

WAVERLEY BOROUGH COUNCIL

EXECUTIVE – 7 FEBRUARY 2017

Title:

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

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

Summary and purpose:

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 was requested, in the light of the significant budget shortfall, to consider the cost savings, income generation and growth proposals identified in this report and their observations are set out in the report, including any proposals on how Waverley's Budget can be balanced in 2017/18.

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.

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. 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 a specific 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 including revenue project costs included in the overall budget and, as explained above; the New Homes Bonus of £1.9m is currently identified to be earmarked in the Revenue Reserve 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 £1.15m 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 been included in the detailed budget summary at Annexe 2 in total.

Car Parks

13. The savings proposals at Annexe 4 follow a review of car parking which include car park increases to 11 of Waverley's 26 car parks. The increases are between 10p and 20p per hour in the most central shoppers' car parks. There are no increases proposed in the other 15 car parks. Overall, the increases represent a 9.6% increase in income. In developing these proposals the Council wrote to all Chambers of Commerce and the relevant Town and Parish Councils. The matter was also debated in detail by the Joint Overview and Scrutiny Committee on 16 January 2017.

Also within the budget proposals is provision for £1.1m capital investment in car park improvement over the next 3 years plus major upgrade of car park machines, including the installation of cashless meters where customers have flexible payments options and pay only for the period of the stay.

14. The following table summarises the proposals for Members to consider with the detail itemised in Annexe 4:

	£000
Savings proposals – Annexe 4	(£1,036)
Growth proposals – Annexe 4	£55
Council tax increase @£5 band D	(£268)

15. 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 cost savings and/or additional income 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	To undertake an appraisal of refurbishment options. The

Park, Farnham	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

16. 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.**

17 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

18. 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.

19. 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.

20.. 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

21. 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

22. 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.

23. The Financial Strategy explains the purpose of each fund. The General Fund balance supports fluctuations in normal business, e.g. 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.

24. 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.

25. 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

26. 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

27. 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

28. 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.
- 29 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

30. 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

31. 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. It is also proposed that, due to the loss in New Homes Bonus, progress on other major capital schemes that don't appear in the draft programme and that do not generate a positive revenue benefit should be suspended at this stage and will be reviewed in the wider budget review in Spring/Summer
32. 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. Under the IT heading there is a project to implement a new planning and building control system. In the light of the building control review report to the January Corporate Overview and Scrutiny meeting, it is proposed to bring forward £20,000 of the capital budget into 2016/17 to enable the building control element to be progressed as soon as possible.

33 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.

Joint Overview and Scrutiny Committee

34. The Joint Overview and Scrutiny Committee met on 16 January 2017 to review this report and made the following observations. These have been supplemented by officer comments in response:

- The Committee requested that officers review the Waverley Training Services budget realignment ahead of the Executive meeting in light of their improving position going forward in order to establish whether there would be any scope to reduce the £100,000 variance.

Officer Comment – Officers reviewed the income earning opportunity and anticipate that with the new apprentice training offering to other authorities the additional cost can be reduced to £60,000. This will be reviewed when more details are published by the Government.

- The Committee expressed concern over the reduction in Building Control turnover and welcomed the report that would be considered by the Corporate O&S Committee on 24 January 2017.

Officer comment – It is proposed to progress the review and seek external expertise to identify the most cost effective delivery model in the future.

- The Committee suggested a review of the waste contract if the increases in collection costs were not able to be met from the additional council tax contributions of new houses. Members noted the upcoming review of the contract for 2019 and recognised that this would not address the 2017/18 budget position

Officer comment - Noted

- The Committee requested additional information from officers on the following points:
 - More information for the implications of the apprenticeship levy.

Officer comment – Some netting off of income already applied. This budget will be reviewed in the Spring when more details are known from the Government's guidance about charging opportunities and demand for Waverley training services.

- More information on the reasons for the changes in staff salary costs.

Officer comment – The additional £137,000 shown in Annexe 3 is the net cost of contractual staff increments paid in accordance with Waverley's Pay Policy. Approximately 45% of Waverley's staff are expected to receive an increment on 1 April 2017.

- More information in regard to the impact of the new minimum wage on contractors and how this was transferred to Waverley.

Officer comment – The total spend on Waverley’s key contracts is greater than £4m pa. A number of contracts allow the contractor to negotiate additional costs arising from new legislation in certain circumstances. In response to this an additional budget of £20,000 has been proposed for the new minimum wage impact.

- An explanation as to why the green waste collection service wasn’t cost neutral.

Officer comment – The green waste income has been reviewed and the green waste collection budget has been adjusted from an increase of £87k to £32k which reflects inflation on the contract cost.

Observations on the proposals for increased income

- There were a range of views expressed in regard to the proposals for increases in parking charges. Some Committee Members spoke in opposition to the proposals and some spoke in support of them.
 - Some Members expressed concern over the proposed increases to parking charges and felt that this could deter shoppers from visiting Waverley’s town centres; a review of the proposed increases was suggested, with a view to rationalising charges so that they did not unduly target shoppers.
 - The Committee felt that the proposed changes would be acceptable if the Executive looked into options for ‘fairer’ systems of payment such as pay on exit or smaller increments of charging time. The Committee acknowledged and welcomed the upcoming pay on exit trial.
 - The Committee noted that the charges in 15 car parks would not be increased. Members added that there were car parks a short walk from town centres that were more economical for workers and commuters.
 - The Committee also noted that the last parking charge increase in 2015 had not resulted in a reduction in usage, and indeed the numbers had increased.
 - Some Members felt that a 20p increase in Cranleigh was too large and suggested this be reviewed.
 - Some Members felt that it was important for the car parks to generate a good income so that Council Tax payers were not subsidising car park users.
 - A suggestion was made to reduce the capital spend on car parks so as to offset the need for increasing charges.

Officer comment – The Joint Overview and Scrutiny Committee acknowledged the extremely challenging financial pressures facing the Council in 2017/18 and, whilst no specific alternative suggestions were agreed by the Committee for car parking charges, officers have now revisited the proposals and some scaling back has been applied. Details are shown in Annexe 4.

- The committee was generally supportive of the proposed increases to the garden waste subscription and felt that this was preferable to reducing the collections to monthly.

- The Committee suggested that the Executive investigate the potential for shared services in areas such as Waste Collection and Building Control which would result in cost savings and potentially reduce the size of the corporate centre.
- Members acknowledged that the Council Tax levels could not be increased beyond £5 as this would trigger a referendum.

Observations on the proposals for costs savings

- The Committee noted that there were no staff cost savings proposed within the report. The Director of Finance responded that the budget had been produced on the basis of no cuts to service and therefore no staff cuts had been included.
- The Committee proposed removing the Saturday garden waste collections from the bring sites at Haslemere and Godalming altogether which would save a further £13,000, making £26,000 in total. Members also noted that this would remove the competition with Waverley's brown bin system.

Officer comment – In the light of the O & S comments, and the general sentiment expressed to have more equity for all residents the savings schedule in Annexe 4 now proposes termination of this service.

- The Committee suggested that officers review the options for 'Your Waverley' such as including more advertising to meet the print costs; electronic distribution with a limited number of hard copies available at each locality; reducing the number of issues; or stopping circulation altogether.

Officer comment – Will review in 2017.

- One member asked for clarification on how the means-tested disabled parking charges would work in practicality.

Officer comment – Proposal is to issue permits if the blue badge holder applies and is able to provide evidence of an eligible means tested benefit. Otherwise normal charges will apply in the car parks. The arrangements for reviewing evidence of income related benefits will be clarified as part of the implementation process.

- There was a suggestion to introduce fines for developers who delayed in implementing planning permissions; however officers advised that this would not be possible under the current legislative framework.
- The Committee asked officers to consider in future how a breakdown of statutory and discretionary services could be provided.

Officer comment – Included in current published budget book, officers to consider future analysis.

- A comment was made in regard to compensatory and transitional grants for parish councils, and it was felt that further reductions would put pressure on central services in Cranleigh.

Observations on Capital Programme and Fees and Charges

- The Committee requested that in future, officers be encouraged to liaise with ward members in regard to capital projects within their wards.

Officer comment – Noted, will action.

- The Committee felt that it would be useful to have an indication of the demand for each service, so that they could gain a better understanding of how much income the fees and charges were likely to generate.

Officer comment – Noted, will action.

Recommendation

It is recommended that the Executive, after considering comments from the Joint Overview and Scrutiny Committee, makes the following recommendations to Council, to:

1. agree a £5 per band D equivalent increase for Waverley's element of Council Tax for 2017/2018;
2. implement the income and cost saving proposals as shown at Annexe 4, including any staffing changes;
3. implement the growth proposals as shown at Annexe 4, including any staffing changes;
4. 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 Strategic Director of Operations in consultation with the Leader;
5. request officers to progress the projects identified in paragraph 15 that will achieve cost savings and/or generate additional income;
6. approve the General Fund Budget for 2017/18, as amended by the above changes;
7. approve the updated Financial Strategy, as set out at Annexe 1;
8. 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;
9. approve the 2017/18 General Fund Capital Programme and financing proposals totalling £3.3m, as shown at Annexe 7, and the bringing forward of £20,000 of the new building control system budget into 2016/17;
10. suspend, in the light of the significant cut to Waverley's New Homes Bonus, the progression of all other major capital schemes that do not appear in the capital programme and that do not generate a positive revenue benefit, with this position being reviewed in the Spring/Summer 2017; and

11. agree that the budgets for capital schemes marked with an asterisk on the schedules be approved, but spending on these projects to be subject to the agreement of the Director of Finance and Resources and Finance Portfolio Holder or the Executive, if appropriate.

Background Papers

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

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