BOS/18/22

BABERGH DISTRICT COUNCIL

TO:	**Cabinet**	**REPORT NUMBER: BCa/18/54**
FROM:	**Councillor John Ward, Cabinet Member for Finance**	**DATE OF MEETING: 10 January 2019**
OFFICER:	**Katherine Steel, Assistant Director, Corporate Resources** **Melissa Evans, Corporate Manager, Finance**	**KEY DECISION REF NO. CAB57**

DRAFT GENERAL FUND BUDGET 2019/20 AND FOUR YEAR OUTLOOK

1. PURPOSE OF REPORT

1.1 The report contains details of the draft revenue and capital budgets and the Council's strategic financial aim. The purpose of this report is to present the draft General Fund Budget for 2019/20 and four year outlook.

1.2 To enable Cabinet Members to consider key aspects of the draft 2019/20 Budgets, including Council Tax and make any recommendations to feed into the final Budget report in February.

2. OPTIONS CONSIDERED

2.1 The General Fund Budget for 2019/20 and four-year outlook is an essential element in achieving a balanced budget and sustainable medium-term position. Setting a balanced budget for the coming year is a statutory requirement, therefore no other options are appropriate in respect of this.

3. RECOMMENDATIONS

3.1 That the draft General Fund Budget proposals for 2019/20 and four year outlook set out in the report be endorsed for recommendation to Council on 19 February 2019, subject to further consideration at the next Cabinet meeting on 7 February 2019.

3.2 That the draft General Fund Budget for 2019/20 is based on an increase to Council Tax of £5 per annum (10p per week) for a Band D property, which is equivalent to 3.15%, to support the Council's overall financial position, which will be considered further at the February Cabinet meeting.

3.3 That a further £25m be invested in CIFCO as set out in paragraph 8.18.

3.4 That a discretionary Care Leavers Council Tax discount of up to 100% be introduced from the 1 April 2019 as set out in section 11.

3.5 That the second empty property premium be increased as per the regulations set out in paragraph 12.9

REASON FOR DECISION

To bring together all the relevant information to enable Cabinet Members to review, consider and comment upon the Councils General Fund budget before the February Cabinet review and recommendations to Council.

4. KEY INFORMATION

Strategic Context

4.1 In recent years the government policy frameworks have been reducing core funding for local government as part of its deficit reduction strategy and increasingly incentivising funding to councils to deliver local economic and housing growth and to facilitate the development of strong, safe, healthy and self-sufficient communities. This is continuing, so encouraging and supporting both business and housing growth is essential to the financial future of the Council.

4.2 The Fair Funding Review continues and aims to set new baseline funding allocations for local authorities by delivering an up-to-date assessment of their relative needs and resources. The Government are exploring options for developing an updated funding formula by looking at the factors that drive costs for local authorities. The outcome of these deliberations is still awaited and will be implemented from 2020/21.

4.3 The Council recognised the changing funding landscape, the challenges and opportunities this creates and has developed a financial strategy that responds to this challenge as set out in section 6 below.

4.4 On 29 October 2018, the Office for Budget Responsibility (OBR) published its review of the economic and fiscal outlook. The forecast is of a relatively stable but unspectacular trajectory for economic growth, close to 1.5% in every year, plus a gradual further decline in the budget deficit and in net debt as a share of Gross Domestic Product (GDP). This assessment was given against the background of the lack of any meaningful basis on which to predict the outcome of the negotiations over the future relationship between the UK and the EU.

4.5 The headline of the report was the significant improvement in the underlying pace of deficit reduction driven by stronger tax revenues and lower than expected spending on welfare and debt interest. The reduction of £11.9 billion rising to £18.1 billion by 2022/23 after taking account of projected GDP growth, would have been sufficient to achieve a budget surplus by 2023/24, meeting the Government's fiscal objective of balancing the budget by 2025.

4.6 Consumer Price Index (CPI) inflation rose to 2.4% in October 2018, in line with forecasts made in March 2018, following recent increases in oil prices and a further modest depreciation in sterling, meaning it is now slightly higher than the Bank of England's target of 2%.

4.7 Public sector net debt (PSND) had peaked as a share of GDP at 85.2% in 2016/17 and falls to 83.7% this year, 1.8% of GDP below the Spring Statement forecast. It is forecast to be 75.0% in 2022/23. Borrowing is lower in the near-term than that planned in the Spring Statement; a trend that continues in the medium-term.

4.8 Whilst the majority of new spending commitments in the Government's budget related to the NHS, there were some announcements that impact on Local Government.

a) An increase in the Disabled Facilities Grant in 201819 by £55m to provide home aids and adaptations for disabled children and adults on low incomes.

b) £900m in business rates relief for nearly 500,000 small businesses, by cutting business rates by a third for two years from April 2019. To qualify as a small retailer business premises must have a rateable value of £51k or less. The government will also continue the £1.5k business rates discount for office space occupied by local newspapers in 2019/20 and introduce 100% rate relief for public lavatories from April 2020. Local authorities will be fully compensated for the loss of income as a result of these business rates measures.

c) The Housing Revenue Account (HRA) cap that controls local authority borrowing for house building was abolished from 29 October 2018 in England.

d) An additional £500m will be available in the Housing Infrastructure Fund.

e) £675m will be available in a new Future High Streets Fund to make high streets and town centres fit for the future. This includes £55m for heritage-based regeneration.

f) £20m of support to tackle plastics and boost recycling. Of this £10m will pioneer innovative approaches to boosting recycling and reducing litter such as smart bins.

Provisional Finance Settlement

4.9 The Provisional Finance Settlement was announced on the 13 December 2018, whilst there is new money from Central Government, councils will still face an overall finding gap of £3.2 billion in 2019/20. The headlines are as follows;

a) No change to the New Homes Bonus threshold of 0.4%;

b) An additional £16m in total has been made available through the Rural Service Delivery grant, Babergh will receive an additional £45k;

c) £180m surplus on the levy account will be distributed to all councils, Babergh's share of this is £32k and;

d) Continuation of the option for shire districts with the lowest council tax levels allowed increases in council tax of up to 3% or up to £5, whichever is higher.

4.10 The Provisional Finance Settlement provided Babergh with additional funding of £273k. The Baseline Business Rates increased from £2m to £2.1m, New Homes Bonus increased by £64k, mainly due to the affordable element of the allocation which was not originally budgeted for.

4.11 Table 1 below shows the Provisional Finance Settlement compared to the budget for 2019/20.

Table 1: Provisional Finance Settlement

	Budget 2019/20	Provisional settlement 2019/20	(Increase)/ Decrease
	£,000	**£,000**	**£,000**
Baseline Business Rates	1,972	2,104	(132)
New Homes Bonus	619	683	(64)
Rural Services Delivery Grant	182	227	(45)
Levy Account Surplus Draft Allocations	-	32	(32)
Funding	**2,774**	**3,047**	**(273)**

5. HOW IS THE COUNCIL'S REVENUE BUDGET BEING SPENT IN 2018/19?

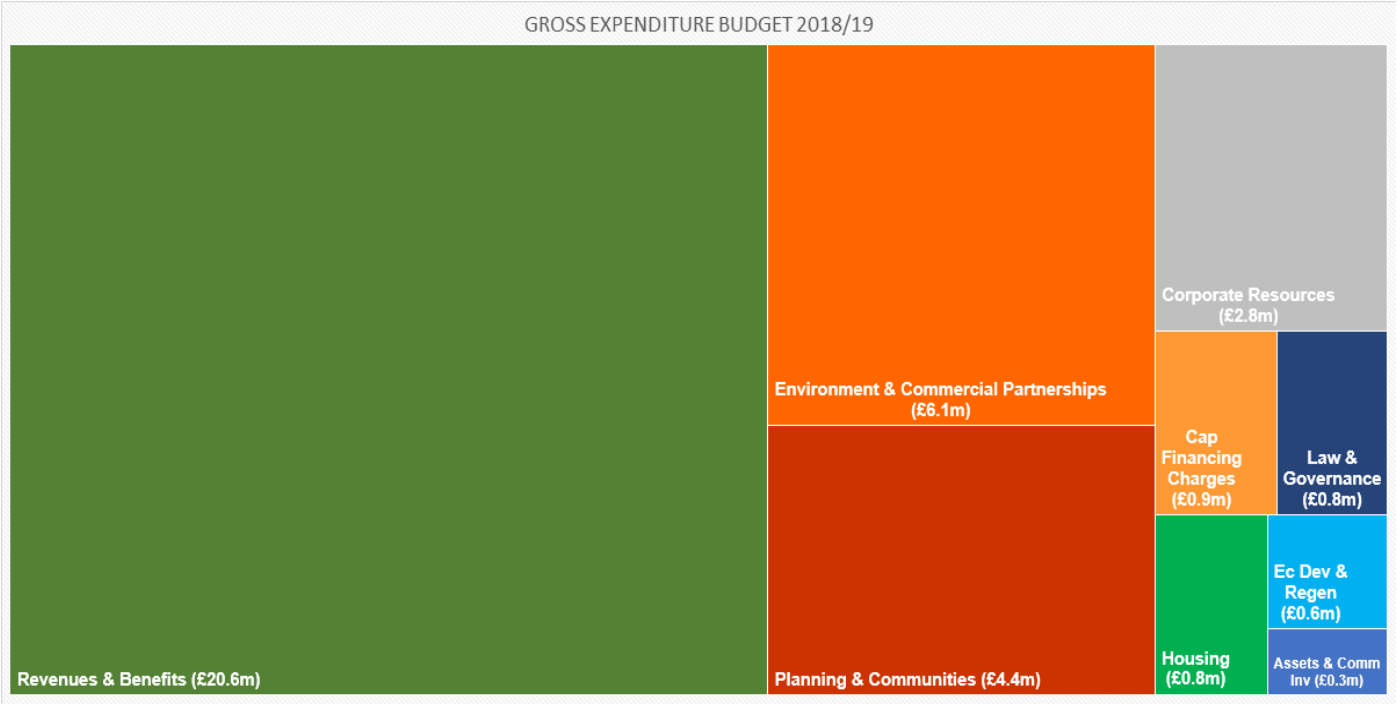
5.1 The Council's 2018/19 gross expenditure is £37.3m and income is £27.6m giving a net cost of service of £9.7m. Table 2 below shows how this is funded.

Table 2: Revenue Budget 2018/19

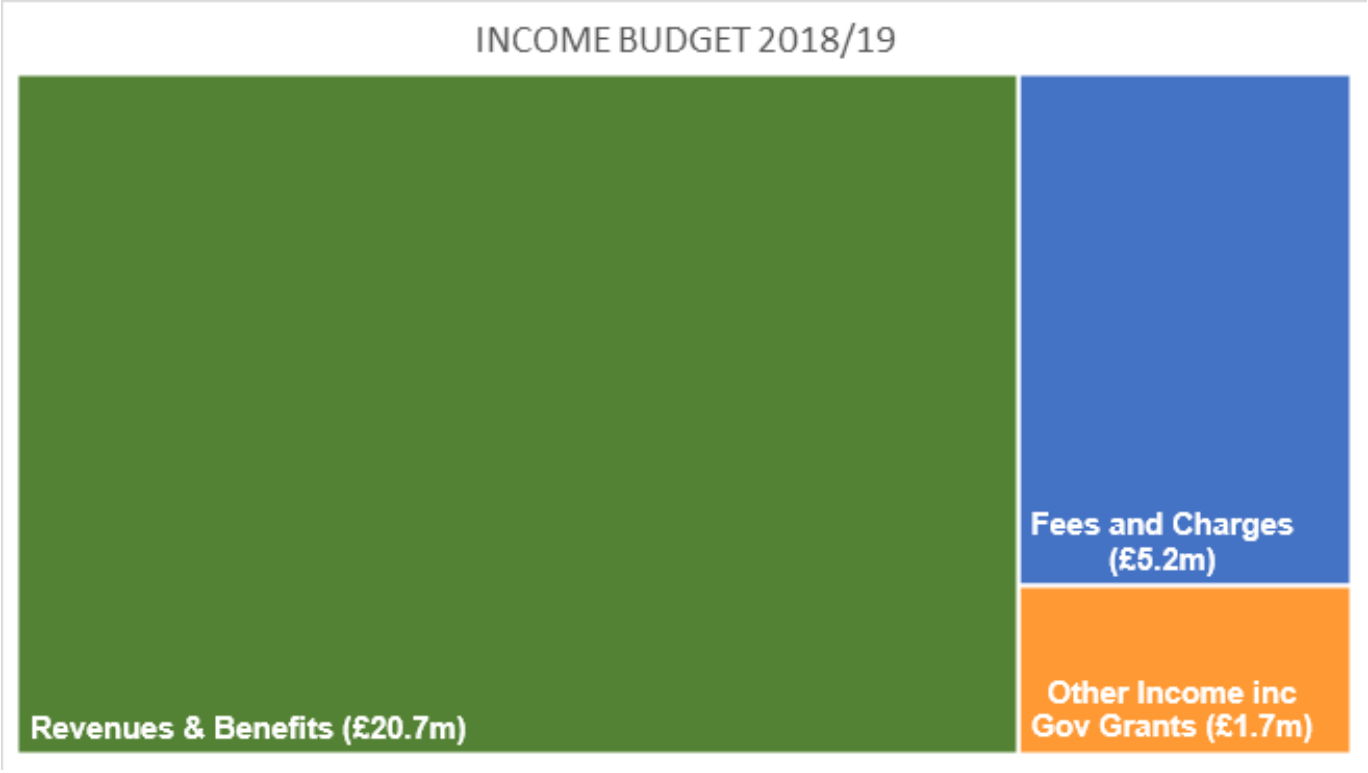
	£,000
Gross Expenditure	**37,299**
Income	**(27,555)**
Net expenditure 2018/19	**9,744**
Funded by:	
Earmarked Reserves	(1,417)
New Homes Bonus	(866)
S31 Grant	(797)
Business Rates	(2,694)
Collection Funds Deficit	1,244
Council Tax	(5,214)
Total Funding	**(9,744)**

5.2 Graph 1 below shows how the £37.3m gross expenditure is allocated across the services and Graph 2 shows the breakdown of the £27.6m income. The funding element is not shown in these graphs.

Graph 1 Gross Expenditure by service area in 2018/19



Graph 2 Income in 2018/19



5.3 The Revenues and Benefits element (£20m) in both the expenditure and the income charts above includes housing benefit paid out to claimants and received from Government.

5.4 For details of what services are within each area and a breakdown by service area of income please refer to the 2019/20 Budget Book at Appendix C.

5.5 The forecast position for 2018/19 reported to Cabinet in November showed a projected underspend of £639k. However, the main reason for this is due to one-off items such as additional S31 grants (£722k) as a result of the Business Rates pilot, beneficial interest rates on short term borrowing for CIFCO (£233k).

5.6 The recommendation at the time was to transfer £661k to the Business Rates equalisation reserve £141k to reserves for underspends in planning, health and wellbeing, waste and elections and £163k from reserves to fund planning appeal costs, and homelessness. These forecast transfers are shown in the reserves table in 7.5 Table 3 below. However, there may be further variances that occur throughout the remainder of the year. An updated position will be reported to Cabinet in March 2019 and the final outturn position in May 2019.

6. MEDIUM TERM FINANCIAL STRATEGY (MTFS) 2019-2023

Strategic Aims

6.1 In order to achieve the vision and ambition for the districts with significantly reduced government resources the Council needs to take a medium-term view of the budget through a financial strategy that is focused on meeting the corporate priorities.

6.2 The main strategic financial aim is to become self-financing i.e. not reliant on Government funding. There is a secondary aim to be in a position to generate more funds than are required for core services, to enable additional investment in the districts.

6.3 There are 3 key elements that need to be carefully balanced to ensure success. These are:

1. Cost management;
2. Income generation; and
3. Service levels.

6.4 **Principles**

6.5 The approach over the medium term is to transform the Council into an organisation that is thriving and not just surviving, by reviewing, remodelling and reinventing the way the Council operates.

The Cabinet proposes that the following overarching principles should be considered when evaluating ideas and opportunities for change are set out below:

- Reduce our costs (both internally and across the wider system)
- Increase our income
- Provide better / “best” value
- Increased social value
- Provide a better service for our customers

- Reduction in administration costs, without compromising service

6.6 The focus will be on internal efficiencies and improvements within existing structures. Continuously looking to streamline work and reduce waste in processes. Greater cross-functional working and mutli-skilling and improving ways of working to move away from 'professional silos' and toward integrated services for the public. Where customer demand is understood, analysed and met through new services and business models, and where the demand itself is re-shaped and managed while engaging service users to ascertain priorities.

6.7 The approach below shows in more detail for each element the methodology that will be adopted to achieve this.

Approach

6.8 A number of savings have been identified through this approach and built into the 2019/20 budget as shown in paragraph 8.17, Table 8. Some of these strands of work require a longer-term approach and may require additional resources and investment. The Council will continue this approach in order to transform the way the Council operates over the next three years.

7. RESERVES

7.1 When setting the budget for the forthcoming year the Council must have regard to the level of reserves needed to provide enough resources to finance estimated future expenditure plus any appropriate allowances that should be made for contingencies.

7.2 The Council has been making significant savings for a number of years as set out in 8.16 below, and with each year the challenge gets more difficult without negatively impacting on service standards. The approach outlined above will deliver savings or generate income to help close the medium-term budget gap. However, some of these will not be realised until 2020/21 onwards and investment from reserves may be required to deliver them.

7.3 Reserves only provide one-off funding, so the Council should avoid using reserves to meet regular recurring financial commitments.

7.4 In 2019/20 the Council is using £880k from earmarked reserves as follows;

- £569k of earmarked reserves against specific service expenditure (£446k shown against new pressures in paragraph 8.14 Table 7) and;
- £311k of earmarked reserves to support the budget gap (£256k from the commuted sums reserve and £55k from the personal searches reserve)

7.5 Table 3 below shows the earmarked reserves balance from 1 April 2018, forecast through to 1 April 2020. This shows that the level of reserves (excluding CIL) drops by 37% over the two years.

Table 3: Forecast Earmarked Reserve Levels

Transfers to / from Earmarked Reserves	Balance 1 April 2018	Transfers 2018/19 Out	Transfers 2018/19 In	Balance 31 March 2019	Transfers 2019/20 Out	Transfers 2019/20 In	Balance 1 April 2020
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Carry Forwards	(224)	224	(94)	(94)			(94)
Transformation Fund	(655)	2,033	(1,663)	(285)	1,790	(1,790)	(285)
Business Rates Equalisation Reserve	(788)	1,256	(661)	(193)		(197)	(390)
Strategic Planning	(339)		(10)	(349)	161		(188)
Government Grants	(248)			(248)			(248)
Homelessness	(259)	54		(205)	29		(176)
Commuted Maintenance Payments	(232)	50	(707)	(889)	384		(505)
Elections Fund	(50)		(10)	(60)	70	(20)	(10)
Planning Enforcement	(20)			(20)			(20)
Growth & Sustainable Planning	(20)			(20)			(20)
Planning (Legal)	(123)	59		(64)	41		(23)
Waste	(119)		(27)	(146)	141		(5)
Revocation of personal search fees	(55)			(55)	55		0
Sub-total exc CIL	**(3,131)**	**3,676**	**(3,172)**	**(2,627)**	**2,670**	**(2,007)**	**(1,964)**
Community Infrastructure Levy (CIL)	(2,496)			(2,496)			(2,496)
Total earmarked reserves	**(5,627)**	**3,676**	**(3,172)**	**(5,123)**	**2,670**	**(2,007)**	**(4,460)**

7.6 There is an agreed process for CIL bids, however nothing has been included in this table for CIL income and expenditure for 2019/20 as this is difficult to predict.

7.7 Local authorities are facing significant financial challenges and Babergh's use of reserves to fund core services in 2019/20 is 45% of the £1.9m balance remaining at the end of 2019/20. During the coming year the Council will need to focus on moving to a position by April 2020 where reserves are not relied upon to balance the budget as this will not be sustainable for long.

7.8 In addition to the earmarked reserves the Council also holds a general fund reserve of £1.2m, which equates to approximately 11% of the net cost of service. This is a prudent level of reserve to hold to mitigate against unexpected financial risks that cannot be offset by savings during the year or with use of the earmarked reserves in Table 3.

8. FORECAST BUDGET GAP TO 2022/23

To establish the medium-term budget gap several assumptions have been made as to the expected level of funding and a number of cost pressures and savings have been identified over the period. These are set out later in this section.

Funding

8.1 Funding arrangements for councils have changed significantly in recent years, the revenue support grant has been completely removed in 2019/20 and the future funding of New Homes Bonus (NHB) continues to remain an uncertainty.

8.2 2019/20 is the last year of the four-year Comprehensive Spending Review where councils had some certainty about their funding levels, therefore the position from 2020/21 remains more difficult to forecast.

8.3 The Fair Funding review is underway and further consultations are expected as the Government continues to review needs and funding, including how business rates will be distributed. Government has recognised that councils are now more reliant on council tax and business rates as the main sources of funding and has announced that from 2020 business rate retention will be 75% compared to 50% of the growth achieved in business rates income.

8.4 In 2018/19 the Council was part of a national pilot of 100% business rates retention which is forecasting an additional one-off income of £722k in the form of S31 grant and an additional £1.175m to be spent in agreement with Suffolk County Council on priorities to support growth. For Babergh this has provided funding for development in Sudbury – Belle Vue, Hamilton Road and the South Suffolk Business area and Housing Development at Angel Court. A further Suffolk wide bid was submitted for 2019/20 75% Pilot status, it was confirmed as part of the Provisional Finance Settlement announcement that Suffolk were not successful in this bid.

8.5 Since NHB was introduced in 2011/12 the Council has received £8.5m in total. The Council continues to be reliant on NHB to support the budget.

8.6 As shown in Table 4 below, the use of NHB to balance the budget increased from 88% in 2016/17 to 100% in 2018/19 and 2019/20. For a number of years there has been no surplus to transfer to the Transformation Fund.

Table 4: New Homes Bonus used from 2016/17 to 2019/20

	2016/17	2017/18	2018/19	2019/20	Total
	£'000	£'000	£'000	£'000	£'000
Amount of NHB received	1,779	1,212	866	683	4,540
NHB used to balance the budget	1,559	1,197	866	683	4,305
% of NHB allocation to balance budget	88%	99%	100%	100%	95%

8.7 Table 5 and Graph 4 below shows the NHB over the last nine years plus the estimated allocations for 2020/21 to 2022/23, assuming 0.7% growth over and above the 0.4% threshold.

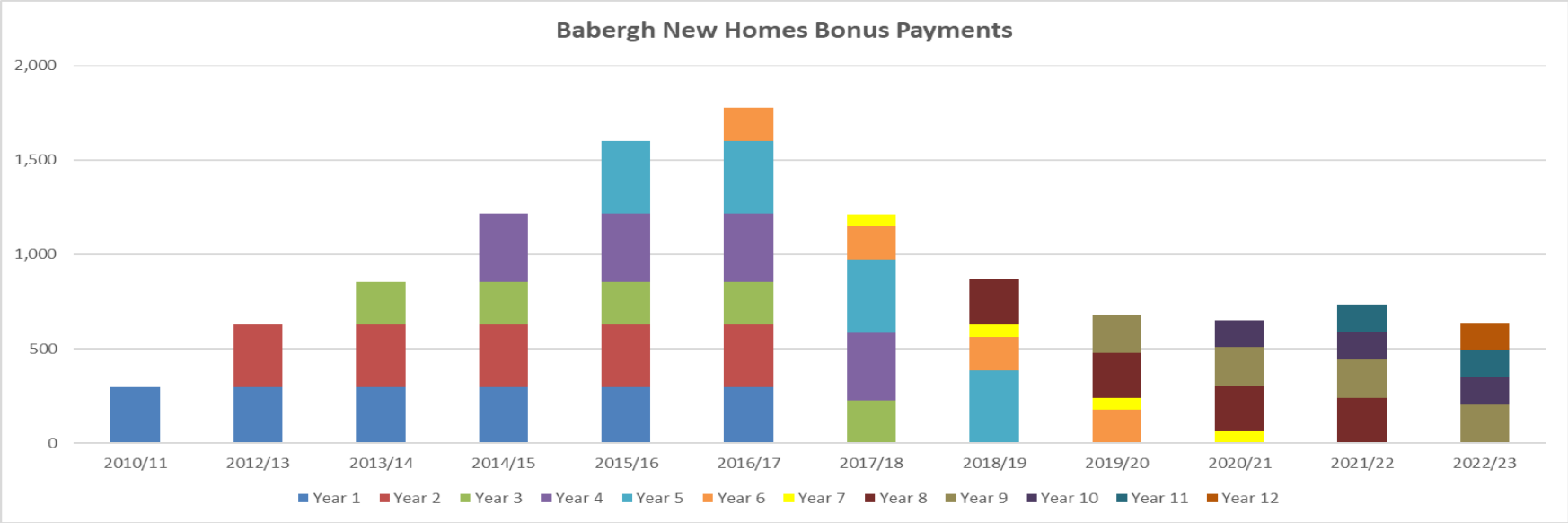
8.8 This clearly shows how the NHB has declined from £1.8m in 2016/17 to £0.6m in 2018/19, after the Government announced it would reduce the allocation from 6 years to 5 years in 2017/18 and to 4 years in 2018/19, as well as introducing a 0.4% growth baseline in 2017/18.

8.9 The 0.4% growth for Babergh means that the first 156 new homes built will receive no payment, so significant housing growth will need to be achieved to match historic income levels.

Table 5: New Homes Bonus sums per year

									Provisional	Estimated		
Payments	**2010/11**	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
Year 1	295	295	295	295	295	295						
Year 2		334	334	334	334	334						
Year 3			226	226	226	226	226					
Year 4				360	360	360	360					
Year 5					387	387	387	387				
Year 6						177	177	177	177			
Year 7							63	63	63	63		
Year 8								239	239	239	239	
Year 9									205	205	205	205
Year 10										145	145	145
Year 11											144	144
Year 12												143
Total	**295**	**630**	**856**	**1,215**	**1,602**	**1,779**	**1,212**	**866**	**683**	**652**	**733**	**637**

Graph 4: New Homes Bonus Payments - Estimated for 2020/21 to 2022/23



8.10 In calculating the expected level of funding across all sources, the following assumptions have been made:

a) No use of reserves after 2019/20.

b) NHB will continue beyond 2019/20, with no change to the 0.4% growth baseline and no change to 4 years' worth of allocation. Growth beyond 2019/20 is based on 0.7% to 2022/23.

c) No growth beyond 2019/20 in business rates income.

d) Nothing has been included for forecast Business Rates surplus or deficit beyond 2019/20 based on the assumption that the equalisation earmarked reserve will accommodate this.

e) Rural Service Delivery grant will continue beyond 2019/20.

f) £5 Council tax increase for 2019/20 and 2020/21 and 3% from 2021/22 where 3% is the higher amount, generating on average an incremental additional £171k per annum.

g) Taxbase growth of 1.5% per annum from 2020/21, approximately £86k per annum.

8.11 Table 6 below shows the funding received in 2018/19 and the forecast funding from 2019/20 to 2022/23. Ignoring the use of reserves (£880k for 2019/20) funding increases by 5.3% over the 4-year period. This is due to assumed council tax increases and NHB, based on the assumptions in 8.10 (b), (f) and (g) above.

8.12 Government funding is virtually non-existent now except for New Homes Bonus and Rural Service Delivery grant. If NHB continues as a funding stream to the Council, then housing growth is essential to secure this income. The main sources of funding for the Council are Business Rates and Council Tax.

8.13 In order to achieve a balanced budget, the Council will need to use 100% of NHB and 100% of S31 grant over the next four years totalling £7.1m.

Table 6: Forecast Funding 2019/20 – 2022/23

Description	*2018/19* Budget £000	*2019/20* Budget £000		*2020/21* Forecast £000	*2021/22* Forecast £000	*2022/23* Forecast £000
Funding:						
Other Earmarked Reserves	(1,038)	(880)				
Transformation Fund - DP Project (Staffing)	(50)					
Transformation Fund - to balance the budget	(329)					
New Homes Bonus - **provisonal 2019/20 onwards**	(866)	(683)		(652)	(733)	(637)
S31 Business Rates Grant	(797)	(1,107)		(1,107)	(1,107)	(1,107)
Government Support						
(a) Baseline business rates	(2,488)	(2,104)		(2,104)	(2,104)	(2,104)
(b) B/Rates – levy		495		527	527	527
(c) B/Rates – growth/pooling benefit	(206)	(283)		(283)	(283)	(283)
(d) B/Rates prior yr deficit / (surplus)	1,256	(197)		-	-	-
(e) Rural Services Delivery Grant	-	(227)		(227)	(227)	(227)
Council Tax Collection Fund surplus	(12)	(12)		(12)	(12)	(12)
Council Tax - £5 increase to Band D for 2019/20 and 2020/21 - 3% increase from 2021/22 onwards	(5,125)	(5,381)		(5,635)	(5,892)	(6,159)
Growth in taxbase	(89)	(85)		(82)	(86)	(90)
Total Funding	**(9,744)**	**(10,464)**		**(9,575)**	**(9,916)**	**(10,091)**

Pressures

8.14 In addition to the reduction in Government funding there are £3.5m of cost pressures that have been identified in 2019/20 and beyond. However, this includes £446k of other funding from reserves. Table 7 below shows the cost pressures the Council is expecting to face over the next four years.

Table 7: Forecast Cost Pressures 2019/20- 2022/23

BABERGH - MOVEMENT YEAR ON YEAR	18/19 to 19/20	19/20 to 20/21	20/21 to 21/22	21/22 to 22/23
	£000	£000	£000	£000
Net Service Cost previous year	**9,744**	**10,464**	**10,176**	**10,681**
Cost Pressures				
Inflation				
Employees - includes pay award, increments and deficit pension fund change	162	341	302	284
Contracts	89	113	120	124
Business Rates inc re-valuations	85	(5)	15	16
Sub total cost pressure	**335**	**450**	**438**	**424**
Other pressures				
Assets and Investments				
Borehamgate rental income	95			
Environment				
Waste - Material Recycling Facility (funded from reserves - £141k)	141			
Grounds Maintenance Contract (funded from reserves - £128k)	128			
Waste - Recycling Performance Payments	105			
Waste - refuse contract	54		130	
Housing				
PV panels	150			
Reduction in New Burdens Grant - homelessness	53			
Law and Governance				
Elections (funded from reserves - £70k)	75			
Land Charges income	47			
Planning and Communities				
Planning appeals (funded from reserves - £41k)	91			
Planning applications - landscape and ecology consultancy	79			
Neighbourhood Planning (funded from reserves - £66k)	74			
Planning fee income		65	58	58
Other Cost Pressures				
Charge to HRA and Capital	(66)	(23)	(23)	(24)
Net increase in transfers to reserves	190	(197)		
Minimum Revenue Provision (MRP)	102	187	94	
Other items (net)	116	(33)	50	(9)
Health and Safety	37			
Total Pressures	**1,806**	**449**	**747**	**449**
Pressures funded from earmarked reserves (as mentioned above)	(446)			

8.15 In calculating the pressures, the following assumptions have been made:

a) It has been agreed that a pay award of 2% will be made, so pay budgets have been increased accordingly. In view of the introduction of the national pay spine with effect from 1 April 2019, it has been necessary for the Council to review the current pay structure. The position for 2019/20 assumes the 2018/19 pay structure is just ‘transitioned’ to the 2019 pay spine and then increments applied as appropriate.

b) General Inflation
- Business rates on the Council's own properties - 3.9%
- Utilities – Nil increase
- Major contracts – 2% to 3.2%

c) Pension fund assumptions
- future rate contribution - 23%, no change from 2018/19
- pension lump sum – 2.4% reduction for 2019/20, 1% increase from 202/21 onwards

Savings

8.16 Over the years 2011/12 to 2018/19 the Council has achieved savings of £5.04m through shared services, efficiencies, better use of technology and maximising commercial opportunities.

8.17 Continuing in this vein and following the approach set out in section 6, savings/income of £2.4m have already been identified for 2019/20 and beyond. Table 8 below shows the savings the Council is expecting to achieve over the next four years.

Table 8: Forecast Savings 2019/20- 2022/23

BABERGH - MOVEMENT YEAR ON YEAR	18/19 to 19/20	19/20 to 20/21	20/21 to 21/22	21/22 to 22/23
	£000	£000	£000	£000
Savings				
Assets and Investments				
Property rental income				(300)
CIFCO (further investment) - interest receivable	(109)	(218)	(108)	
CIFCO - interest receivable	(123)	(4)	(4)	(4)
HQ security costs	(57)			
BMS Invest - recharging other services		(10)	(10)	(10)
Customer Access				
ICT contract saving	(25)			
Digital end to end		(25)	(25)	
Economy				
Rental income - South Suffolk Business Centre	(25)	(10)	(20)	(5)
Environment				
Building Control Income	(66)			
Finance				
Reduction to SRP contract	(60)			
Finance - includes contracts and debt recovery		(57)		
Law and Governance				
Legal expenses - Shared Legal Services	(36)			
Elections		(75)		
Planning and Communities				
Increase to CIL 5% administration charge	(86)			
Cessation of Community Housing Fund fixed term post for 2 years (funded from reserves)		(95)		
Neighbourhood Planning (funded from reserves)		(74)		
Other Savings				
Reduction to employee costs	(448)	(120)	(25)	
Contract management savings	(50)	(50)	(50)	(50)
Total savings	**(1,086)**	**(738)**	**(242)**	**(369)**

8.18 As reported at Council in December 2018 the approved lending to invest in commercial property through CIFCO is anticipated to reach approximately £50m before April 2019. Babergh and Mid Suffolk will have each loaned £25m. Full Council continues to approve CIFCO's Business Plan on an annual basis, and in doing so manages the risk profile of the investment portfolio.

8.19 The Councils took professional advice prior to the creation of the CIFCO vehicle. Having established the appropriate company structures and acquired commercial properties to the value of approximately £50m over the last two years, the Councils have established 'proof of concept' that this is an effective mechanism to generate income for the Councils to invest in local services in Babergh and Mid Suffolk.

8.20 As set out in Table 8 and in recommendation 3.3 it is proposed that each Council now approves making a further £25m available through lending to CIFCO. Commencing in 2019/20, with full investment achieved by 2021/22, this is budgeted to generate an additional net income of £435k to each Council over the three years.

Budget Gap

8.21 Table 9 below shows the forecast surplus or deficit for 2020/21 - 2022/23 with and without New Homes Bonus.

8.22 The four-year deficit of £0.7m is achieved by using £8.9m in total of the following;

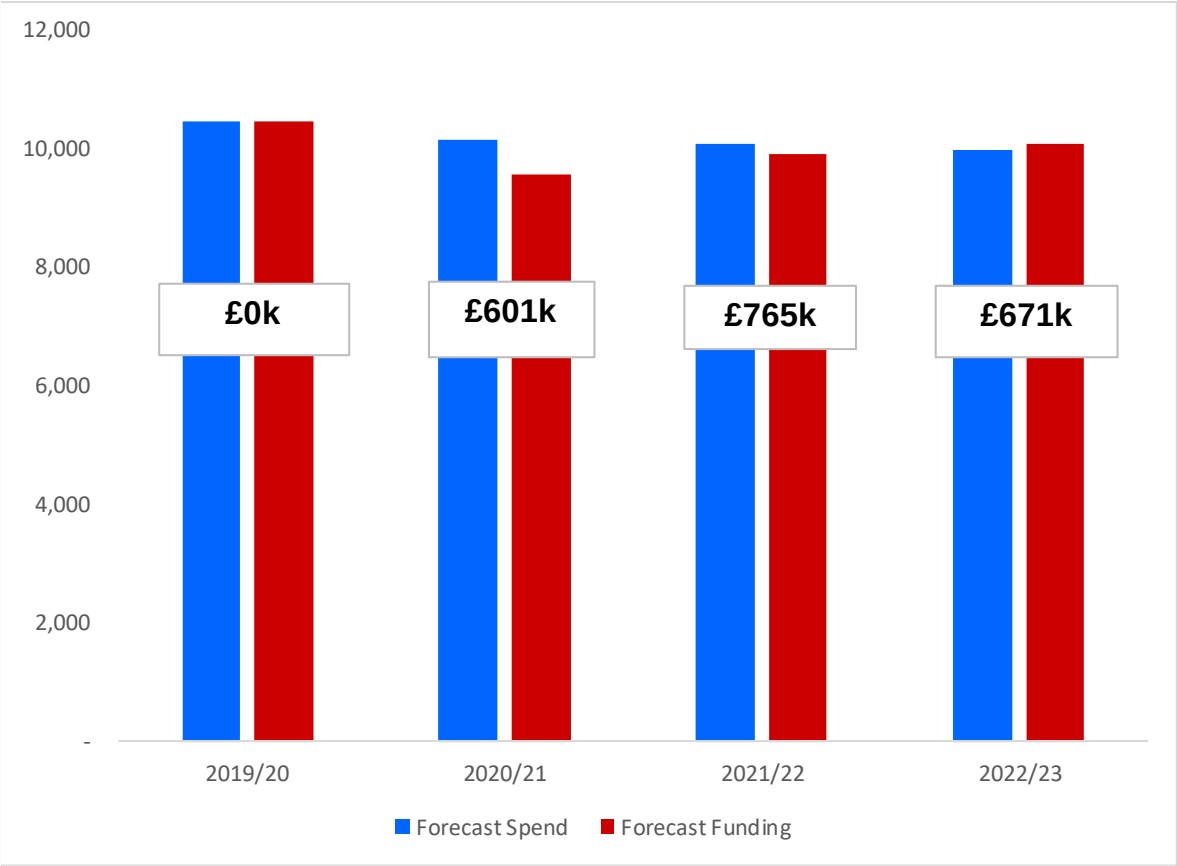
- £2.7m New Homes Bonus;
- £4.4m S31 grant;
- £0.9m Rural Service Delivery Grant; and
- £0.9m from reserves (£0.4m, from the Commuted Maintenance reserve which is a one-off).

8.23 As shown in Table 9 below, without NHB the 4-year position is a deficit of £3.4m. In order to achieve the strategic financial aim of becoming self-financing the Council will need to deliver significant income or savings by reviewing, remodelling and reinventing the way it operates in the future as set out in section 6.

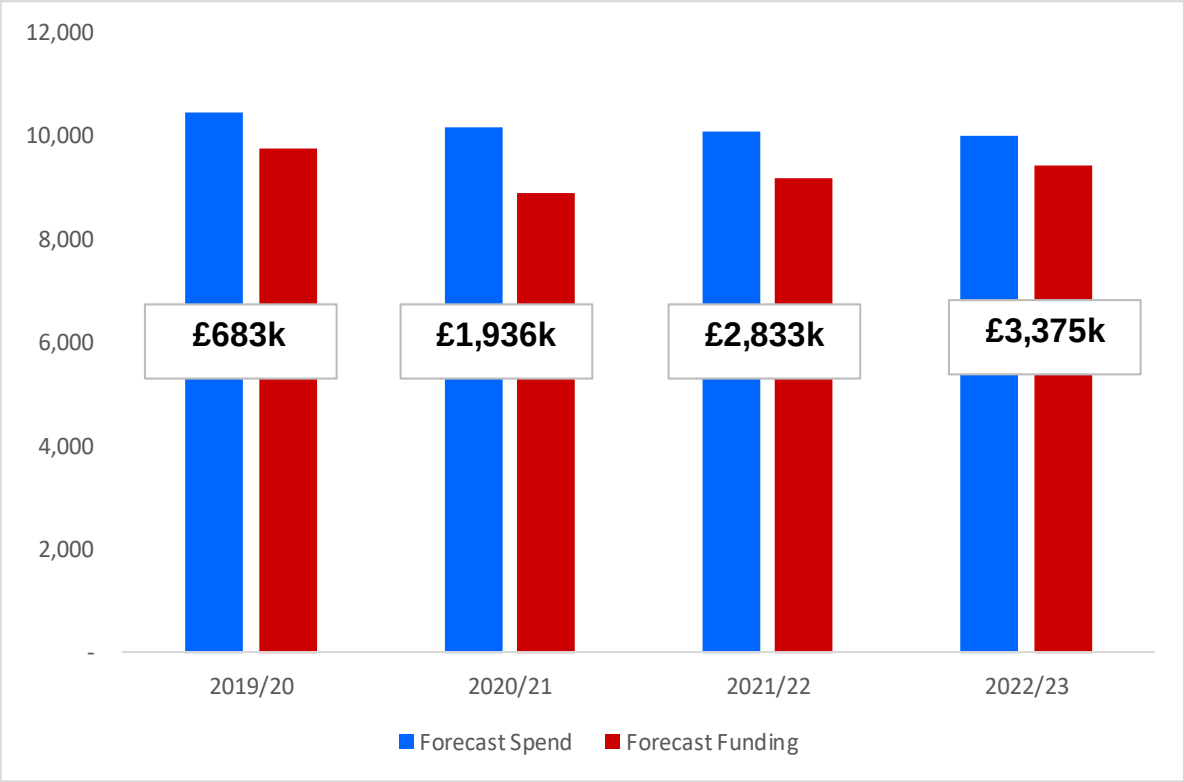
Table 9: Forecast Budget Gap 2019/20- 2022/23

	2019/20 £000	**2020/21 £000**	**2021/22 £000**	**2022/23 £000**
Previous Year Budget	9,744	10,464	9,575	9,916
Cost pressures	1,806	449	747	449
Savings	(1,086)	(738)	(242)	(369)
Sub total	**10,464**	**10,176**	**10,080**	**9,996**
New Year Funding	(10,464)	(9,575)	(9,916)	(10,091)
Annual Budget (surplus)/deficit	**(0)**	**601**	**164**	**(95)**
Cumulative (surplus)/deficit	**(0)**	**601**	**765**	**671**
New Homes Bonus	683	652	733	637
Annual Budget (surplus)/deficit excluding New Homes Bonus	**683**	**1,253**	**897**	**542**
Total 4 year (surplus)/deficit				**3,375**

Graph 3: Forecast Budget Gap including NHB (Cumulative) 2019/20 - 2022/23



Graph 4: Forecast Budget Gap excluding NHB (Cumulative) 2019/20 - 2022/23



9. HOW IS THE COUNCIL'S REVENUE BUDGET BEING SPENT IN 2019/20?

9.1 The summary in Appendix A shows a breakdown of the Council's net cost of service for 2018/19 (£9.744m) and 2019/20 (£10.464m) an increase of £720k (7%). However, in order to achieve such a modest increase, in 2019/20 the Council is utilising £880k of earmarked reserves, £1.1m of S31 grant, £683k of New Homes Bonus and £227k of Rural Service Delivery Grant.

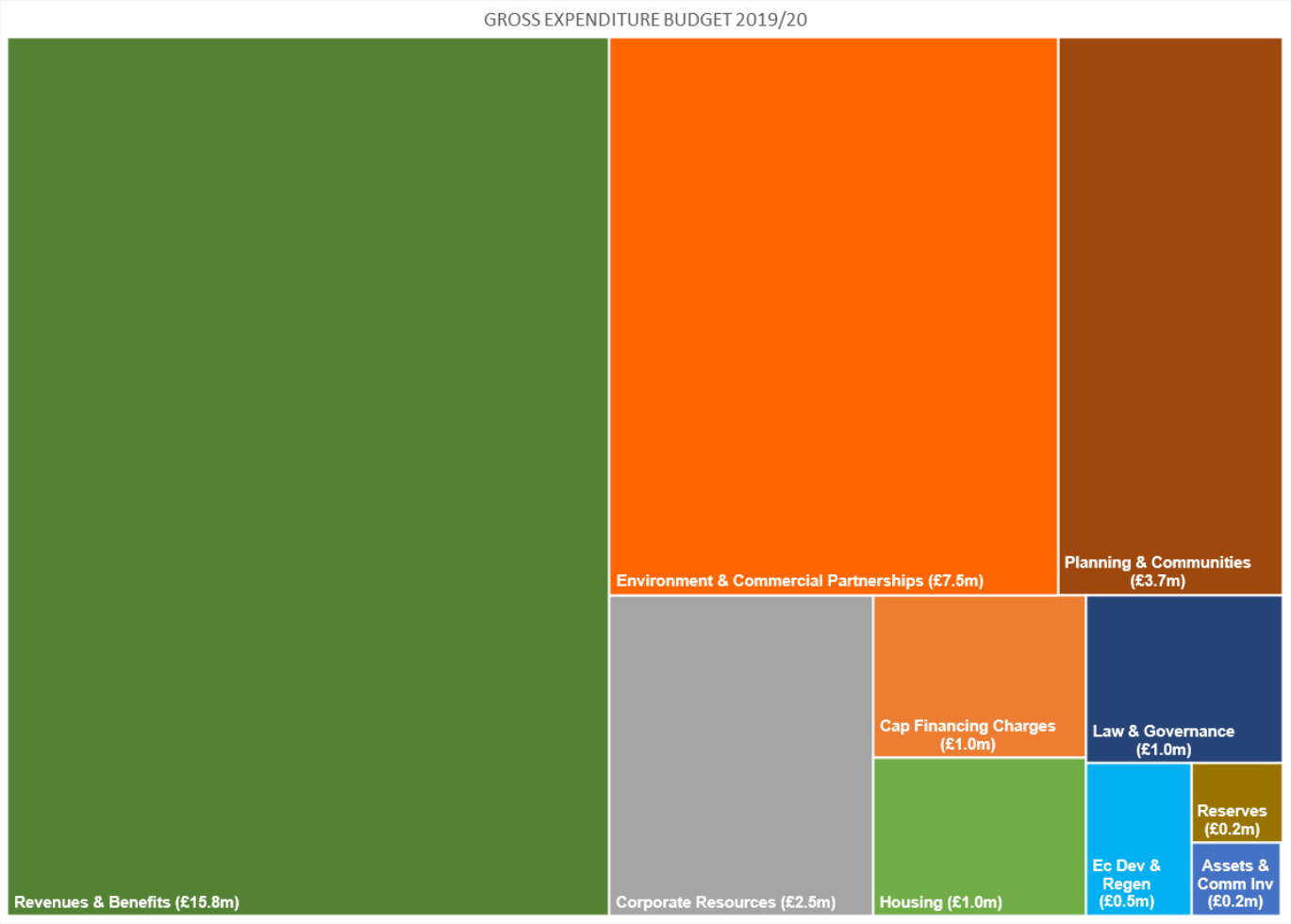
9.2 The Council's 2019/20 gross expenditure is £33.4m and Income is £22.9m giving a net cost of service of £10.5m. Table 10 below shows how this is funded. Further details by service area can be found in the Budget Book in Appendix C.

Table 10: Revenue Budget 2019/20

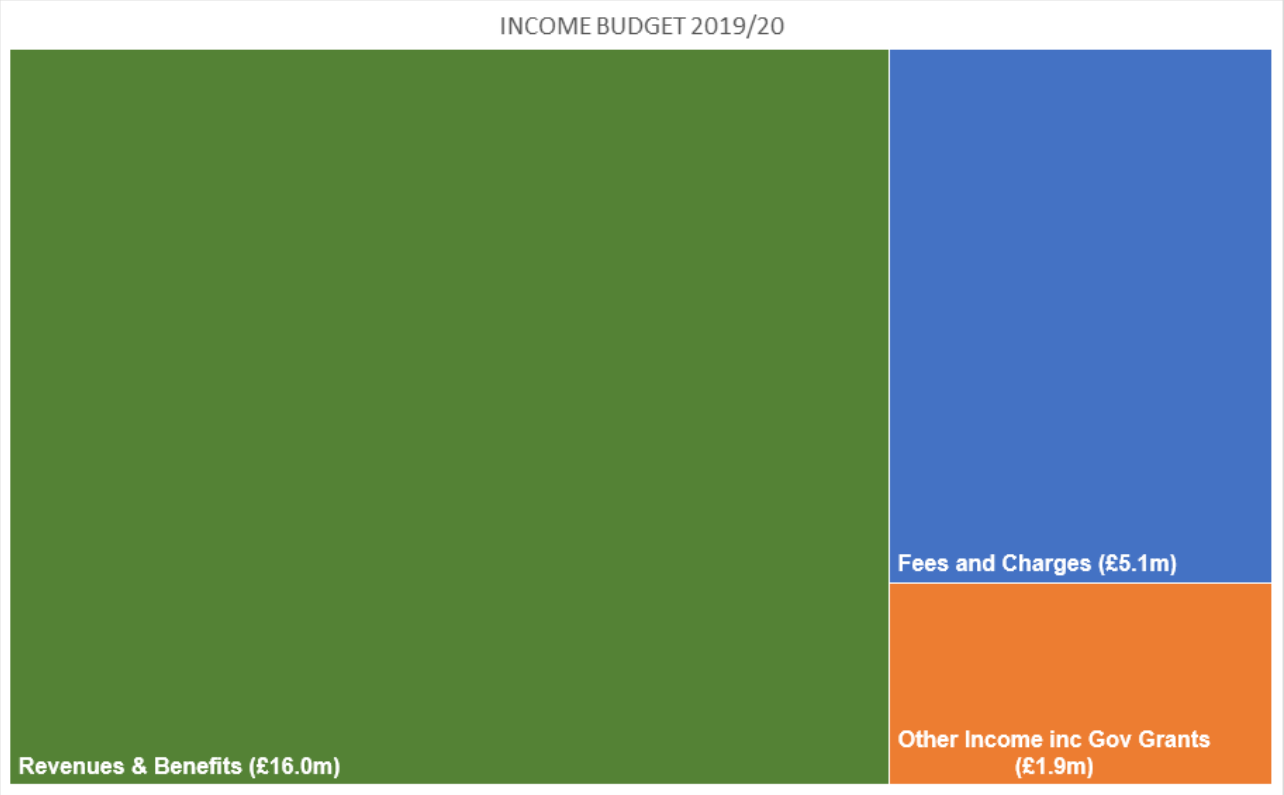
	£,000
Gross Expenditure	**33,433**
Income	**(22,969)**
Net expenditure 2019/20	**10,464**
Funded by:	
Earmarked Reserves	(880)
New Homes Bonus	(683)
S31 Grant	(1,107)
Business Rates	(1,892)
Collection Funds (Surplus)	(209)
Rural Service Delivery Grant	(227)
Council Tax	(5,466)
Total Funding	**(10,464)**
Budget deficit/(Surplus)	**0**

9.3 Graph 5 below shows how the £33.4m gross expenditure is allocated across the services and Graph 6 below shows the breakdown of the £22.9m income. The funding element is not shown in these graphs.

Graph 5 Gross Expenditure by service area in 2019/20



Graph 6 Income by service area in 2019/20



9.4 The Revenues and Benefits element (£16m) in both the expenditure and the income charts above includes housing benefit paid out to claimants and received from Government.

9.5 For details of what services are within each area and a breakdown by service area of income please refer to the 2019/20 Budget Book at Appendix C.

Fees and charges

9.6 Fees and charges have been reviewed by budget holders as part of this budget setting process and a summary of fees and charges for 2018/19 and 2019/20 will be included in the report to Cabinet in February 2019.

9.7 A further benchmarking exercise will be undertaken during 2019/20 to review the Council's levels of fees and charges.

10. CAPITAL PROGRAMME

10.1 The detailed Capital Programme is attached at Appendix B, the main areas of planned spend is on Belle Vue £4m, a further £25m investment in CIFCO, split equally in 2019/20 and 2020/21, and the Strategic Investment Fund £3m all of which will be funded from borrowing.

10.2 The Capital and Investment Strategy will have further details of the Council's borrowing capacity and the impacts of the capital programme, this will be presented to Cabinet in February along with the final budget report, following review by Joint Audit and Standards Committee in January 2019.

11. COUNCIL TAX CARE LEAVERS DISCOUNT

11.1 The Government's care leaver strategy 'Keep on Caring' published in July 2016 encourages Local Authorities to consider how they can support care leavers, using existing flexibilities, to meet their Council Tax payments.

11.2 In the strategy, the Government recognises that young people leaving care constitute one of the most vulnerable groups in society, and both the Government and wider society have a moral obligation to give them the support they need as they make transition to adulthood and independent living

11.3 The strategy focuses on embedding a culture of corporate parenting across all parts of local authorities. An increasing number of local authorities are now introducing measures that mean more and more care leavers across the country no longer have to pay council tax

11.4 Suffolk County Council has approached all of the Council's within Suffolk to consider introducing a discount for care leavers from the 1 April 2019. Suffolk Public Sector Leaders and Chief Executives have provisionally agreed to the introduction of this policy. This report seeks to formalise arrangements.

11.5 The Council has the discretion to reduce the Council Tax liability for individuals or prescribed groups. The Council exercises this discretion in accordance with Section 13A of the Local Government Finance Act 1992, in respect of local Council Tax Reductions and for ad hoc cases of extreme financial hardship.

11.6 A Care Leaver is defined as a person under 25, who has been looked after by a local authority for at least 13 weeks since the age of 14 and who was looked after by the local authority at school-leaving age or after that date. As at August 2018 Babergh had 35 defined care leavers.

11.7 The Council currently operates a Council Tax Reduction scheme (CTRS) which grants a reduction to council tax payers based on an assessment of their means to pay. It is estimated that a significant proportion of care leavers, indicated above, will fall within the scope of the CTRS and will already be receiving a reduction in their council tax. However, there is no specific policy for care leavers and the approval of the proposed scheme would act as a top up for any care leavers' who currently do not receive CTRS at 100%.

11.8 This discretionary relief will not be means tested and will be granted to anyone meeting the eligibility criteria. In summary it will be exercised as follows:

a) Where the reduction is awarded, it will remain in place until the care leaver reaches the age of 25 years (the care leavers 25th birthday) or ceases to be liable for council tax, whichever date occurs first. In these circumstances, the bill will be apportioned according to the number of months applicable.

b) Where a care leaver has a liability for council tax, the reduction in that liability will be up to 100%. The amount of reduction awarded will be the relevant amount (after all other discounts, reductions and exemptions) required to reduce the care leavers council tax liability amount to zero.

11.9 Care leavers discounts are administered under Section 13A (1)(c) of the Local Government Finance Act 1992, which means they are discretionary local reliefs and must be paid fully by the local authorities. However, if introduced, Suffolk County Council has agreed to fund their share of the cost.

11.10 The Council does not yet have a full understanding of the demographic, but it is probable that the majority of care leavers will fall within scope of the existing Council Tax Reduction Scheme or receive support through the Council's Housing Benefit scheme or Universal Credit, if resident within housing of multiple occupation (where the council tax is passed on through their rent as the owners are liable).

11.11 As an illustration, a decrease in the collected council tax could be £37,105 per annum (assuming a single resident in a Band A property). The Babergh element would be £3,710. This is based on 35 care leavers in 2018/19 living independently for a full year in a Band A property. However, as previously stated, it is extremely unlikely that the costs will be this high and it is anticipated that they will be much lower.

12. EMPTY HOME PREMIUM

12.1 Prior to April 2013 billing authorities could charge up to a maximum of 100% Council Tax on dwellings that had been empty and unfurnished for more than two years. From April 2013 billing authorities were given powers to charge a premium of up to 50% of the Council Tax payable in these circumstances.

12.2 The guidance (Council Tax empty homes premium: guidance for properties for sale and letting) was issued in May 2013 and states:

12.3 This guidance paper should not be treated as an interpretation of the legislation or as statutory guidance. Billing authorities are free to make their own decisions when administering the premium. The government expects billing authorities to consider the reasons why properties are unoccupied and unfurnished, including whether they are available for sale or rent, and decide whether they want such properties to be included in their determination. When considering the reasons an authority may want to take account of the following:

- On average, how long have properties in their area been available for sale or rent before completion/occupation.
- What is the average price/rent in the local area?

12.4 The premium may be applied when a property has been empty for two years irrespective of how long its current owner has owned it. It is possible, therefore, for an individual to buy a property which has already been empty for two years and be liable for the premium immediately. This scenario may occur if, for instance, the purchaser does not occupy the property immediately as they wish to extend or renovate the property. If the property is occupied for a period of six weeks or less, it is regarded as not having been occupied for the purposes of the two-year period. Occupancy of a long-term empty property for more than six weeks 'resets the clock' for this purpose.

12.5 The Council Tax (Prescribed Classes of Dwellings) (England) Regulations 2003 (as amended) specify that the premium cannot apply to homes that are empty due to the owner living in armed forces accommodation for job-related purposes or annexes being used as part of a main property.

12.6 Babergh implemented a 50% premium on dwellings that have been empty and unfurnished for more than two years from the 1 April 2013 in order to provide an incentive to bring long term empty properties back into us.

12.7 The Table 11 below shows the number of empty premium cases since 2013, it shows that the premium has been an important incentive to increase the supply of housing.

Table 11: Empty Premium Cases since 2013

	2013	2014	2015	2016	2017	2018
Babergh	163	103	108	86	83	76

12.8 At the November 2017 Budget the Chancellor announced that the Government was proposing to increase the amount billing authorities can charge for long term empty properties from 50% to 100%. The intention is that primary legislation will be in place in order to implement these changes from April 2019.

12.9 The regulations received Royal Assent on the 1 November 2018 and provide the following:

- For the financial year beginning on 1 April 2019 the maximum premium is 100%
- For the financial year beginning on 1 April 2020 the maximum premium is
    - Long Term Empty 2 -5 years – 100%
    - Long Term Empty 5 years and over – 200%
- For the financial year beginning on 1 April 2021 the maximum premium is
    - Long Term Empty 2-5 years – 100%
    - Long Term Empty 5–10 years – 200%
    - Long Term Empty at least 10 years – 300%

The Government have still to issue any guidance.

12.10 The recommendation at 3.6 is to increase the premium in line with the regulations in 12.9 above.

13. LINKS TO JOINT STRATEGIC PLAN

13.1 Ensuring that the Council makes best use of its resources is what underpins the ability to achieve the priorities set out in the Joint Strategic Plan. Specific links are to financially sustainable Councils, managing our corporate assets effectively, and property investment to generate income.

14. FINANCIAL IMPLICATIONS

14.1 These are detailed in the report.

15. LEGAL IMPLICATIONS

15.1 The provisions of the Local Government Finance Act 1992 (LGFA 1992) requires the Council to set a balance budget with regard to the advice of its Chief Finance Officer (Section 151).

15.2 The changes to the Care Leavers Discount are in accordance with the Local Government Finance Act 1992, Section 13A (1)(c).

15.3 The Rating (Property in Common Occupation) and Council Tax (Empty Dwellings) Act 2018 amends section 11B of Local Government Finance Act 1992 to apply the charges as set out in paragraph 12.9.

16. RISK MANAGEMENT

16.1 This report is most closely linked with the Council's Significant Risk No. 5d – We may be unable to respond in a timely and effective way to financial demands and also Corporate Risk No. SE05 – if the Finance Strategy is not in place with a balanced position over the medium term the Councils will not be able to deliver the core objectives and service delivery may be at risk of not being delivered. Other key risks are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
If the Council does not plan and identify options to meet the medium-term budget gap, then it will have a detrimental impact on the resources available to deliver services and the strategic priorities.	Unlikely - 2	Bad - 3	Clear priority outcomes and robust business cases for investment plus use of the Transformation Fund to support the MTFS and an Investment Strategy. The S151 Officer will submit the Section 25 report on the robustness of estimates and adequacy of reserves in February 2019.
If economic conditions and other external factors are worse than budgeted for it could have an adverse effect on the Councils future medium-term financial position	Probable – 3	Noticeable - 2	Maintain the focus and momentum on reducing the budget gap throughout the financial year using the detailed template and opportunities work.

17. CONSULTATIONS

17.1 Consultations have taken place with Assistant Directors, Corporate Managers and other Budget Managers as appropriate.

17.2 For the Empty Home premium here is no statutory requirement to consult on these proposals. However, contact will be made with those Council taxpayers likely to be subject to the changes prior to annual bills being issued in March 2019.

18. EQUALITY ANALYSIS

19. Equality Analyses will be undertaken for any service areas where significant changes are proposed as a result of the above process.

20. ENVIRONMENTAL IMPLICATIONS

20.1 There are no specific environmental implications from the costs and savings identified in this report.

21. APPENDICES

Title	Location
Appendix A – Draft General Fund Budget Summary 2019/20	Attached
Appendix B – Draft Capital Programme	Attached
Appendix C - Draft Budget Book 2019/20	Attached

22. BACKGROUND DOCUMENTS

Provisional Local Government Finance Settlement

General Fund Financial Monitoring 2018/19 – April to August BCa/18/43

BOS/18/22

APPENDIX A

DRAFT GENERAL FUND BUDGET SUMMARY 2019/20

GENERAL FUND REVENUE BUDGET SUMMARY

		2018/19 £'000	2019/20 £'000	Movement £'000
1	Employee Costs	7,971	7,440	(531)
2	Premises	807	870	64
3	Supplies & Services	3,577	4,291	714
4	Transport	279	208	(73)
5	Contracts	4,244	4,455	210
6	Third Party Payments	20,202	15,523	(4,679)
7	Income	(26,872)	(22,424)	4,448
8	New Homes Bonus	(866)	(683)	182
9	Charge to HRA	(1,106)	(1,128)	(23)
10	Charge to Capital	(227)	(4)	224
	Capital Financing Charges			
11	Debt Management Costs	3	-	(3)
12	Interest Payable (Pooled Funds)	9	13	4
13	Interest Payable (CIFCO)	594	529	(65)
14	MRP	933	1,035	102
	Investment Income			
15	Pooled Funds	(421)	(418)	3
16	Interest Receivable (Cash Surplus)	(8)	(19)	(11)
17	Interest Receivable (CIFCO)	(1,064)	(1,229)	(165)
	Transfers to Reserves			-
18	(a) New Homes Bonus	866	683	(182)
19	(b) S31 Business Rates Grant	797	1,107	310
20	(c) Other	27	217	190
21	**Net Service Cost**	**9,744**	**10,464**	**720**
22	Transformation Fund - Staffing (NHB)	(50)	-	50
23	Transfers from Reserves - earmarked	(1,038)	(880)	158
24	Transformation Fund - to balance the budget	(329)	-	329
25	New Homes Bonus - to balance the budget	(866)	(683)	182
26	S31 Business Rates Grant - to balance the budget	(797)	(1,107)	(310)
27	Baseline business rates	(2,488)	(2,104)	384
28	Business rates levy	-	495	495
29	Business rates – 17/18 collection fund deficit / (surplus)	1,256	(197)	(1,453)
30	Business rates – growth/pooling benefit	(206)	(283)	(77)
31	Rural Services Delivery Grant	-	(227)	(227)
32	Council Tax	(5,214)	(5,466)	(252)
33	Surplus on Council Tax Collection fund	(12)	(12)	(0)
34	**Total Funding**	**(9,744)**	**(10,464)**	**(720)**

Council Tax Base	(32,822)	(33,359)	(537)
Council Tax for Band D Property	158.86	163.86	5.00
Council Tax	**(5,214)**	**(5,466)**	**(252)**

BOS/18/22

APPENDIX B

DRAFT CAPITAL PROGRAMME 2019/20 TO 2022/23

BABERGH CAPITAL PROGRAMME 2019/20 - 2022/23 GENERAL FUND	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	TOTAL BUDGET (over 4 years) £'000	Capital Receipts £'000	Revenue Contributions to Capital £'000	Reserves £'000	Government Grants £'000	S106 £'000	Borrowing £'000	Total Financing £'000
Supported Living												
Mandatory Disabled Facilities Grant	409	409	409	409	**1,636**				1,636			**1,636**
Discretionary Housing Grants	100	100	100	100	**400**						400	**400**
Empty Homes Grant	100	100	100	100	**400**						400	**400**
Total Supported Living	**609**	**609**	**609**	**609**	**2,436**	**0**	**0**	**0**	**1,636**	**0**	**800**	**2,436**
Environment and Projects												
Replacement Refuse Freighters - Joint Scheme	376	298	0	2,010	**2,684**						2,684	**2,684**
Recycling Bins	65	65	65	65	**260**						260	**260**
Total Environment and Projects	**441**	**363**	**65**	**2,075**	**2,944**	**0**	**0**	**0**	**0**	**0**	**2,944**	**2,944**
Communities and Public Access												
Community Development Grants	117	117	117	117	**468**						468	**468**
Play Equipment	50	50	50	50	**200**						200	**200**
Planned Maintenance / Enhancements - Car Parks	36	50	50	50	**186**						186	**186**
Total Community Services	**203**	**217**	**217**	**217**	**854**	**0**	**0**	**0**	**0**	**0**	**854**	**854**
Total Leisure Contracts	**4,537**	**337**	**150**	**150**	**5,173**	**682**	**340**	**0**	**150**	**0**	**4,002**	**5,174**
Capital Projects												
Planned Maint / Enhancements - Other Corp Buildings	48	44	44	44	**180**						180	**180**
Total Capital Projects	**48**	**44**	**44**	**44**	**180**	**0**	**0**	**0**	**0**	**0**	**180**	**180**
Investment and Commercial Delivery												
Belle Vue	4,000	2,000	0	0	**6,000**						6,000	**6,000**
Property Investment Fund	3,000	0	0	0	**3,000**						3,000	**3,000**
HQ site	582	2,597	0	0	**3,179**						3,179	**3,179**
CIFCO - further investment	12,500	12,500	0	0	**25,000**						25,000	**25,000**
Total Investment and Commercial Delivery	**20,082**	**17,097**	**0**	**0**	**37,179**	**0**	**0**	**0**	**0**	**0**	**37,179**	**37,179**
Corporate Resources												
ICT - Hardware / Software costs	200	200	200	200	**800**						800	**800**
Total Corporate Resources	**200**	**200**	**200**	**200**	**800**	**0**	**0**	**0**	**0**	**0**	**800**	**800**
Total General Fund Capital Spend	**26,120**	**18,867**	**1,285**	**3,295**	**49,566**	**682**	**340**	**0**	**1,786**	**0**	**46,759**	**49,566**