

WAVERLEY BOROUGH COUNCIL

COUNCIL - 16 FEBRUARY 2016

Title:

**FINANCIAL STRATEGY 2016/17 – 2019/20
GENERAL FUND BUDGET 2016/17**

[Wards Affected: All]

[Portfolio Holder: Cllr Wyatt Ramsdale]

Summary and purpose:

This report outlines the General Fund Budget position for 2016/17. The Council is 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 2016/17 and the Council's financial position following this.

The Executive has made recommendations to the Council regarding Waverley's Budget and its element of the Council Tax for 2016/17.

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.

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

1. This report presents the Council's Medium Term Financial Strategy and the 2016/17 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 – Medium Term Financial Strategy
 - Annexe 2 – draft General Fund Budget Summary (detail is in separate booklet)
 - Annexe 3 – Government Grants

- Annexe 4 – Savings and Growth Proposals
- Annexe 5 – Fees and Charges (separate booklet)
- Annexe 6 – Schedule of Reserves & Balances
- Annexe 7 – Special Expense (Council only)

General Fund Background

3. The Annual Finance Seminar was held on 5 October 2015 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 and is shown at Annexe 1. Significant savings will be required over the next four years in view of ongoing Government Grant reductions.

Provisional Local Government Finance Settlement

4. A further reduction has been applied to Waverley's grant in 2016/17 on top of the very substantial reductions already made. Details of the impact of the provisional Settlement on Waverley are shown at Annexe 3. The overall Revenue Support Grant reduction is £814,000, (52% from 15/16 amount of £1,574,000) with other reductions to Government Grants of £224,000.
5. Since publishing the Provisional Local Government Finance Settlement consultation, the government has indicated that the Council will be offered a four year finance settlement from 2016/17, and will have to decide whether to accept this offer before the end of March. There is insufficient detail at the moment to be able to make a decision and delegated authority is requested for the Director of Finance and Resources and Portfolio Holder for Finance to make this decision once the necessary information is available.

New Homes Bonus

6. The Finance Seminar reported that there is considerable uncertainty about the future level of payments to be made under the New Homes Bonus. The Government has now announced that it will continue with the New Homes Bonus for the foreseeable future but it is going to consult on reforms to it potentially reducing the length of payments from six to four years. The Financial Strategy currently provides for continuing 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 should the payments cease or reduce there would be no impact on services. Therefore, any future reduction would impact directly on the Council's invest to save funding.

Increases in 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 2016/17 where appropriate. Details of the proposed changes to fees and charges from 1 April 2016 are included at Annexe 5. The Council has already approved some increases to car park charges so this is not a matter for further consideration at this stage. 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 and licensing, 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. Inflation in December 2015 was 0.2% for CPI.

Pay Award

9. The staff pay award negotiations concluded on 28 January 2016 and it is now proposed that a staff pay award of 1% from 1 April 2016 be approved.

'Star Chamber' Proposals

10. 'Star Chamber' sessions have again taken place with Portfolio Holders and Heads of Service to examine operational and staffing budgets in detail. The Star Chamber proposals for cost savings and additional income are set out in Annexe 4. These items are subject to consideration by Members and have not at this stage been included in the detailed budget shown in the separate booklet.
11. For the 2016/17 Budget, if approved, the Star Chamber proposed reductions will deliver savings of £384,300. The Star Chamber also considered proposals for improving or extending services and these are referred to as growth items. The proposed growth items are also detailed in Annexe 4 and amount to £323,000. These savings and growth items are also subject to consideration by Members and not included in the detailed budget pages.

Revenue Contribution to Capital

12. The core funding for the General Fund Capital Programme is from Revenue Contributions via the Revenue Reserve Fund.
13. The Budget proposals include a Contribution to Capital from the Revenue Budget of £1.1 million and, as explained above; the New Homes Bonus of £2.1million is currently identified to be earmarked in the Invest to Save Fund.

2015/16 Draft Revenue Estimates

14. The General Fund Summary is shown at Annexe 2. Following the Star Chamber process in November, good progress had been made to close the budget shortfall. However, the government grant settlement was more severe than expected which resulted in a shortfall of £230,000 being presented to the Joint Overview and Scrutiny Committee on 18 January 2016. Further work between councillors and officers has closed this gap and a note of these changes is shown at Annexe 2A. The final local government finance settlement details are expected early in February. If this has a material impact on the General Fund budget, a revised summary (Annexe 2) will be sent To Follow with the Council Tax Setting report.
15. Details of the impact of government grants on Waverley in 2016/17 are shown at Annexe 3.

16. Star Chamber savings proposals and growth items at Annexe 4. These have not yet been incorporated within the detailed budget sheets. Members are asked to consider the Star Chamber proposals, including the growth items. The detailed estimates for all services are provided in the separate booklet.
17. Budget variances, which may be reductions as well as increases, resulting from such matters as contractual commitments, projected additional income including from car parks, changed levels of use, lower starting salaries for new members of staff, other changes to staff allocations, or updated asset charges have been built into the estimates.
18. Applications for grants under the Community Partnership Scheme for 2016/17 are recommended to the Council as part of the Executive minutes elsewhere on this agenda. At this stage despite Waverley's significant government grant reduction, the detailed estimates for 2016/17 show no change in the overall level of money allocated to organisations compared to 2015/16.

Statutory Services

19. Each budget page contains an indication of whether the service provided is statutory, discretionary, or a mixture of the two. There are some statutory services where the level of service provided is greater than that required by law. This analysis may assist Members in giving consideration to the resources allocated to the various services. There will of course be other factors, such as the Council's approved aims and objectives, public demand and corporate priorities.

Support Costs

20. Support costs and other central overheads are the costs of central functions that are necessary to support the delivery of front line services and projects and to discharge Waverley's statutory duties and governance requirements. These functions include internal professional services, such as legal and accountancy and direct service related costs, such as IT, postage, payments, offices etc. Central budgets are treated in the same way as front line service costs in the accounts except that accounting rules require Waverley to recharge the full costs of central and support costs to services and projects on an appropriate basis. Waverley's central and support costs are subject to scrutiny by the 'Star Chamber' process.
21. For services of a trading nature, including Land Charges, Careline, Waverley Training Services, Building Control and Car Parks, a notional apportionment of the corporate overheads that Waverley bears but does not allocate to services is shown to give an indication of the position if all costs were allocated.

Comments from the Joint Overview and Scrutiny Committee

22. The Joint Overview and Scrutiny Committee considered this report at its meeting on 18 January 2016. The Committee made a number of observations which related mostly to the Service Plans for 2016/17. However, it was proposed that phased funding should be considered for the budget relating to the Frensham Common Site Facilities Redevelopment.

Local Government Act 2003 – Financial Administration

23. 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.

24. 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 bi-monthly basis supplemented by monthly exception reports. Waverley's financial management continues to receive favourable comments from its external auditors.

The Robustness of the Estimates

25. 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.

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

- Removal of Revenue Support Grant over the next two years.
- Increased risk from changes in business rate income due to downward valuations and loss of businesses in the Borough; and
- Risk associated with the local Council Tax support scheme.

27. 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. Continue the Star Chamber process to examine the budget in detail and advise on potential reductions

28. In view of the level of awareness amongst Members and the action taken to produce Waverley's Budget in 2016/17, 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.

Adequacy of Reserves

29. 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.

30. 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.
31. The General Fund Working Balance and the Revenue Reserve Fund for the next four years 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 spending, satisfies the adequacy requirements of the Local Government Act 2003.
32. In the light of the identified future significant pressures, the levels of combined balances as detailed in this report are considered prudent, but not excessive.

Budget Monitoring

33. 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 2015/16 shows that the Council has delivered the savings assumed in the Budget and will deliver further savings at the year-end.

Assessment of Key Risks

34. The main key risks affecting Waverley's 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 2015/16 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
35. Since publishing the Provisional Local Government Finance Settlement consultation, the government has indicated that there will be new qualification criteria for the New Homes Bonus going forward and Business Rates will be rebased earlier than 2019/20. The details will be available by the summer, at which point the Medium Term Financial strategy will be refreshed.

Forward Budget Projections – Medium-Term Financial Strategy

36. At the Finance Seminar, Members received Budget projections covering the full period of the Financial Strategy. These have been updated in line with the draft Budget proposals and Budget assumptions and are shown in the document at Annexe 1. 'Invest-to-Save' schemes are particularly important in reaching the level of savings expected to be required throughout the period of the Medium-

Term Financial Strategy. Implications of the latest information on government grants will be assessed and incorporated as soon as possible. A mid year review will be completed in the Summer incorporating the detail of these changes.

Council Tax Levels

37. 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 2016/17, the relevant basic amount of council tax of an authority is excessive if it is 2% or more greater than the 2015/16 amount.
38. The Government has confirmed it will not offer local authorities who don't increase their council tax an additional grant in 2016/17. Waverley's council tax has been held at £161.91 since 2010/11. In the light of the 52% cut to government grant, It is recommended that council tax increases by 1.95% to a band D equivalent of £165.06. This will generate an additional £173,000.
39. However, the Secretary of State for Local Government has indicated that he would consider a case made by Waverley to allow a £5 increase on the Band D equivalent charge, similar to many other District and Borough Councils including some of Waverley's neighbouring authorities. In the event that the Government confirm that Waverley will be able to apply this increase, it is recommended to Council that, in the light of the 52% grant reduction, that Waverley's element of Council Tax for 2016/17 is increased by £5 at Band D.

Special Expense

40. Annexe 7 (To Follow) shows the effect, in 2016/17, of the decision taken by Council on 12 October 1999 to levy a special expense from 1 April 2000 in respect of cemeteries costs. The figures reported to Council accord with the Executive's recommendation regarding Council Tax levels. In practice, the special expense has been zero, thus having no impact.

Recommendation

The Executive, having considered the comments from the Joint Overview and Scrutiny Committee, RECOMMENDS that

1. a 1.95% increase for Waverley's element of Council Tax for 2016/17 be agreed, or if the Government permits, the Band D equivalent charge be increased by £5;
 2. the savings proposals as shown at Annexe 4 be implemented, including any staffing changes;
 3. the growth proposals as shown at Annexe 4 be implemented, including any staffing changes;
- 3a. the staff pay award of 1% from 1 April 2016 be approved;

4. the changes to Fees and Charges be approved, as shown at Annexe 5;
5. the General Fund Budget for 2016/17, as amended by the above changes be approved;
6. £2million be transferred from the Revenue Reserve Fund in 2015/16 to the Asset Development Reserve with £1million earmarked for potential SANG site acquisition;
7. delegated authority be given to the Director of Finance and Resources and Portfolio Holder for Finance to make a decision on accepting a four year finance settlement from the Government if this is deemed to be advantageous for Waverley once the details are published;
8. in the event of Waverley's final grant settlement showing an improved position, and/or the Government allowing a £5 Band D council tax increase, the additional revenue be transferred to the business rates equalisation fund to mitigate the risk of reducing business rate income;
9. the Executive carries out a mid-year review of the General Fund Budget and takes any appropriate action in the light of the position at that time; and
10. the Financial Strategy, as set out at Annexe 1, be approved.

Background Papers

Provisional Local Government Finance Settlement 2016/17; Financial Strategy 2016/17 – 2018/19; Revenue Budget 2015/16.

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