		+183	-
<b>Budget Requirement</b>	<b>7665</b>	<b>-142</b>	<b>+259</b>	<b>7782</b>
Business Rates	-1532		-	-1532
RSG	-57		-	-57
New Homes Grant	-1026		-77	-1103
Other Govt Grants	-80		-20	-100
C/Tax Collection Fund Surplus	-		-22	-22
<b>Precept on Collection Fund</b>	<b>4970</b>	<b>-142</b>	<b>+140</b>	<b>4968</b>

5.14 The draft budget proposes using reserves as follows:

- Local Development Document (LDD) reserve, £268k.
- Economic Development Reserve £5k.

- 5.15 The proposed 2017/18 budget does not require any use of the General Reserve. This is an improvement of £183k on the position reported to Cabinet in December.
- 5.16 The draft budget has been discussed at the Overview & Scrutiny Committee and any comments received will be made known to members at the meeting.
- 5.17 The latest budget monitoring information shows that the forecast level of General reserves at the end of the current financial year to be £2.4m. Section E of the report contains the Director of Resources advice on the level of reserves.

### **Section D – Medium Term Financial Strategy**

- 5.18 The Council's medium term financial strategy which underpins the specific decisions taken on the budget, sets out show how the Council's corporate aims can be progressed within the likely level of resources available to the Council. The strategy which was reviewed by the Cabinet in October and an update version approved by 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
- 5.19 The strategic direction of the Strategy is unchanged from the Autumn, but Appendix B updates the financial projections in the context of the proposed 2017/18 budget. The main changes since the Strategy was approved in October relate to the financing implications of the Capital Programme and revisions to the New Homes Bonus funding arrangements. The following table summarised the updated financial projection.

	2017/18 BUDGET	2018/19 BUDGET	2019/20 BUDGET	2020/21 BUDGET	2021/22 BUDGET
	£'000	£'000	£'000	£'000	£'000
<b>Government Grants/Business Rates etc</b>	(3,015)	(2,589)	(2,292)	(2,032)	(2,111)
<b>Service Expenditure</b>	7,912	7,793	7,391	7,214	7,382
<b>Financing Costs</b>					
Notional Interest Payable - Capswood	211	193	174	154	132
Borrowing Costs - Interest	133	348	458	515	560
Borrowing Costs - MRP Repayment	0	265	431	485	544
	343	806	1,064	1,154	1,235
<b>Contributions to / (from) Reserves</b>					
Contribution to / (from) LDF Fund	(268)	(268)	(268)	(268)	(268)
Contribution to / (from) specific reserves	(5)	0	0	0	0
Contribution to / (from) general reserves	0	0	(70)	(75)	(75)
Revenue Funding of Capital Programme	0	0	0	0	0
<b>Use of Reserves</b>	(273)	(268)	(338)	(343)	(343)
<b>Precept Required</b>	4,967	5,742	5,825	5,993	6,164
	0				
<b>COUNCIL TAX CALCULATION</b>					
Tax base (no. Band D equivalents)	32,465	32,815	33,215	33,515	33,815
Tax Rate (£/Band D)	153.00	158.00	163.00	168.00	173.00
<b>Precept Collectable</b>	4,967	5,185	5,414	5,630	5,850
<b>Savings Required</b>	0	(557)	(411)	(363)	(314)
Savings per MTFS (Oct 2016)	0	(333)	(377)	(420)	(293)

5.20 The forecast table shows the potential future funding gap for the Authority that needs to be addressed from 2018/19 onwards. From 2020/21 onwards an estimate has been made of £300k for the cost to the Council of the outcomes of the Government's "Fair Funding" review of local authority funding, and the full rebasing of the business rates top up and tariff arrangements.

5.21 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.

**Section E – Advice of Director of Resources**

5.22 The detailed advice of the Director of Resources as the Authority’s statutory financial officer is set out in Appendix C. In summary the key points of the advice are as follows.

- The estimates for 2017/18 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 D 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.

5.23 The suggested prudent level of general reserves for 2017/18 is £950k. As there is no planned use of the General Reserve in 2017/18 the prudent level of reserves will be achieved, and also would keep reserves above the £1,250k aimed for within the Medium Term Financial Strategy.

5.24 In the medium term the Authority will continue to face the risks in delivering its corporate plan objectives in the context of the continuing limitation of external funding resources.

5.25 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 of council tax increases.	Key to managing this risk will be identifying further savings for the years from 2018/19 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.



Risk	Response
	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.
Uncertainty over cost and nature of arrangements for the disposal of waste and recycling material collected could lead to higher costs than necessary.	Costs will need to be monitored and negotiations undertaken as appropriate with the disposal authority and with the Council's waste collection contractor.

## 6. Consultation

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

## 7. Options

7.1 The report sets out the position based on increasing the district element of the council tax to £153.00.

7.2 There is the option of not increasing the Council Tax, or increasing at a lower level. This would result in less resource being available to fund the capital programme, strengthen reserves, and the funding gap increasing in future years.

7.3 There is also the option of increasing the Council by more than the referendum threshold of £5. 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.

## 8. Corporate Implications

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

8.2 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 F summarises the budgets for approval and referral to Council.

**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 The report and Cabinet's decisions will form the basis of the Council tax decision of the Council on 1<sup>st</sup> March.

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.

<b>Background Papers:</b>	<b>None</b>
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