

BABERGH DISTRICT COUNCIL

From: Assistant Director – Corporate Resources	Report Number: S87
To: Strategy Committee	Date of meeting: 1 December 2016

2017/18 GENERAL FUND BUDGET UPDATE

1. Purpose of Report

- 1.1 This report provides an update on the work that has been undertaken so far on the 2017/18 General Fund budget, explains the budget process and the approach taken, and models different variables that will impact on the budget shortfall or surplus across the Medium Term Financial Strategy (MTFS) period.
- 1.2 To enable Members to consider the impact that key aspects will have on the 2017/18 Budget, including Council Tax Base, Council Tax and the New Homes Bonus.

2. Recommendation

- 2.1 That the progress on developing the General Fund budget for the period 2017/18 to 2020/21 and the intention to increase Council tax in 2017/18 be noted.

3. Financial Implications

- 3.1 These are detailed in the report.

4. Legal Implications

- 4.1 These are detailed in the report.

5. Risk Management

- 5.1 This report is most closely linked with the following Significant Risk:- 5f – Failure of the Councils to become financially sustainable in response to funding changes. Other key risks are outlined below:-

Risk Description	Likelihood	Impact	Mitigation Measures
Failure to plan and identify options to meet the medium term budget gap and savings or additional income not being realised	2 - Unlikely	3 - Bad	Clear priority outcomes and robust business cases for investment plus use of the Transformation Fund to support the MTFS and an Investment Strategy

Risk Description	Likelihood	Impact	Mitigation Measures
Failure to implement cost sharing protocol results in inaccurate or unfair allocation of shared costs and income	1 – Highly Unlikely	2 - Noticeable	Assessment made for 2017/18 Budget, which will be reviewed further to ensure it is robust and accurate. Amend if circumstances change

5.2 A full risk assessment on the final Budget proposals will be included in the February report that will set out the key risk areas of expenditure and income that are reflected in the Council's Budget.

6. Consultations

6.1 Consultation has taken place with Assistant Directors and Corporate Managers.

7. Equality Analysis

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

8. Shared Service / Partnership Implications

8.1 The Joint Strategic Plan and MTFs determine and shape the Council's future plans and service provision, with regard to each Council's financial position.

8.2 The Budgets for 2017/18 will reflect the estimated sharing of costs and savings between the two Councils. However, there are and will be ongoing differences in the detailed financial position of each Council's General Fund. There will be instances, therefore, when staff resources and money is focused on a specific priority in one Council.

8.3 Actual staffing and other costs will have to be reflected in the accounts year on year and funding adjusted accordingly to ensure that each Council's finances are accounted for separately and that costs and benefits from integration and shared services continue to be allocated appropriately to each Council.

9. Links to Joint Strategic Plan

9.1 Ensuring that the Council has the resources available is what underpins the ability to achieve the priorities set out in the Joint Strategic Plan as detailed at 10.3 below.

10. Strategic Context

10.1 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, with the move to 100% retention of Business rates income in 2020, so encouraging and supporting both business and housing growth is essential to the financial future of the Council.

- 10.2 The Council recognised the changing funding landscape, the challenges and opportunities this creates and has developed a Medium Term Financial Strategy (MTFS) that responds to this challenge. The budget process supports the direction of travel of the Councils in developing the business model to respond to the financial challenges.
- 10.3 The strategic response to those challenges, to ensure long term financial sustainability, is set out in six key actions:
- (a) Aligning resources to the Councils' refreshed strategic plan and essential services.
 - (b) Continuation of the shared service agenda, collaboration with others and transformation of service delivery.
 - (c) Behaving more commercially and generating additional income.
 - (d) Considering new funding models (e.g. acting as an investor).
 - (e) Encouraging the use of digital interaction and transforming our approach to customer access.
 - (f) Taking advantage of new forms of local government finance (e.g. new homes bonus, business rates retention).

The actions that have been taken under the strategy mean that the Council is in a better position to withstand the reduction in government grant and achieve a balanced budget in 2017/18.

11. Financial Position – General Fund

- 11.1 Funding arrangements for Councils have changed significantly with the Revenue Support Grant decreasing from £992k in 2016/17 to an estimated £504k in 2017/18, a 49% reduction with a further reduction to £204k in 2018/19, followed by a tariff payable to central government of £131k in 2019/20.
- 11.2 In order to receive certainty over the settlement numbers for the next three years from central government, district Councils were required to submit an efficiency plan. Babergh District Council took advantage of gaining certainty for the next three years by submitting the Medium Term Financial Strategy and Joint Strategic Plan by way of demonstrating that the Council has an efficiency plan.
- 11.3 With this in mind Councils are becoming reliant on Business Rates income and 'incentivised' funding such as the New Homes Bonus. Business rates and new homes growth will, therefore, be the main sources of income (plus other income generated locally) if we are to achieve a sustainable Budget in the years ahead.
- 11.4 It must be emphasised that the total estimated core funding for next year and future years is not a fixed guaranteed amount as it is now dependent on variations in business rates income. This is carefully monitored and the volatility and risks, for example the level of appeals, will affect the amount of income received.

12. Budget Process

- 12.1 In order to address the budget gap, both in the short and medium term the budget process for 2017/18 has involved several strands of work with the focus on maximising our income streams, continuing to make efficiencies and productivity savings and using new ways of working to work as cost effectively as possible.
- 12.2 The Finance and Human Resources Business Partners have done a great deal of work with Corporate Managers reviewing the salary budgets. At the time of writing this report this work was not quite complete therefore the salaries figures included are based on the 2016/17 budget increased for the pension fund deficit, and increments, however the numbers will be updated for the draft budget report that will be presented to this committee in January.
- 12.3 The Corporate Manager for Finance and the Senior Business Partner have attended all the services team meetings to discuss the funding challenges and to explore and capture ideas they have for savings, efficiency and income generating ideas. These suggestions along with a great deal of work that is already happening across the Councils on the capital investment strategy, public realm review, leisure strategy review and the public access transformation and accommodation review have been collated and associated financial implications are being forecast.
- 12.4 These initiatives will be discussed at the relevant Theme Boards, and where appropriate incorporated into the budgets and MTFS.
- 12.5 Finance has worked closely with Corporate Managers and reviewed each budget in detail and taken a zero based budget approach for each service, challenging budgets and focussing on the service needs rather than a historic view that has traditionally occurred.

13. MTFS Scenarios

- 13.1 There are several assumptions that can significantly impact on the Councils financial position as follows:

- New Homes Bonus

The New Homes Bonus (NHB) consultation that was issued by Central Government earlier this year and indicated the grant could reduce from the current 6 years we receive to 4 years. However there were references made that that this may be a phased reduction to 5 years for 2017/18 then 4 years thereafter. There were also other references to Local Plans, applications approved on appeal and a potential baseline of growth that we have to be exceeded before payments are received. We are still awaiting the outcome of this consultation, but further information may be contained within the Autumn Statement on 23rd November. The current forecast growth as at Oct 2016 is 151.0 Band D equivalents.

- Council Tax Base

Council Tax Base is the number of Band D equivalent dwellings in a local authority area. To calculate the tax base for an area, the number of dwellings in each Council tax band is adjusted to take account of any discounts, premiums or exemptions. The assumptions made within the MTFs assume an element of growth which results in additional Council tax income. The actual tax base growth for 2017/18 is closer to 1.4% and equates to an extra £51k over and above the £19k included in Appendix A. Future year's growth will be reviewed in light of this information.

- Council Tax Increase

The government announced a continuation in 2016/17 of the Council tax referendum threshold at 2%, and for those Councils with lower quartile Band D Council tax levels the potential for additional Council tax revenue of £5 (applicable for Babergh). The recent local government finance settlement 2017/18 technical consultation made reference to a potential increase of less than 2% or up to and including £5, whichever is higher, for all shire district Councils. We are still awaiting the outcome of this consultation, but the Council will be looking to increase Council tax by the maximum amount in 2017/18 without the need for a referendum. A 2% increase would generate additional income of £97k and a £5 increase would generate an additional £162k.

13.2 Appendix A includes an MTFs showing the worst, medium, and best case by changing the NHB, Council tax base and Council tax increase assumptions. The summary shortfall in funding or surplus funds is shown below:

	Assumptions	Cumulative Shortfall in Funding (Surplus funds) 2017/18	Cumulative Shortfall in Funding (Surplus funds) 2018/19	Cumulative Shortfall in Funding (Surplus funds) 2019/20	Cumulative Shortfall in Funding (Surplus funds) 2020/21
Worst Case	NHB – 4 years Tax Base 0.4% Council Tax 0%	£888k	£1.664m	£2.645m	£2.944m
Medium Case	NHB – 5 years Tax Base 1% Council Tax 2%	£566k	£1.084m	£1.905m	£2.277m
Best Case	NHB – 6 years Tax Base 1.5% Council Tax £5	£167k	£700k	£1.296m	£1.547m

- 13.3 There are of course other factors which affect the base budget position and will impact on the medium term financial position. Appendix B provides a breakdown of the movements from one year to the next, showing cost pressures and the actions taken so far to address these.
- 13.4 As already mentioned earlier in the report there is still some work to complete before we are in a position to present a draft budget for 2017/18 and a forecast medium term position. Key items not yet included within the numbers presented in this report:
- Leisure Review
 - Public Realm Review
 - Public Access Transformation / Accommodation Review
 - Cash Investments
 - Pension contribution changes from the triennial valuation
 - Final salary costs
- 13.5 Work will continue on these items over the next few weeks and draft budgets will be presented to this committee in January. These budgets will be in more detail than in previous years due to the amount of work that has taken place over recent months with Finance and Corporate Managers on the zero based budget approach, and will provide members with a more detailed picture of the budget.

14. Appendices

Title	Location
APPENDIX A – Medium Term Financial Strategies – Worst, Medium and Best case	Attached
APPENDIX B – Year on Year changes	Attached

15. Background Documents

Local government finance settlement 2017/18 technical consultation
 New Homes Bonus consultation

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APPENDIX A

BABERGH MTFS SCENARIO - 17/18 ONWARDS (WORST CASE)

Assumption changes							
Line	Description	2016/17	2017/18		2018/19	2019/20	2020/21
		Budget	Budget		Forecast	Forecast	Forecast
		£000	£000		£000	£000	£000
1a	Expenditure	31,914	36,785		37,171	37,565	37,968
1b	Income	(23,135)	(27,222)		(27,117)	(26,738)	(26,823)
1c	Capital Financing Charges	280	280		280	280	280
1d	Charge to HRA	(970)	(970)		(970)	(970)	(970)
1e	Charge to Capital	(436)	(436)		(436)	(436)	(436)
1f	Transfers to Reserves	2,423	1,784		1,616	1,423	1,442
1g	Core Budget	10,076	10,221		10,544	11,124	11,461
2	Grants to parishes (LCTS)	63					
3	Transformation Fund -Delivery Plan Projects	2,000					
4	Total Planned Net Expenditure	12,138	10,221		10,544	11,124	11,461
	Funding:						
5	Other Earmarked Reserves						
6	Transformation Fund - DP Project (Staffing)	(427)					
7	Transformation Fund - Delivery Plan projects	(2,000)					
8	New Homes Bonus Based on 4 years	(1,559)	(1,114)		(946)	(753)	(772)
	S31 Business Rates Grant		(650)		(650)	(650)	(650)
	Government Support						
	(a) Baseline business rates	(1,957)	(1,996)		(2,055)	(2,120)	(2,120)
	(b) B/Rates – growth/pooling benefit	(109)					
9	(b) Revenue Support Grant	(992)	(504)		(204)	-	-
	(c) Rural Services Delivery Grant	(225)	(182)		(140)	(182)	(182)
	(e) Government Tariff					131	131
	(f) Transition Grant	(22)	(22)				
10	Collection Fund (surplus) /deficit	(80)	(80)		(80)	(80)	(80)
11	Council Tax (0% increase to Band D)	(4,767)	(4,767)		(4,786)	(4,805)	(4,824)
12	Growth in taxbase (0.4%)	-	(19)		(19)	(19)	(19)
13	Total Funding	(12,138)	(9,333)		(8,880)	(8,479)	(8,517)
14	2017/18		888		888	888	888
15	2018/19				776	776	776
16	2019/20					981	981
17	2020/21						298
18	Shortfall in funding / (Surplus Funds) - cumulative		888		1,664	2,645	2,944
19	Council Taxbase	1.20%	0.40%		0.40%	0.40%	0.40%
20	Band D Council Tax %	3.50%	0.00%		0.00%	0.00%	0.00%
21	Band D Council Tax	£148.86	£148.86		£148.86	£148.86	£148.86

APPENDIX A

BABERGH MTFS SCENARIO - 17/18 ONWARDS (MEDIUM CASE)							
Assumption changes							
Line	Description	2016/17	2017/18		2018/19	2019/20	2020/21
		Budget	Budget		Forecast	Forecast	Forecast
		£000	£000		£000	£000	£000
1a	Expenditure	31,914	36,785		37,171	37,565	37,968
1b	Income	(23,135)	(27,448)		(27,473)	(27,122)	(26,997)
1c	Capital Financing Charges	280	280		280	280	280
1d	Charge to HRA	(970)	(970)		(970)	(970)	(970)
1e	Charge to Capital	(436)	(436)		(436)	(436)	(436)
1f	Transfers to Reserves	2,423	2,010		1,976	1,810	1,619
1g	Core Budget	10,076	10,221		10,547	11,127	11,464
2	Grants to parishes (LCTS)	63					
3	Transformation Fund -Delivery Plan Projects	2,000					
4	Total Planned Net Expenditure	12,138	10,221		10,547	11,127	11,464
	Funding:						
5	Other Earmarked Reserves						
6	Transformation Fund - DP Project (Staffing)	(427)					
7	Transformation Fund - Delivery Plan projects	(2,000)					
8	New Homes Bonus 5 years	(1,559)	(1,340)		(1,306)	(1,140)	(949)
	S31 Business Rates Grant		(650)		(650)	(650)	(650)
	Government Support						
	(a) Baseline business rates	(1,957)	(1,996)		(2,055)	(2,120)	(2,120)
	(b) B/Rates – growth/pooling benefit	(109)					
9	(b) Revenue Support Grant	(992)	(504)		(204)	-	-
	(c) Rural Services Delivery Grant	(225)	(182)		(140)	(182)	(182)
	(e) Government Tariff					131	131
	(f) Transition Grant	(22)	(22)				
10	Collection Fund (surplus) /deficit	(80)	(80)		(80)	(80)	(80)
11	Council Tax (2% increase to Band D)	(4,767)	(4,862)		(4,980)	(5,130)	(5,285)
12	Growth in taxbase (1%)	-	(19)		(49)	(50)	(52)
13	Total Funding	(12,138)	(9,655)		(9,463)	(9,222)	(9,188)
14	2017/18		566		566	566	566
15	2018/19				518	518	518
16	2019/20					821	821
17	2020/21						372
18	Shortfall in funding / (Surplus Funds) - cumulative		566		1,084	1,905	2,277
19	Council Taxbase	1.20%	0.40%		1.00%	1.00%	1.00%
20	Band D Council Tax %	3.50%	2.00%		2.00%	2.00%	2.00%
21	Band D Council Tax	£148.86	£151.84		£154.87	£157.97	£161.13

APPENDIX A

BABERGH MTFS SCENARIO - 17/18 ONWARDS (BEST CASE)

Assumption changes							
Line	Description	2016/17	2017/18		2018/19	2019/20	2020/21
		Budget	Budget		Forecast	Forecast	Forecast
		£000	£000		£000	£000	£000
1a	Expenditure	31,914	36,785		37,171	37,565	37,968
1b	Income	(23,135)	(27,782)		(27,703)	(27,485)	(27,387)
1c	Capital Financing Charges	280	280		280	280	280
1d	Charge to HRA	(970)	(970)		(970)	(970)	(970)
1e	Charge to Capital	(436)	(436)		(436)	(436)	(436)
1f	Transfers to Reserves	2,423	2,344		2,202	2,170	2,006
1g	Core Budget	10,076	10,221		10,549	11,129	11,466
2	Grants to parishes (LCTS)	63					
3	Transformation Fund -Delivery Plan Projects	2,000					
4	Total Planned Net Expenditure	12,138	10,221		10,549	11,129	11,466
	Funding:						
5	Other Earmarked Reserves						
6	Transformation Fund - DP Project (Staffing)	(427)					
7	Transformation Fund - Delivery Plan projects	(2,000)					
8	New Homes Bonus 6 years	(1,559)	(1,674)		(1,532)	(1,500)	(1,336)
	S31 Business Rates Grant		(650)		(650)	(650)	(650)
	Government Support						
	(a) Baseline business rates	(1,957)	(1,996)		(2,055)	(2,120)	(2,120)
	(b) B/Rates – growth/pooling benefit	(109)					
9	(b) Revenue Support Grant	(992)	(504)		(204)	-	-
	(c) Rural Services Delivery Grant	(225)	(182)		(140)	(182)	(182)
	(e) Government Tariff					131	131
	(f) Transition Grant	(22)	(22)				
10	Collection Fund (surplus) /deficit	(80)	(80)		(80)	(80)	(80)
11	Council Tax (£5 increase to Band D)	(4,767)	(4,927)		(5,109)	(5,349)	(5,595)
12	Growth in taxbase (1%)	-	(19)		(74)	(78)	(81)
13	Total Funding	(12,138)	(10,054)		(9,844)	(9,828)	(9,914)
14	2017/18		167		167	167	167
15	2018/19				533	533	533
16	2019/20					596	596
17	2020/21						251
18	Shortfall in funding / (Surplus Funds) - cumulative		167		700	1,296	1,547
19	Council Taxbase	1.20%	0.40%		1.50%	1.50%	1.50%
20	Band D Council Tax	3.50%	3.36%		3.25%	3.15%	3.05%
21	Band D Council Tax	£148.86	£153.86		£158.86	£163.86	£168.86

APPENDIX B

BABERGH - MOVEMENT YEAR ON YEAR	16/17 to 17/18	17/18 to 18/19	18/19 to 19/20	19/20 to 20/21
	£000	£000	£000	£000
Total Planned Net Expenditure previous year per Appendix A	12,138	10,221	10,544	11,124
<u>Cost Pressures</u>				
<u>Inflation</u>				
Employees	73	75	77	80
Contracts	81	82	84	85
Premises	12	12	13	13
Supplies & Services	9	9	9	9
<u>Communities embrace new homes growth</u>				
Development Management - legal and consultancy fees	45	-	-	-
<u>Digital by Design</u>				
ICT & Information Management - change to SCC contract (offset by staffing costs)	84	-	-	-
<u>Financially Sustainable Councils</u>				
Revenues and benefits - adjustment to bad debt provision	139	-	-	-
Cost of Increments	109	113	117	120
Pension Fund deficit (to be confirmed)	80	80	80	80
VAT, District Valuers and Treasury Management consultancy	27			
Insurance Premiums	19			
Senior Leadership Team - corporate subscriptions	13			
Modern Apprentices	12	13	14	15
Banking Charges	10	-	-	-
Other changes	33	-	-	-
<u>Waste</u>				
Waste services - trade waste (income shortfall) and refuse contract increase	70	-	-	-
Recycling credits	-	-	250	-
<u>Leisure</u>				
Leisure Contract	20	-	-	-
Sub total cost pressure	836	385	644	403
<u>Actions</u>				
Inflation - income	(60)	(62)	(64)	(66)
Removal of £2m for Delivery Plan projects	(2,000)	-	-	-
<u>Environment</u>				
Car parks - contracted services	(20)	-	-	-
Public Realm - 10% reduction to Landscape Group contract plus waste disposal costs	(119)	-	-	-
<u>Financially Sustainable Councils</u>				
SRP contract reduction	(95)	-	-	-
Removal of grants to Parishes	(63)	-	-	-
Other changes (net)	(31)	-	-	-
<u>Property investment to generate income and regenerate local areas</u>				
Rental income (net) Borehamgate	(314)	-	-	-
Rental income Gainsborough Chambers	(12)			
<u>Targeted grants and funding to support Community capacity building</u>				
Community grants	(40)	-	-	-
Sub total actions	(2,754)	(62)	(64)	(66)
Total Planned Net Expenditure movement	(1,918)	323	580	337
New Planned Net Expenditure per Appendix A	10,220	10,544	11,124	11,461

APPENDIX B

BABERGH - MOVEMENT YEAR ON YEAR	16/17 to 17/18	17/18 to 18/19	18/19 to 19/20	19/20 to 20/21
	£000	£000	£000	£000
Position for the Worst Case				
Funding changes				
Movement in Reserves	2,223	167	193	(19)
Increase to Taxbase 0.4%	(19)	(19)	(19)	(19)
Increase to Rural Services Support Grant	43	42	(42)	-
Business Rates	-	(59)	(66)	-
Reduction to RSG	488	322	204	-
Introduction of government tariff for Business Rates	-	-	131	-
Business Rates inc removal of pooling benefit	71	-	-	-
Funding changes	2,806	454	401	(39)
Annual Budget (surplus)/deficit	888	776	981	298
Total 4 year (surplus)/deficit				2,944
Position for the Medium Case				
Funding changes				
Movement in Reserves	1,996	37	165	191
Increase to Taxbase 1%	(18)	(48)	(49)	(51)
Increase to council tax 2%	(96)	(99)	(102)	(105)
Increase to Rural Services Support Grant	43	42	(42)	-
Business Rates	-	(59)	(66)	-
Reduction to RSG	488	322	204	-
Introduction of government tariff for Business Rates	-	-	131	-
Business Rates inc removal of pooling benefit	71	-	-	-
Funding changes	2,484	196	242	35
Annual Budget (surplus)/deficit	566	518	821	372
Total 4 year (surplus)/deficit				2,278
Position for the Best Case				
Funding changes				
Movement in Reserves	1,662	142	32	164
Increase to Taxbase 1.5%	(18)	(74)	(78)	(81)
Increase to council tax £5	(161)	(163)	(165)	(169)
Increase to Rural Services Support Grant	43	42	(42)	-
Business Rates	-	(59)	(66)	-
Reduction to RSG	488	322	204	-
Introduction of government tariff for Business Rates	-	-	131	-
Business Rates inc removal of pooling benefit	71	-	-	-
Funding changes	2,085	210	16	(86)
Annual Budget (surplus)/deficit	167	533	596	251
Total 4 year (surplus)/deficit				1,547