

## **WAVERLEY BOROUGH COUNCIL**

### **JOINT OVERVIEW AND SCRUTINY COMMITTEE - 16 JANUARY 2017**

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#### **Title:**

**FINANCIAL STRATEGY 2017/18 – 2019/20  
GENERAL FUND BUDGET 2017/18**

**[Wards Affected: All]  
[Portfolio Holder: Cllr Ged Hall]**

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#### **Summary and purpose:**

##### General Fund Revenue

This report outlines the latest General Fund Budget position for 2017/18. Members are reminded of the need to achieve savings throughout the four-year period covered by the Financial Strategy. Information is provided on the details of the provisional Local Government Finance Settlement 2017/18 and the Council's financial position following this.

The Joint Overview and Scrutiny Committee is requested, in the light of the significant budget shortfall, to consider the cost savings, income generation and growth proposals identified in this report and make comments to the Executive on their relative priority, and make proposals on how Waverley's Budget can be balanced in 2017/18. The Committee is also requested to consider the draft capital programme and fees and charges schedules and pass comments and observations to the Executive.

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#### **How this report relates to the Council's Corporate Priorities:**

The Council could not deliver the Corporate Priorities without a robust Budget-setting process in place and the Capital Programme proposed supports the priorities.

#### **Equality and Diversity Implications:**

An Equality Impact Assessment will be carried out to ensure there are no adverse equality implications.

#### **Resource/Value for Money implications:**

All decisions made with regard to the Budget will impact on Waverley's resources.

#### **Legal implications:**

There are no direct legal implications as a result of the recommendations of this report.

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## **Introduction General Fund Revenue**

1. This report presents the Council's Medium Term Financial Strategy and the latest position on the 2017/18 draft General Fund Budget, including an outline of the financial background, key financial and topical issues, and details of Savings and Growth proposals.
2. This report contains the following Annexes:
  - Annexe 1 – Updated Medium Term Financial Strategy
  - Annexe 2 – draft General Fund Budget Summary
  - Annexe 3 – Summary of key variations from 2016/17 Budget
  - Annexe 4 – Income, savings and growth proposals
  - Annexe 5 – draft fees and charges for 2017/18
  - Annexe 6 – Schedule of reserves and balances
  - Annexe 7 – draft capital programme

## **General Fund Background**

3. The Annual Finance Seminar was held on 30 November 2016 for all members of the Council. The seminar set out the key aims of the Finance Strategy and the issues and risks for the next four years. The Medium Term Financial Strategy document has been updated and is shown at [Annexe 1](#). This document will be fully reviewed alongside the consideration of the Strategic Review report in the Spring 2017. Significant savings will be required over the next three years in view of ongoing Government Grant reductions and other financial pressures. The Financial Strategy approved in February 2016 forecast a budget shortfall of £1.3m for 2017/18.

## **Provisional Local Government Finance Settlement**

4. Waverley accepted the Government's offer of locking in to a 4-year settlement in order to get certainty in its medium term financial planning. As expected, a further reduction has been applied to Waverley's grant in 2017/18 on top of the very substantial reductions already made. The overall Revenue Support Grant reduction is £705,000, leaving just £60,000 in 2017/18. Waverley's grant has reduced dramatically over the last 5-years from £3.8m in 2012/13.

## **New Homes Bonus**

5. The Finance Seminar reported that there was considerable uncertainty about the future level of payments to be made under the New Homes Bonus (NHB). The Government announced its future plans for the NHB alongside the draft finance settlement on 15 December. The new proposals keep the 2016/17 NHB bonus payment at the expected level of £2.2m but reduce the 17/18 forecast figure by £650,000 and reduce the forecast figure for the 3-year period 2017-2020 by £3.5million. This is a significant reduction for Waverley and is the result of the Government curtailing payments made in previous years that were promised for 6 years, and from introducing a 'growth threshold' of 0.4% below which NHB is no longer paid.

6. The Financial Strategy currently includes Waverley's policy of New Homes Bonus being earmarked within the Revenue Reserve Fund, to be used for 'Invest-to-Save' schemes, so that the Council does not rely on the New Homes Bonus to support ongoing service provision. Therefore, whilst the reduction in payments to Waverley detailed above will not have a direct impact on services, it does significantly restrict the Council's invest to save funding and will put pressure on the capital programme.

### **Fees and Charges**

7. Fees and charges have been reviewed as part of the budget process. Some fees and charges are statutory but for those determined by Waverley some increases are proposed for 2017/18 where appropriate. Details of the proposed changes to fees and charges from 1 April 2017 are included at Annexe 5. There are proposals for increases to some of Waverley's car park charges detailed in Annexe 4 for members to consider. With regard to the new Farnham Memorial Hall, the proposed charges for the use of this new facility are being developed so are not included in Annexe 5 of this report. In its response to the Government's consultation on the finance settlement, Waverley has asked the Government for freedom to set charges in key statutory areas, including planning with a view to being able to move closer to recovering the true costs of the services.

### **Inflation**

8. The Council's main contracts are indexed to the Consumer Price Index (CPI). An inflationary amount has been assumed for General Fund Budget projections in line with the Government's longer term projections.

### **Pay Award**

9. The cost of any pay award agreed from 1 April 2017 will form part of the Budget proposals to Council in February 2017. The pay award has not yet been agreed so, at this stage, the budget figures presented in this report do not include provision for an increase.

### **Revenue Contribution to Capital**

10. The core funding for the General Fund Capital Programme is from Revenue Contributions via the Revenue Reserve Fund. The Budget proposals include a Contribution to Capital from the Revenue Budget of £0.9m and, as explained above; the New Homes Bonus of £1.9m is currently identified to be earmarked in the Invest to Save Fund.

### **2017/18 Draft Revenue Estimates**

11. The General Fund Summary is shown at Annexe 2. The current budget shortfall is £1.15m which compares to a shortfall projected in the Financial Strategy of £1.3m. The most significant variations included in this figure are government funding cuts, inflation, reduced interest on investments and waste/recycling net costs. A breakdown of the main changes in the 2017/18 draft budget compared to 2016/17 base budget which total £1.16m is included at Annexe 3. The budget position is summarised in the table below.

Income and funding	Expenditure and transfers to earmarked reserves
£59.415m	£60.57m
Budget shortfall = £1.15million	

12. Heads of Service and spending officers have examined operational and staffing budgets in detail and minor changes have been made to detailed budget lines. The Budget Challenge process has identified some proposals for cost savings, additional income and expenditure growth. These proposals are listed in Annexe 4 and are all subject to consideration by Members. These items have not at this stage been included in the detailed budget summary at Annexe 2. Any saving proposal accepted and approved will reduce the budget shortfall and any growth item agreed will increase it.

13. The following table summarises the position:

	<b>£000</b>
Budget shortfall (before pay award)	£1,150
Savings proposals – Annexe 4	(£1,085)
Growth proposals – Annexe 4	£150
Council tax increase @£5 band D	(£268)
<b>Balance to be identified if all of the above agreed</b>	<b>(£53)</b>

14. As referred to above, the Financial Strategy identifies budget pressures in each of the next three financial years, 2017/18 to 2019/20. Beyond this period, there is significant uncertainty around business rate and new homes bonus funding. A number of the savings proposals shown above contribute to future years' shortfalls as well as 2017/18. Whilst the focus of this report is balancing the 17/18 budget, the budget challenge process identified a range of solutions to the medium term problem and officers are proposing to develop projects in the following areas to achieve further savings and efficiency proposals with reports back to Members in due course:

Farnham Museum	To investigate options for the future provision of the Farnham Museum service that are cost effective and meet local needs.
Weyhill Car Park, Haslemere	To review the business case for investing in an improved car park facility and introducing charging.
South Street Car Park, Farnham	To undertake an appraisal of refurbishment options. The Brightwells regeneration scheme will provide significant investment in the South Street car park, however, due to the delayed commencement resulting from the Judicial Review process, it is necessary to progress with additional Waverley funded improvement works given the current poor condition of the car park for users.
The Edge Sport Centre, Haslemere	Identify invest to save options for the future operation and ownership of the Edge Sports Centre in the light of Waverley's recent major investment in the Haslemere Leisure Centre.
Village Way Car Park, Cranleigh	Develop options for improving the Village Way Car Park including increasing car parking capacity.

## **Local Government Act 2003 – Financial Administration**

15. The Local Government Act 2003 formally introduced a number of specific sections covering:

- a. Budget calculations: report on robustness of estimates;**
- b. Adequacy of reserves; and**
- c. Budget monitoring.**

16. The sections were introduced to ensure sound financial management across all local authorities. Waverley's budget has always complied with best financial management practice. Prudent allowance has always been made for risk and uncertainties in budgets. Budgets are monitored by officers on a monthly basis and reported to Members on a monthly basis supplemented by monthly exception reports. Waverley's financial management continues to receive favourable comments from its external auditors.

### **a. The Robustness of the Estimates**

17. Full account has been taken of potential costs and adequate provision has been made. A prudent assessment of income has been undertaken and only income that has a high level of certainty of being received is included within Waverley's budgets. Waverley's Financial Strategy, together with information presented at the Annual Finance Seminar and subsequent reports, demonstrates the financial challenges to Waverley in the future.

18. The key Financial Strategy issues for the General Fund include:

- Removal of Revenue Support Grant.
- Increased risk from changes in business rate income due to downward valuations and loss of businesses in the Borough; and
- Future of business rate and new homes bonus funding.

19. In addition to the detailed scrutiny of the Budget by officers, Councillors have taken the opportunity through the Executive and Overview and Scrutiny process to:

- i. Critically examine budget variations
- ii. Consider the outcome of the budget challenge process and reviewed the higher value proposals coming forward

20. In view of the level of awareness amongst Members and the action taken to produce Waverley's Budget in 2017/18, the Section 151 Officer is satisfied with the robustness of the estimates presented. The Section 151 Officer is confident that overall the Budget is prudent especially in view of the track record of achievement of substantial budgeted savings over the past years.

### **b. Adequacy of Reserves**

21. Waverley maintains a number of reserves, which are detailed in the Financial Strategy. Waverley aims to maintain a prudent level of balances to support revenue spending and finance unforeseen events. The two major reserves for General Fund purposes are the General Fund Working Balance and the

Revenue Reserve Fund.

22. The Financial Strategy explains the purpose of each fund. The General Fund balance supports fluctuations in normal business, eg unexpected changes in inflation or interest rates, higher than anticipated expenditure or loss of income, and spending on unforeseen events. The Revenue Reserve is used to finance capital expenditure (including bridging financing of land purchase as part of the Brightwell's project) and one-off costs. It is essential that adequate balances are available to meet these and unforeseen costs.
23. The General Fund Working Balance and the Revenue Reserve Fund for the four year period is shown on Annexe 6, along with other key balances. It is the view of the Director of Finance and Resources that a level of £3.2m on the General Fund Working Balance, which is effectively 10% of the gross General Fund Budget or equivalent to just over one month's service spending, satisfies the adequacy requirements of the Local Government Act 2003.
24. In the light of the identified future significant pressures, the levels of combined balances as detailed in this report are considered prudent but, in the light of the recent announcement on the cut to Waverley's new homes bonus, there will be significant pressures on the ability to expand capital spending without borrowing.

### **c. Budget Monitoring**

25. It is the view of Waverley's Section 151 Officer that the arrangements for budget monitoring, referred to above, satisfy the requirements of the Local Government Act 2003. Budget Monitoring in 2016/17 shows that the Council has mostly delivered the savings assumed in the Budget and will deliver further savings at the year-end.

### **Assessment of Key Risks**

26. The main key risks affecting Waverley's general fund budget in the next few years, which have previously been raised at the Financial Seminar and in The Financial Strategy are:
- The level of Government Grant/Business Rates Income beyond 2018/19 under the new financial regime
  - Continuing levels of fee income
  - Failure to ensure adequate levels of balances to meet known and unforeseen pressures in the future, particularly to fund capital investment and asset maintenance in the light of the significant reduction to new homes bonus payments

### **Council Tax Levels**

27. Under the Local Government Finance Act 1992 each billing authority and precepting authority must determine whether its relevant basic amount of council tax for a financial year is excessive. If an authority's relevant basic amount of council tax is excessive a referendum must be held in relation to that amount. For 2017/18, the relevant basic amount of council tax of an authority is excessive if it is 2% or £5 more than the 2016/17 amount, whichever is the greater.

28 Waverley's council tax was held at £161.91 for the 6 years between 2010/11 and 2015/16. In the light of the 52% cut to government grant in 2016/17, the Council agreed to increase its proportion of the council tax by £5 for a band D equivalent property. In presenting these significant cuts in grant in 2016/2017, the Government made it clear that it would expect shire district councils to increase their council tax. It is recommended that, given the £1.1m budget shortfall, Waverley's council tax is increased by the maximum allowed £5 per band property in 2017/18. This would generate an additional £268,000 income.

### **General Fund Capital**

29. Each year, the Council reviews its three-year Capital Programme and agrees the provisions to be included within the Budget for the year ahead. The overall parameters for the Capital Programme are set out within the Council's Financial Strategy. The Capital Programme and revenue project proposals for 2017/18, as put forward by the Heads of Service, are presented for consideration.

### **Draft 2017/2018 Capital Programme**

30. The proposed 2017/18 Capital Programme amounts to £3.3million as shown at Annexe 7 to this report. It should be noted that the draft capital programme has been scaled back in the light of the revenue budget pressure and the loss of New Homes Bonus. This scaling back includes the proposed removal of the urgent schemes budget in 2017/18 previously held at £150,000.

31. The Annexe also presents the proposed financing, which shows significant external funding of over £2.2m, £0.9m coming from Waverley's own resources in the Revenue Reserve Fund and £0.2m from Waverley's 'Invest-to-save' fund.

32. Certain capital schemes as identified by an asterisk or a # on the schedule will be included within the overall Programme, but specific approval under delegation will be required before they proceed because further information is needed in support of these schemes. Once Council has approved the Budget, it is proposed that authority to proceed in these cases is delegated to the Director of Finance and Resources in conjunction with the Finance Portfolio Holder.

### **Proposed Recommendations from Executive to Council**

That the Executive, after considering comments from the Joint Overview and Scrutiny Committee, makes the following recommendations to Council, to:

- agree a £5 per band D equivalent increase for Waverley's element of Council Tax for 2017/2018
- implement the savings proposals as shown at Annexe 4, including any staffing changes;
- implement the growth proposals as shown at Annexe 4, including any staffing changes;

- approve the changes to Fees and Charges as shown at Annexe 5 and agree to delegate the setting of charges for the use of the new Memorial Hall to the Director of Operations in consultation with the Leader;
- approve the General Fund Budget for 2017/18, as amended by the above changes;
- approve the updated Financial Strategy, as set out at Annexe 1.
- agree that the Executive carries out a review of the Medium Term Financial Strategy and General Fund Budget in the Spring/Summer 2017 and takes any appropriate action in the light of the position at that time; and
- approves the 2017/18 General Fund Capital Programme and financing proposals totalling £3.3m as shown at Annexe 7;
- agrees that the budgets for capital schemes marked with an asterisk on the schedules be approved, but spending on these projects is subject to the agreement of the Director of Finance and Resources and Finance Portfolio Holder or the Executive if appropriate.

### **Recommendation**

That the Joint Overview and Scrutiny Committee:

- 1) is requested, in the light of the significant budget shortfall, to consider the cost savings, income generation and growth proposals identified in this report and agree proposals to balance Waverley's General Fund budget in 2017/18 to pass to the Executive.
- 2) is requested to consider the draft capital programme and fees and charges schedules and pass comments and observations to the Executive.

### **Background Papers**

Provisional Local Government Finance Settlement 2017/18; Financial Strategy 2016/17 – 2018/19; Revenue Budget 2016/17.

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