

WAVERLEY BOROUGH COUNCIL

EXECUTIVE – 6 FEBRUARY 2018

Title:

**MEDIUM TERM FINANCIAL PLAN 2018/19 – 2020/21
GENERAL FUND BUDGET 2018/19**

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

Summary and purpose:

This report outlines the latest General Fund Budget position for 2018/19. Members are reminded of the need to achieve savings throughout the three-year period covered by the Medium Term Financial Plan. Information is provided on the details of the provisional Local Government Finance Settlement 2018/19 and the Council's financial position following this.

Each Overview and Scrutiny Committee was requested, in the light of the significant budget shortfall in the medium term, to consider all of the proposals identified in this report and their observations are to follow once they have all met.

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 has been carried out to ensure there are no adverse equality implications arising from the proposed changes to the budget.

Resource/Value for Money implications:

All decisions made with regard to the Budget will impact on Waverley's resources. Full details are included in this report.

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 Plan and the latest position on the 2018/19 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 – draft General Fund Budget Summary
 - Annexe 2 – summary of key variations from 2017/18 Budget including income, savings and growth proposals
 - Annexe 3 – draft fees and charges for 2018/19
 - Annexe 4 – schedule of reserves and balances
 - Annexe 5 – draft capital programme

General Fund Background

3. A series of budget briefings were held in October 2017 for all members of the Council which set out the key aims of the Finance Plan and the issues and risks for the next three years. 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 July 2017 forecast a budget shortfall of £2.7m for the period 2018/2019 to 2020/2021. The latest projection as set out in Annexe 2 is a shortfall of £3.2m, the increase being mainly due to higher estimated inflation cost.

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 2018/19 on top of the very substantial reductions already made. The Revenue Support Grant for Waverley is zero in 2018/19. Waverley's grant has reduced dramatically over the last 6-years from £3.8m in 2012/13.

New Homes Bonus

5. The Finance Plan 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 22 December 2017. The new proposals keep the 2017/18 NHB bonus payment at the expected level of £1.9m, but reduce the 18/19 figure by £620,000 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 Plan continues Waverley's prudent policy of New Homes Bonus being earmarked to be used for property investment and '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 ability to generate income from investing this money.

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 2018/19 where appropriate. Details of the proposed changes to fees and charges from 1 April 2018 are included at Annexe 3. The Government increased statutory planning fees by 20% in January 2018. The Building Control service is delivered in a competitive market that requires the fees to be negotiated. This year to enable the service to be commercially responsive, Council is requested to approve delegation for agreeing fees to the Strategic Director, Finance and Resources and planning Portfolio Holder.

Inflation

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

Pay Award

9. The cost of the staff 2% pay award agreed from 1 April 2018 is included in the Budget proposals. This award was agreed for 2018/19 following 1% in 2017/18 and 1% in 2016/17. (While Waverley is not a council in the 'national pay settlement' it may be noted that the draft national settlement is also 2%). The total cost is £330,000 split £250,000 to the General and £80,000 to the HRA budget.

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 £1m and, as explained above; the New Homes Bonus of £1.9m is currently identified to be earmarked in the property investment fund.

2018/19 Draft Revenue Budget

11. The General Fund Summary is shown at Annexe 1. The current budget shortfall is £0.79m which compares to a shortfall projected in the Financial Plan of £0.86m. 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 2018/19

draft budget compared to 2017/18 base budget which total £0.8m is included at Annexe 2. The budget position is summarised in the table below.

Income and funding	Expenditure and transfers to earmarked reserves
£59.4m	£60.2m
Budget shortfall = £0.8million	

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 2 and are subject to consideration by Members. The main changes since the Financial Plan projection in July 2017 are:

- Negotiated transition relief in SCC's waste funding reduction
- Income achieved from property acquisitions
- Proposed council tax increase
- Package of income and cost saving proposals identified during budget challenge process

Medium Term Financial Plan

13. As referred to above, the Financial Plan identifies budget pressures in each of the next three financial years, 2018/19 to 2020/21. Beyond this period, there is significant uncertainty around business rate and new homes bonus funding. Whilst the focus of this report is balancing the 2018/19 budget, the budget challenge process identified a range of solutions to the medium term problem. Officers will be developing proposals over the year to achieve further cost savings and additional income with reports back to Members in due course.

14. Annexe 2 shows that in 2019/2020 the Government intend to apply a 'negative grant' of some £800,000 pa to Waverley. The Government has indicated that this is a necessary step in balancing their national local government funding given the proposed changes to business rate framework. A number of Surrey councils are also expecting to be in a similar position. Following the Chancellor's budget in November 2017, the Government announced that it would review its position on negative grant and consult in the Spring 2018. Waverley will continue to put its case across to the Government to reverse this policy.

15. Waverley's budget strategy is to address the budget shortfall in the medium term in the following ways:

- Achieve cost savings from better procurement of supplies and services.
- Deliver increased income from property, including new acquisitions and investment in existing assets.
- New and increased income from fees and charges.
- Cost savings from increased efficiency including customer service initiatives and invest to save projects.
- Work with the Government to eliminate or reduce the impact of the negative grant on the Council.

- Use Waverley's successful participation in the Government's business rates pilot to achieve the best funding outcome for this Council and for Surrey.
 - If necessary, approve a Council tax increase each year up to the maximum allowable by the Government.
16. Annexe 2 sets targets for each of these themes over the next three years. Head of Service will be required to identify specific actions and proposals to achieve these targets. These proposals will be subject to consideration by Overview and Scrutiny committees and consultations will be undertaken as appropriate throughout the year before being submitted to Council for approval.

Local Government Act 2003 – Financial Administration

17. 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.**
18. 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 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**
19. 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 Plan, together with information presented to members at the October briefings and subsequent reports, demonstrates the financial challenges to Waverley in the future.
20. The key Financial Plan issues for the General Fund include:
- Move from positive to negative Revenue Support Grant.
 - Increased risk from changes in business rate income due to downward valuations and loss of businesses in the Borough;
 - Major contract renewals in 2019 – Waste, recycling, grounds maintenance, street cleaning etc.
 - Future of business rate and new homes bonus funding; and
 - Rising inflation and low interest rates.
21. 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
22. In view of the level of awareness amongst Members and the action taken to produce Waverley's Budget in 2018/19, 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

23. Waverley maintains a number of reserves, which are detailed in the Financial Plan. Waverley aims to maintain a prudent level of balances to support revenue spending and finance unforeseen events. The major reserves for General Fund purposes are the General Fund Working Balance, the Revenue Reserve Fund and the Property Investment Fund.
24. The Financial Plan 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 and one-off costs and the property fund is to finance property investment/acquisition opportunities. It is essential that adequate balances are available to meet these and unforeseen costs.
25. The General Fund Working Balance and the Revenue Reserve Fund for the four year period is shown on Annexe 4, along with other key balances. It is the view of the Strategic Director/Section 151 Officer 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.
26. 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

27. 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 2017/18 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

28. 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 Plan 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

29. 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 2018/19, the relevant basic amount of council tax of an authority is excessive if it is more than 2.99% above the 2017/18 amount.
30. It is recommended that, given the significant projected budget shortfall in 2018/19 and subsequent years, Waverley's council tax is increased by the maximum allowed in 2018/19. This would generate an additional £280,000 income.
31. In the Chancellor's budget in November 2017, the Government announced its intention to allow councils to increase the council tax premium applied to long term empty properties in their areas from 50% to 100%. Waverley currently applies the 50% premium as the Council considered it to be an important measure to encourage owners of empty homes to bring them back into use.
32. There are currently 110 long term empty homes in the Borough. It is proposed to increase Waverley's premium to 100% at the earliest opportunity once the Government has published the necessary regulations and given authority.

Council Tax Support Scheme

33. The Council Tax Support Scheme, which replaced council tax benefit on 1st April 2013, is reviewed annually. A range of assistance was introduced by Waverley to assist claimants and these schemes are actively promoted. A hardship fund was created to support claimants and the qualifying criteria revised to encourage take up. Discretionary Housing Payments are also available, and Waverley's "Don't Lose Your Home" officer and the Family Support team are proactively supporting households that are most affected by welfare reforms. Experience shows that the current Council Tax Support Scheme remains successful as evidenced by the gradual reduction in the number of claimants and the consistently low take up of discretionary support. It is, therefore, recommended that the current scheme remains unchanged for 2018/19.

General Fund Capital

34. Each year, the Council reviews its three-year Capital Programme and agrees the budgets 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 Plan

35. The proposed 2018/19 Capital Programme amounts to £2million as shown at Annexe 5 to this report.
36. The Annexe also presents the proposed financing, which shows significant external funding of over £0.8m, £1.0m coming from Waverley's own resources in the Revenue Reserve Fund and £0.2m from Waverley's other resources.
37. Certain capital schemes as identified by an asterisk 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.

Overview and Scrutiny Committees

38. Each of the Overview and Scrutiny Committees has considered this report and their observations will be collated and circulated once they have all met.

Recommendation

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

1. agree a 2.99% increase in Waverley's element of Council Tax for 2018/2019;
2. Waverley's council tax premium for long term empty properties be increased to 100% at the earliest opportunity;
3. agree to make no change to the Council's existing Council tax support scheme;
4. implement the income and cost saving proposals as shown at Annexe 2, including any staffing changes;
5. implement the growth proposals as shown at Annexe 2, including any staffing changes;
6. approve the changes to Fees and Charges as shown at Annexe 3;
7. approve the delegation for agreeing Building Control fees to the Strategic Director/Chief Finance Officer and Portfolio Holder for Planning;
8. approve the General Fund Budget for 2018/19, incorporating the above changes and the staff pay award;

9. agree that the Executive carries out a review of the Medium Term Financial Plan and General Fund Budget in the Summer 2018 and takes any appropriate action in the light of the position at that time;
10. approve the 2018/19 General Fund Capital Programme and financing proposals as shown at Annexe 5; 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 Strategic Director (S.151 Officer) and Finance Portfolio Holder or the Executive, if appropriate.

Background Papers

Provisional Local Government Finance Settlement 2018/19; Financial Plan 2017/18 – 2020/21; Revenue Budget 2017/18.

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