

# **WAVERLEY BOROUGH COUNCIL**

**EXECUTIVE – 11 JULY 2017**

---

**Title:**

**BUDGET REVIEW 2017/18**

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

---

**Summary and purpose:**

This report sets out the latest position on the Budget Review 2017/18 and the proposed changes to the Medium Term Financial Plan in the light of the Strategic Review and other emerging issues. The Value for Money O&S Committee considered the Financial Plan at its meeting on 26 June and its comments are included in this report. The 2017/18 budget will continue to be reviewed during the year, particularly if any changes are made to the Corporate Plan later in the year and if the new Government make announcements affecting Waverley's finances.

---

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

The Council could not deliver the Corporate Priorities without a robust Budget in place including the Capital Programme which supports the Council's priorities.

**Resource/Value for Money implications:**

All decisions made with regard to the Budget will impact on Waverley's resources. The Value for Money O&S Committee will scrutinise any budget decisions on an ongoing basis and pass comments to the Executive.

**Legal implications:**

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

---

**Introduction**

1. This report presents the initial stage of the review of the 2017/2018 Budget and the Council's Medium Term Financial Plan.
2. 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 Plan document was updated and approved by Council in February 2017. This document has been reviewed in light of the Strategic Review report and other emerging issues and is included at [Annexe 1](#). The detailed observations from Cratus, who undertook the Strategic review, on Waverley's Financial Strategy in December 2016 are shown in [Annexe 2](#). Significant savings will be required over the next three years in view of ongoing Government Grant reductions and other financial pressures. The Financial Plan approved in February 2016 forecast a General Fund budget shortfall of £3m over the 3 – year period 17/18 to 19/20. The forecast has been updated for the period 18/19 to 20/21 to take account of

the latest budget projections and a budget shortfall of £2.8m is currently forecast for this period. The revised Financial Plan identifies the actions proposed to address this shortfall in the Medium Term. These actions will be developed into a delivery plan over the summer by officers and Members.

### **Budget Review**

3. The review of the budget is an ongoing process and the following key actions will be taken, a number of which are considered in this report:
  - Redraft MTFP document to incorporate Strategic Review observations
  - Set up cross-cutting efficiency board and expand existing strategy to contribute to overall savings target – include systems thinking projects
  - Review budgets in light of revised Corporate Plan
  - Review 17/18 budgets in light of 16/17 outturn including pay
  - Review all capital budgets – check deliverability and align with new priorities
  - Review all reserves, balances and provisions and capital resources
  - Map cash investments to balance sheet and project over next 5 years
  - Model CTax, NHB and Business rates and undertake sensitivity analysis
  - Identify savings/income options for next 5 years including property
  - Review central and support cost allocations
  - Review budget monitoring process including strengthening capital budgeting and monitoring

### **Funding**

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 was applied to Waverley's grant in 2017/18 on top of the very substantial reductions already made. Waverley's Revenue Support Grant is now just £60,000 in 2017/18 and reduces to zero in 2018/19. Waverley's grant has reduced dramatically over the last 5-years from £3.8m in 2012/13.
5. There is still considerable uncertainty about the 'negative grant' of £800,000 in 2019/20 that the Government notified the Council of earlier in the year. It is hoped that further clarity will be provided by the new Government in the Autumn.

### **New Homes Bonus**

6. The Finance Seminar reported that there was a considerable threat to the future level of payments to be made under the New Homes Bonus (NHB). Government announced its future plans for the NHB alongside the draft finance settlement and the new proposals reduced the 17/18 forecast figure by £650,000 and reduced 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.
7. 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. It is proposed to change this policy to transfer all New Homes Bonus received into the Investment Fund which is

overseen by the Investment Advisory Board. This will ensure that spending proposals are thoroughly evaluated against approval criteria and will generate a factorable income.

### **Business Rates**

8. Waverley collects £37m of business rates in a year and retains £2m of this to support its General Fund Services. The Government had been developing proposals to change local authority business rate funding but these plans are currently on hold due to the General Election in June 2017. Members will be updated when further details are known and any impact can be assessed.

### **Council Tax**

9. Waverley retains approximately 10% of the council tax collected in the Borough. It is expected that the Government will continue to allow Waverley to increase its council tax by £5 per year on its Band D charge. In the light of the projected budget shortfall in the medium term, it is proposed to have a working assumption of £5 increases for the foreseeable future.

### **Medium Term General Fund Revenue budget Projections**

10. Annexe 3 shows the latest projections of changes to the 2017/18 General Fund revenue budget over the next 3 years and highlights the indicative budget shortfall.

#### **11. *Emerging Budget Pressures in medium-term***

- Pay inflation and pay benchmarking - addressing hard-to-recruit areas.
- Business rates on WBC properties.
- SCC – waste grants/grounds maintenance and other cost-transfers..
- Appeals and Judicial Review costs.
- Retender of waste/street contracts could lead to increased costs.
- Achieving all savings in 17/18 budget.
- Planning and Building Control income must be maintained or increased.
- Information/data management – new strategy requirements require additional resources.

#### **12. *Opportunities***

- Developing ongoing income from property through the Investment Advisory Board.
- Developing a more commercial culture – cost conscious and understanding the business property income eg. Enterprise Centre.
- Apprenticeship levy – maximise credit through training programme.
- Planning fee increase July 2017 – reinvest in planning service to generate future income and reduce costs.
- Procurement – savings from better procurement and commissioning.
- Developing major projects to generate income from Waverley owned assets including South Street Car Park, the Edge Sports Centre, Weyhill Car Park and Farnham Museum.

### 13. **Risks**

- Inflation – increase in May CPI to 2.9% compared to 0.3% in the same period the previous year.
- Building Control and Waverley Training Services need to revise business plan in the light of 16/17 outturn and new income opportunities.
- Borrowing beyond prudent level to fund capital and property acquisitions.
- Failure to ensure adequate levels of balances to meet known and unforeseen pressures in the future.

### **General Fund Capital**

14. 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. In 2017/2018 this amount is £0.9m. Given the level of rescheduling needed in recent years and the need for certainty in the budget forecast, it is proposed to place a cap of £900k on the reserve funding of the General Fund Capital programme in future years.

15. In the light of the level of underspend and rescheduling of General Fund capital schemes in recent years, it is proposed to implement a new, more rigorous bidding and monitoring process for General Fund capital schemes. This will include:

- A quarterly bidding process including a requirement for delivery milestones and cash flow projections.
- A rolling reserve list of schemes that are over and above the available funding but can be implemented by agreement of the Director of Finance and The Portfolio Holder for Finance if sufficient funds become available in the year.
- Terminating or postponing schemes that are not delivering to agreed timescales in the year and reallocating resources to new or reserve schemes.
- The ability to bid for additional funding for capital spend if a return or cost saving is achieved that meets the Investment Advisory Board criteria.

### **General Fund Reserves**

16. As reported in the Budget report to Council in February 2017 Waverley holds a number of reserves and balances to support the delivery of services going forward. An updated schedule is attached at [Annexe 4](#) This schedule shows that Waverley does not have significant unallocated funding in the medium term. The Investment Fund is projected to grow as new homes bonus funding is transferred in but this will be utilised on developing investment opportunities and acquiring new income-earning assets. Any investment opportunity above this available resource will require borrowing to fund up-front costs. The main risk continues to be that the revenue reserve fund will be required to meet the costs of defending the Council in any appeals or Judicial Review proceedings. In the event that these costs exceed the available funding, the Council will need to divert some of the funding from the Investment Fund.

## **Housing Revenue Account**

17. The Housing Revenue Account was subject to a comprehensive review during 2016 which resulted in a realignment of revenue and capital budgets and funding to meet current demands, this was approved by Council in February 2017. The financial outturn position in 2016/2017 was positive with a relatively small overall underspend against the £30m budget.
18. The HRA capital funding statement, as reported to Council in February 2017 has been revised to reflect actual spend, new approvals and rescheduling. The available capital resources are shown at Annexe 5. This shows that by the end of the 4-year period ending March 2021, there is approximately £16m of unallocated capital funding. This has increased from that reported in February mainly due to significant capital receipts generated from the approved asset disposal programme in 2016/17. Given the ongoing uncertainty about government policy affecting the HRA business plan, in particular the 1% rent reduction and the high value tariff and the need for greater cost certainty on existing capital schemes, it would not be prudent to allocate all of this funding at this stage. However, it is proposed that up to £8m of this funding can be allocated to new build schemes and for the Housing Delivery Board to consider and identify the most appropriate projects to bring forward for approval.
19. The New Homes and Stock Remodelling capital programmes were the subject of a significant amount of rescheduling in the last few years, particularly in 2016/2017, mainly due to budgets not being profiled across years accurately and start on sites on some large schemes being delayed. This budget review process has led to a revised capital programme being prepared which is more realistic and deliverable and this is included at Annexe 6 for approval.

## **Observations from the Overview and Scrutiny Committee**

20. The Value for Money and Customer Service Overview and Scrutiny Committee endorsed the work of the Investment Advisory Board as a good opportunity to generate income, but warned that this should not be over-relied on as a revenue stream.
21. Members expressed concern over the budget shortfall set out at Annexe 3 to the report, particularly in regard to the Negative Government Grant. As the proposed business rate retention scheme had been withdrawn by the Government, the Committee felt that the Negative Government Grant needed to be raised with Waverley's MPs and the Committee recommended that the Executive contact local MPs regarding this matter as a high priority.
22. The Committee was pleased to note the proposals to implement a more rigorous bidding and monitoring process for General Fund Capital schemes. Members expressed concern that slippages within the Capital Programme often only became apparent towards the end of the year when it was too late to substitute other schemes, adding that even small capital projects could have positive effects on communities, leading to good publicity for the Council. The Committee therefore recommended that further investigation be carried out to identify the root cause for slippages within the Capital Programme so that these could be identified sooner, giving the opportunity to substitute other schemes if necessary.

## **Next Steps**

23. As well as developing the delivery plan referred to in paragraph 2, it is proposed that officers run a series of budget awareness sessions in the early Autumn to ensure members are fully informed ahead of the budget process for 2018/19 and beyond.

## **Recommendation**

It is recommended that the Executive:

1. notes the interim budget review process set out in this report and asks officers to report further changes to Members following the review of the Corporate Plan and priorities;
2. approves the updated Medium Term Financial Plan document as attached at Annexe 1;
3. agrees to set up a cross-cutting efficiency group that develops a programme of efficiency reviews and monitors their delivery, overseen by the Strategic Director of Finance and Resources and the Portfolio Holder for Finance;
4. agrees the working assumption of a cap in the annual revenue contribution to the General Fund capital programme of £0.9m;
5. agrees to the implementation of a new, more rigorous bidding and monitoring process for General Fund Capital Schemes, as set out in paragraph 4;
6. approves the transfer of an amount equivalent to the New Homes Bonus funding from the General Fund revenue budget each year to the Investment Fund;
7. notes the HRA capital reserves set out in Annexe 5 and asks the Housing Delivery Board to identify additional capital projects in the next 4-years up to the value of £8m and report back to Council for approval;
8. recommends to the Council that the revised HRA new homes capital programme as set out in Annexe 6 be approved; and
9. asks officers to make arrangements for a series of budget awareness sessions for councillors, to take place in the early Autumn.

---

## **Background Papers**

Local Government Finance Settlement 2017/18; Financial Strategy 2017/18 – 2019/20; Revenue Budget 2017/18.

---

## **CONTACT OFFICERS:**

**Name:** Graeme Clark

**Telephone:** 01483 523099

**Email:** [graeme.clark@waverley.gov.uk](mailto:graeme.clark@waverley.gov.uk)

**Name:** Peter Vickers

**Telephone:** 01483 523539

**Email:** peter.vickers@waverley.gov.uk

**Name:** Walter Stockdale

**Telephone:** 01483 523106

**Email:** walter.stockdale@waverley.gov.uk